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STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

TRANSCRIPT OF PROCEEDINGS

Evidentiary Hearing
April 5, 2017
Jefferson City, Missouri
Volume 2

In The Matter of the)
Application of Great Plains)
Energy Incorporated for) File No. EM-2017-0226
Approval of its Acquisition)
of Westar Energy, Inc.)

KIM S. BURTON, Presiding
SENIOR REGULATORY LAW JUDGE

DANIEL Y. HALL, Chairman
STEPHEN M. STOLL
WILLIAM P. KENNEY
SCOTT T. RUPP
COMMISSIONERS

REPORTED BY:
AMANDA N. FARRAR, CCR
MIDWEST LITIGATION SERVICES

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1 P R O C E E D I N G S

2 (The hearing commenced at 9:03 a.m.)

3 JUDGE BURTON: Good morning, everyone.
4 Let's go on the record.

5 I have to turn my microphone on.

6 Today is April 5th, 2017, and the
7 Commission has set this date and time, it's
8 currently approximately 9 o'clock in the morning,
9 for an evidentiary hearing in the matter of the
10 application of Great Plains Energy Incorporated for
11 approval of its acquisition of Westar Energy, Inc.,
12 File No. EM-2017-0226, et al.

13 My name is Kim Burton. I am the
14 regulatory law judge that has been assigned to this
15 case, and our court reporter today is Amanda Farrar.

16 And before we take entries of
17 appearance, I will note that prior to the beginning
18 of this hearing and today we did receive notices of
19 withdrawals from two parties and that would be MECG
20 as well as the Kansas Electric Power Cooperative,
21 Inc. We also received request for excusals from
22 today's hearing from Brightergy, LLC, Consumers
23 Council of Missouri, IBEW Local Union 1464, IBEW
24 Local Union 1613, IBEW Local Union 412, Laborers
25 International Union of North America, Missouri

1 Industrial Energy Consumers, Sierra Club, and the
2 United States Department of Energy.

3 At this time I'll ask the parties
4 present to enter their appearance, and we will begin
5 with Great Plains Energy Incorporated and the
6 applicants.

7 MR. FISCHER: Thank you, Judge. Let the
8 record reflect the appearance today of Robert Hack,
9 Roger Steiner, Larry Dority, Karl Zobrist and
10 myself, James Fischer, on behalf of the applicants
11 and our contact information has been given to the
12 court reporter.

13 JUDGE BURTON: Thank you.

14 The Missouri Public Service Commission
15 staff.

16 MR. THOMPSON: Thank you, Judge. Kevin
17 Thompson for the staff of the Missouri Public
18 Service Commission, Post Office Box 360, Jefferson
19 City, Missouri 65102.

20 JUDGE BURTON: Office of the Public
21 Counsel.

22 MR. OPITZ: Thank you, Judge. For the
23 Office of Public Counsel, I'm Tim Opitz. My address
24 is P.O. Box 2230, Jefferson City, Missouri 65102.

25 JUDGE BURTON: City of Independence,

1 Missouri.

2 MS. ROBY: Good morning, Your Honor.

3 This is Deb Roby on behalf of the City of
4 Independence. My information has been given to the
5 court reporter. I'd also like to enter the
6 appearance of my college Alan Robbins and Dayla
7 Bishop Schwartz, city attorney for the City of
8 Independence.

9 JUDGE BURTON: Thank you very much.

10 Missouri Joint Municipal Electric
11 Utility Commission.

12 MR. JARRETT: Yes. Good morning, Judge.
13 Terry Jarrett, Healy Law Offices, 514 East High
14 Street, Suite 22, Jefferson City, Missouri 65109.
15 Appearing on behalf of the Missouri Joint Municipal
16 Electric Utility Commission or MJMEUC.

17 JUDGE BURTON: Thank you.

18 Renew Missouri? (No response.)

19 I don't recall receiving a request to be
20 excused from Mr. Linhares for Renew Missouri. Have
21 any of the other parties heard from him?

22 MR. HACK: I believe he made a request
23 to be excused, Judge.

24 JUDGE BURTON: I might have missed that.
25 I will treat it as a request and excuse Renew

1 Missouri.

2 MR. JARRETT: And yes, Judge. I
3 received an email from him yesterday indicating he
4 had asked to be excused and wouldn't attend today.

5 JUDGE BURTON: Okay. All right. Thank
6 you.

7 Now, at this time are there any
8 preliminary matters that need to be addressed before
9 we begin with opening statements?

10 MS. ROBY: Yes, Your Honor. Deb Roby on
11 behalf of the City of Independence. I suppose I
12 would call this a request for clarification or a
13 motion for clarification or in the alternative a
14 motion to lodge. With the withdrawal of Midwest
15 Energy Consumers Group, there is a concern that the
16 testimony submitted by Mr. Gorman, the witness for
17 MECG, will also be withdrawn. Given the lack of
18 evidence or the lack of testimony already in the
19 record, that withdrawal, I think, hinders the record
20 and it's in the public interest that that testimony
21 remain in the record and then the responsive
22 testimony submitted by applicants to that testimony
23 also remain in the record.

24 JUDGE BURTON: So, are you making a
25 request for the admission of Mr. Gorman's

1 prefilled --

2 MS. ROBY: Indeed, I am, yes.

3 JUDGE BURTON: -- surrebuttal or
4 rebuttal testimony?

5 MS. ROBY: Yes. Thank you. Yes.

6 MR. JARRETT: And Judge, MJMEUC would
7 join in that motion.

8 JUDGE BURTON: Thank you.

9 Are there any responses to that motion?

10 Hearing none. That --

11 MR. HACK: Judge, can we have a second?

12 JUDGE BURTON: Yes, certainly.

13 MR. FISCHER: Judge, I think the
14 applicants won't object to that request. We have
15 surrebuttal testimony that addresses Mr. Gorman and
16 I assume that that would also be pertinent to this,
17 this proceeding and at the appropriate time would be
18 admitted, but unless there's some other objection,
19 but we can proceed forward on that basis with the
20 understanding that our surrebuttal will also be
21 considered as part of that.

22 JUDGE BURTON: All right. In that case,
23 Ms. Roby, why don't we go ahead and we'll consider
24 that as a motion that there are no objections to.
25 Whenever we come to the proper point where we are

1 looking to have that testimony at issue, we'll
2 consider that and we'll mark and move that into the
3 record.

4 MS. ROBY: Thank you, Your Honor.

5 JUDGE BURTON: Okay. Are there any
6 additional preliminary matters to be addressed?

7 Hearing none. I believe that we will
8 begin with Great Plains Energy Incorporated, joint
9 applicants, opening statements. And I believe you
10 have a presentation?

11 MR. HACK: I do, and I have handed out
12 hard copies to the bench. I can give copies to the
13 parties, if they like. Otherwise, they can follow
14 along.

15 Is this on? Yes.

16 Are we ready?

17 JUDGE BURTON: Just one moment to see if
18 it's on the screen. Yes, we are, sir.

19 MR. HACK: Good morning. May it please
20 the Commission. My name is Rob Hack and I work for
21 Kansas City Power & Light Company. I appear today
22 on behalf of Great Plains Energy, which is KCP&L and
23 GMO's parent holding company, as well as KCP&L and
24 GMO.

25 KCP&L has provided service in western

1 Missouri and eastern Kansas for over 100 years now,
2 as GMO has provided service in western Missouri for
3 over 100 years.

4 GPE seeks your approval to acquire
5 Westar, a utility in Kansas that has provided
6 service to the west of KCP&L and GMO's service
7 territory for over 100 years. We also seek your
8 approval of a limited variance from the affiliate
9 transaction rules to permit transaction between --
10 transactions between the regulated operations of
11 KCP&L, GMO, and Westar to occur at cost, except for
12 wholesale power transactions, which would be based
13 on rates approved by FERC. Notably, this Commission
14 granted a similar variance, actually the same
15 variance to KCP&L and Aquila when GPE acquired
16 Aquila in 2008.

17 The combination of GPE and Westar is
18 important to the state of Missouri. By extension,
19 approval or rejection of this business combination
20 is an important regulatory decision to the state.
21 The outcome of this case will have significant and
22 long-term impacts, many of them. It will determine
23 whether local control of the local -- of local --
24 whether local control of electric utility service is
25 an important priority in Missouri. It will

1 determine the long-term viability of maintaining
2 major headquarters in Kansas City and the region.
3 It will determine whether \$2 billion in savings are
4 generated over the next decade to help keep rates,
5 electric rates competitive in Missouri for the
6 benefit of our customers. It will affect, most
7 importantly, it will affect the futures of more than
8 5,000 people directly employed by KCP&L and Westar,
9 as well as the thousands of others who work for
10 companies who serve KCP&L and Westar.

11 The question for this Commission is not
12 whether the transaction presents some level of risk.
13 There is risk in every transaction, just as there is
14 risk in doing nothing. Although, in this case, the
15 lion's share of the risk is borne by GPE
16 shareholders and not customers of KCP&L or GMO. The
17 question that must be answered is will the
18 transaction be detrimental to Missouri customers of
19 KCP&L and GMO.

20 Our position is that the transaction
21 will not be detrimental to customers in Missouri or
22 Missouri public interest and, in fact, that the
23 transaction will benefit Missouri customers and the
24 public interest in Missouri. This will be proven by
25 the testimony we have filed and what we present to

1 you over the next few days.

2 The combination of Great Plains and
3 Westar presents a tremendous opportunity at the
4 right time. Westar and KCP&L have collaborated for
5 decades to better meet the needs of our customers.
6 We jointly own and operate generating facilities: La
7 Cygne, Wolf Creek, Jeffrey. We share hundreds of
8 miles of border. We both dispatch generation into
9 the Southwest Power Pool, and we look to one another
10 for help during storms.

11 This transaction culminates decades of
12 interest between the two companies to combine their
13 businesses. In fact, in 1999 this Commission
14 approved such a transaction, but that culmination
15 couldn't take -- couldn't occur for other reasons.
16 Now both companies are aligned and working together
17 toward this common objective and attaining it is a
18 better proposition.

19 This combination presents a unique
20 opportunity to achieve significant savings, allowing
21 customers the benefit from future rates that will be
22 lower than without the transaction. As you know,
23 both KCP&L and GMO have experienced substantial
24 upward pressure on rates, customer rates over the
25 past decade or so. This is due to flattening

1 electricity sales, environmental mandates, and the
2 imperative to replace aging infrastructure. At the
3 same time, the pace of consolidation in the electric
4 industry has been brisk. This consolidation trend
5 is not happenstance, but recognition that economies
6 at scale and customer savings are uniquely
7 attainable through combining utilities, particularly
8 those as here that are adjacent to one another.
9 This transaction presents the best opportunity to
10 slow the pace of rate increases by unlocking savings
11 for the benefit of KCP&L and GMO customers.

12 Historically-low interest rates allow
13 GPE to finance the transaction cost effectively,
14 while protecting customers from the cost of the
15 transaction and providing customers with substantial
16 benefits. Without these low-interest rates, GP
17 would not be able to commit that, one, it will not
18 seek to include the acquisition premium in rates;
19 and two, all savings generated by the transaction
20 will be passed on to the benefit of customers in the
21 normal course of rate making.

22 For these and other reasons detailed in
23 our testimony, the combination of GPE and Westar
24 presents a rare and tremendous opportunity to bring
25 long-term value to customers, to State and

1 shareholders alike. In fact, we have put forward a
2 transaction and regulatory proposal that is simple,
3 straightforward and stakeholder friendly that
4 provides long-term benefits to customers while
5 requiring GPE shareholders to shoulder the lion's
6 share of the risk. Key elements include all savings
7 that have transition cost approved by the Commission
8 flow back to customers in the normal course of
9 future rate cases.

10 The City of Independence questions GPE
11 savings estimates, but I commend you to the
12 testimony of Mr. Kemp who has significant experience
13 in developing merger savings estimates. Mr. Kemp
14 provides real-world examples of savings levels
15 actually achieved from utility combinations which
16 demonstrate that GPE savings estimates are
17 reasonable and achievable.

18 GPE has committed not to seek rate
19 recovery of the acquisition premium. This is a
20 significant customer protection. Mergers enable
21 savings that are unattainable by other means, and
22 this commitment not only protects customers from
23 risks of the transaction, but is also attractive for
24 its simplicity and ease of administration.

25 In the agreements reached with staff and

1 OPC and through supplemental commitments made in
2 schedule DRI-4, in Mr. Ives' surrebuttal testimony,
3 we have also proposed numerous conditions and
4 commitments to protect GMO and KCP&L customers from
5 financial risk associated with transaction debt held
6 by GPE.

7 As discussed in Ms. Quilici's testimony,
8 these are well-established, well-accepted regulatory
9 safeguards to protect utilities from risk of --
10 risks of activities taking place at the parent
11 holding company level. These safeguards shield
12 customers from risks of GPE's transaction debt,
13 while permitting the transaction to move forward and
14 bring the benefits of merger savings to customers.

15 Through its agreement with OPC, GPE,
16 KCP&L and GMO have agreed to undertake an
17 independent third party management audit of its --
18 of affiliate transactions and corporate cost
19 allocations after closing and provide funding of up
20 to \$500,000 for that purpose without rate recovery.
21 To the extent the Commission approves spending above
22 that level, OPC, GPE, KCP&L and GMO have agreed to
23 recommend a 50/50 split of such costs above \$500,000
24 between shareholders and customers.

25 In its agreement with OPC, GPE has also

1 agreed to provide funding for \$3 million over a
2 period of ten years to six community action agencies
3 in KCP&L and GMO's service territory for the express
4 purpose of enabling better utilization of
5 weatherization dollars. Neither GMO, nor KCP&L will
6 request rate recovery for those expenditures.

7 Through its agreement with OPC, GPE
8 seek -- GPE has also committed to maintain its
9 headquarters in Kansas City, Missouri. This
10 assurance recognizes the importance of GPE's
11 presence in Kansas City and demonstrates GPE's
12 commitment to the State of Missouri and the
13 employees who work here.

14 I won't recite all of the commitments
15 GPE, KCP&L and GMO have made, but they're
16 significant and demonstrate that we've put forward a
17 stakeholder-friendly transaction.

18 Nevertheless, some intervenors oppose
19 Commission approval of the transaction. Why? These
20 intervenors overstate the financial risk of the
21 transaction to GPE post-closing for a number of
22 reasons.

23 First, these intervenors fail to give
24 appropriate weight to S&P and Moody's affirmation of
25 the credit ratings of KCP&L and GMO. Both S&P and

1 Moody's have indicated that GMO and KCP&L's credit
2 ratings will not, repeat not be downgraded as a
3 result of the transaction debt held by GPE. This is
4 the best evidence on that point.

5 Second, these intervenors also fail to
6 give appropriate weight to the September 2016
7 shareholder votes of GPE and Westar approving the
8 transaction. The majority of Westar and GPE shares
9 are held by sophisticated and informed institutional
10 investors who have months to evaluate the
11 transaction before their votes. More than
12 90 percent of the shares voted in favor of the
13 transaction, demonstrating its shareholders clearly
14 don't perceive it as placing excessive risk on GPE.

15 Third, these intervenors also fail to
16 give appropriate weight to the September 2016 equity
17 issuances by GPE. These issuances had nearly two
18 times the demand for the number of shares offered
19 and the buyers, again, were largely institutional
20 and sophisticated investors.

21 Next to last, these intervenors also
22 fail to give appropriate weight to the March 2017
23 transaction debt issuances by GPE totaling
24 \$4.3 billion with a weighted average interest rate
25 of 3.68 percent and a weighted average debt maturity

1 of 12.1 years. This issuance, which was \$25 million
2 lower than the amount of the transaction debt
3 assumed by GPE in its financial modeling, was more
4 than five times oversubscribed and resulted in a
5 weighted average cost interest rate 27 basis points
6 lower than that assumed in GPE's financial model.
7 It also resulted in a weighted average maturity more
8 than five years longer than that assumed in GPE's
9 financial model.

10 The market's response to this debt
11 issuance belies intervenor's claims of excessive
12 risk. Although, Moody's reduced GPE's credit rating
13 to Baa3 upon the issuance of that transaction debt,
14 this was expected and GPE continues to have an
15 investment grade credit rating at Moody's. Also as
16 expected, S&P did not change its credit rating for
17 GPE upon issuance of the transaction debt. GPE's
18 S&P credit rating remains BBB+.

19 Finally, these intervenors also fail to
20 recognize the effectiveness of the conditions and
21 commitments proposed by GPE, staff and OPC to
22 protect KCP&L and GMO customers from adverse effects
23 of transaction debt held by GPE at the parent
24 holding company level. These intervenors'
25 assessment of the risk to GMO and KCP&L customers

1 related to the transaction debt held by GPE is
2 wrong. If adopted by the Commission, this risk
3 assessment would prevent customers from realizing
4 the long-term benefits of savings that can be
5 generated only by this transaction for GMO and KCP&L
6 customers.

7 Through our agreements with staff and
8 OPC, as well as our supplemental commitments, we
9 have proposed a better path forward which protects
10 customers while permitting the transaction to be
11 completed so that it can deliver the benefits of
12 long-term savings that Missouri utility customers
13 deserve.

14 The use of debt at the parent holding
15 company level for transactions like this is common.
16 In fact, in today's low interest rate environment it
17 would be surprising if such low-cost debt was not
18 part of financing tran -- of transaction financing
19 plans. As explained in the testimony of
20 Ms. Quilici, a number of recent transactions have
21 received regulatory approval that involved debt at
22 the parent company level. What all of these
23 regulatory approval orders have in common is the use
24 of conditions and commitments, including
25 ring-fencing conditions and rate-making commitments

1 that protect the regulated utilities and their
2 customers from debt and other activities at the
3 parent holding company level.

4 Rejection of this transaction on the
5 basis of GPE financing risks would ignore the
6 importance and magnitude of the savings that can be
7 achieved. In weighing these risks and benefits we
8 hope the Commission sees that saying no means GMO
9 and KCP&L customers will experience higher,
10 more-frequent rate increases than with the
11 transaction. GPE, KCP&L and GMO are proposing a
12 transaction that, one, protects customers and does
13 not ask them to pay for one penny of the acquisition
14 premium; two, creates nearly \$2 billion of savings
15 in the first decade post-closing; three, has a
16 simple, straightforward and stakeholder friendly
17 regulatory framework that is consistent with and
18 supportive of the merger orders issued by this
19 Commission and other regulatory bodies across the
20 country; and finally, results in a stronger local
21 electric utility over the long-term.

22 In the months since this transaction was
23 announced, hundreds of employees at Westar and KCP&L
24 have worked together to plan the integration of
25 these two companies. All the work done to date has

1 validated our initial beliefs and increased our
2 excitement about the future as one company.

3 We ask for your support. We ask for
4 your approval, in addition to the grant -- to
5 granting the limited variance from the affiliate
6 transaction rule that we have requested. Thank you
7 very much.

8 JUDGE BURTON: Chairman?

9 CHAIRMAN HALL: Yeah. Good morning.

10 MR. HACK: Good morning.

11 CHAIRMAN HALL: You mentioned that it's
12 the company's position that the appropriate standard
13 for us to apply is no detriment to the public --

14 MR. HACK: Yes.

15 CHAIRMAN HALL: -- is that correct?

16 And that standard comes from the 2001
17 stipulation?

18 MR. HACK: It does.

19 CHAIRMAN HALL: Does that standard
20 incorporate all of the case law that, that is in
21 place related to acquisitions in your view?

22 MR. HACK: I would expect that was the
23 intent because those were used -- words used and
24 those were the words used in the statute and, so I
25 think the answer is yes, Chairman.

1 CHAIRMAN HALL: So, a prior decision of
2 the -- of the Commission referencing that case law,
3 and I'm looking at staff's January 18th, 2017,
4 report, it indicated that, that we should look to
5 whether the transaction is detrimental to the
6 public, looking to safe, adequate -- and I'm
7 paraphrasing now -- safe, adequate service at just
8 and reasonable rates. So, then a detriment is any
9 direct or indirect effect that tends to make the
10 power supply less safe, less adequate, or tends to
11 make rates less reasonable. Do you -- do you agree
12 that that's --

13 MR. HACK: Generally, yes. I think
14 it's -- I think it's a -- it's an analysis that over
15 the years has been conducted on a generally netting
16 basis where the Commission evaluates all the factors
17 that it believes are relevant and important and
18 comes up with a conclusion that on balance the
19 transaction is not detrimental to the public
20 interest.

21 CHAIRMAN HALL: Okay. And consistent
22 with that, this particular order said that just
23 because there is a detriment, that that's not
24 conclusive to the ultimate decision because
25 detriments can be offset by intended benefits. So,

1 that's, that's the cost-benefit analysis that you
2 suggest we should employ?

3 MR. HACK: Certainly.

4 CHAIRMAN HALL: Okay. It's my
5 understanding based upon your, your opening and also
6 what I've -- what I've read, that the companies
7 continue to support all of the staff and OPC
8 conditions that were in place in the two
9 stipulations in the variance case; is that correct?

10 MR. HACK: I would say yes with, with
11 one slight caveat. Those were negotiated at a time
12 prior to when the Commission had ruled on the
13 jurisdictional question, and there is a provision in
14 both of those agreements that speaks to reservation
15 of rights related to the jurisdictional question. I
16 see that as --

17 CHAIRMAN HALL: Moot?

18 MR. HACK: -- moot, having been decided
19 already. So, it's no longer operative.

20 CHAIRMAN HALL: Okay. So, with the
21 exception of that provision, the companies still
22 support all of the conditions contained in those two
23 stipulations?

24 MR. HACK: Plus those set forth in
25 schedule DRI-4 to Mr. Ives' surrebuttal.

1 CHAIRMAN HALL: And that's where I was
2 headed next. So, Staff has set forth additional
3 recommended conditions. I believe they're set forth
4 in the surrebuttal testimony of Ms. Dietrich; is
5 that correct?

6 MR. HACK: That is correct.

7 CHAIRMAN HALL: And the companies are
8 okay with all of those conditions, with all of those
9 additional conditions as set forth in Mr. Ives'
10 schedule something, something, something?

11 MR. HACK: Yes, sir. Schedule DRI-4.
12 We have attempted to, what I say, as Missouri-ize
13 the Kansas language, sort of bring those, those
14 specific commitments into Missouri and apply them to
15 the entities that are jurisdictional to Missouri. I
16 would, just in the interest of full disclosure, I
17 would add that we have also brought over commitment
18 No. 18 that was not mentioned by Ms. Dietrich. That
19 was in response to Mr. Gorman's testimony. And I
20 would also tell you, I should have told you this
21 earlier, in talking about the staff's stipulation,
22 there is a typo in one of the paragraphs where we
23 use BBB incorrectly. All of the other references
24 are to BBB-. I don't have the cite memorized, but
25 we'll go -- we'll go through that on the stand.

1 CHAIRMAN HALL: Okay.

2 MR. HACK: And that's simply a typo.
3 That's not a change in intent.

4 CHAIRMAN HALL: Okay. When do you
5 expect a decision in Kansas?

6 MR. HACK: It will be no later than
7 April 24th and there is some possibility that it
8 could occur the week ahead of that, but we're not
9 sure. By statute the Commission is required to
10 issue an order by April 24th, which is a Monday.

11 CHAIRMAN HALL: And if you were to
12 receive an adverse decision from the Kansas
13 Corporation, what is the process by which you would
14 seek a rehearing or is there -- is there a process
15 for a rehearing?

16 MR. HACK: Certainly. It's called
17 petition for reconsideration in Kansas and those are
18 to be filed within 15 days of the issuance of the
19 order by the Commission. There's no lag date
20 between issue and effective date. In Kansas all
21 orders take effect immediately. But other than that
22 timing difference, it's very consistent with the
23 rehearing process here in Missouri.

24 CHAIRMAN HALL: And if you were to
25 receive an adverse decision on your petition for

1 rehearing, then you would appeal -- you would have
2 an opportunity to appeal that to an Article III
3 court?

4 MR. HACK: Certainly. I'm not sure if
5 there's Article III courts in Kansas, but yes. But
6 again, in the interest of full disclosure, there
7 would be, I would expect, significant conversations
8 between GPE and Westar about the nature of the KCC
9 order and what the appropriate recourse is with
10 respect to closing under the terms of the merger
11 agreement.

12 CHAIRMAN HALL: And can you -- can you
13 tell me what the status is of your -- of your case
14 before FERC?

15 MR. HACK: It is -- it is fully
16 presented. As I understand it, it has not been set
17 for hearing, but all of the comments that the FERC
18 has solicited have been provided. We believe, and
19 this is belief, not -- based upon experience of our
20 counsel in Washington at FERC, that when a quorum of
21 commissioners is present at FERC, this will be one
22 of the first action items that, that the full quorum
23 commissioner acts upon. It's the only M&A
24 application of its type pending. There are, as I
25 understand it, a couple of other high-priority

1 pipeline actions, but it's our expectation that the
2 FERC will be able to act quickly upon attaining a
3 quorum.

4 There is also some perhaps rumor that,
5 that the administration may appoint FERC
6 commissioners as recess appointments. In which case
7 they may be able to act immediately upon being
8 appointed.

9 CHAIRMAN HALL: There is a -- is there a
10 180-day clock that's running --

11 MR. HACK: Yes.

12 CHAIRMAN HALL: -- right now?

13 And when does that close?

14 MR. HACK: I will say I think I know the
15 answer and give you the date, but I may need to
16 confirm it. I believe it's May 7th.

17 CHAIRMAN HALL: And my understanding is
18 that, that the decision needs to be rendered by that
19 date or its deemed approved, but that 180 day can be
20 extended. Is that correct?

21 MR. HACK: That's my understanding.

22 CHAIRMAN HALL: And that extension can
23 be done without a quorum. That extension can be
24 done by staff?

25 MR. HACK: Again, I would need to

1 confirm, but I think that's right.

2 CHAIRMAN HALL: What is the currently
3 planned closing date for the transaction?

4 MR. HACK: Well, under the terms of the
5 merger agreement, the closing is to occur within
6 three days of receipt of the final regulatory
7 approval.

8 CHAIRMAN HALL: Okay. So, there's not a
9 specific date?

10 MR. HACK: No. Now, there again,
11 probably maybe giving you more information than
12 you're asking for, but there's a 12-month initial
13 period for regulatory approval that began with the
14 execution of the merger agreement on May 29th, I
15 believe, of 2016. So, that initial 12-month period
16 runs May 29th of this year, but it is extendable at
17 essentially the election of either party for six
18 months and in the absence of regulatory -- a
19 necessary regulatory approval. So, it's not -- the
20 deal isn't, isn't, you know, going to go up in smoke
21 if something doesn't happen by May 29th.

22 CHAIRMAN HALL: And this may be a
23 question for one of your witnesses, but does a delay
24 cause financial detriment to the companies and the
25 transaction?

1 MR. HACK: And what I would say is our
2 financing is largely in place. The debt issuances,
3 the equity issuances, there's a little bit that has
4 to occur with that can't occur till closing, but I
5 would also tell you that the longer period of time
6 that goes on, the more that can happen and the more
7 variables come into place. So, our interest is in
8 moving forward as quickly as we reasonably can and
9 we think that's in the benefit of customers, too,
10 because the sooner we combine, the sooner we can
11 start creating savings that will benefit customers.

12 CHAIRMAN HALL: Okay. Thank you.

13 MR. HACK: Sure.

14 JUDGE BURTON: Any questions?

15 COMMISSIONER RUPP: Not at this time.

16 JUDGE BURTON: I just have a few
17 questions, Mr. Hack. Would you see any potential
18 determination by the Kansas Corporation Commission,
19 let's say if they included any ring-fencing
20 provisions, that might impact the situation with
21 your stipulations and agreements or this
22 Commission's consideration?

23 MR. HACK: We, under our agreements here
24 in Missouri, we expected or perhaps hoped that we
25 would have Missouri approval before the Kansas order

1 came out. And one of the provisions in our Missouri
2 settlement agreements is after the Kansas order
3 comes out, because we thought we'd have Missouri
4 approval at that time, to file testimony explaining
5 to you-all how the Kansas order did not serve to be
6 detrimental to the public interest in Missouri, and
7 the way the process is rolling out right now it
8 appears that you-all will be able to see the Kansas
9 order before you issue your opinion, but that's a
10 long-winded way of saying I don't believe so, but I
11 don't know what the Kansas Commission is going to do
12 and, so, I don't -- I don't think it will, and I
13 don't think it will affect the agreements we've
14 reached and the commitments we've put forward here,
15 but that's what I think.

16 JUDGE BURTON: The reason I was asking
17 is because currently under the procedural schedule
18 the briefs, we only have one round of briefs are due
19 on April 21st.

20 MR. HACK: Right.

21 JUDGE BURTON: I didn't know if that
22 would impact the position of the parties if there is
23 a Kansas Corporation Commission decision that comes
24 out after that briefing that might need to be
25 clarified in an additional round of briefing to this

1 Commission.

2 MR. HACK: I don't believe so. And as
3 in our discussion with the chairman, we still have
4 the obligation post Kansas order to apprise you of
5 how that order is not detrimental to Missouri. So,
6 I don't think we need that.

7 JUDGE BURTON: Okay. Following up on
8 the discussion about detrimental. What do you
9 consider to be the legal standard for the Commission
10 to determine in this merger application?

11 MR. HACK: It's not detrimental to the
12 public interest.

13 JUDGE BURTON: Okay. And how does the
14 acquisition premium impact that?

15 MR. HACK: Our primary position is that
16 we will not seek rate recovery of the acquisition
17 premium. There's an old Supreme Court case, Ag
18 Processing, that addresses -- in general terms it
19 says the Commission can't just kick the can down the
20 road. We have reserved the right, the ability to
21 request rate recovery of the acquisition premium in
22 the event in some future rate case a party proposes
23 to impute GPE transaction debt to the cost of
24 capital for KCP&L or GMO to be used in setting rates
25 for the utilities going forward. In that event we

1 have, like I said, reserved the right to request
2 balance treatment, rate making treatment of that
3 item. In other words, you can't just grab the
4 benefits of financing, but you have to also look at
5 the costs to which that financing is voted for rate
6 purposes, but the analysis doesn't end there. We
7 have also in our Missouri agreement with staff, and
8 I can't cite to you the paragraph right now,
9 committed that the transaction will not result in
10 retail rate increases for Missouri. So, our ability
11 to request rate recovery of the acquisition premium
12 is effectively capped by that other provision at an
13 amount that would be less than, equal to or less
14 than an amount that would cause retail rates to rise
15 as a result of the transaction.

16 So, it's my view that this is not
17 analogous or on point to Ag Processing because we
18 have that rate recovery amount capped at a level
19 that cannot increase rates above retail rates due to
20 the transaction. That's not a detriment and it's
21 not a situation where the Commission is kicking the
22 can down the road.

23 JUDGE BURTON: But doesn't Ag Processing
24 require the Commission to make a determination on
25 the acquisition premium?

1 MR. HACK: And there is evidence in the
2 record or in testimony to explain the reasonableness
3 of the acquisition premium. So, I think there's
4 certainly evidence for the Commission to make those
5 determinations consistent with Ag Processing.

6 JUDGE BURTON: Thank you.

7 MR. HACK: Thank you very much.

8 JUDGE BURTON: Next we will hear from
9 staff.

10 MR. THOMPSON: May it please the
11 Commission.

12 This case has taken an unusual path to
13 come to this point before you on this day for your
14 approval of this merger application. We first
15 learned of it in May of 2016 through an email from
16 Mr. Bassham pointing out that the merger agreement
17 had been signed and that they did not see any need
18 to come to this Commission. Staff sought to open an
19 investigation and produced an investigation report
20 by the end of July of that year in which we pointed
21 to various possible detriments and indicated that we
22 would file a complaint. In fact, we did not file a
23 complaint because we immediately began discussions
24 with Great Plains to the end of developing
25 conditions to protect the public interest in

1 Missouri.

2 Staff's approach at that time was to
3 achieve as much protection for Missouri interests as
4 it could, not knowing whether the jurisdictional
5 issue would ever be decided in favor of Missouri
6 jurisdiction. Of course, the Commission has since
7 ruled that Missouri does have jurisdiction, but that
8 was unknown to staff at the time the negotiations
9 were going on.

10 Staff reached agreement with Great
11 Plains and a stipulation and agreement was signed,
12 which was then filed in a variance case, the number
13 of which escapes me, which Great Plains brought
14 before this Commission seeking variances from the
15 affiliate transaction rule to cover the intercompany
16 transfers that would occur within the group once the
17 transaction was consummated.

18 Later a complaint was filed by the
19 Missouri Energy Consumers Group. That complaint led
20 to the Commission's decision that, indeed, Missouri
21 has jurisdiction over this acquisition and that led
22 to Great Plains filing the application that is
23 before this Commission now. So, that's kind of an
24 unusual course for this transaction to take.

25 Today there are five issues that the

1 parties have defined that are before the Commission
2 for determination. The first of these is whether
3 the Commission should find that GPE's acquisition of
4 Westar is not detrimental to the public interest, as
5 Mr. Hack told you that is the merger standard in
6 this state. And staff's position on that issue is
7 that the acquisition could be detrimental without
8 appropriate conditions.

9 The second issue is whether the
10 Commission should condition its approval of the
11 acquisition and if so, how. Staff urges the
12 Commission to approve the stipulation and agreement
13 that it reached with Great Plains Energy, the
14 stipulation and agreement that the Office of the
15 Public Counsel later negotiated with Great Plains
16 Energy, and also certain additional conditions that
17 are described by staff director Natelle Dietrich in
18 her surrebuttal testimony filed in this case and
19 also reflected in Mr. Ives' schedule DRI-4 that has
20 already been mentioned by Mr. Hack.

21 The third issue is whether the
22 Commission should address matters such as
23 transmission and power supply services, and to the
24 extent those matters are applicable they are
25 addressed by Ms. Dietrich in her surrebuttal

1 testimony and is Exhibit A of staff's report dated
2 January 18, 2017. It's already been referred to.

3 Issue 4 is whether the Commission should
4 grant the limited request for variance of the
5 affiliate transaction rule. Staff says yes, but
6 with conditions.

7 And Issue 5 is whether the granting of
8 the variance with respect to the affiliate
9 transaction rule should be conditioned. Yes, it
10 should be conditioned, as previously noted on
11 approval of the two stipulations and agreements and
12 also the additional conditions described by
13 Ms. Dietrich in her testimony and also described by
14 Mr. Ives in his schedule DRI-4. Thank you.

15 CHAIRMAN HALL: Good morning.

16 MR. THOMPSON: Good morning.

17 CHAIRMAN HALL: So, you agree with
18 Mr. Hack as to the appropriate standard for us to
19 employ here?

20 MR. THOMPSON: Yes, sir.

21 CHAIRMAN HALL: And the 2001 stipulation
22 in your -- in your view does incorporate essentially
23 the case law in Missouri on acquisition approvals?

24 MR. THOMPSON: Yes, sir.

25 CHAIRMAN HALL: Okay. Do you also agree

1 with Mr. Hack, and I think you've already indicated
2 that you do, that the company and staff have agreed
3 on the conditions that, that have been proposed by
4 staff both in the -- both in its stipulation in the
5 affiliate transaction case and the additional
6 conditions set forth in Ms. Dietrich's surrebuttal?

7 MR. THOMPSON: Yes, sir.

8 CHAIRMAN HALL: Okay. Is it staff's
9 position that all of the detriments to the public
10 interest that were set forth in staff's
11 investigation report from July 25th are addressed by
12 those conditions?

13 MR. THOMPSON: I would agree with what
14 Mr. Hack said, that there is always risk in any
15 transaction of this kind and of this magnitude.
16 Whether the conditions that staff and the company
17 have agreed on are sufficient to ameliorate all of
18 those detriments, I don't know, because at this
19 point the actual extent of any detriments is also
20 unknown. Staff has done its best to point to
21 possible detriments, but it's predictive. I would
22 say that staff believes that the conditions that
23 have been negotiated and agreed are the appropriate
24 conditions for this case.

25 CHAIRMAN HALL: The conditions that are

1 appropriate to assure that the transaction is not
2 detrimental to the public?

3 MR. THOMPSON: I believe that to be
4 true.

5 CHAIRMAN HALL: Well, what I anticipate
6 having the opportunity to do is to, and I guess I'm
7 telling you this now so that -- so that you can
8 prepare your witnesses for this, I would like to go
9 through the financial detriment set forth by David
10 Murray in the investigation report and have him
11 explain to me how those detriments are mitigated,
12 ameliorated or addressed by the conditions, and the
13 same for Mr. Oligschlaeger concerning resource and
14 operational detriments, and Ms. Kremer versus
15 service quality detriments, and Mr. Schallenberg
16 concerning the affiliate transaction detriments.

17 MR. THOMPSON: Yes, sir.

18 CHAIRMAN HALL: Okay. I believe that's
19 all I have. Thank you.

20 MR. THOMPSON: Thank you.

21 COMMISSIONER RUPP: No questions.

22 MR. THOMPSON: Thank you.

23 JUDGE BURTON: Thank you.

24 Office of Public Counsel.

25 MR. OPITZ: May it please the

1 Commission.

2 With appropriate conditions that are
3 reasonably designed to protect customers in the
4 state of Missouri for both KCP&L and GMO, we can to
5 the extent possible ameliorate the risk that this
6 transaction will be detrimental to -- detrimental
7 the public.

8 Public Counsel has entered into a
9 stipulation and agreement in the context of the
10 variance case which was consolidated with this
11 docket and within that we did -- we did a number of
12 things. First, we incorporated the terms of staff's
13 agreement.

14 Second, and I don't believe Mr. Hack
15 mentioned this, we had some terms about employment
16 in Missouri. That would be importantly KCP&L and
17 GMO in their next rate case would provide testimony
18 about the employment metrics and turnover since the
19 transaction. Second, KCP&L would agree not to
20 reduce its workforce involuntarily by more than
21 20 percent for at least three years. And third that
22 GPE would keep its headquarters in Kansas City,
23 Missouri through at least 2032.

24 If the trans -- and these conditions are
25 important because if the transaction does result in

1 labor-related efficiencies in the form of lower
2 costs and lower rates for KCP&L and GMO customers,
3 it is important that the Commission and ratepayers
4 are able to see exactly what those savings are and
5 how they came about looking back retrospectively.

6 Now, on the other hand, a reduction in
7 savings related to reduction in employees does
8 present a risk that the workforce will be diminished
9 to the point where KCP&L and GMO are unable to
10 provide quality service to their customers, which is
11 the reason for the limit within a reason to the
12 involuntary reductions.

13 A second important condition is the
14 independent third party management audit, and this
15 is important because this transaction is centered on
16 the company's ability to operate with its
17 affiliates. In fact, that was the focus of the
18 variance case. This audit will examine the extent
19 and degree to which the company's affiliate
20 transaction rules are complied with, as well as the
21 appropriateness of corporate costs allocated among
22 KCP&L, GPE, GMO and its other affiliates.

23 As Mr. Hack mentioned, the company has
24 agreed, GPE has agreed to provide \$500,000 to fund
25 this audit, both below the line, and Public Counsel

1 agrees that any additional amount to pay for that
2 audit will be split between the ratepayers and the
3 company. We would recommend that.

4 And the third important condition that
5 Public Counsel agreed to relates to the company's
6 corporate social responsibility and this is in
7 addition to maintaining their headquarters in Kansas
8 City, Missouri. GPE will agree to provide \$50,000
9 per year for each of six community action agencies
10 for the next ten years in the KCP&L and GMO service
11 territories. These dollars are intended to fund
12 employees at the community action agency that will
13 enable low-income weatherization programs to be
14 fully utilized and expanded. You know, as with the
15 auditor, GPE has agreed to provide these funds below
16 the line.

17 In total, the OPC stipulation included,
18 as I mentioned, adopting the staff's agreements and,
19 as you heard, that KCP&L and GMO have agreed in the
20 testimony of Darrin Ives to make additional
21 commitments. Public Counsel supports those
22 additional commitments with the exception of 18.
23 That is responding to, as you heard, testimony of
24 Mr. Gorman. Although, his recommendation was
25 twofold, as I understand, relating to the level of

1 independence of the boards. 18 talks about, and you
2 can see it in the schedule of Mr. Ives' testimony,
3 for rate making purpose GMO and KCP&L agree to the
4 use of an actual utility-specific capital structure.
5 Frankly, I'm not sure that's something that we can
6 agree that will be going forward. When the
7 Commission is setting rates, it's got to set just
8 and reasonable rates, and I don't think it can or
9 should commit itself to using a particular capital
10 structure. So, with the exception of 18, the
11 conditions provided in testimony of Darrin Ives
12 surrebuttal, I believe, are appropriate as well.

13 With these appropriate conditions, the
14 transaction should not be detrimental to the public.
15 In fact, it's my hope that this transaction will
16 result in benefits to ratepayers.

17 Thank you. And I'm happy to answer any
18 questions you might have.

19 CHAIRMAN HALL: No questions. Thank
20 you.

21 COMMISSIONER STOLL: No questions.

22 COMMISSIONER KENNEY: No.

23 MR. OPITZ: Thank you.

24 JUDGE BURTON: Thank you.

25 City of Independence.

1 MS. ROBY: My apologies. Very
2 sensitive.

3 May it please the Commission.

4 Debra Roby on behalf of the City of
5 Independence, Missouri.

6 Independence finds itself here today as
7 the lone-remaining party sponsoring rebuttal
8 testimony concerning these consolidated proceedings
9 concerning the proposed merger of Great Plains
10 Energy and Westar and the proposed waiver of
11 affiliate transactions that would apply to the
12 regulated utilities should this Commission approve
13 the transaction and the waiver of affiliate
14 transactions.

15 This case -- staff mentioned that this
16 case has taken an unusual turn and he's absolutely
17 correct. This case actually was initiated in
18 February. Although, staff may have initiated
19 discussions as far back as May. Intervenors have
20 not had that opportunity to have a proceeding for
21 this case in which we have an opportunity to explore
22 and evaluate the merger in an open forum like this.
23 So, we were grateful for the efforts of Midwest
24 Energy Consumers Group to have filed a complaint and
25 for the Commission's decision because of that.

1 However, as indicated in our statement
2 of position last week, the expedited procedural
3 schedule has made it difficult, at best, for
4 Independence and other parties to meaningfully
5 engage in this process. This is evidenced by the
6 withdrawal of Midwest Energy Consumers Group having
7 gone to painstaking efforts to ensure that this
8 proceeding actually happened, they succumbed to the
9 daunting procedural schedule and withdrew. The same
10 is true of KEPCo. And while I cannot and do not
11 speak for any other intervenor, I think that their
12 withdrawal from this proceeding is indicative of the
13 burden of the procedural schedule. I think the
14 absence of testimony isn't for lack of interest. I
15 think it's for lack of ability to engage
16 meaningfully to get testimony in and participate in
17 this process.

18 With that said, Independence believes
19 that the proposed merger may be detrimental to the
20 public interest. The purchase price and the
21 acquisition premiums were derived in no small part
22 based upon projections and expectations of savings
23 to be realized across the regulated utilities on a
24 post-transaction basis. Those savings are expected
25 to be used to pay down debt issued by GPE to

1 consummate the transaction. Independence is
2 concerned that the service quality of the regulated
3 utilities may be adversely affected or placed at
4 risk to realize those savings necessary to
5 compensate the significant -- for the significant,
6 significant acquisition premiums and the assumptions
7 of debt, or that rates will have to be raised in
8 order to maintain or improve corporate credit
9 ratings or as an indirect result of the transaction.

10 Independence is a municipality in -- is
11 a Missouri municipality and it operates a municipal
12 utility. Its service territory is adjacent to KCP&L
13 and GMO. And it's made no mystery of the fact that
14 it is a wholesale customer of KCP&L and formerly of
15 GMO. GMO doesn't appear to respond to wholesale
16 power requests these days.

17 There's been some mention in the
18 surrebuttal testimony that issues of wholesale or
19 wholesale issues are beyond the scope of this
20 Commission, but Independence is not here to ask this
21 Commission to take jurisdiction over wholesale
22 transactions. It's not asking this Commission to
23 insert itself into wholesale power sales. Rather,
24 Independence is here as a Missouri entity and
25 concerned about the possible detriment, detrimental

1 impact this transaction may produce. Independence
2 submitted its testimony in an effort to build a
3 record so that this Commission had a diverse point
4 of view from Missourians, including the City of
5 Independence.

6 This Commission does have an interest in
7 robust power markets. Independence is concerned
8 about the impact on competition, and this Commission
9 has an interest in ensuring that there is robust
10 competition out there. This Commission does have an
11 interest in ensuring that the transmission system is
12 safe and reliable. It's the transmission system
13 used to deliver power to Missourians.

14 Applicants assert that with their
15 proposed merger any concerns that have been raised
16 have been sufficiently mitigated by the proposed
17 merger conditions, but I think it's worth noting
18 that the conditions were not arrived at until staff
19 filed its report and that's when applicants engaged
20 staff in a discussion about what are the appropriate
21 conditions for Missouri. They didn't volunteer to
22 do that.

23 Staff performed admirably in the
24 question of whether or not this Commission would
25 actually be able to assert jurisdiction and they

1 took the bull by the horns and they deserve
2 recognition for that, but it is also noteworthy that
3 those merger conditions, which were perceived at the
4 time to be sufficient to protect the public
5 interest, have since been expanded, and they've been
6 expanded as a result of regulatory proceedings in
7 another state, and they've been expanded as a result
8 of the activity that occurred before the KCC and the
9 applicants willingness to address those issues that
10 were raised in that jurisdiction. So again, the
11 stipulations and the merger commitments that
12 applicants have made do go a long way in addressing
13 many of the concerns that have been raised, but
14 there remains an absence of testimony in this docket
15 in this proceeding from Missouri ratepayers about
16 the impact that might result to ratepayers in
17 Missouri, and that's something worth noting.

18 I also note that applicants have stated
19 that they went to painstaking efforts to ensure
20 stakeholders' views -- or stakeholders were
21 protected. Yet, it's noteworthy that at every
22 possible turn they objected to intervenors
23 attempting -- or parties attempting to intervene,
24 and this aggressive schedule is also effectively a
25 foreclosure of any meaningful engagement by those

1 stakeholders.

2 So, what the -- while Independence is
3 generally supportive of the merger conditions, there
4 is no question that there remains risk. There's an
5 acknowledgment that there has been a credit rating
6 impact on the parent company. GPE remains at
7 investment grade, but what happens if it goes lower?
8 They are just above that investment grade level now.
9 What happens if it falls below that investment
10 grade? And that's a question that I think ought to
11 be explored here. While applicants are very
12 optimistic, no one can anticipate what might happen.
13 And after the GMO acquisition, no one anticipated
14 the economic downturn would happen in 2009, and it
15 certainly had an impact.

16 If the Commission is inclined to approve
17 the transaction, then Independence does support the
18 merger conditions that staff have agreed to or that
19 staff proposed in Natelle Dietrich's testimony and
20 as proposed by applicants, but we also believe there
21 should be some additional conditions and we've
22 identified those in our statement of position.
23 Those are by listing of No. 17, there should be a
24 commitment for the next rate case, there should be a
25 commitment concerning capital structure, concerned

1 about some of the transparent -- or about
2 transparency in the affiliate transaction. So,
3 there should be an obligation to prevent -- to
4 provide some analyses and testimony in support
5 demonstrating compliance with all these -- with the
6 affiliate transactions, but in addition there ought
7 to be a commitment to give this Commission a report
8 on a regular basis about the progress for those
9 conditions that they've agreed to. Rather than just
10 waiting for somebody to ask them are you -- are you
11 in compliance with those merger conditions, they
12 ought to be affirmatively obligated to include that.

13 And with this risk that is unavoidable,
14 another condition that Independence proposes is a
15 mitigation factor. Municipal utilities can provide
16 beneficial partnership to public utilities, and with
17 the pressure put on the companies as a result of
18 this transaction, it behooves this Commission to
19 consider a requirement that regulated utilities,
20 when they have a new capital expenditure, be
21 required to coordinate or offer a municipal utility
22 like Independence an opportunity to participate in
23 that capital expenditure with them. And that public
24 partnership benefit -- or public partnership with
25 the public utility could be beneficial or is

1 beneficial. It's a win/win situation to help defray
2 the risk associated with the public utility and
3 engaging in that capital expenditure. Thank you.

4 CHAIRMAN HALL: Good morning. Couple of
5 very quick questions.

6 So, it's the City's position that the
7 Commission should evaluate the impact on the City of
8 Independence ratepayers separate, separate and apart
9 from the ratepayers that are within KCP&L, GMO's
10 service territory?

11 MS. ROBY: Not necessarily. I mean,
12 they are Missouri residents and they could be
13 affected by the transaction, but Independence itself
14 is not a regulated utility, but there could be an
15 impact overall and the concern really is that if
16 there is increased pressure at the parent company,
17 that that may bleed down into the regulated utility
18 and that has an impact on every ratepayer. Not
19 just, you know, Independence, but that would have an
20 impact on retail ratepayers. It also has an impact
21 on wholesale ratepayers, but it's, it's, it's an
22 overall evaluation.

23 CHAIRMAN HALL: Does your -- your sole
24 witness is Mr. Herz; is that correct?

25 MS. ROBY: That's correct.

1 CHAIRMAN HALL: And will he be prepared
2 to explain all of the additional conditions that,
3 that you are suggesting?

4 MS. ROBY: Yes, yes.

5 CHAIRMAN HALL: Okay. Thank you.

6 COMMISSIONER STOLL: No questions.
7 Thank you.

8 COMMISSIONER RUPP: Excuse me. Sorry.

9 MS. ROBY: Oh, sorry.

10 COMMISSIONER RUPP: You mentioned the
11 Kansas Corporation Commission. How does the
12 stipulations that staff over there is proposing
13 impact your City's position?

14 MS. ROBY: How do the stipulations...?

15 COMMISSIONER RUPP: Requested by the
16 Kansas Corporation staff.

17 MS. ROBY: By the Kansas Corporation
18 impact the City of Independence or...?

19 COMMISSIONER RUPP: Or your position on
20 the case.

21 MS. ROBY: Well, I think the
22 stipulations are a step in the right direction, but
23 it doesn't eliminate the risk entirely and that's
24 why we propose the additional stipulations.

25 COMMISSIONER RUPP: So, you made a

1 statement in your opening that made it sound like --
2 I was confused of where, where your -- where your
3 position statement still is. If you don't get any
4 of your -- any of your recommendations, you're still
5 in opposition?

6 MS. ROBY: I think the additional
7 stipulations are necessary, yes.

8 COMMISSIONER RUPP: Okay. So, in
9 absence of what you're requesting, your city is in
10 opposition?

11 MS. ROBY: That's a fair statement.

12 COMMISSIONER RUPP: Thank you.

13 JUDGE BURTON: I have a question. As
14 far as the Kansas Corporation Commission decision,
15 do you see any potential, let's say, ring-fencing
16 measures that they may include as a requirement for
17 that application impacting this case here or the
18 positions of the parties?

19 MS. ROBY: If they impose additional
20 ring-fencing?

21 JUDGE BURTON: Yes.

22 MS. ROBY: I think if they impose
23 additional ring-fencing, that this Commission should
24 evaluate those additional ring-fencing provisions to
25 determine what impact there might be on ratepayers

1 in Missouri.

2 JUDGE BURTON: Okay. But you don't have
3 any opinion right now as far as it guaranteeing an
4 impact on the City of Independence or its position
5 in this case, a change in position let's say?

6 MS. ROBY: I'm not prepared to say that
7 at this point. I don't believe so.

8 JUDGE BURTON: Okay. Thank you.
9 Mr. Jarrett.

10 MR. JARRETT: Good morning. May it
11 please the Commission.

12 I'm Terry Jarrett and I'm here
13 representing the Missouri Joint Municipal Electric
14 Utility Commission or MJMEUC concerning GPE's
15 proposed acquisition of Westar.

16 Just briefly by way of background,
17 MJMEUC is a joint action agency, it's authorized by
18 statute, and one of its responsibilities is to
19 obtain sufficient and economical power in energy for
20 the benefit of its member municipal utilities and
21 their residents. MJMEUC also has several long-term
22 commitments for power purchase contracts and
23 operating costs of jointly-owned power generating
24 facilities for the use of two power pools and
25 partial supply needs for several individual

1 municipalities. Within MJMEUC there are two full
2 requirement power pools. The Missouri Public Energy
3 Pool, number one, also called MoPEP, and the
4 mid-Missouri Municipal Energy Pool or MMMPEP.

5 MJMEUC is interested in this
6 proceedings -- for these proceedings for several
7 reasons. One of them is because many of its member
8 cities are located in the Southwest Power Pool's
9 transmission pricing zones, the KCP&L and GMO
10 transmission pricing zones, and these cities could
11 be impacted by the proposed transaction. These
12 cities include Carrollton, Higginsville, Marshall,
13 Salisbury, Slater, Independence, Harrisonville,
14 Odessa, Rich Hill, Osceola, Galt, Gilman City,
15 Liberal. And then there are several cities that
16 have a contract with Westar Energy Management for
17 energy management services. These include Kennett,
18 Malden, Poplar Bluff and West Plains and Sikeston in
19 Missouri, and then MJMEUC has some associate members
20 in Arkansas, Paragould and Piggott that also have
21 contracts with Westar Energy Management.

22 So, MJMEUC is interested in this not
23 only because of the transmission pricing zones that
24 their cities could be impacted from, but it is also
25 a co-owner, along with KCP&L and GMO, of the Iatan

1 II power plant and MJMEUC does have some concerns
2 that this merger could impact the operation of that
3 plant.

4 MJMEUC is not offering any witnesses for
5 testimony, but it does fully support the testimony
6 of the City of Independence's witness Joseph Herz.
7 MJMEUC shares the City's concerns about the merger
8 as expressed by Mr. Herz. And in addition to these
9 concerns, MJMEUC is asking this Commission to
10 consider a couple of additional issues and MJMEUC
11 will be offering into the record some DR responses
12 from the applicants for the Commission's
13 consideration.

14 First of all, MJMEUC believes there does
15 need to be adequate assurances that retail,
16 wholesale and transmission customers will not pay
17 higher costs as a result of the proposed
18 transaction; and MJMEUC also believes there needs to
19 be some assurances that there will not be additional
20 operating costs at Iatan II as a result of the
21 merger.

22 And I do want to touch a little bit
23 because there's some questions about this before
24 about the jurisdiction of the Commission and what
25 they can and cannot consider, and certainly I

1 believe and MJMEUC appreciates that in the past this
2 Commission has considered municipal utilities and
3 Missouri municipal utility customers as part of the
4 public interest and we appreciate that. And we
5 believe that the public interest does encompass
6 things that do fall outside of the Commission's rate
7 regulatory jurisdiction, so to speak.

8 And a perfect example is that the
9 applicants and staff and OPC are asking the
10 Commission in this case to consider some extra
11 jurisdictional issues as part of the stipulations
12 and agreements that they are asking for approval
13 for. One of those is the stipulation in applicant's
14 and OPC's agreement that the corporate headquarters
15 of GPE remain in Kansas City, Missouri. You know,
16 GPE is not a regulated utility in Missouri and
17 whether or not GPE's corporate headquarters stays in
18 Kansas City, Missouri or moves a few hundred yards
19 across the border into Kansas really isn't going to
20 affect the operations or the quality of service of
21 KCP&L and GMO in Missouri. However, MJMEUC agrees
22 with OPC and the applicants that this is a
23 legitimate economic interest for Missouri and
24 certainly would urge the Commission to accept that
25 provision in the stipulation. So, that is one

1 example of the public interest encompassing more
2 than just Missouri regulated utility interests.

3 And, of course, we support both of
4 the -- both of the stipulations, but we do agree
5 with the City of Independence that there does need
6 to be some additional conditions to protect
7 wholesale ratepayers. MJMEUC is asking for two
8 additional conditions for the Commission to
9 consider.

10 One is that in the SPP transmission
11 pricing zones that KCP&L -- or GPE, KCP&L and GMO
12 will not seek to merge the Westar transmission
13 pricing zone with the Missouri transmission pricing
14 zones for a period of ten years. Certainly we
15 believe that protects those transmission customers
16 here in Missouri and is an appropriate thing for
17 this Commission to consider.

18 The second one is that the operating
19 costs of Iatan II. We would like to have the
20 Commission issue a condition that says that KCP&L
21 and GMO will not increase the operating costs of
22 Iatan II as a result of the merger for ten years,
23 and we believe -- we believe both of these are
24 appropriate because our concern is that if KCP&L is
25 not able to achieve some of the merger savings that

1 they are -- that they estimate, that they will
2 attempt to shift costs into other nonregulated areas
3 that could impact Missouri and the Missouri economic
4 standing. For example, at Iatan II, it -- one of
5 the concerns might be that KCP&L and GMO might shift
6 some of their employees over to the Iatan II side,
7 thus achieving some, some employee costs, employment
8 costs on the regulated side, but that would
9 definitely have a negative impact on MJMEUC and its
10 member cities and their customers. So, we were
11 asking for those two additional conditions.

12 And with that, I'll answer any
13 questions.

14 JUDGE BURTON: Thank you.

15 CHAIRMAN HALL: I have just a few. Good
16 morning.

17 MR. JARRETT: Good morning,
18 Mr. Chairman.

19 CHAIRMAN HALL: So, do I understand that
20 MJMEUC is asking this Commission to not approve the
21 transaction, but if it were to approve the
22 transaction, you have two additional conditions that
23 you would like us to include in that approval?

24 MR. JARRETT: Right.

25 CHAIRMAN HALL: So, with those -- even

1 with the two conditions, MJMEUC is still asking this
2 Commission to not approve the transaction?

3 MR. JARRETT: Well, I think that with
4 those two conditions and then the additional
5 conditions that are recommended by Mr. Herz for the
6 City of Independence and with the conditions that
7 OPC and staff have come up -- come up with in their
8 agreements, I believe that goes a long way to
9 mitigate some of the concerns. I think that as long
10 as there is sufficient conditions placed on the
11 merger that do protect all of these impacts from the
12 merger on wholesale, retail and transmission
13 customers and Iatan II that, you know, MJMEUC,
14 MJMEUC would, would not oppose a merger, per se.

15 CHAIRMAN HALL: Okay. I assume that you
16 had conversations with the companies about your two
17 additional conditions and -- correct?

18 MR. JARRETT: Yes, correct. And I will
19 be introducing some data request responses that deal
20 with those issues. And yes, they have indicated in
21 those DR responses that they are not interested in
22 adding those two conditions.

23 CHAIRMAN HALL: Concerning the first
24 one, the agreement to not make efforts to combine
25 certain SPP transition pricing zones, explain to me

1 how that process occurs? Is that a -- is that an
2 SPP decision? Is that an SPP tariff that would need
3 to be approved by FERC or how does that work?

4 MR. JARRETT: Right, yes. It would be
5 an SPP process to begin with to combine those zones
6 and it would go through the stakeholder process and
7 it would have to -- have to be approved at the SPP
8 level and then, of course, it would be a tariff
9 change. It would have to go to FERC for final
10 approval.

11 CHAIRMAN HALL: And would that have to
12 be initiated by Westar, KCP&L or GMO?

13 MR. JARRETT: Well, actually, I think
14 any party could propose that. It doesn't
15 necessarily have to be them.

16 CHAIRMAN HALL: So, your condition,
17 you're suggested condition is that it would not
18 initiate or support such efforts?

19 MR. JARRETT: That is correct.

20 CHAIRMAN HALL: And it's your belief
21 that the Commission has jurisdiction to require such
22 a commitment?

23 MR. JARRETT: Right, yes. I believe
24 that anything that impacts Missouri the Commission
25 can consider under the public interest, and

1 certainly the municipal utility ratepayers in
2 Missouri and municipal utilities would be negatively
3 impacted. If the zones are combined, the net result
4 would be, since Westar's transmission pricing zone
5 rate is much higher than Kansas City Power & Light's
6 and GMO, it would increase the prices in KCP&L and
7 GMO pricing zones, which would be to the detriment
8 of transmission customers in Missouri. And so, I do
9 believe the Commission can consider, just as they
10 can consider whether the corporate headquarters
11 should be in Missouri or not. It all goes to the
12 public interest in Missouri.

13 CHAIRMAN HALL: Why are -- why is
14 Westar's transmission pricing zone so much higher
15 than KCP&L? Do you know?

16 MR. JARRETT: I'm not familiar with all
17 of the factors that go into that, but it is higher.

18 CHAIRMAN HALL: I assume you've read all
19 of KCP&L's direct testimony. Which witness do you
20 believe would best be able to explain why that
21 pricing zone is different? Do you know?

22 MR. JARRETT: Well, Mr. Ives was the one
23 that answered the questions to our DRs. So, I
24 believe he probably would be the one to do that.

25 CHAIRMAN HALL: Do you know whether or

1 not there are any efforts currently underway to
2 combine SPP transmission zones?

3 MR. JARRETT: No. And I'm not aware
4 and, I believe --

5 CHAIRMAN HALL: I believe that question
6 should go to Commissioner Stoll.

7 MR. JARRETT: But no, Mr. Chairman, I
8 don't -- oh, I'm sorry.

9 CHAIRMAN HALL: No.

10 MR. JARRETT: No, but I'm not aware of
11 any, and applicants can speak for themselves, but I
12 believe I would characterize it correctly as they
13 don't anticipate any time soon trying to do that,
14 but the problem that MJMEUC has is they don't commit
15 to not doing that, same thing with the Iatan II
16 costs. They say they don't anticipate any cost
17 increases, but they're not willing to make that a
18 condition that they would agree to. So, without
19 that guarantee of that condition, they would be free
20 to request -- start the process in SPP to merge the
21 zones the day after, you know, the Commission
22 approves this merger. The same thing with the Iatan
23 II costs. They can begin to increase the costs, try
24 to fold over some of the costs of the merger into
25 the Iatan II costs without some sort of commitment

1 in this case.

2 CHAIRMAN HALL: What would be the
3 motivation for GPE to try to combine SPP
4 transmission pricing zones?

5 MR. JARRETT: I believe it would be in
6 the event that they are not achieving the savings
7 that they estimate in the merger. You know, the
8 projections I believe are very, very optimistic and
9 all of these dominoes have to stay standing for this
10 merger to work due to the -- due to the high
11 acquisition cost, the high amount of debt that goes
12 into that.

13 CHAIRMAN HALL: But how would combining
14 transmission pricing zones help or assist in dealing
15 with a lack of savings from the merger?

16 MR. JARRETT: Well, it would -- it would
17 raise the transmission prices in Missouri in the
18 KCP&L pricing transmission --

19 CHAIRMAN HALL: But it would lower them
20 for Westar?

21 MR. JARRETT: No, not necessarily, no.
22 It could raise both of them up to the same prices as
23 Westar.

24 CHAIRMAN HALL: Oh, I understand. Okay.
25 Thank you.

1 COMMISSIONER STOLL: No questions.

2 Thank you.

3 JUDGE BURTON: I have --

4 CHAIRMAN HALL: Wait. I'm sorry. So,
5 but they could -- they could seek to raise those
6 prices without combining them, and that would not be
7 affected by your conditions?

8 MR. JARRETT: Sure. And, you know,
9 that's certainly very possible, but, of course, we
10 would have the hearing at FERC to discuss that. But
11 again, I think that we would just like to see this
12 condition placed on them and, again, this goes just
13 to merger costs. We would have to be able to show
14 that they're doing this as a result of the merger.

15 CHAIRMAN HALL: Okay. Thank you.

16 COMMISSIONER RUPP: I have a question
17 for you. So, the two conditions that you guys are
18 proposing, has there ever been a Missouri commission
19 in the past that has had a similar type of
20 stipulation on a merger case or even another state
21 commission that has had a similar type of condition
22 as the two you're proposing?

23 MR. JARRETT: Not that I'm aware of. I
24 do know that in the Kansas City Power & Light and
25 Aquila merger MJMEUC did file some testimony

1 expressing concerns about Iatan II in that case. I
2 don't believe the transmission pricing zones,
3 though, were addressed in that.

4 COMMISSIONER RUPP: Was the issue in the
5 Iatan II and the Aquila case, was that -- did that
6 become part of the -- was that accepted or...?

7 MR. JARRETT: Well, there wasn't -- I
8 don't believe there was any condition made for that,
9 but MJMEUC did bring it up in testimony that they
10 were concerned about the operational costs of Iatan
11 II due to that merger.

12 COMMISSIONER RUPP: Was there in your
13 recollection any increased cost in Iatan II in the
14 Aquila merger due to the tran -- due to the merger
15 cost in the Aquila case?

16 MR. JARRETT: I don't recall. I don't
17 know if they were -- I know there were some
18 increased costs. I'm not sure that they were
19 directly related to the merger, but...

20 COMMISSIONER RUPP: Thank you.

21 JUDGE BURTON: What is the reasoning for
22 the ten-year restriction?

23 MR. JARRETT: Well, certainly we don't
24 want to restrict them in perpetuity from ever, you
25 know, operating. We think ten years out is long

1 enough away from the merger that merger costs
2 wouldn't be the -- wouldn't be the impetus to
3 increase the zones or increase Iatan II costs, so...

4 JUDGE BURTON: Why ten years instead of
5 five?

6 MR. JARRETT: Well, certainly I think we
7 would consider five. Certainly that's better than
8 nothing.

9 JUDGE BURTON: All right. So, there's
10 no financial analysis that was performed for the
11 ten-year request?

12 MR. JARRETT: Nothing, nothing in
13 detail, but, you know, sort of back of the envelope
14 type of look, overview. But, you know, ten years,
15 yeah, I agree, ten years, five years, we would -- we
16 would take anything we could get.

17 JUDGE BURTON: And as far as the second
18 condition that you mentioned for the operating
19 costs, would one employee transferred over be a
20 violation if the Commission was to set that
21 condition?

22 MR. JARRETT: Well, technically, yes, if
23 they were being transferred because of -- otherwise
24 wouldn't have been transferred but for the merger.

25 JUDGE BURTON: So, there's no standard

1 level that you're requesting for a certain time
2 frame to say, you know, as of the date of the
3 Commission's order, certain percentage increase?
4 Just any?

5 MR. JARRETT: Yeah, I mean, currently
6 that's what we're proposing now, but we would
7 certainly be open to if the Commission wanted to
8 place any limitations like that as far as it has to
9 be a certain number of employees, we would certainly
10 be open to that, so...

11 JUDGE BURTON: Okay. And as far as the
12 stipulation and agreements from staff and also from
13 OPC and the additional comments from Ms. Dietrich in
14 her surrebuttal and Mr. Ives' DRI-4, are any of
15 those conditions or commitments of concern to
16 MJMEUC?

17 MR. JARRETT: No. I think those are all
18 good. And I would -- again, Mr. Herz has some
19 additional ones that we would support, but, yes, I
20 think we do need a comprehensive list of conditions
21 to make sure that Missouri is not impacted by
22 merger, merger costs.

23 JUDGE BURTON: Okay. Thank you.

24 MR. JARRETT: Thank you.

25 JUDGE BURTON: It is currently 10:33.

1 Why don't we take a quick 15-minute break before we
2 resume with testimony, and I believe the first
3 witness will be Mr. Bassham for --

4 MR. HACK: Bassham, yes.

5 JUDGE BURTON: Bassham, excuse me.
6 Okay. We are off the record.

7 (A short break was taken.)

8 JUDGE BURTON: Let's go ahead and go
9 back on the record. And I would remind everyone in
10 attendance to, please, silence their electronic
11 devices at this time.

12 MR. HACK: GPE, KCP&L, and GMO would
13 call Mr. Terry Bassham to the stand, please.

14 JUDGE BURTON: Would you, please, raise
15 your right hand. Do you swear or affirm that the
16 statements you're about to give will be the truth,
17 the whole truth and nothing but the truth?

18 THE WITNESS: I do.

19 JUDGE BURTON: You may be seated.

20 TERRY BASSHAM,
21 having been called as a witness herein, having been
22 first duly sworn, was examined and testified as
23 follows:

24
25

1 DIRECT EXAMINATION

2 BY MR. HACK

3 Q. State your name for the record, please.

4 A. Terry Bassham.

5 Q. And by whom are you employed and in what
6 capacity?

7 A. I'm the chairman, CEO, president of
8 Great Plains Energy, Kansas City Power & Light.

9 Q. And, Mr. Bassham, did you cause to be
10 prepared and filed in Docket No. EE-2017-0013
11 certain direct testimony consisting of 16 pages?

12 A. I did.

13 Q. And are you aware that that docket has
14 been consolidated with GPE's acquisition for
15 authority to acquire Westar?

16 A. I am.

17 Q. Do you have any corrections or changes
18 that you need to make to that testimony?

19 A. I do not.

20 Q. If I were to pose to you today the
21 questions that are asked in that testimony, would
22 your answers be substantially the same?

23 A. They would.

24 Q. And are those answers true and correct
25 to the best of your knowledge, information and

1 **belief?**

2 A. They are.

3 MR. HACK: With that, I would move for
4 what has been marked as Exhibit 1 for admission into
5 evidence and which is Mr. Bassham's direct
6 testimony, and tender Mr. Bassham for
7 cross-examination.

8 (KCP&L's Exhibit 1 was offered into
9 evidence.)

10 JUDGE BURTON: Mr. Bassham's direct
11 testimony has been offered. Are there any
12 objections?

13 Hearing none. It will be admitted.

14 (KCP&L's Exhibit 1 was admitted into
15 evidence.)

16 JUDGE BURTON: Staff, do you have any
17 questions?

18 MR. THOMPSON: I have no questions.
19 Thank you.

20 JUDGE BURTON: OPC?

21 MR. OPITZ: No, thank you, Judge.

22 JUDGE BURTON: MJMEUC?

23 MR. JARRETT: No questions. Thank you.

24 JUDGE BURTON: City of Independence?

25 MS. ROBY: Just a few questions. May I

1 do this from here or -- oh, okay. Thank you very
2 much.

3 CROSS-EXAMINATION

4 BY MS. ROBY

5 Q. In your initial testimony, Mr. Bassham,
6 you address branding, correct?

7 A. Correct.

8 Q. And the company, the combined company
9 brand needs to be reflected -- these are the two
10 guiding principles. One is the combined company
11 brand needs to be reflective of the new company and
12 be relatable to both KCP&L and Westar employees
13 driving one team-oriented culture. That's the first
14 guiding principle?

15 A. It is.

16 Q. Why isn't GMO part of that?

17 A. It is. When we purchased Aquila, we
18 kind of did a branding in that instance and,
19 although, GMO, Greater Missouri Operations, exists
20 as a corporate entity, we're known as KCP&L from the
21 border of St. Joe all the down to Nevada. So, the
22 real branding will be KCP&L, Westar. GMO never
23 became a brand.

24 Q. And will this -- has this branding
25 initiative started?

1 A. We've done some market research. We've
2 talked to people. In earnest it will start after
3 day one and probably take a year or so. What's
4 important to me in that first one you mentioned is
5 that all our employees have the same logo, have the
6 same culture and represent the company no matter if
7 they're in Wichita or they're in Telana.

8 **Q. And this is to reflect a combined**
9 **company culture --**

10 A. Correct.

11 **Q. -- is that right?**

12 **But you are not proposing to combine the**
13 **companies; is that correct?**

14 A. No. The corporate structure itself is
15 independent companies owned by the holding company.

16 **Q. Okay. You speak generally of savings**
17 **that will result immediately following the**
18 **transaction and increase year over year. The**
19 **savings in the initial year are expected to be**
20 **roughly 65 million; is that right?**

21 A. Correct.

22 **Q. And those savings would be used to pay**
23 **down debt of the parent company?**

24 A. No. Savings would be flowed back to
25 customers in that first rate case we've talked

1 about. That's kind of the purpose of that first
2 case. We wouldn't expect to actually pay down debt
3 at the holding company that we've just issued
4 probably for two to three years. It's got a --
5 shortest time period is about three years, I think.

6 **Q. And when would that first rate case for**
7 **KCP&L be after the transaction?**

8 A. We have specific commitments, but it's
9 in the '18, '19 time period.

10 **Q. And for GMO?**

11 A. About the same, I believe. Again, I
12 think we have specific agreements on that. The
13 point would be, though, to have one case that we've
14 agreed is going to get filed so that the commissions
15 are comfortable that those initial savings will be
16 seen, they'll be measured and they'll be able to
17 flow back to ratepayers or customers.

18 **Q. You address at a high level the credit**
19 **rating agencies review --**

20 A. Correct.

21 **Q. -- of the merger plan?**

22 A. Yes, ma'am.

23 **Q. Since you filed your testimony, has**
24 **there been activity at the credit rating agencies?**

25 A. Yeah. We issued the debt. So,

1 obviously, when we went into the transaction, we
2 talked about what we expected, we then issued the
3 equity, and now in just the last month or so we
4 issued \$4.3 million worth of debt and both agencies
5 did exactly what they said they expected to do and
6 what we told in our initial testimony we expected to
7 happen. S&P changed none of the ratings, moody's
8 changed the holding company one, and everything's
9 stable.

10 **Q. And Moody's changed the holding company**
11 **one downward?**

12 A. Yes. Based on their review of the
13 transaction even before we entered into it. We
14 talked to them, as we did with S&P, throughout. So,
15 that's what they told us. We knew that. We told
16 everyone that's what we expected. We issued the
17 debt and that's exactly what they did.

18 **Q. And that downgrade is still an**
19 **investment level --**

20 A. Absolutely.

21 **Q. -- rating?**

22 **What's the level the notch below where**
23 **the holding company is right now, the parent**
24 **company?**

25 A. Well, the notch below would be

1 non-investment grade and that BBB- is kind of the
2 lowest. And really what we did is we moved down in
3 the metrics at the holding company from a notch
4 above down. We expect over the course of the next
5 three to four years to be able to pay down and
6 improve the cash flow metrics such that we pick that
7 notch back up at the holding company.

8 **Q. So, you expect to pay it down over the**
9 **next, next three years?**

10 A. We don't expect to pay down all the
11 debt. Probably don't pay down all the debt. In
12 fact, we have some 30-year bonds out there as part
13 of the financing. We would expect within three to
14 four years as our cash flow improves we would be
15 able to pay down some, depending on a lot of factors
16 at that point. We would love to de-leverage the
17 holding company a little bit.

18 **Q. And how would the cash flow improve if**
19 **the savings are passed on to ratepayers?**

20 A. Well, there's a combination. Obviously,
21 you're flowing through cash when we have a rate
22 case. In between rate cases we hope to be fully
23 earning our return in cash flow, typically which
24 would be dividends up to the holding company would
25 be paid up as always.

1 MS. ROBY: No further questions.

2 JUDGE BURTON: Thank you.

3 Questions from the bench?

4 CHAIRMAN HALL: Yes. Good morning.

5 THE WITNESS: Morning.

6 CHAIRMAN HALL: Your counsel, Mr. Hack,
7 mentioned in his -- in his opening that leveraged
8 acquisitions of this I believe he said nature and
9 mag -- well, maybe not magnitude, but at least of
10 this nature are fairly typical in the energy
11 industry today. Is that true?

12 THE WITNESS: That's true.

13 CHAIRMAN HALL: Could you -- could you
14 provide a little flavor for that?

15 THE WITNESS: Yeah. So, I mean, I think
16 what you're seeing across the industry is what we're
17 doing here, which is as overall revenue is
18 flattening out because usage is flattening out.
19 People are more dependent on electricity all the
20 time, but they're using less of it. We're
21 encouraging it through our programs for energy
22 efficiency. But as that happens, then you begin to
23 figure out ways how to manage costs because other
24 costs like wages and things don't flatten out. They
25 keep going up. So, the ability to create synergies,

1 cut costs, however you want to put it is critical to
2 be able to continue that quality service to our
3 customers, while at the same time not increasing
4 rates constantly, because without additional
5 revenues increasing costs get passed through. So,
6 what you've seen is companies combine in a way to
7 create synergies to find a way to keep costs down,
8 while at the same time improving or keeping the same
9 kind of quality service that you've had before.

10 CHAIRMAN HALL: So, that process would
11 explain the M&A uptick. What about the --

12 THE WITNESS: The debt portion itself?

13 CHAIRMAN HALL: Exactly. Thank you.

14 THE WITNESS: Yeah. Well, in part
15 because debt costs are really low and have been for
16 a while. So, if you're looking at an opportunity to
17 do this in a financial way that's cost effective,
18 provides the kind of comfort level that we can do
19 this. I mean, this is a large transaction for us.
20 I'm the first to say that. But the ability to do
21 that at very low-cost debt that you can spread over
22 a number of years gives you the ability of comfort
23 that you can pay that back over a number of years.
24 Without the low-cost debt it would be difficult to
25 almost impossible at this level, no doubt.

1 CHAIRMAN HALL: So, essentially it's a
2 combination of flat consumption rates nationally and
3 low debt costs that are the main two drivers for why
4 this type of transaction is fairly common in the
5 industry today?

6 THE WITNESS: From a financial
7 perspective. We're not -- we've never said we
8 believe bigger is better in all circumstances. So,
9 obviously, the Aquila deal was something we did
10 because we were adjacent. The Westar deal we're
11 adjacent. We believe -- I heard some of our
12 investors call it an old-fashioned merger. We're
13 actually putting assets together that can create
14 value for customers and shareholders rather than
15 simply on a balance sheet buying two businesses that
16 may not be next to each other. Not that those are
17 bad, but that's not our strategy.

18 So, I'd say in addition to the financial
19 things you mentioned, you need a strategy. So, if
20 your strategy is this company in some state has a
21 marketing business and this state has a deregulated,
22 maybe there's a reason there for us. We're a
23 utility. We want to have more utility business. We
24 want to provide good quality service, and Westar
25 joint assets and joint territories gives us the

1 ability to do that at lower costs.

2 CHAIRMAN HALL: Could you provide some
3 background for the 1999 merger that did not occur?

4 THE WITNESS: Very little. I was in the
5 state of Texas at that time. I got here in '05.
6 So, I'll tell you -- I'll tell you the series of
7 events. I'm not sure I know exactly the years. At
8 one point Aquila was going to purchase KCP&L. Tell
9 me if I'm on track here. Aquila was going to
10 purchase KCP&L. Westar jumped in in a hostile and
11 broke it up and then they began a process with KCP&L
12 to do a merger. I think this is the one you're
13 talking about. And in the end, I think even after
14 some of the approvals had been gotten, Westar ran
15 into financial trouble, nonutility-related trouble,
16 and as a result they had to back out of completing
17 the merger, I believe. And that's -- that's kind of
18 the timeline. So, then that happened over a series
19 of years. In 2002 or '03 KCP&L finds itself now
20 after two failed mergers kind of standing there and
21 then the company brought in new management. I was
22 part of that in 2004.

23 CHAIRMAN HALL: All right. Concerning
24 the Moody's downgrade, how do you anticipate that
25 affecting your cost of debt going forward?

1 THE WITNESS: We don't. So, obviously,
2 our investors knew that was the rating expectation
3 when we did the debt we just did. It doesn't affect
4 the utilities at all and we expect to, now that we
5 financed the transaction at the holding company, we
6 expect to run our businesses separate and run them
7 and finance them on their own assets. We wouldn't
8 expect there to be any.

9 CHAIRMAN HALL: What's happened to GPE
10 stock prices since the announcement of the
11 acquisition?

12 THE WITNESS: So, it's followed what I
13 would call traditional market patterns. It's
14 reduced or been dropped based on uncertainty around
15 the transaction. It's beginning to percolate back
16 up a little bit. What happened is initially it
17 dropped because there was uncertainty around
18 perceptivity of communities and regulators and the
19 markets. We then had to issue equity. Equity was a
20 big piece of the ultimate value of the transaction.
21 What was going to be cost of the equity and the
22 debt? We hedged the debt and got that out of the
23 way and then we issued the equity literally the day
24 after the shareholder vote. Once that was set and
25 people kind of had a sense of then everything we

1 said we were going to do could we do, but what's
2 left is regulatory approval. And so, right now
3 they're kind of looking to see what happens if it
4 doesn't get approved and if it does, then what does
5 that mean for paying the break-up fee and some other
6 costs. So, there's kind of -- our multiple is
7 depressed a little bit for people watching to see
8 what happens here. We'd expect once approvals are
9 gained that we would see an uptake again.

10 CHAIRMAN HALL: So, what is the price
11 now compared to pre-announcement of the...?

12 THE WITNESS: Pre-announcement we were
13 around, my chief financial officer will give you an
14 exact price, but it was over \$30, probably 31 or 32.

15 CHAIRMAN HALL: Now you're at 29 or so?

16 THE WITNESS: 29. So, it's bounced
17 back. We ultimately issued equity at 26.45, but
18 that's a one-day issuance of a big chunk that
19 presses the issuance amount back. Came back to 27,
20 28. It's percolated back up to 29 as we move closer
21 to close.

22 CHAIRMAN HALL: Okay. Thank you.

23 THE WITNESS: Uh-huh.

24 COMMISSIONER STOLL: I have no
25 questions. Thank you.

1 COMMISSIONER KENNEY: I have no
2 questions. Thank you.

3 COMMISSIONER RUPP: I've got a question.
4 Good morning still.

5 THE WITNESS: Good morning.

6 COMMISSIONER RUPP: Can you shed any
7 light, and I'm sorry I'm asking for a history
8 lesson, on the non -- the financial troubles of
9 Westar in the '99 merger that were nonregulated?

10 THE WITNESS: Well, I can tell you two
11 things -- I can tell you two things that happened.
12 One's very general and one's very specific. The
13 nonregulated stuff was completely nonutility. They
14 had a Protection One. And I'm really a little off
15 here, but, so, they had some completely
16 nonutility-related stuff that went bad, and then
17 their CEO was indicted for I think mail fraud
18 related to a bank, unrelated to the utility stuff,
19 but still their CEO was indicted at that point, and
20 I can't swear those are directly connected, but that
21 was going on at the time.

22 COMMISSIONER RUPP: Okay. Is there any
23 concern over any of their nonregulated operations
24 now currently that you have identified?

25 THE WITNESS: They don't really have

1 anymore. They have a little bit larger trading desk
2 than we do that trades within SPP, but those are
3 power marketing trades. They're not unregulated
4 stuff. Neither one of us really have the kind of
5 unregulated activity that happened there and
6 certainly neither one of us have material amounts
7 invested.

8 COMMISSIONER RUPP: Okay. And then you
9 were talking with the City of Independence about the
10 culture and the full, I believe, culture of the
11 organization is paramount. So, can you help
12 identify the similarities and the differences of
13 Westar and KCP&L culture as it stands?

14 THE WITNESS: Absolutely. It's been --
15 it's been the most exciting part, candidly, of the
16 work so far, not that synergies and business plans
17 around those aren't exciting. But, obviously,
18 working with people who care about customers is
19 what's exciting.

20 So, what we have in common, we are a
21 proud group of people in both companies about how we
22 serve our customers. We have -- we have good
23 metrics from a customer service perspective. As I
24 traveled around the state of Kansas and met business
25 leaders in Kansas that know Westar they're very

1 proud of their relationship with the utility and
2 want to be sure we're equally committed, but they
3 also, I think, know folks in our area that know our
4 commitment to our customers. So, the things we care
5 about most, we're focused on customers and we're
6 focused on utility business. We're not focused on
7 anything else, number one.

8 What do we do different? You know, to
9 some extent their territory is more rural and, so,
10 you tend to be a little more decentralized, you tend
11 to have service centers in small towns around, where
12 we have a huge metro area and that drives a little
13 cultural differences about, you know, how many rules
14 and regulations and how thick the manual is to check
15 off before you do something. So, we're kind of
16 putting the best practice of both those together.
17 What we try to tell people is we may be the
18 purchaser from a financial perspective, but this is
19 really a merger of people. This is a strong
20 company. We're strong companies. We want to take
21 the best of both. And so, those are probably the
22 two most positive -- not positive and negative, but
23 differences either way that we've seen so far.

24 COMMISSIONER RUPP: What about, like,
25 the culture of innovation, because I know that -- I

1 think didn't I just see that Westar won an award or
2 something on technology innovation. How do those
3 synergies match up with the two organizations?

4 THE WITNESS: Yeah. I mean, I think --
5 I think we -- it's interesting. I think we would
6 have told you at the beginning that we're more
7 innovative. We take a lot of pride in the things
8 that we're doing around energy efficiency and all
9 sorts of stuff that we take a lot of pride in. They
10 have been -- they are equally proud. They've had
11 won some awards around environmental innovation and
12 on some other stuff that I kind of knew about, but
13 you don't know until you talk to folks really what
14 it amounts to. And so, they've got the equal kind
15 of commitment to innovation and I think, candidly,
16 the sale of their company is part of that. They saw
17 what we see, is that this was likely to happen and
18 to continue to be innovative and meet our customers'
19 needs at lower costs they needed some scale. And
20 so, we together bring that kind of scale, but bring
21 it in a way where we know each other. We know our
22 assets very well. So, we think we can create more
23 together.

24 COMMISSIONER RUPP: That's all I have.
25 Thank you, Judge.

1 JUDGE BURTON: There was a request for a
2 limited waiver of variance from the Commission's
3 affiliate transaction rules. Is that request only
4 going to apply to regulated entities either Westar,
5 KCP&L or GMO for goods and services?

6 THE WITNESS: I believe that's all it
7 applies to, yes, yes.

8 JUDGE BURTON: So, it won't include any
9 other affiliates?

10 THE WITNESS: No, not that I know of. I
11 don't believe the rule applied to it. So, the
12 waiver neither applies.

13 JUDGE BURTON: I don't have any further
14 questions.

15 Any recross based on questions from the
16 bench?

17 MR. THOMPSON: No, thank you, Judge.

18 MR. OPITZ: No, thank you, Judge.

19 JUDGE BURTON: City of Independence?

20 MS. ROBY: No, thank you.

21 JUDGE BURTON: Any redirect?

22 MR. HACK: Just briefly.

23 REDIRECT EXAMINATION

24 BY MR. HACK

25 Q. Mr. Bassham, in Missouri are there

1 **periodic rate cases required for any reason to your**
2 **knowledge?**

3 A. Oh, obviously, every four years we're in
4 no matter what because we have to true-up our fuel.
5 So, if we were in a situation of earning our return,
6 not needing a rate case, but not over-earning, it
7 might be four years before we came in, but that's
8 required regardless.

9 **Q. And is that construct present in Kansas?**

10 A. I believe there's -- I don't know. I
11 apologize.

12 **Q. And I'll try not to lead too much.**

13 CHAIRMAN HALL: Too much.

14 **Q. (By Mr. Hack) In Kansas we made a rate**
15 **case filing commitment by a time certain. Do you**
16 **recall that?**

17 A. Oh, yes, yes.

18 **Q. And we really haven't done that here in**
19 **Missouri, although there is a general expectation**
20 **that we will be filing one.**

21 A. But based on our knowledge of investment
22 we're making right now, that's correct.

23 **Q. And just not to go too deep, but can you**
24 **provide some color as to what investment is driving**
25 **that?**

1 A. Yeah. So, I thought you were talking
2 about fuel in Kansas. I'm not sure the requirements
3 on fuel true-up. But in Kansas we have -- or Westar
4 has a brand new purchase of wind. So, our wind
5 we're doing through PPAs. They've got one they're
6 doing through rate base. So, we'll have to have a
7 rate case to implement the wind in Kansas through
8 the Westar process, which has already been talked
9 about. For us we have wind, but it's PPAs, as I
10 said, but we do have a brand new CIS that we're
11 working on and it is expected to be finished next
12 summer, which would then entail rate-based
13 investment that would drive a rate case as well.

14 **Q. And just to be clear in your discussion**
15 **with the City of Independence regarding credit**
16 **ratings. At the GPE level is it correct that S&P**
17 **did not change GPE's credit rating?**

18 A. That's correct.

19 **Q. And for both Moody's and S&P, none of**
20 **the utility's credit ratings have changed or are**
21 **expected to change as a result of the transaction?**

22 A. That's correct.

23 MR. HACK: I don't have any further
24 questions for Mr. Bassham I don't think. I would
25 offer to Chairman Hall and Commissioner Rupp that

1 Mr. Ives was present at the company when the 1999
2 acquisition or transaction between Western Resources
3 and KCP&L did not go through. So, I think he can
4 provide perhaps a little more detail on that, should
5 you desire that. And that's all I have. Thank you.

6 JUDGE BURTON: Could you clarify what
7 CIS is?

8 THE WITNESS: I'm sorry. Customer
9 information system.

10 JUDGE BURTON: Thank you.

11 All right. I believe that's it. So,
12 you are excused.

13 THE WITNESS: Thank you very much.

14 JUDGE BURTON: Applicants may call their
15 next witness.

16 MR. HACK: GPE, KCP&L and GMO would call
17 Mr. Kevin Bryant.

18 JUDGE BURTON: Mr. Bryant, would you
19 raise your right hand. Do you swear or affirm that
20 the testimony you're about to give will be the
21 truth, the whole truth and nothing but the truth?

22 THE WITNESS: I do.

23 JUDGE BURTON: Thank you.

24

25

1 KEVIN BRYANT,
2 having been called as a witness herein, having been
3 first duly sworn, was examined and testified as
4 follows:

5 DIRECT EXAMINATION

6 BY MR. HACK

7 Q. State your name for the record, please.

8 A. Kevin Bryant.

9 Q. And what is -- where do you work and in
10 what capacity?

11 A. I serve as the CFO for Great Plains
12 Energy, KCP&L and KCP&L GMO.

13 Q. And, Mr. Bryant, did you cause to be
14 prepared and filed in Case No. EE-2017-0113 certain
15 direct testimony?

16 A. I did.

17 Q. And are you aware that that case, since
18 filing in mid-October, has been consolidated with
19 the case we're talking about today, Case
20 No. EM-2017-0226?

21 A. I am.

22 Q. And did you also cause to be prepared
23 and filed surrebuttal testimony in Case
24 No. EM-2017-0226 surrebuttal testimony?

25 A. I sure did.

1 Q. And do you have any corrections or
2 changes to make to either pieces of those
3 testimonies today?

4 A. I do not.

5 Q. If I were to ask you the questions today
6 that are posed in those written testimonies, would
7 your answers be substantially the same?

8 A. They would.

9 Q. And are those answers true and correct
10 to the best of your knowledge and belief?

11 A. They are.

12 MR. HACK: GPE, KCP&L and GMO would
13 offer into evidence Exhibits 2 and 3, which are
14 respectively Mr. Bryant's direct and surrebuttal
15 testimony, and we would also tender Mr. Bryant for
16 cross-examination.

17 (KCP&L's Exhibit 2 and Exhibit 3 were
18 offered into evidence.)

19 JUDGE BURTON: Exhibits 2 and 3 have
20 been offered. Are there any objections?

21 Seeing none. Exhibits 2 and 3 are
22 admitted.

23 (KCP&L's Exhibit 2 and Exhibit 3 were
24 admitted into evidence.)

25 JUDGE BURTON: Staff, do you have any

1 questions?

2 MR. THOMPSON: I have no questions.

3 Thank you, Judge.

4 MR. OPITZ: No, thank you, Judge.

5 MR. JARRETT: I have no questions for
6 Mr. Bryant.

7 JUDGE BURTON: City of Independence?

8 MS. ROBY: Just a few questions.

9 CROSS-EXAMINATION

10 BY MS. ROBY

11 Q. Mr. Bryant.

12 A. Good morning.

13 Q. You filed your surrebuttal testimony on
14 March 27th; is that correct?

15 A. That sounds about right.

16 Q. And therein you characterized at that
17 time, yet in expectation that Moody's -- that GPE
18 will likely see a one-notch downgrade of its credit
19 rating by Moody's; is that right?

20 A. Correct.

21 Q. And, in fact, Moody's had acted by that
22 point, had it not?

23 A. It was around that time. It was pretty
24 close. I don't remember the exact date of the
25 Moody's -- of the Moody's report, but Moody's did,

1 indeed, act and downgrade the holding company as
2 Mr. Bassham mentioned.

3 **Q. And it would not surprise you that it**
4 **happened before your testimony was filed?**

5 A. It's around that time. If you're
6 looking at a report and you say that it was before,
7 I wouldn't call you a liar.

8 **Q. In your direct testimony you speak to**
9 **the transaction savings that will flow to customers**
10 **upon future rate review, correct?**

11 A. Yes, ma'am.

12 **Q. But the sayings in between those rate**
13 **reviews will be -- will allow the company to service**
14 **and repay debt and fund incremental dividends; is**
15 **that correct?**

16 A. I would certainly say that the savings
17 between rate case where our interest -- the interest
18 of our customers and our shareholders are in
19 alignment, to the extent we can deliver and achieve
20 those efficiencies they certainly would be amongst
21 the cash flows available to service the transaction
22 and financing.

23 **Q. One moment, please.**

24 A. Sure.

25 **Q. Did you have an opportunity to review**

1 **staff's July 2016 report?**

2 A. I did.

3 **Q. And you just testified that the**
4 **objectives of the parent and the regulated utilities**
5 **are aligned?**

6 A. I think what I said was to the extent
7 that efficiencies were retained between rate cases
8 it would represent an alignment of the interests of
9 our shareholders and our customers, that would
10 ultimate deliver efficiencies that would be retained
11 between rates cases and ultimately given back as
12 Mr. Bassham mentioned.

13 **Q. In staff's July 2016 report, staff**
14 **witness David Murray evaluated or identified a**
15 **number of conditions that were agreed to in**
16 **connection with the reorganization, correct?**

17 A. I believe so. I don't have the staff
18 report in front of me, but again, I trust you.

19 **Q. One of those conditions is condition**
20 **6-H. That condition states GPE, KCPL and the staff**
21 **agree that the allowed return on common equity and**
22 **other costs of capital will not increase as a result**
23 **of the reorganization, and in staff's response on**
24 **page 26 of that report staff agreed that KCP&L's**
25 **cost of capital did not change by the mere formation**

1 of Great Plains Energy, but staff filed testimony in
2 2012 rate cases by KCP&L and GMO that demonstrated
3 that GPE's financial support for GMO did cause KCP&L
4 to have higher cost of debt due to short or tenor
5 debt being assigned to GMO and none being assigned
6 to KCP&L. Staff noted that the Commission did not
7 adopt staff's position and further noted that the
8 complexities and motivation to financially manage
9 GPE and its subsidiaries for GPE's shareholders'
10 best interest rather than KCP&L and GMO individually
11 will cause staff to continue to have this concern.

12 Did you address this concern in your
13 testimony?

14 A. I don't -- I don't believe so. We've
15 certainly addressed that topic in prior rate cases,
16 but...

17 Q. Is this concern addressed in the merger
18 commitments that applicants have made?

19 A. Certainly. I think we've committed to
20 maintaining separate capital structures for the
21 utilities and to file rate cases consistent with
22 their cost of service. That would certainly be our
23 intent moving forward.

24 Q. Is it fair that staff's concern goes in
25 part to the management of the parent company and not

1 **just the separate rate structures, but the**
2 **management by KCP&L and employees trying to protect**
3 **GPE?**

4 A. I think you'd have to ask staff directly
5 what their concern was.

6 Q. **Are you familiar with Mr. Gorman's**
7 **testimony?**

8 A. I am.

9 Q. **Did Mr. Gorman recommend that the**
10 **utility, regulated utilities have independent**
11 **boards?**

12 A. He did.

13 Q. **Is that a condition that the applicants**
14 **have considered?**

15 A. Certainly, the utilities currently have
16 independent boards. We have ten board of directors.
17 One with Westar. There's only one company
18 representative on those boards. That's our chairman
19 and CEO Terry Bassham. The rest of the board
20 members are comprised of outside parties.

21 Q. **And yet, with those independent boards,**
22 **with GMO and with KCP&L did they have independent**
23 **boards at the time of the 2012 rate case?**

24 A. They did.

25 Q. **And still with those independent boards**

1 **there was a concern that the complexity and**
2 **motivation to financially manage GPE and its**
3 **subsidiaries for GPE's shareholders was to manage**
4 **GPE shareholders' best interest rather than KCP&L**
5 **and GMO individually; is that correct?**

6 A. I can't speak directly to staff's
7 concern, but I would say those board members are
8 responsible for managing the interest of KCP&L and
9 GMO of which their sole shareholder is GPE and, so,
10 certainly they would be looking out for the interest
11 of the utilities and GPE.

12 **Q. GPE's credit rating is currently**
13 **investment grade; is that right?**

14 A. Yes, ma'am.

15 **Q. And what happens if it falls below its**
16 **current level?**

17 A. Certainly could cause GPE's cost of
18 capital to increase.

19 **Q. And could you explain how the merger**
20 **commitments protect the regulated utilities in that**
21 **event?**

22 A. So, the merger commitments protect the
23 utilities from any increase in cost should GPE's
24 credit rating be downgraded due to a factor
25 attributable to the transaction. So, there's a hold

1 harmless provision from a cost perspective. We've
2 also proposed if for some reason utility's credit
3 rating went below investment grade, some additional
4 mechanisms. But if GPE's credit rating were to
5 decline, we've agreed to hold the utilities harmless
6 on a cost basis.

7 **Q. So, if the regulated utility's cost of**
8 **capital increases, what are those additional**
9 **mechanisms that you've proposed?**

10 A. Could you restate? The regulated
11 utilities?

12 **Q. I was actually restating one of your**
13 **statements.**

14 A. Yeah.

15 **Q. If a further downgrade of the parent**
16 **company affects the regulated utility, you have**
17 **proposed hold harmless provisions, yes?**

18 A. Correct. So, if the holding company --
19 if there was an impact on the utilities attributable
20 to the transaction and, so, their cost of capital
21 were to increase, that level of that increase we
22 would hold customers harmless and not pass on that
23 increase to customers in their cost of service.

24 **Q. And that would be true if that is a**
25 **result of the transaction?**

1 A. Sure. Certainly.

2 **Q. Are there activities that GPE could**
3 **engage in outside of the transaction that might have**
4 **an impact on the regulated utilities?**

5 A. Are there -- there certainly could be,
6 but to the extent that those activities would occur
7 and they impact the utility's credit rating, it
8 would certainly be discernible events that parties
9 could make the case that they caused that increase
10 in the utility's cost of capital for which we would
11 hold the utilities harmless.

12 **Q. So --**

13 A. And I would also state that's not our
14 intention. We are a fully regulated business. But
15 since we're talking about possibilities.

16 **Q. So, let me see if I could restate to**
17 **make sure I understand this. If GPE's -- if there**
18 **was a downgrade to GPE's credit rating, based upon**
19 **an activity that is not associated with the**
20 **transaction, the hold harmless provision for the**
21 **regulated utilities would still operate?**

22 A. No. It's only attributable to the
23 transaction. I think what I was stating is that if
24 that activity occurred, parties could certainly make
25 that case in the rate cases subsequent to the

1 closing of the transaction, but the hold harmless
2 provision is solely due to impacts from the
3 transaction.

4 **Q. Okay. And how would you hold harmless?**

5 A. We wouldn't pass along such increase in
6 cost that could be -- that would be attributable to
7 the transaction.

8 **Q. So, the shareholders would absorb that?**

9 A. Yes, in effect.

10 **Q. Would that not have a further negative**
11 **effect on the credit rating of GPE? Would that not**
12 **cause a downward spiral?**

13 A. I would not suggest that that would
14 cause a downward spiral. There would certainly be
15 an impact, but at the level of magnitude I wouldn't
16 expect it to cause a further downgrade in the credit
17 rating.

18 **Q. And --**

19 A. And again, we're talking hypothetical.

20 **Q. Sure, sure. And what would be some of**
21 **the mitigating measures that GPE would take at that**
22 **point to protect GPE's credit rating?**

23 A. Sure. So, if you look back to the --
24 back to 2008, 2009 time frame when we were in the
25 midst of construction of Iatan II, you had an

1 economic downturn and you had pressure on the credit
2 metrics, KCP&L -- or I'm sorry, GPE took action to
3 protect its credit rating. Those actions included
4 cutting of the dividend at Great Plains Energy and
5 the issuance of additional equity. So, those
6 certainly could be some steps that could be taken to
7 support the credit rating at the holding company.

8 **Q. And that issuance of additional equity**
9 **is the same incident that was referenced in staff's**
10 **report; is that correct?**

11 A. I believe so.

12 **Q. That KCP&L caused -- that caused KCP&L's**
13 **rate base to increase?**

14 A. I don't -- I don't follow.

15 **Q. At about that time that KCP&L was**
16 **constructing Iatan, did KCP&L enter into**
17 **transactions with other utilities to participate in**
18 **Iatan?**

19 A. There are other owners of Iatan,
20 correct.

21 **Q. And those other owners would include**
22 **MJMEUC and its members?**

23 A. Yes.

24 **Q. Did that help alleviate the pressure on**
25 **GPE?**

1 A. Which pressure are you referring to?

2 Q. At the time of the economic downturn,
3 constructing Iatan II --

4 A. Uh-huh.

5 Q. -- there were pressures on GPE's credit
6 rating. To mitigate those you took measures to
7 lower the dividend payments?

8 A. Yes, ma'am.

9 Q. Did the -- was it KCP&L's intent to
10 construct Iatan II solely for the benefit of KCP&L
11 and its ratepayers?

12 A. I think KCP&L always intended to have
13 partners in the construction of Iatan II.

14 Q. And would you regard the partnership
15 with MJMEUC as a productive partnership in Iatan?

16 A. I would. Hopefully they would
17 reciprocate.

18 Q. One moment, please.

19 MS. ROBY: No further questions at this
20 time.

21 JUDGE BURTON: Questions from the bench?

22 CHAIRMAN HALL: Yes. Good morning.

23 THE WITNESS: Good morning, Chairman.

24 CHAIRMAN HALL: Would you agree that
25 there -- that there was an acquisition premium that

1 was part of this transaction?

2 THE WITNESS: Yes, I would.

3 CHAIRMAN HALL: How would you define
4 acquisition premium?

5 THE WITNESS: So, you know, I think -- I
6 think about the premium as the price paid to Westar
7 shareholders over the prior trading price of
8 their -- of the stock. And so, in my testimony I
9 talked about that as being \$2.3 billion or so, based
10 on the price we agreed to pay versus the undisturbed
11 price as the transaction leaked in the marketplace.
12 But certainly in the regulatory construct the notion
13 of goodwill is also a concept as well. And so, if
14 you look at the price or the premium over the book
15 value of Westar, that's more in that 4.7-ish billion
16 range that I also talked about in my testimony.

17 CHAIRMAN HALL: On page 7 of your direct
18 on lines 12 through 15 you discuss GPE's experience
19 with delivering transaction-related savings for
20 Aquila and use that as an argument for why you --
21 why you believe the companies can achieve similar
22 savings as a result of this transaction.

23 THE WITNESS: Where are you at,
24 Chairman? Are you in direct?

25 CHAIRMAN HALL: I am.

1 THE WITNESS: Page, which page?

2 CHAIRMAN HALL: 7.

3 THE WITNESS: And then lines 10

4 through --

5 CHAIRMAN HALL: 12 through 15.

6 THE WITNESS: Got it. Okay. Yes, sir.

7 I'm with you.

8 CHAIRMAN HALL: Is that correct?

9 THE WITNESS: That's correct.

10 CHAIRMAN HALL: What were the savings

11 that were anticipated as a result of the Aquila

12 acquisition?

13 THE WITNESS: So, many of the savings
14 that we've identified here, so there would certainly

15 be some efficiencies from back-office support

16 functions, efficiencies from supply chain. We at

17 the time implemented a pretty robust supply chain

18 initiative to drive value out of our supply chain.

19 So, procuring products and services to support the

20 provision of electric service at lower cost than we

21 could on a standalone basis, and there were also

22 some interest cost savings were the big ones that I

23 remember from the Aquila transaction.

24 CHAIRMAN HALL: So, you mentioned back

25 office.

1 THE WITNESS: Yeah. So, support
2 functions.

3 CHAIRMAN HALL: Support functions.

4 THE WITNESS: So, for example, you only
5 needed -- you had two CEOs and you only needed one
6 CEO for the combined company moving forward.

7 CHAIRMAN HALL: So, that was a
8 centralizing of management of two companies into
9 one?

10 THE WITNESS: Correct. Spreading our
11 support cost, the cost to provide support for the
12 entire organization over a larger customer base.

13 CHAIRMAN HALL: And then you mentioned
14 something concerning the supply chain?

15 THE WITNESS: Yes. So, we put in place
16 both systems and processes, and Mr. Kemp can also
17 talk about this in a bit of detail, but system and
18 processes to negotiate better terms and contracts
19 with our vendors to benefit from economies of scale
20 in our purchasing efforts to drive value through the
21 supply chain, which neither company could have done
22 on their own.

23 CHAIRMAN HALL: And then interest
24 savings?

25 THE WITNESS: Yeah. At the time Aquila

1 was a little different. If you remember, Aquila had
2 had its challenges and, so, its interest costs on
3 some of its debt were fairly high. Being able to
4 refinance that debt with the credit strength of the
5 new organization were savings that were also
6 realized.

7 CHAIRMAN HALL: So, what were the
8 savings that were anticipated; do you know?

9 THE WITNESS: I believe it was
10 500 million or so over the first five years.

11 CHAIRMAN HALL: And were those savings
12 realized?

13 THE WITNESS: Yes. I believe the number
14 that was ultimately supported for regulatory
15 purposes was \$762 million. We tracked savings.

16 CHAIRMAN HALL: Over five years?

17 THE WITNESS: Yes, over five years.

18 CHAIRMAN HALL: And I'm sorry. I
19 interrupted you.

20 THE WITNESS: No. So, I think we
21 tracked those for the benefit of the Commission and
22 reported upon those savings. I think Mr. Ives can
23 certainly give more color to that process.

24 CHAIRMAN HALL: Can you explain to me
25 what your understanding is as to Moody's rationale

1 for why they downgraded GPE credit rating after the
2 announcement of the transaction?

3 THE WITNESS: Yeah. That was consistent
4 with kind of the way they described their actions
5 all along. I believe they looked at the totality of
6 factors, both the credit positive or credit
7 reinforcing aspects of the transaction, the
8 diversification, the scale, the respective improving
9 cash flow profiles of both KCPL and Westar, Great
10 Plains Energy and Westar on a standalone basis, but
11 they, obviously, then looked at the transaction
12 financing. If you look at the level of the holding
13 company debt, I think that was one of the key
14 considerations, along with the balancing of those
15 positive credit impacts that caused them to lower
16 the rating at the holding company.

17 CHAIRMAN HALL: Did Moody's provide any
18 kind of road map to fix that credit rating
19 downgrade?

20 THE WITNESS: So, no. They are -- they
21 are not really in the business of giving you, you
22 know, a clear kind of commitment if you do X, then
23 they will do Y. But I will say, you know, in our
24 conversations with them, both if you look at the
25 level of the credit metrics, the improvement over

1 time and our ability to de-lever, we believe that
2 gives the capacity, as Mr. Bassham mentioned, to pay
3 down three to five hundred million of holding
4 company debt over the first three to five years. I
5 believe if we get that holding company -- as we work
6 that holding company debt level down from 35 percent
7 to 30 -- to the low 30ish range, I think we would
8 make a strong case to get that one notch back in
9 Moody's.

10 CHAIRMAN HALL: Okay. Thank you.

11 THE WITNESS: Certainly. My pleasure.

12 COMMISSIONER STOLL: No questions.

13 COMMISSIONER KENNEY: No questions.

14 Thank you.

15 JUDGE BURTON: I have a few questions
16 for you.

17 THE WITNESS: Yes, ma'am.

18 JUDGE BURTON: Did you participate in
19 the preparation of the stipulation and agreement
20 with staff?

21 THE WITNESS: Indirectly. I worked with
22 our regulatory team, but -- so, indirectly. Not
23 directly with staff.

24 JUDGE BURTON: Okay. So, maybe these
25 questions might be better for someone else, but --

1 THE WITNESS: I think Mr. Ives is always
2 a good place to ask questions.

3 JUDGE BURTON: Going back to the
4 discussion about acquisition premium.

5 THE WITNESS: Yes, ma'am.

6 JUDGE BURTON: Is it safe to say that
7 acquisition premium for regulatory purposes is the
8 difference between the price that GPE is paying to
9 Westar shareholders in addition to the debt that's
10 being assumed from Westar by GPE and the net book
11 value?

12 THE WITNESS: Yes. The purchase price
13 over the book value or equity.

14 JUDGE BURTON: Is there a difference
15 between book value and net book value?

16 THE WITNESS: No. I think that's fair.

17 JUDGE BURTON: Did Moody's, whenever
18 they came out with their GPE downgrade, give an
19 indication about GPE's leverage being a factor for
20 risk tolerance?

21 THE WITNESS: They did. They did.

22 JUDGE BURTON: And what did they say?

23 THE WITNESS: They talked about the
24 level of debt being a factor in their credit rating
25 in terms of the appetite for, for financial,

1 financial aggressiveness may be the term that they
2 used, but they certainly looked at the level of
3 holding company debt and that factored into their
4 rating consideration.

5 JUDGE BURTON: Who determines the credit
6 rating for KCPL and GMO? Is it GPE?

7 THE WITNESS: Well, the rating agencies
8 ultimately deliver their credit ratings. How the
9 companies are managed both from cap structure and
10 how we ultimately deliver cash flow and credit
11 metrics are purview of management.

12 JUDGE BURTON: So, a determination on
13 the capital structure for KCPL and GMO is determined
14 by GPE?

15 THE WITNESS: By management.

16 JUDGE BURTON: Who's management?

17 THE WITNESS: GPE management, KCP&L --
18 I'm a KCP&L employee. So, certainly I would be
19 instructive in determining that capital structure as
20 the CFO.

21 JUDGE BURTON: So, you make that
22 determination?

23 THE WITNESS: I have significant say in
24 it. I work with our finance staff, with our board
25 of directors, our chief -- our chief executive

1 officer, but it's -- all those inputs would drive
2 the financial decision making.

3 JUDGE BURTON: Who actually makes -- is
4 it the board of directors for GPE? Is it --

5 THE WITNESS: Well, the board --

6 JUDGE BURTON: -- based off of your
7 determination?

8 THE WITNESS: So, is the capital
9 structure determined by the GPE board?

10 JUDGE BURTON: Yes.

11 THE WITNESS: Is that the question?

12 I would think management, management --
13 the board would set kind of guidelines and the
14 policies and the expect -- we work with the board to
15 set expectations, but the execution of that strategy
16 would be within -- all within the purview of
17 management. That make sense?

18 JUDGE BURTON: You mean management over
19 all of GPE, not management necessarily just at KCPL
20 or GMO?

21 THE WITNESS: Management at GPE are also
22 responsible for KCP&L and GMO.

23 JUDGE BURTON: Turning to your
24 surrebuttal testimony. On page 7, lines 21 through
25 22 you state that GPE has pledged to insulate

1 customers from any increase in the cost of capital
2 that is attributable to a downgrade caused by the
3 increase in GPE's leverage. What do you mean by
4 attributable? Can you give me an example or define
5 what can classify as attributable?

6 THE WITNESS: Yeah. So, if the rating
7 agencies came out and said that the transaction
8 created -- that additional leverage from the
9 transaction caused an increase in -- increase in
10 cost for the holding company and that was ultimately
11 a pass-through to customers, we would hold customers
12 harmless for that, that type of situation.

13 JUDGE BURTON: So, it's only if the
14 credit rating agencies explicitly state that?

15 THE WITNESS: I don't think so. I mean,
16 I think certainly that would be a significant input,
17 but if there were -- you know, we're talking
18 possibilities at this point. If there were clear
19 actions that were taken that could be pointed to
20 that where the transaction caused an increase in
21 cost, I think that would qualify under that
22 provision as well.

23 JUDGE BURTON: All right. If someone
24 were to make that argument in a future rate case,
25 does that impact KCPL or GMO's ability to request

1 recoupment of the acquisition premium?

2 THE WITNESS: I think -- I think as
3 we've talked about and Mr. Bassham mentioned this,
4 we don't -- we don't intend to seek recovery of the
5 acquisition premium in rates. That was only -- we
6 only retained that provision if someone made the
7 case that the holding company cap structure would be
8 used for rate making in future, future proceedings.

9 JUDGE BURTON: So, for example, going to
10 your surrebuttal testimony on page 7, if someone
11 else makes an argument in a rate case that the cost
12 of capital structure is attributable to GPE's
13 leverage amounts because of this transaction, then
14 that in GPE or KCPL or GMO's mind triggers the
15 option to request recovery of acquisition premium?

16 THE WITNESS: Not if it -- not if it was
17 a valid and defensible increase in cost of capital
18 for the utilities.

19 JUDGE BURTON: Where does it state that
20 in the stipulation and agreement with staff?

21 THE WITNESS: I'm not sure if it says it
22 that explicitly.

23 JUDGE BURTON: Okay. All right. Thank
24 you.

25 Any cross-examination, recross based on

1 bench questions?

2 MR. THOMPSON: No, thank you, Judge.

3 MR. OPITZ: No, thank you, Judge.

4 MS. ROBY: Can you give me one second,
5 one moment, please?

6 Just a few follow-up questions, if I
7 may.

8 RECROSS-EXAMINATION

9 BY MS. ROBY

10 Q. The line of questioning from Judge
11 Burton about who sets the regulatory company's
12 credit rating.

13 A. Uh-huh.

14 Q. Can you clarify that again? Is that --
15 is it the KCP&L management in working with the GPE
16 board?

17 A. The credit ratings, Moody's and S&P set
18 the -- establish the credit ratings for KCP&L, Great
19 Plains Energy, and GMO.

20 MS. ROBY: So maybe I misunderstood the
21 Judge's question. Is it possible to have the court
22 reporter read that question, line of questioning
23 back or the question that initiated that? Maybe I
24 misunderstood.

25 JUDGE BURTON: About the capital

1 structure?

2 MS. ROBY: The capital structure,
3 capital structure.

4 Q. (By Ms. Roby) So, is it -- is it the
5 KCP&L management that sets the capital structure for
6 the regulated --

7 A. Yes. Management, management manages the
8 finance of the utilities and the holding company.
9 The rating agencies establish the credit ratings.

10 Q. And there are no employees of GPE; is
11 that correct?

12 A. That's correct.

13 Q. There are KCP&L employees?

14 A. That's correct.

15 Q. And there are no GMO employees; is that
16 correct?

17 A. That's correct.

18 Q. So, who sets GMO's structure, capital
19 structure?

20 A. KCPL employees.

21 Q. And who would set Westar's capital
22 structure?

23 A. The same folks.

24 Q. KCP&L folks?

25 A. Correct.

1 MS. ROBY: One moment, please.

2 No further questions. Thank you.

3 JUDGE BURTON: Redirect?

4 MR. HACK: Thank you. May I approach
5 the witness?

6 JUDGE BURTON: You may.

7 MR. HACK: Do you -- maybe I don't have
8 to.

9 REDIRECT EXAMINATION

10 BY MR. HACK

11 Q. Do you have a copy of the staff
12 stipulation agreement with you? If you don't --

13 A. I do.

14 Q. You do. Would you turn to page 5 of
15 that document.

16 A. Okay.

17 Q. And I'll refer you to paragraph seven on
18 page 5, which is actually paragraph A-7, because the
19 A is over on page 2. Are you there?

20 A. I am.

21 Q. Now, Judge Burton asked you a question
22 about where in the staff's stipulation and agreement
23 the hold harmless language was. Would you take a
24 quick look at the language and see if this is the
25 hold harmless language you were referring to?

1 A. This is.

2 Q. And is it fair to say that the first
3 sentence is a hold harmless provision says, If there
4 are cost increases, we shall not pass them through?

5 A. Yes, correct.

6 Q. And then further beginning with the
7 second sentence there are requirements about what
8 either KCP&L and GMO must show in order to request
9 an increase in cost of capital in a rate case?

10 A. Yes. We must provide documentation.

11 Q. And that documentation would detail how
12 the capital cost increases the company or companies
13 are requesting are not related to the transaction?

14 A. Correct.

15 Q. And in your experience with credit
16 rating agencies when they take action either
17 positive, favorable or unfavorable with respect to a
18 company's credit rating, do they clearly explain
19 why?

20 A. Certainly if they take an action to
21 upgrade or downgrade, they're very clear about their
22 drivers for that action.

23 Q. Now, I would also ask you to turn to
24 pages 6 and 7 of that staff stipulation agreement,
25 and there's two paragraphs -- paragraph B-1 speaks

1 to -- are you there?

2 A. I am, yeah.

3 Q. Speaks to goodwill. And the first
4 sentence, would you agree, states our primary
5 position, which is that we shall not seek recovery
6 goodwill in rates --

7 A. Correct.

8 Q. -- in Missouri?

9 And if you go further towards the end of
10 that paragraph, there's a provided however clause.
11 Do you see that? About a third of the way through
12 the page.

13 A. I do.

14 Q. And the clause begins, Provided,
15 however, that if any party to any KCP&L or GMO
16 general rate case proposes to impute the cost or
17 proportion of the debt GPE's using to finance the
18 transaction. Is that where you are?

19 A. I am.

20 Q. And would you state in your own words
21 how you see that provision operating?

22 A. Yes. So, this will follow along with
23 kind of the opening, opening statement. It's not
24 our intention to seek recovery of the merger premium
25 in rates. We only have left that potential out

1 there if the consolidated cap structure was used for
2 rate making purposes, where the level of any premium
3 would have to be, premium recovery would have to be
4 consistent with not increasing rates due to the
5 tran -- due to the transaction.

6 **Q. And what I'm trying to get to is the**
7 **interrelation or non-interrelation between this**
8 **sentence and the hold harmless provision that we**
9 **discussed earlier in paragraph A-7.**

10 A. Right.

11 **Q. So, the specific question I'll ask,**
12 **which I think may have been the question Judge**
13 **Burton was asking is: If a party to a KCP&L or GMO**
14 **rate case argues that the transaction has caused an**
15 **increase in KCP&L or GMO's capital costs --**

16 A. Uh-huh.

17 **Q. -- that falls under paragraph seven**
18 **where we've agreed to hold customers harmless from**
19 **that and that allegation, do you agree, doesn't**
20 **trigger our ability --**

21 A. Absolutely.

22 **Q. -- to request recovery of acquisition**
23 **premium under paragraph B-1?**

24 A. Correct.

25 **Q. Thank you for everyone's patience.**

1 Corporate structure employee reporting.
2 Questions from Independence. Does GPE have any
3 employees?

4 A. I don't -- I don't believe so.

5 Q. Okay. You are an officer -- you're
6 employed by KCP&L?

7 A. Correct.

8 Q. But you're an officer for GPE, correct?

9 A. That's correct.

10 Q. You are a part of executive management
11 of both KCP&L and GPE?

12 A. For now.

13 Q. And decisions at a high level regarding
14 how the businesses are financed, whether to make
15 substantial investments in assets or other
16 businesses --

17 A. Uh-huh.

18 Q. -- are typically made by the board based
19 upon recommendations from executive management?

20 A. Correct. It's certainly working with
21 the board. We execute the strategy that the board
22 has put in front of us.

23 Q. And would you consider decisions
24 regarding general target capitalization ratios at
25 both GPE and the utilities as decisions that are

1 customarily accompanied by substantial board input?

2 A. Absolutely. We review it with the board
3 every quarter.

4 Q. Does the board have opinions about those
5 matters?

6 A. They do.

7 Q. There were questions, I believe, also by
8 Independence regarding participation of other
9 entities in the Iatan II project. Do you recall
10 those?

11 A. I do.

12 Q. Now, when did those entities become
13 participants in the project and were they -- were
14 they participants well in advance of the economic
15 downturn in 2008, 2009?

16 A. They were.

17 Q. They were not responses? Their
18 participation was not a response to the economic
19 downturn of 2008, 2009?

20 A. That's correct.

21 Q. Judge Burton asked you some questions
22 about debt levels at GPE and the relationship
23 between those post-closing and Moody's credit rating
24 downgrade. What is your expectation regarding GPE's
25 debt levels over three to four years after the

1 **transaction closes?**

2 A. Yes. So, I think our expectation is
3 that over the next three to five years we would pay
4 down the holding company debt to the tune of three
5 to five hundred million. I think that was Chairman
6 Hall.

7 Q. Okay. And do you think that there's a
8 **possibility that the Moody's downgrade gets reversed**
9 **at that point in time?**

10 A. We'd certainly be making that case
11 aggressively with Moody's.

12 Q. I think I -- you do not have Natelle
13 **Dietrich's testimony with you, do you?**

14 A. I do not.

15 MR. HACK: May I approach?

16 JUDGE BURTON: You may.

17 MR. HACK: It's surrebuttal.

18 Q. **(By Mr. Hack) Counsel for Independence**
19 **asked you some questions about the staff's July**
20 **report. Do you recall that general conversation?**

21 A. I do.

22 Q. I'm going to ask you to turn to page 26
23 **of the staff's July 25th report.**

24 A. I've got surrebuttal.

25 Q. **That's it.**

1 A. Okay.

2 **Q. It's Natelle's surrebuttal. It's the**
3 **staff report.**

4 JUDGE BURTON: I think it's attached as
5 Exhibit A.

6 **Q. (By Mr. Hack) Exhibit A.**

7 MR. FISCHER: It's not attached to the
8 one I gave you.

9 CHAIRMAN HALL: Kevin.

10 MR. HACK: Thank you, Chairman.

11 MR. FISCHER: Thank you, Mr. Chairman.

12 THE WITNESS: Full service. Thank you.

13 **Q. (By Mr. Hack) Page 26.**

14 A. Okay.

15 **Q. And the condition 6-H was where most of**
16 **your conversation occurred. That's towards the top**
17 **of that page.**

18 A. I see it.

19 **Q. And then there is underneath condition**
20 **6-H a staff's response section. Do you see that?**

21 A. I do.

22 **Q. About midway through that staff's**
23 **response paragraph, there's a sentence that reads,**
24 **The Commission did not adopt staff's position. Do**
25 **you see that?**

1 A. I do.

2 Q. So, the entire discussion, as I recall,
3 with the counsel for Independence was about staff's
4 concern. Do you recall that?

5 A. I do.

6 Q. And staff continues to express its
7 concern here; isn't that correct?

8 A. In this -- in this staff report.

9 Q. Yes.

10 A. Correct.

11 Q. But ultimately, that concern was
12 presented to the Commission, was it not?

13 A. Correct.

14 Q. And the Commission itself did not adopt
15 staff's position?

16 A. Correct. It says here Commission did
17 not adopt staff's position.

18 MR. HACK: I have no further questions.

19 JUDGE BURTON: This witness is excused.

20 I am showing the time as 12:04. Does
21 GPE, KCP&L, GMO wish to continue with the next
22 witness, whom I believe is Ms. Quilici?

23 MR. FISCHER: It's at your pleasure,
24 Your Honor.

25 JUDGE BURTON: Why don't we go ahead and

1 call Ms. Quilici.

2 MR. FISCHER: Quilici.

3 JUDGE BURTON: Quilici. My apologies.

4 MR. FISCHER: That's okay. Well, it's
5 not for me to say it's okay.

6 JUDGE BURTON: Ms. Quilici, would you
7 please raise your right hand. Do you swear or
8 affirm that the testimony you're about to give will
9 be the truth, the whole truth and nothing but the
10 truth?

11 THE WITNESS: I do.

12 JUDGE BURTON: Thank you.

13 MR. FISCHER: Thank you, Judge.

14 LISA QUILICI,
15 having been called as a witness herein, having been
16 first duly sworn, was examined and testified as
17 follows:

18 DIRECT EXAMINATION

19 BY MR. FISCHER

20 Q. Please state your name and address for
21 the record.

22 A. Sure. My name is Lisa Quilici. My
23 address is 2431 23rd Street, Boulder, Colorado
24 80304.

25 Q. Are you the same Lisa Quilici that

1 **caused to be filed in this proceeding surrebuttal**
2 **testimony, which I'll mention to you has been marked**
3 **as Exhibit 4?**

4 A. I am.

5 **Q. Do you have any corrections that you**
6 **need to make to that testimony?**

7 A. I do. I have three corrections.
8 Turning to page 6 on line 20 following the phrase
9 BBB- should be the insertion or Baa3 respectively,
10 capital B, small a, small a, 3. That same change
11 should be made on page 11 on line 19. And finally,
12 turning to LMQ schedule 3, page 3 of 5, at the
13 bottom of the page there is a merger/jurisdiction
14 identified as Algonquin/Atmos Energy in the
15 jurisdiction of Georgia, GA. In the third column
16 what is now a checkmark should be modified to be no,
17 N-O.

18 **Q. With those changes, if I were to ask you**
19 **the questions that are contained in your testimony**
20 **today, would your answers be the same?**

21 A. They would.

22 **Q. And are they true and correct to the**
23 **best of your knowledge and belief?**

24 A. They are.

25 MR. FISCHER: Judge, then I would move

1 for the admission of Exhibit 4 and tender the
2 witness for cross, and give the court reporter a
3 copy of the exhibit.

4 (KCP&L's Exhibit 4 was offered into
5 evidence.)

6 JUDGE BURTON: Any objections to the
7 admission of Exhibit 4?

8 Seeing none. Exhibit 4 is admitted.

9 (KCP&L's Exhibit 4 was admitted into
10 evidence.)

11 JUDGE BURTON: Staff, your witness.

12 MR. THOMPSON: I have no questions.

13 Thank you, Judge.

14 JUDGE BURTON: OPC?

15 MR. OPITZ: Yes, Judge.

16 CROSS-EXAMINATION

17 BY MR. OPITZ

18 Q. Good afternoon, Ms. Quilici.

19 A. Good afternoon.

20 Q. Do you have a copy of your surrebuttal
21 testimony filed --

22 A. I do.

23 Q. -- in this case with you?

24 If you would look at page 13 for me.

25 A. I have that.

1 Q. So, at the top of that page you discuss
2 the GPE, KCP&L and GMO boards; is that correct?

3 A. That is correct.

4 Q. And you testify that each board is
5 populated by the same directors and further that a
6 majority of those directors are independent as
7 defined by NYSE, and independent is in quotations.
8 I guess what is the reason for putting that sort of
9 caveat on independent?

10 A. The quotations were just intended to act
11 as a reference to the NYSE definition of what
12 independent is for a director.

13 Q. And can you tell me what your
14 understanding of what that definition is?

15 A. Sure. The NYSE has rules. Rule 3, I
16 believe it's subsection 303-A identifies what is
17 required to be an independent director as prescribed
18 by the NYSE, which essentially is that the director
19 has no material relationship with the company upon
20 whom's board it sits and no material relationship
21 for a period of at least three years prior.
22 Materiality being determined by prior employment,
23 compensation, stock ownership.

24 Q. So, does that -- let me ask it this way.
25 So, since the boards of the holding company and its

1 subsidiaries are populated by the same people, does
2 that level of independence apply? Are the
3 subsidiary boards independent from the holding
4 company?

5 A. The subsidiary boards are independent as
6 defined by the New York Stock Exchange. They are,
7 as I describe here, mirror boards, in that the same
8 directors sit on the board of the holding company
9 parent as sit on the board of each of the utility
10 operating companies, but they are, in my opinion,
11 independent in that they satisfy the New York Stock
12 Exchange definition, NYSE definition.

13 Q. So, am I correct in understanding that
14 the New York Stock Exchange definition requires the
15 board of each subsidiary to be independent of each
16 subsidiary?

17 A. No. The NYSE requirements for
18 independence pertain to the listed company, but the
19 definition of what is independent applies equally to
20 each of the operating company boards.

21 Q. So, those subsidiary boards are
22 independent. For example, so, the board of KCP&L is
23 independent from the board of Great Plains Energy?

24 A. I'm sorry. I understand what you're
25 asking me now. So, this is -- this is an important

1 concept to step through what it means when you have
2 mirror boards like this. The board of directors for
3 KCP&L, using that as the example, has a
4 responsibility to the owner of KCP&L. The
5 directors' responsibility or obligations are to act
6 as the fiduciary on behalf of the owner or the
7 shareholder. In this case, it would be on behalf of
8 GPE. In so doing, that director's responsibilities
9 are to ensure the health and welfare of the
10 organization upon which it acts as a board of
11 directors. So, the responsibilities of the board of
12 directors for KCP&L is to KCP&L and its owner. The
13 responsibility for the board of directors of GMO is
14 to GMO and its owner. And likewise, that would
15 apply to each of the different companies that we're
16 talking about here today.

17 **Q. So, how does the situation -- can you**
18 **help me understand if there are measures in place to**
19 **address the situation where the interests of KCP&L**
20 **may not align with the interests of the subsidiary**
21 **GMO? Since it's the same people, how does the board**
22 **balance those competing interests?**

23 **A.** Taking the premise of your question that
24 there are competing interests or there could be
25 competing interests, which is its own discussion,

1 the board of directors has an obligation or
2 responsibility to the company that it acts as a
3 director for, as a board of directors for. So, when
4 a board convenes to address issues for a particular
5 company, their focus is on that particular company.
6 I don't believe, based on my experience, that there
7 is inherently a conflict between the objectives of
8 the board of directors or the ability of the board
9 of directors for KCP&L to act in KCP&L's interests.
10 Likewise, for the board of directors of GMO to act
11 in GMO's interests.

12 **Q. Hypothetically, if there were some**
13 **conflict of interest, is there a venue where a**
14 **remedy, I guess, would be available to a party who**
15 **may feel that their interest was not represented?**

16 **A.** I'm not sure how best to answer that
17 question. I'm not sure what you're asking with
18 regard to a party who feels their interest was not
19 represented.

20 **Q. So, if the board of KCPL and the board**
21 **of GMO had a hypothetical conflict and there was a**
22 **decision made one way or the other, if the**
23 **particular board of GMO felt it was wronged by the**
24 **particular board of KCP&L, is there a venue or a**
25 **procedure for resolving that conflict?**

1 A. I'm having a bit of a hard time wrapping
2 my head around your hypothetical in terms of a
3 conflict between the two boards. I can say that if
4 an individual director felt that they had some
5 concern or issue, they have the ability to seek the
6 advice of counsel to help resolve any conflict that
7 an individual director could anticipate, but I'm
8 really -- I don't mean to be nonresponsive. I'm
9 just having a hard time putting that hypothetical
10 into, into context.

11 MR. OPITZ: That's all I have. Thank
12 you.

13 JUDGE BURTON: City of Independence?

14 MR. JARRETT: Yes. Good morning. I
15 just have a couple of questions.

16 CROSS-EXAMINATION

17 BY MR. JARRETT

18 **Q. I wanted to pursue that idea a little**
19 **bit further on the mirror boards. Am I correct in**
20 **assuming that if the merger is completed, that the**
21 **Westar board would be a mirror board of the same**
22 **directors that, you know, are currently with GMO and**
23 **KCP&L and GPE?**

24 A. That is my understanding, with the
25 provision that I believe there's a commitment that

1 one of the Westar board members will be a member of
2 the board of directors for GPE, KCP&L, GMO and
3 Westar.

4 **Q. Right. I guess my next question is:**
5 **Are these mirror boards, is this a common concept in**
6 **electricity holding companies and subsidiaries?**

7 A. It's actually not, and I'm glad you
8 asked that question. The more common construct for
9 utility operating companies board of directors that
10 it be a captive board, which is a board that is
11 populated by employees of the holding company and
12 the utility. This concept of a mirror board does
13 happen. There are a few examples in the industry,
14 but it is a more restrictive and much more
15 independent board than is the norm in terms of the
16 captive boards which we see with more utility
17 operating companies, operating subsidiaries of
18 holding companies.

19 **Q. Right. And so, I wanted to explore**
20 **another hypothetical with you between Westar and**
21 **KCP&L or GMO. Given the fact that you have the**
22 **Kansas Corporation Commission may have some**
23 **different regulatory issues related to Westar than**
24 **Missouri might have with KCP&L and GMO, if there is**
25 **a conflict there between the two, Missouri and**

1 **Kansas, would such a conflict be resolved by these**
2 **mirror -- this mirror board?**

3 A. So, the board of directors of Westar
4 would be -- as I discussed earlier, their
5 responsibility is to Westar and Westar's owner. So
6 they, obviously, in deploying that responsibility
7 would be respectful and responsive to regulatory
8 requirements, etc., as it pertains to Westar.
9 Likewise, the board of directors of KCP&L would be
10 respectful and responsive to this Commission's
11 requirements. Where the regulatory requirements may
12 differ, that does not, in my mind, necessarily
13 create a conflict between those two boards or
14 between the deployment of their obligations and
15 responsibilities.

16 Q. Yeah, but let me ask it this way then:
17 **Let's say that the Kansas Commission in their merger**
18 **case puts some conditions on the merger that are**
19 **detrimental to Missouri ratepayers and Missouri**
20 **customers. How would that conflict be resolved if**
21 **this is being implemented by these mirror boards? I**
22 **mean, KCP&L has an interest in not having Kansas**
23 **burden Missouri ratepayers. So, how do they resolve**
24 **that conflict?**

25 A. I think that the question that you're

1 asking needs to roll back a bit to if there are
2 conditions that are imposed on the transaction in
3 Kansas jurisdiction, the first step is whether or
4 not the transaction can move forward as put forth.
5 Again, I have a hard time getting to the
6 hypothetical that you're putting in place where one
7 company is charged with harming the other company at
8 the direction of a regulatory mandate. It's not a
9 scenario that I can conceive of.

10 **Q. Okay. Well, let's take the merger out**
11 **of it. Let's say if the merger is completed and two**
12 **or three years later in a rate case the Kansas**
13 **Corporation, Westar is in for a rate case and they**
14 **impose something in that rate case that they require**
15 **the Westar board to move forward with and that**
16 **negatively impacts Missouri, wouldn't KCP&L and the**
17 **GMO's boards have an obligation to oppose that if**
18 **it -- if it negatively impacted Missouri ratepayers?**

19 **A.** So, if there was an order in Kansas that
20 its implementation could impact customers in
21 Missouri negatively, what would be the function of
22 the board in that regard? And the board's function
23 is to, as I said earlier, act as the fiduciary of
24 the owner/shareholder and in so doing to ensure the
25 health and well-being of the company, which is

1 consistent with its obligations to customers. You
2 know, if an action would harm the customers or the
3 company, I find it hard to believe that the board
4 could deploy that action. Again, I'm having a real
5 hard time with your hypothetical where one
6 commission could directly order something with the
7 intention of harming companies in a -- customers in
8 the jurisdiction sitting next to it.

9 **Q. You don't -- you don't think that Kansas**
10 **would move to protect Kansas ratepayers at the**
11 **expense of Missouri?**

12 **A.** I believe that each commission's
13 objective would be to protect the interest of their
14 customers, the customers in that jurisdiction, among
15 other things. The hypothetical that you're putting
16 in front of me is a black and white that there's a
17 decision made by one jurisdiction which would have a
18 direct and dramatic impact on the customers in
19 another and I'm just having a very difficult time
20 addressing that hypothetical because it's really not
21 one I can wrap my head around very easily.

22 **Q. So, you don't see a concern that really**
23 **all of these boards are the same? There's really**
24 **just one board?**

25 **A.** I do not. Again, as I said, in the

1 industry this structure where we have mirror boards,
2 each of which are NYSE independent, is a much more
3 independent and rigorous board structure than the
4 circumstance that is much more the norm where we
5 have captive boards populated by the employees
6 largely of the holding company and the utility.

7 **Q. Now, in those instances where we --**
8 **where you do have other mirror boards, do they cross**
9 **state boundaries and have multiple regulatory**
10 **commissions governing them?**

11 A. Let me just take a moment to refresh my
12 memory with regard to the circumstance of other
13 boards. I would need to confirm the
14 multi-jurisdictional aspect. I believe the answer
15 to that condition is yes, but I would want to
16 confirm that.

17 **Q. But I think you indicated earlier that**
18 **it's not a common structure in the industry?**

19 A. That is correct. The captive board
20 structure is much more common in the industry.

21 MR. JARRETT: Thank you. I have no
22 further questions.

23 JUDGE BURTON: City of Independence?

24

25

1 CROSS-EXAMINATION

2 BY MS. ROBY

3 Q. Good afternoon.

4 A. Good afternoon.

5 Q. I want to follow-up on this line of
6 questioning as well.

7 You testified that you can't get your
8 head around a situation where Kansas, following
9 MJMEUC counsel's hypothetical, where Kansas might
10 require Westar to do something that might harm
11 Missouri ratepayers. Assume, if you will, that
12 Kansas decides that it wants its transmission rates
13 to be combined for Westar, KCP&L and GMO territories
14 and it directs its regulated utility, Westar, to
15 pursue that at SPP and at FERC. Doing so would
16 require socializing those costs or normalizing those
17 costs across the three service territories. In that
18 situation, how do the boards resolve that conflict?

19 A. I think we need to back up a little bit
20 from we're putting -- the hypotheticals that are
21 being put forth are putting at the feet of the
22 boards of directors decisions that are being made at
23 regulatory agencies and we cannot lose sight of the
24 fact that this Commission has jurisdiction over
25 KCP&L and GMO. Any modifications to rates, capital

1 structures, etc., would be under the purview of this
2 Commission. The jurisdiction of this Commission is
3 unchanged by the transaction. So, to the extent
4 that there is some decision in another jurisdiction
5 that would impact the rates of the customers in this
6 jurisdiction, that really couldn't happen without
7 this jurisdiction, this Commission allowing it to do
8 so. So, I think where -- I think where I'm having
9 trouble with the hypotheticals is we're mixing --
10 we're mixing different functions and different
11 activities that could -- that could occur.

12 **Q. So, if this Commission were to impose a**
13 **condition that -- if it were inclined to approve the**
14 **transaction and impose a condition that GPE shall**
15 **not initiate or support an effort to combine the**
16 **transmission pricing zones, that would resolve the**
17 **conflict?**

18 **A.** I really can't speak to that. It's
19 outside the scope of my testimony and it's -- I'm
20 not well aware enough of what the jurisdictional
21 requirements are on such a -- on such a condition.

22 MS. ROBY: Okay. No further questions.

23 JUDGE BURTON: Questions from the bench?

24 CHAIRMAN HALL: Yes. Good afternoon.

25 THE WITNESS: Good afternoon.

1 CHAIRMAN HALL: My understanding, based
2 upon the testimony of Mr. Bryant, amongst others, is
3 that if this transaction is consummated GPE's
4 capital structure would be approximately 41 percent
5 equity. Is that consistent with your understanding?

6 THE WITNESS: It is.

7 CHAIRMAN HALL: How common is that in
8 the industry, a capital structure of that nature?

9 THE WITNESS: That is not uncommon.
10 I've not done an exhaustive review of all utility
11 holding companies to look at their capital
12 structures. I am aware of other holding companies
13 who have capital structures that are comparable to
14 that.

15 CHAIRMAN HALL: Well, isn't it true that
16 it's much more common in this country at least, I
17 know it's different in other countries, but at least
18 in this country to be approximately 50/50? Isn't
19 that much more the norm?

20 THE WITNESS: There certainly are quite
21 a few utility holding companies who are 50/50. It
22 is much more the norm for utility operating
23 companies to be 50/50. There are also utility
24 holding companies who have a slightly higher degree
25 of leverage, particularly around transactions, and I

1 speak to that a little bit in my testimony. The use
2 of parent company debt to finance a transaction such
3 as this is not uncommon and that does create a
4 difference at the holding company level.

5 CHAIRMAN HALL: So, there are examples
6 of holding companies with similar capital structure,
7 but is it true that it's more common to be closer to
8 50/50?

9 THE WITNESS: Again, I'm not trying to
10 be argumentative. I haven't done an exhaustive
11 review. It's certainly something I could check at
12 lunch. I'm not disagreeing with you, but it's
13 something I could check at lunch for me to give you
14 more precise.

15 CHAIRMAN HALL: Does an increase in debt
16 from roughly 50/50 to 60/40, does that in and of
17 itself increase the cost of debt?

18 THE WITNESS: No, not necessarily. So,
19 what impacts the cost of debt is both the credit
20 rating and the liquidity and availability of debt in
21 the marketplace.

22 CHAIRMAN HALL: So, the amount of debt
23 that you need in and of itself doesn't increase the
24 cost of debt; is that true?

25 THE WITNESS: Not, not necessarily, sir.

1 When you look at adding debt like this into a
2 capital structure, how that affects your credit
3 rating would certainly be one of the influences.

4 CHAIRMAN HALL: So, the amount of debt
5 could increase or could affect the credit rating and
6 that could affect the cost of debt, but simply
7 increasing the amount of debt in and of itself does
8 not affect the cost of debt?

9 THE WITNESS: It doesn't have to.

10 CHAIRMAN HALL: Okay. On page -- on
11 page 22 of your surrebuttal where you summarize your
12 key conclusions. I want to make sure I understand
13 your testimony. You agree with Mr. Gorman as to the
14 motivation or the purpose of his additional
15 ring-fencing measures, is that correct, in terms of
16 protecting KCP&L and GMO and their customers from
17 the acquisition-related debt incurred by GPE to
18 finance the transaction and the possible
19 deterioration of the finance condition and credit
20 rating of GPE? And I'm reading from lines seven
21 through nine on page 22.

22 THE WITNESS: Yes.

23 CHAIRMAN HALL: So, that is a worthy
24 goal, if I understand your testimony?

25 THE WITNESS: Yes, absolutely.

1 CHAIRMAN HALL: But you don't believe
2 that the three additional ring-fencing measures that
3 he proposes are, and I want to get the -- are
4 necessary; is that correct?

5 THE WITNESS: That is correct.

6 CHAIRMAN HALL: Are they harmful? And
7 let's -- and let's start with the third one.

8 THE WITNESS: Sure.

9 CHAIRMAN HALL: You discuss that on page
10 17, and I believe your testimony is that there is a
11 staff financing -- well, two staff financing
12 conditions that address this issue; is that correct?

13 THE WITNESS: Yes, that's correct, as
14 well as, if I might just add, some of the
15 supplemental commitments too, two supplemental
16 commitments.

17 CHAIRMAN HALL: Okay. So, is there harm
18 in adopting Mr. Gorman's third proposed ring-fencing
19 condition?

20 THE WITNESS: I think that there may be.
21 Mr. Gorman's third proposed ring-fencing condition
22 is much more focused on unregulated affiliates than
23 the conditions, commitments that the company has put
24 forth in collaboration with staff and OPC, as well
25 as the supplemental commitments which go more

1 broadly.

2 CHAIRMAN HALL: So, what would the harm
3 be?

4 THE WITNESS: I think the harm is this
5 condition is narrower. The conditions that are
6 being promulgated here provide broader protection,
7 but I believe that they seek to achieve a similar
8 end.

9 CHAIRMAN HALL: Mr. Gorman's proposal is
10 more narrow?

11 THE WITNESS: Correct.

12 CHAIRMAN HALL: So, how would that be
13 harmful to the applicants in this case, if we
14 were -- if we were to adopt that in addition to the
15 staff conditions?

16 THE WITNESS: I'm not sure that it would
17 be harmful to the applicants. My point was more
18 that the proposal that the applicants have put
19 forward is more robust than that of Mr. Gorman and
20 for that reason I think it's preferable.

21 CHAIRMAN HALL: Okay. And I guess let's
22 work backwards.

23 THE WITNESS: Sure.

24 CHAIRMAN HALL: The second ring-fencing
25 proposal raised by Mr. Gorman. What is the -- is

1 there a harm associated with that proposal from your
2 perspective?

3 THE WITNESS: So, to be clear, the
4 second ring-fencing proposal that we're speaking of
5 is the condition that speaks to different
6 responsibilities of the board of directors. I've
7 never seen a condition like this in any merger that
8 I've reviewed and --

9 CHAIRMAN HALL: And how many mergers
10 have you reviewed ballpark?

11 THE WITNESS: I've reviewed virtually
12 every merger that's occurred in the last, easily, 15
13 years in some capacity. I've never seen a
14 commitment condition like this. I don't think it's
15 a necessary condition. I think that the company has
16 provided much more robust protections in all of the
17 various hold harmless provisions that it has put
18 forth. When I think about ring-fencing and
19 commitments and conditions that are appropriate in
20 transactions, and I believe that they are in many
21 transactions, the objective of the ring-fencing is
22 to protect customers and putting in place hold
23 harmless provisions with regards to capital costs,
24 return on equity, retail rates, operational
25 performance are the ultimate when it comes to

1 protections. It is a full stop. These things
2 cannot occur, will not occur. So, when I look at
3 trying to orchestrate, then, what the
4 responsibilities of the board of directors are,
5 which we've talked about at some length to this
6 point, I don't believe that these commitments are
7 necessary.

8 CHAIRMAN HALL: So, I understand that
9 you view them as unnecessary. I understand that you
10 view them as unprecedented. Is there any specific
11 harm that you could identify from requiring such a
12 condition?

13 THE WITNESS: I would -- I am not sure
14 if this condition as it pertains to responsibilities
15 presents any conflict in the -- in the ultimate
16 responsibility of the board of directors. I would
17 need to look at it more carefully. Again, I just
18 think they're not necessary.

19 CHAIRMAN HALL: And then -- and then the
20 first ring-fencing condition.

21 THE WITNESS: Sure.

22 CHAIRMAN HALL: Well, can you explain
23 for me what is meant by a golden share.

24 THE WITNESS: Sure. A golden share is a
25 rate conveyed upon -- to one or more directors which

1 requires that that director vote affirmatively for
2 the operating utility for the subsidiary company to
3 be brought into the bankruptcy of the parent.

4 CHAIRMAN HALL: Okay. And have you ever
5 seen a condition such as this in connection with a
6 merger or acquisition?

7 THE WITNESS: I have. It is used very
8 infrequently, but I have seen it.

9 CHAIRMAN HALL: You believe it is
10 unnecessary here because of other conditions that
11 are -- that are contained or other conditions that
12 are at issue here. Is there any particular harm
13 associated with adopting this condition?

14 THE WITNESS: So, these types of
15 conditions -- putting in place these types of
16 conditions or any conditions, obviously, is a matter
17 of judgment. My feeling is that overly restricting
18 the board of directors has the potential for harm in
19 that it creates unnecessary process and restriction
20 on the activity of that board, which is to, you
21 know, be responsible to the owner and to operate --
22 ensure that those businesses are operated well.

23 The concept of a golden share or the
24 issue of bankruptcy, which is not really an issue
25 that Mr. Gorman spoke of. His concern was more

1 focused on the impact of the increased parent
2 company debt on financial risk and cost for the
3 utilities. A golden share doesn't address that.
4 The company has provided for protection as it
5 pertains to the very unlikely circumstance of a
6 bankruptcy in the form of a non-consolidation
7 opinion which would be sought in the event the
8 utility, any of the utilities were to be downgraded
9 below investment grade and the non-consolidation
10 opinion would provide that legal opinion with regard
11 to the inability to bring the utility into a parent
12 bankruptcy.

13 CHAIRMAN HALL: Is it surprising to
14 you -- and I'm switching gears a little bit. Is it
15 surprising to you that Moody's downgraded Great
16 Plains after announcement of the transaction and the
17 other rating company --

18 THE WITNESS: S&P.

19 CHAIRMAN HALL: -- S&P did not?

20 THE WITNESS: No, it's not surprising at
21 all.

22 CHAIRMAN HALL: Is there -- is there a
23 different focus on those two rating agencies that we
24 can look to as a explanation for why one did one and
25 one did the other?

1 THE WITNESS: Each of the agencies has
2 their own approach in terms of how they rate the
3 utilities and how they apply their different
4 financial metrics and their assessment of business
5 risk. I can't give you a clean answer as to why
6 Moody's acted and S&P did not. This does not
7 surprise me. This happens. We've seen it with
8 other transactions that have gone on to be quite
9 successful that the initial transaction where there
10 is an increase in debt is reviewed -- is viewed as
11 potentially having, having some risk and it really
12 depends on the balance of the impact of the
13 transaction on the combination of financial risk to
14 the company and business risk. Sometimes those are
15 entirely offsetting. Sometimes they are not. In
16 this case, there was an uptick in financial risk.
17 That doesn't surprise or particularly concern me.
18 Again, we've seen that with other transactions.

19 CHAIRMAN HALL: Did both S&P and Moody's
20 look at the Aquila transaction and the amount of
21 savings that resulted from that transaction and take
22 that into account when doing this transaction?

23 THE WITNESS: I can't answer that
24 question directly. Mr. Bryant may be able to,
25 having participated in the discussions with the

1 rating agencies.

2 CHAIRMAN HALL: Would it be typical for
3 the rating agencies to have done that?

4 THE WITNESS: It would be typical for
5 the rating agency to look at both the transaction at
6 hand and their relationship and experience with the
7 company and its management in terms of how well it
8 manages its operations and its experiences to that
9 point. So, as an informative event it's not -- it
10 wouldn't surprise me if that informed some of their
11 expectations.

12 CHAIRMAN HALL: Thank you. I have no
13 further questions.

14 COMMISSIONER STOLL: I have no
15 questions.

16 COMMISSIONER KENNEY: No questions.

17 COMMISSIONER RUPP: Good afternoon.

18 THE WITNESS: Good afternoon.

19 COMMISSIONER RUPP: You in, I think it
20 was in your surrebuttal testimony on page 10 you
21 listed a whole bunch of mergers and then in your
22 conversation with the Chairman you said you pretty
23 much reviewed pretty much every merger or
24 acquisition in the industry in the last several
25 years since you've been in this. How many of those

1 utilities that you reviewed their mergers had
2 experienced a credit downgrade at either the parent
3 or subsidiary level?

4 THE WITNESS: I can think of one
5 immediately off the top of my head that that has
6 occurred. I know it's occurred in others, but one
7 comes to mind immediately.

8 COMMISSIONER RUPP: Which one is that
9 that came to mind?

10 THE WITNESS: That's the WEC/Integrys
11 transaction where it's fairly similar to this
12 transaction. The parent company in that transaction
13 received a negative indication and ultimately a
14 downgrade from I believe it was Moody's there as
15 well and the utility's credit ratings were
16 unchanged.

17 COMMISSIONER RUPP: And how long ago was
18 that?

19 THE WITNESS: WEC/Integrys was in the, I
20 want to say, 2014 time frame. I can check that.

21 COMMISSIONER RUPP: And is their credit
22 rating the same as -- is it the same now or has it
23 changed since?

24 THE WITNESS: I haven't looked at their
25 credit rating recently. I believe there's been some

1 credit activity unrelated to the merger. I do know
2 that merger has gone forward successfully. It was
3 approved by the four state commissions that had
4 jurisdiction, obviously, since it's been implemented
5 and I believe that there are fairly active reports
6 with regard to the level of savings and improvements
7 that have resulted from the transaction. So, my
8 understanding is that transaction has proceeded
9 along as was intended and planned.

10 COMMISSIONER RUPP: Are you aware of any
11 mergers or acquisitions that companies received a
12 downgrade due to merger acquisition costs after the
13 closing, after the fact, maybe a year or two years
14 later?

15 THE WITNESS: So, your question is am I
16 aware of any transactions where there's been a
17 downgrade attributable to merger acquisition costs?

18 COMMISSIONER RUPP: Yeah, but after
19 the -- after the closing of the merger case and
20 moving forward. So, not in like this case where
21 it's anticipated because they're issuing new debt.
22 You know, the transaction merger has gone through
23 and then a year or two later the projected synergies
24 were not achieved and it would cause a downgrade.

25 THE WITNESS: I know that Mr. Gorman

1 referred to one transaction in his testimony in
2 AES/DPL, I believe, where there was a downgrade of
3 both the parent and the utility post hoc. I'm not
4 sure what that downgrade was attributable other than
5 it, in fact, happened and I believe it was related
6 in part of the merger, but the specificity about
7 acquisition costs, I'm not aware of that independent
8 of that particular transaction.

9 COMMISSIONER RUPP: So, of all the other
10 mergers and acquisitions that you've been privy to
11 with your position and your analysis, do any others
12 stick out in your mind besides the one in
13 Mr. Gorman's testimony?

14 THE WITNESS: No.

15 COMMISSIONER RUPP: Thank you.

16 JUDGE BURTON: I have just a few
17 questions.

18 THE WITNESS: Sure.

19 JUDGE BURTON: Could you describe or
20 define what ring-fencing means --

21 THE WITNESS: Sure, absolutely.

22 JUDGE BURTON: -- generally in the
23 field.

24 THE WITNESS: Sure. Ring-fencing is a
25 term used to describe providing an insulation or

1 protections for the, we'll just keep using the word
2 utility to make it simple, for the utility relative
3 to other affiliates and relative to the parent
4 holding company.

5 JUDGE BURTON: How does it offer
6 protection?

7 THE WITNESS: It offers protections by
8 creating independence and separation and creating
9 regulatory mechanisms and commitments as they
10 pertain to costs. So, if we look at the commitments
11 that have been here made in the ring-fencing arena
12 there are a number of commitments that provide for
13 certain isolation of each utility from each other
14 and from the holding company and the other
15 subsidiaries and they provide very direct and
16 immediate commitments with regard to no impact on
17 costs.

18 JUDGE BURTON: And what are the
19 advantages of having those ring-fencing measures in
20 place?

21 THE WITNESS: The ring-fencing measures
22 ensure what the company's intentions are with regard
23 to protecting customers and ensuring the customers
24 enjoy the benefits of the transaction without
25 experiencing the potential for risk which the

1 transaction may or may not create in the future.
2 So, it's really just a way to provide added
3 insurance and insulation as you look at saying the
4 objective is to demonstrate that there's no harm, no
5 detriment to the public interest. These commitments
6 do that. The expectation of very, very substantial
7 savings, which don't often get talked about in the
8 context of ring-fencing, but those very substantial
9 savings are the upside that's, that's being
10 protected, being afforded while having these
11 protections in place.

12 JUDGE BURTON: So, would you say that
13 ring-fencing measures are more proactive than
14 reactive?

15 THE WITNESS: Yes. I mean, ring-fencing
16 measures are put in place before a transaction is
17 closed. So, they are a proactive effort to ensure
18 that there is that protection or that insurance.

19 JUDGE BURTON: And is that assurance
20 mainly intended for customers? The board?
21 Investors? The credit rating agencies?

22 THE WITNESS: So, as it pertains to
23 ring-fencing protections, that is for customers. It
24 has -- there is no role of providing protections to
25 the credit rating agencies or investors in

1 ring-fencing. Ring-fencing for the benefit of
2 customers.

3 JUDGE BURTON: Let me clarify.

4 THE WITNESS: Sure.

5 JUDGE BURTON: I see where you're going
6 with that.

7 What I meant was do credit rating
8 agencies or investors look at ring-fencing measures
9 when making a determination?

10 THE WITNESS: Oh, I'm sorry. Now I
11 understand. Yes, yes.

12 JUDGE BURTON: Okay. Is it possible
13 that ring-fencing measures may help or protect a
14 credit rating for a utility?

15 THE WITNESS: Yes. That certainly has
16 happened in transactions that had a very high degree
17 of financial risk. We can look at a transaction
18 down in Texas that happened quite a few years ago
19 when EFH acquired TXU and EFH had a credit rating
20 that was six notches below investment grade and
21 there was ring-fencing put in place, and that
22 transaction was actually at the behest of the -- in
23 the pursuit of satisfying the credit rating agencies
24 to provide protections to the utility. So, yes,
25 that can certainly happen. It is more the norm that

1 the protections are intended to provide protections
2 exclusively to customers.

3 JUDGE BURTON: Okay. I have no further
4 questions.

5 Any recross based upon bench questions?

6 MR. THOMPSON: Thank you.

7 RECROSS-EXAMINATION

8 BY MR. THOMPSON

9 Q. I believe you described the mirror
10 boards as being more robust than the captive boards;
11 is that correct?

12 A. Yes. I believe the mirror boards
13 provide a greater degree of independence I believe
14 is what I said and are more -- yes.

15 Q. And a board member, a director, a member
16 of a board of directors you indicate is a fiduciary?

17 A. Correct.

18 Q. And owes a fiduciary duty to the
19 owner; is that correct?

20 A. That is correct.

21 Q. To anyone else?

22 A. Their fiduciary duty is to the owner,
23 that is correct.

24 Q. Okay. So, with respect to the board of
25 KCP&L, now, I understand that KCP&L is wholly owned

1 **by GPE. Is that your understanding as well?**

2 A. Yes.

3 **Q. So, the fiduciary duty of the board**
4 **members of KCP&L would be to GPE; isn't that**
5 **correct?**

6 A. That is correct, as it is today.

7 **Q. As the owner of KCP&L?**

8 A. That is correct, as it is today.

9 **Q. And so, hypotheticals about conflicts**
10 **between GPE and KCP&L are really not likely; isn't**
11 **that true?**

12 A. As I think we talked about throughout
13 the morning, I cannot really envision the types of
14 conflicts that were being put forth hypothetically.

15 **Q. And with respect to the duties that**
16 **KCP&L owes to its customers, those are a matter of**
17 **state regulation, are they not?**

18 A. They're a matter of both state
19 regulation and also the desire to run the company
20 effectively.

21 **Q. To keep the company healthy?**

22 A. Correct.

23 **Q. Which is part of the duty owed to the**
24 **owner?**

25 A. That is correct.

1 MR. THOMPSON: Okay. Thank you. No
2 further questions.

3 MR. OPITZ: No, thank you, Judge.

4 MS. ROBY: Nothing further.

5 MR. JARRETT: Yeah, just very quickly.

6 RECROSS-EXAMINATION

7 BY MR. JARRETT

8 Q. Chairman Hall had asked you about your
9 experience in working and analyzing mergers and I
10 think you indicated you had analyzed every merger
11 for 15 years I believe you said. Is that -- is that
12 right?

13 A. Yes. I've looked in some capacity at
14 virtually every merger that's occurred in this space
15 in 15 years.

16 Q. Do you -- do you regularly follow, after
17 the merger completed, follow those companies to
18 determine whether they met whatever savings or
19 synergies that they had proposed during the merger?

20 A. I have followed certain companies in
21 that regard.

22 Q. But not all?

23 A. No, I've not -- not all. I have done
24 studies in the past looking at certain companies.

25 Q. So, the ones you have followed, you

1 **know, what is the -- what are the results? Do these**
2 **types of mergers normally meet their goals as far as**
3 **savings and synergies and those types of things or**
4 **is it a mixed bag?**

5 A. The mergers that I've looked at that
6 come to mind, I did not look at this issue coming
7 into this proceeding, but the mergers that I have
8 looked at in the past that come to mind around this
9 issue have achieved the savings that were estimated,
10 have achieved savings in the range of what was
11 estimated going in, but, again, I did not look at
12 that issue for this proceedings. It's a bit outside
13 the scope of my testimony.

14 MR. JARRETT: And very good. Thank you.

15 JUDGE BURTON: Redirect?

16 REDIRECT EXAMINATION

17 BY MR. FISCHER

18 **Q. Let's start at the end of the discussion**
19 **and go backwards a little bit.**

20 **Counsel for staff was asking you about**
21 **the fiduciary relationship with the board to its**
22 **shareholder. Do you recall that?**

23 A. I do.

24 **Q. And in this case the shareholder of GMO**
25 **and KCP&L would be GPE; is that right?**

1 A. That's correct.

2 Q. Okay. And he also asked about the
3 interest of customers. Is it true that the board of
4 directors would also be considered -- would also
5 consider the interest of directors as it's managing
6 or as it's making its decisions related to the
7 companies?

8 A. Would also consider the interest of
9 customers?

10 Q. Yes.

11 A. Yes, absolutely.

12 Q. Would you elaborate upon that?

13 A. I will, yes, absolutely. So, the
14 financial health, the health overall of the company
15 is dependent on it providing safe, reliable,
16 adequate service to customers, to receiving
17 reasonable regulatory treatment in its regulatory
18 proceedings. It's really -- the interests are
19 really one and the same in my mind. You can't have
20 success as a company, as a utility without
21 successfully satisfying your customers.

22 Q. I think counsel for staff also asked you
23 about mirror boards and independent boards. Do you
24 recall that?

25 A. I do.

1 Q. In the case of GPE and KCPL, are all of
2 the boards independent as is defined by the New York
3 Stock Exchange rules?

4 A. Yes.

5 Q. And they are populated by the same
6 persons on that. So, that makes them a mirror
7 board; is that true?

8 A. That's correct.

9 Q. And I believe you indicated in answer to
10 one of the commissioner's questions that that is
11 uncommon or not as common as other structures?

12 A. That's correct.

13 Q. And the other structure that you were
14 talking about, it was a captive board?

15 A. Yes.

16 Q. Okay. Would you elaborate upon why the
17 structure that exists at KCPL and GPE is more
18 robust, I believe you used the term, or independent
19 than the captive board structure that is more common
20 throughout the industry?

21 A. Sure. So, if we go back to the
22 objectives or requirements of a board member to the
23 owner of the company and to running the company
24 well, it provides a measure of independence from
25 management. So, it provides different inputs into

1 the process. You have outside independent directors
2 who are responsible in the manner that I described
3 and you have management who's responsible internally
4 within the company. It provides additional inputs.
5 It provides additional perspective and in my mind
6 provides additional protections in terms of ensuring
7 that the companies are well run and satisfy both the
8 obligations to the owner and the responsibilities to
9 the customers.

10 Q. You were also asked, I believe, by
11 Commissioner Rupp about whether you had observed
12 downgrades as a result of transactions like this
13 one. Is that -- do you recall that?

14 A. I do.

15 Q. And I believe you indicated yes, you
16 have seen downgrades. Have you also seen the rating
17 agencies commonly put companies on credit watch
18 whenever a transaction is announced?

19 A. Yes.

20 Q. Is that common or not?

21 A. I believe that's fairly common for there
22 to be an immediate reaction of caution when a
23 transaction is announced.

24 Q. Judge Burton also asked you whether
25 ring-fencing was proactive or reactive. Do you

1 **recall that line of questioning?**

2 A. I do.

3 **Q. Is it true that ring-fencing is often**
4 **tailored to the specific situation of the**
5 **transaction?**

6 A. That is absolutely true and in my
7 opinion is how ring-fencing should be implemented.

8 **Q. Would you elaborate on that for me? Why**
9 **is that the case?**

10 A. Sure. Ring-fencing really is a tool
11 used to address a problem that's created by a
12 transaction and, so, the tool that you use should
13 really be customized to address the specific problem
14 that is created. There are oftentimes where there's
15 a perception that more is better and ring-fencing
16 can just be superimposed incrementally and that will
17 create incremental protections. That's not
18 necessarily the case. Ring-fencing really should be
19 designed to address whatever issue one would be
20 concerned about with the transaction. In this case,
21 based on the input from the various parties, based
22 on the settlement discussions and ultimate
23 agreements with various parties, the issues that
24 were of concern came to the surface and were
25 constructively and proactively addressed through

1 appropriate ring-fencing measures.

2 Q. I believe one of the ring-fencing
3 measures that you talked about was this idea of this
4 golden share. Do you recall that?

5 A. I do.

6 Q. If I recall your testimony, you
7 indicated that that was not very common?

8 A. That's correct.

9 Q. Would it be true -- or in the situations
10 that you've seen that actually implemented, was that
11 situation similar to what we have in this case?

12 A. Not at all. In the circumstances -- and
13 I have an exhibit or a schedule to my testimony,
14 Schedule 3, which provides the data around that
15 particular issue, as well as independent board. In
16 the circumstance where that has been implemented, it
17 has been for international or financial acquirers
18 whose interests tend to be a little bit different
19 than what we're looking at here. The only domestic
20 transaction of a utility holding company acquiring
21 another utility where it has been put in place is in
22 the Exelon/PEPCO transaction. That was a
23 transaction that involved a very large entity with
24 11 jurisdictions post-transaction with a higher
25 degree of unregulated activities involved in their

1 portfolio. So, it's just a very different set of
2 facts and circumstances, which is why I don't
3 believe that this is -- it's an appropriate case to
4 point to as an example of what to do in this
5 transaction.

6 Q. Would you turn to page 12 of your
7 surrebuttal testimony and look at line 19.

8 A. Yes.

9 Q. There you indicate, I am unaware of any
10 transaction where an independent board with a
11 director holding the golden share was imposed upon
12 the acquirer's existing utility operating
13 subsidiaries. Do you see that?

14 A. I do.

15 Q. Would that differentiate this situation
16 as well, the fact that KCPL and GMO have these
17 independent boards?

18 A. Yes, absolutely.

19 Q. Okay. And is it your understanding that
20 GPE and KCPL have operated with these independent
21 boards and this mirror board for a number of years?

22 A. Yes. That is absolutely my
23 understanding.

24 Q. And that continued when Aquila was
25 acquired and we have now KCP&L, Greater Missouri

1 **Operations Company?**

2 A. Correct.

3 **Q. And I believe you also indicated in**
4 **answer to, I believe, it was the Chairman's**
5 **questions that you thought that the additional**
6 **ring-fencing that Mr. Gorman indicated in his**
7 **testimony that those particular points were**
8 **unnecessary. Would you elaborate upon that and that**
9 **answer? Why are those particular ring-fencing ideas**
10 **unnecessary in the case of GPE and KCP&L?**

11 A. Sure. I think that the ring-fencing
12 that has been put forth by the company in this
13 proceeding both through the settle -- the
14 stipulation agreements and through the supplemental
15 commitments satisfy all of the issues that were
16 raised by Mr. Gorman in terms of ensuring
17 protections with regard to the increased parent
18 company leverage, as well as ensuring protections as
19 it pertains to customer rates. I believe that the
20 ring-fencing that's been put forth here does that.
21 This ring-fencing is very consistent with
22 ring-fencing that has been used in many other
23 transactions.

24 The incremental ring-fencing that
25 Mr. Gorman recommends is really cherrypicked with

1 regard to the independent board from, what I
2 consider, one really outlier transaction that had a
3 very different nature, very different set of facts
4 and circumstances than exists here. So, as I look
5 at that, I think that we have -- the company has
6 addressed the real issues: Can we protect? How can
7 we protect the utility's customers from any
8 potential future negative impact the transaction
9 might have on them?

10 And again, we're talking in
11 hypotheticals here. There is no negative impact
12 today. The utility's credit ratings have been
13 maintained. The utilities stand to receive the
14 benefit of hundreds of millions of dollars of
15 savings after a ramp-up period year in and year out.
16 So, what we're talking about is the insurance
17 against a very unlikely outcome of there being a
18 risk that materializes and I believe these
19 protections, particularly the hold harmless
20 provisions pertaining to rates, cost of capital,
21 return on equity, operating service, provide that
22 protection.

23 **Q. Commissioner Hall also asked you about**
24 **GPE's equity ratio, talked about 41 percent equity**
25 **ratio. Do you recall that?**

1 A. I do.

2 Q. Is it common for holding companies that
3 own regulated utilities to have a higher debt ratio
4 than their operating companies?

5 A. That certainly can happen. We certainly
6 see examples of that.

7 Q. Is it correct that operating companies
8 are more likely to be at that 50/50 kind of balanced
9 capital structure than a holding company?

10 A. Yes, that's correct. That is the norm
11 in utility operations.

12 Q. Under the current market conditions,
13 does low cost -- does low cost of debt influence the
14 amount of debt that a holding company might seek to
15 have in its capital structure in a transaction like
16 this?

17 A. I believe it does, yes.

18 MR. FISCHER: Judge, that's all I have.
19 Thank you very much.

20 JUDGE BURTON: Thank you.

21 I see the time is now 1:01. You are
22 excused.

23 THE WITNESS: Thank you.

24 JUDGE BURTON: Thank you very much for
25 your testimony.

1 Why don't we take a lunch break and
2 we'll go off the record until 2:30.

3 (A lunch recess was taken.)

4 JUDGE BURTON: I'm showing the time as
5 2:30 and, so, we will go back on the record. And I,
6 again, would remind everyone to, please, make sure
7 your electronic devices are on silent mode.

8 And I believe that GPE, KCPL and GMO was
9 about to call their next witness.

10 MR. FISCHER: Yes. Darrin Ives.

11 JUDGE BURTON: Would you, please, raise
12 your right hand. Do you swear or affirm that the
13 statements you're about to give will be the truth,
14 the whole truth and nothing but the truth?

15 THE WITNESS: I do.

16 JUDGE BURTON: Thank you.

17 DARRIN IVES,
18 having been called as a witness herein, having been
19 first duly sworn, was examined and testified as
20 follows:

21 DIRECT EXAMINATION

22 BY MR. FISCHER

23 **Q. Please state your name and address for**
24 **the record.**

25 A. My name is Darrin Ives. My business

1 address is 1200 Main Street, Kansas City, Missouri.

2 Q. Are you the same Darrin Ives that caused
3 to be filed in this docket direct testimony that
4 we're having marked as Exhibit 5, supplemental
5 direct testimony that is marked Exhibit 6 and
6 surrebuttal that is marked Exhibit No. 7?

7 A. I am.

8 Q. Do you have any corrections or changes
9 we need to make to that testimony?

10 A. Not that I'm aware of.

11 Q. If I were to ask you the questions
12 contained in that written testimony, would your
13 answers today be the same?

14 A. They would.

15 Q. And are they true and accurate to the
16 best of your knowledge and belief?

17 A. Yes, they are.

18 MR. FISCHER: Judge, I would move for
19 the admission of Exhibits 5, 6 and 7, and tender the
20 witness for cross-examination.

21 (KCP&L's Exhibits 5, 6 and 7 were
22 offered into evidence.)

23 JUDGE BURTON: Exhibits 5, 6 and 7 have
24 been offered. Are there any objections?

25 Seeing none. They are admitted into the

1 record.

2 (KCP&L's Exhibits 5, 6 and 7 were
3 admitted into evidence.)

4 JUDGE BURTON: Staff, do you have any
5 cross?

6 MR. THOMPSON: Yes, I do. Thank you.

7 CROSS-EXAMINATION

8 BY MR. THOMPSON

9 Q. Good afternoon, Mr. Ives.

10 A. Good afternoon.

11 Q. Do you happen to have up there with you
12 a copy of the stipulation and agreement negotiated
13 between staff and Great Plains?

14 A. I do.

15 Q. If you would look at paragraph 3-B,
16 Roman 3.

17 A. I'm there.

18 Q. Okay. There's a reference to BBB
19 credit. Do you see that?

20 A. I do.

21 Q. And that seems to be contrary to
22 references elsewhere in that provision to BBB-
23 credit. Do you see that?

24 A. I do.

25 Q. And would you agree with me that the

1 occurrence of BBB credit is, in fact, a
2 typographical error?

3 A. I would. When you look at the totality
4 of this provision, it's all written to be for
5 effects that fall below investment grade, which
6 would mean that reference would need to be BBB-.
7 So, it's a typo, unfortunately.

8 Q. Thank you.

9 Now, you read the surrebuttal testimony
10 of Natelle Dietrich; is that correct?

11 A. I did.

12 Q. And there were some additional
13 conditions set out in there that came from the
14 Kansas proceeding. Do you recall?

15 A. I do.

16 Q. And, in fact, you restated those
17 conditions in one of your exhibits, correct?

18 A. I did. That's in my Exhibit DRI-4.

19 Q. DRI-4, thank you.

20 And if you would look at Condition
21 No. 40, there's a reference to GPE or Great Plains
22 Energy providing information to staff where I think
23 Ms. Dietrich had said that the joint applicants
24 would provide the information to staff.

25 A. Yes, I see that.

1 **Q. And would you agree with me that your**
 2 **intention was that whichever of the Great Plains**
 3 **Energy entities had the information, it would be**
 4 **provided?**

5 A. Yeah, that's correct. We certainly
 6 intend to provide the information that that's
 7 requested. The reason I put GPE is because, as was
 8 discussed earlier in the proceeding, the transaction
 9 and the effects of the transaction are really being
 10 recorded at the GPE level as far as the goodwill,
 11 the transaction cost, the financing. So, that's
 12 where we expected to be, but certainly if there were
 13 an impact at KCP&L or GMO, we would intend to
 14 provide that as well.

15 MR. THOMPSON: Thank you very much. No
 16 further questions.

17 JUDGE BURTON: Office of Public Counsel?

18 MR. OPITZ: No, thank you, Judge.

19 JUDGE BURTON: MJMEUC?

20 MR. JARRETT: May I approach, Judge?

21 JUDGE BURTON: You may.

22 CROSS-EXAMINATION

23 BY MR. JARRETT

24 **Q. Good afternoon, Mr. Ives. How are you**
 25 **today?**

1 A. Good afternoon. How are you?

2 Q. I am doing great.

3 I have just handed you what has been
4 marked as Exhibit 8, and the first page of that
5 exhibit would you agree with me is MJMEUC's data
6 request 2-1 relating to Westar and Kansas City Power
7 & Light and Greater -- GMO's transmission pricing
8 zones?

9 A. Yes.

10 Q. And then the next page is the
11 applicant's response to that Data Request 2-1?

12 A. Yes, that's right.

13 Q. And then there's several pages after
14 that and an attachment that was provided as a
15 response to 2-1?

16 A. That's correct.

17 Q. And then the final page -- or the page
18 after the attachment is your verification of the
19 response?

20 A. Yes, that's correct.

21 Q. And then if you go through the rest of
22 the packet, Requests No. 2-2, 2-3, 2-4, and 2-5, it
23 has the data request, the applicant's response, and
24 then your verification?

25 A. That all looks to be correct, yes.

1 Q. And does -- do these copies accurately
2 reflect the data request, your responses and your
3 verification?

4 A. Yes, they appear to.

5 Q. Thanks.

6 MR. JARRETT: Your Honor, I'd move for
7 Exhibit 8 to be entered into the record.

8 (MJMEUC's Exhibit 8 was offered into
9 evidence.)

10 JUDGE BURTON: Exhibit 8 has been
11 offered. Are there any objections?

12 Seeing none. Exhibit 8 is received.

13 (MJMEUC's Exhibit 8 was admitted into
14 evidence.)

15 Q. (By Mr. Jarrett) And I just have a few
16 questions.

17 Do you have a copy of your surrebuttal
18 testimony handy?

19 A. I do. Okay.

20 Q. Turn to page 18, if you would.

21 A. I'm there.

22 Q. Okay. And down on line 13, wholesale
23 power supply, and the question then on line 14,
24 Mr. Herz suggests that the transaction gives rise to
25 a significant chance that the price for wholesale

1 power supply contracts will increase, and then it's
2 asked for a response and your response is that since
3 this is reg -- wholesale power is regulated by FERC,
4 it's not within the jurisdiction and authority of
5 the Commission and, therefore, the arguments being
6 made in the open forum should be disregarded by the
7 Commission.

8 A. That's my response, yes.

9 Q. What is your answer to the actual
10 substance of that question? Do you believe that the
11 transaction gives rise to a significant chance that
12 the price for wholesale power supply contracts will
13 increase?

14 A. No, I don't.

15 Q. And why don't you?

16 A. Well, primarily for a number of the
17 reasons that we've talked about. This transaction
18 is being financed and dealt with at the Great Plains
19 Energy level. So, wholesale activities and pricing
20 are based on costs that are at the utility level,
21 the operating utility. So, that acquisition
22 premium, the transaction cost, the types of things
23 that would give rise to increases are off the
24 utilities, which is a significant protection to
25 customers, and the things that do result from the

1 transaction that will flow through the operating
2 books are the efficiencies and the savings that will
3 be reflected on the utility's books. So, so, I
4 think it's very unlikely without any protection that
5 there will be increase in wholesale prices. I would
6 further add that there are a number of hold harmless
7 conditions that the joint applicants, Westar and
8 GPE, have made in the FERC proceeding around hold
9 harmless provisions to wholesale customers and
10 wholesale contracts that will also add to that
11 protection.

12 **Q. And off the top of your head, do you**
13 **know what some of those are?**

14 **A.** There are a number of them, but they are
15 in a lot of respects similar to some of the state
16 hold harmless and certainly consistent with hold
17 harmless conditions that have been done in FERC
18 proceedings such as this for quite some time, but
19 they talk about not flowing through acquisition
20 costs, transaction costs, the types of things that
21 we have in the state protections, also talk about
22 not flowing through an increase in cost of capital
23 to those wholesale contractual customers. So, many
24 of them, from a cost perspective, are very similar
25 with those that we've discussed here.

1 **Q. So, when you say highly unlikely, are**
2 **you saying that there still is a small chance that**
3 **costs could be increased to wholesale customers, a**
4 **small chance?**

5 A. I don't believe that there's a chance
6 that they'll be increased based upon the
7 protections. I suppose there's always an
8 opportunity that something unforeseen could happen
9 when actual transactions start falling through. So,
10 without the conditions and protections, maybe
11 there's some hypothetical risk out there.

12 **Q. Okay. And if you would move on to page**
13 **19, line 16 where Mr. Herz further suggests that the**
14 **commitments made by the applicants in the staff**
15 **stipulation and agreement, in the OPC stipulation**
16 **and agreement do not protect wholesale customers**
17 **like Independence. And again, you gave the answer**
18 **about the jurisdiction, but what would your answer**
19 **be on the substance of that question?**

20 A. Well, I think it's very similar. You
21 know, we have given a significant number of hold
22 harmless conditions in the federal proceeding, both
23 in our initial filing and in our October update in
24 front of that Commission that puts similar cost
25 protections in place. So, I think it -- I believe

1 it's been adequately addressed at the federal level
2 for wholesale customers, just like we believe we
3 have adequately addressed it at the state level for
4 Missouri customers.

5 **Q. Okay. So, I guess to sum up your**
6 **position is that these agreements with the OPC and**
7 **staff and at FERC effectively take care of**
8 **Mr. Herz's concerns?**

9 A. Yes.

10 MR. JARRETT: Okay. Nothing further.
11 Thanks.

12 THE WITNESS: Thank you.

13 JUDGE BURTON: City of Independence.

14 CROSS-EXAMINATION

15 BY MS. ROBY

16 **Q. Good afternoon, Mr. Ives.**

17 A. Good afternoon.

18 **Q. Is it your opinion that the public**
19 **interest standard the Commission should consider**
20 **only rates or impacts to retail customers?**

21 A. It is my opinion that the Commission's
22 jurisdiction covers what it covers and to the extent
23 that it -- that it does not have jurisdiction over
24 wholesale contracts or FERC tariffs or formula
25 rates, that they should not overreach and attempt to

1 address that jurisdiction.

2 Q. In response to the question about -- or
3 Mr. Herz's testimony about they're lacking
4 sufficient information to determine what kinds of
5 transactions would be covered under the affiliate
6 waiver proposal, you submitted schedule DRI-5; is
7 that right?

8 A. That's right.

9 Q. And would you describe what this exhibit
10 is?

11 A. I don't believe I have that in front of
12 me, but generally I can describe for you that that
13 is an excerpt of our affiliate transaction filings
14 that we make with this Commission as part of their
15 affiliate transaction rules and it outlines the
16 types of costs and the areas of costs that are being
17 incurred between affiliates. So, it is the record
18 of the types of transactions that provide the detail
19 that goes in front of the staff and parties as to
20 the affiliate transactions that we were undertaking.

21 Q. Okay. And you don't have a copy in
22 front of you it, but -- in front of you, but --

23 MR. HACK: If I may approach, I'll give
24 it to him.

25 MS. ROBY: Wonderful. Thank you very

1 much.

2 Q. (By Ms. Roby) So, I'm looking at DRI-5,
3 page 2 of 24 down at the bottom right.

4 A. Okay. I'm there.

5 Q. So, this is a description of the
6 services. Is this provided by KCP&L?

7 A. Yeah. So, these are services provided
8 by KCP&L to the affiliate Greater Missouri
9 Operations.

10 Q. Okay. And then as you continue through
11 on page 7 of 24, are these services that GMO
12 provides to KCP&L?

13 A. I think, again, these would be services
14 that KCP&L's providing to GMO. We make two
15 affiliate transaction filings. One on behalf of
16 KCP&L, which would be the entity at the top of the
17 page on page 7 that we're filing for, and on the top
18 of page 2 you'll see GMO is the header. So, that's
19 GMO's affiliate transaction filing. So, both
20 entities are reporting the transaction regardless of
21 the direction that it goes.

22 Q. So, if I -- one moment, please.

23 So, can you illustrate how this is filed
24 on behalf of both of them? So, you file it on
25 behalf of KCP&L and GMO. Can you just explain that

1 **a little bit further?**

2 A. Yeah. So, so, each of those utilities,
3 GMO and KCP&L, have separate jurisdictional
4 utilities in front of this Commission. So, GMO is
5 required to file an affiliate transaction report and
6 KCP&L is required to file an affiliate transaction
7 report. So, we both had the obligation under the
8 rules to meet the requirements.

9 **Q. So, KCP&L files it as the provider of**
10 **the service and GMO files it as the receiver of the**
11 **service?**

12 A. So, we have -- we have costs that go
13 both directions.

14 **Q. Okay.**

15 A. So, GMO does some things, has some costs
16 that are billed to KCP&L. A great example of that
17 is our Raytown call center is a GMO asset that we
18 use as our combined call center. So, some of the
19 costs of those facilities are billed to Kansas City
20 Power & Light for its utilization of the space. The
21 call center representatives are KCP&L employees who
22 are charging some of their time to GMO in provision
23 of service. So, that same facility can have costs
24 going from GMO to KCP&L and service costs through
25 employment for KCP&L going to GMO. So, this -- each

1 company reports its, its transactions with an
2 affiliate whether it's a to or from.

3 **Q. And how would I know on this report**
4 **whether it's to or from?**

5 A. You would probably -- you would probably
6 do what staff needs to do and you would ask for
7 additional details below the report to see that the
8 detail of the transactions that meet these summaries
9 and then you would be able to discern whether it's a
10 to or from service, whether there has been any
11 netting of activity that has gone on to create this
12 line item of to or from. So, there's certainly a
13 lot more details in the books and records that are
14 subject to review and audit, but this is a
15 summarization at Dodson -- or let's take the page 7
16 top line, audit services. That's a total for audit
17 services. There's, obviously, a lot of detail that
18 sits behind that one line item as to what transpired
19 and what charges occurred to add up to \$390,000.

20 **Q. So, this is a net figure?**

21 A. Well, audit services is a little bit
22 different because that would come from KCPL
23 employees. So, that would be a charge going to GMO
24 from KCP&L.

25 **Q. For this particular line item?**

1 A. For that particular line item.

2 **Q. But otherwise, there's no way to discern**
3 **on the face of the report whether it's a service to**
4 **or from the affiliate?**

5 A. Probably not on the face by itself at a
6 line item level. The detail -- I would just say the
7 detail certainly exists and certainly is available
8 for review and audit by parties any time we're in
9 for a proceeding or any time an investigation is
10 undertaken.

11 **Q. And only at the time an investigation is**
12 **undertaken?**

13 A. I would say the staff and the Commission
14 have full access to books and records. So, at any
15 point if they wanted to look into a particular item,
16 they could.

17 **Q. Has there been an evaluation of which of**
18 **these services would be provided to Westar and which**
19 **services Westar would provide to KCP&L?**

20 A. So, so, we are certainly right in the
21 midst of putting together our affiliate transaction
22 service agreements for the transaction. They're not
23 yet finalized. I would expect them to look very
24 similar as far as the types of services that are
25 going to be provided. It's a little bit different

1 with Westar because they are going to have some
2 ongoing employees. Certainly all of their operating
3 employees are going to continue to be Westar
4 employees. Some of their support services employees
5 will be Westar employees reporting up under GPE.
6 So, there will be costs -- probably more costs going
7 from Westar to KCP&L and GMO than you see from GMO
8 going to KCP&L, but they will be the same general
9 types of costs that we have operated GMO and KCP&L
10 with since 2008.

11 **Q. More costs going from Westar to KCP&L**
12 **than from KCP&L going to Westar. That's a result**
13 **of --**

14 A. No, I didn't say that. More costs going
15 from Westar to KCP&L and GMO than you would see
16 costs going from GMO to KCP&L today.

17 **Q. From GMO to KCP&L.**

18 A. Right, because GMO didn't have any
19 employees and Westar will have some.

20 **Q. In your updated list of merger**
21 **commitments is there not a commitment to submit**
22 **affiliated transactions or a report, similar report**
23 **to the KCC?**

24 A. So, so, we do have with the KCC a
25 commitment to submit some of that stuff. We have,

1 as part of our agreement with staff in this
2 proceeding, a commitment to have a discussion, I
3 think, within 60 days after close of the changes
4 that will likely transpire to the cost allocation
5 manual, which is a component of the affiliate
6 transaction reporting, and then we have a commitment
7 around the timing of the filing of that updated cost
8 allocation manual. The difference in the commitment
9 in Kansas to here is we are subject to this
10 Commission's affiliate transaction rules, all the
11 reporting requirements which will naturally fold in
12 any affiliate transaction that's occurring with
13 Westar. So, we're already obligated to provide that
14 and didn't need to provide an additional condition
15 in this proceeding.

16 **Q. Is there any expectation that this**
17 **report will be modified to show the direction of the**
18 **service?**

19 A. I don't believe we have any plans to
20 show the direction of service. Again, all of the
21 details of the activity between the affiliates are
22 available that support these reports and can be
23 provided at any point. I mean, if we sat down and
24 staff and parties in the review of our affiliate
25 transaction reporting thought for some reason it

1 wasn't compliant with the rules of this Commission,
2 we would modify to meet the needs to be compliant
3 with the rules of this Commission. We have not been
4 informed that this reporting structure is not in
5 compliance with the rules.

6 **Q. One moment, please.**

7 **You're familiar with the surrebuttal**
8 **testimony of Natelle Dietrich?**

9 A. I am.

10 **Q. And appended to her surrebuttal**
11 **testimony is a list of the merger commitments that**
12 **were proposed by applicants before the KCC?**

13 A. It's a subset of the list of commitments
14 that were proposed by the applicants to the KCC.
15 The subset that I believe, not to speak for her,
16 that Ms. Dietrich thought would be good additions to
17 the S&As that were already in place with staff and
18 Office of Public Counsel.

19 **Q. Do you have that in front of you?**

20 A. I don't believe I have her surrebuttal
21 testimony in front of me. I certainly have mine,
22 which has a table in there that addresses much, if
23 not all of those same commitments.

24 MS. ROBY: It's the table. Just the
25 table.

1 **Q. (By Ms. Roby) So, Item No. 17 on page 8**
2 **of 17.**

3 A. Sorry. I probably misspoke. I was
4 thinking about the written additions that she had.
5 This is the full set of commitments that I provided
6 in Kansas.

7 **Q. That's right.**

8 **So, Item No. 17 is before the KCC. Each**
9 **utility will file a general rate case in Kansas no**
10 **later than January 1 of 2019.**

11 A. That's correct.

12 **Q. And is there -- can you explain the**
13 **commitment to file before the MPSC for KCP&L and**
14 **GMO?**

15 A. For a rate case?

16 **Q. Yes.**

17 A. We don't have one.

18 **Q. And are --**

19 A. Well, I should say we don't have one
20 other than our obligation to file every four years
21 if we want to continue our fuel adjustment clauses
22 at GMO and KCP&L.

23 **Q. And if you elect not to continue that**
24 **fuel clause, there's no obligation?**

25 A. That's right. Although, being the vice

1 president of regulatory that just came out of a
2 ten-year commitment of not having a fuel clause at
3 KCP&L, I won't be advocating to move away from that
4 any time soon.

5 **Q. When is your next rate case before the**
6 **MPSC for KCP&L?**

7 A. We are just coming out of one right now.
8 So, it would be four years from conclusion of this
9 case.

10 **Q. So, the merger savings that would result**
11 **for KCP&L would not be realized by ratepayers until**
12 **the 2020 rate case?**

13 A. Well, so, I might --

14 **Q. 2021.**

15 A. I might take a little exception with
16 that. If you look at the history of rate increases
17 at KCP&L and GMO over the last several years and the
18 fact that we've had this discussion earlier today
19 that we've had this, you know, flattening of demand
20 while we've continued to have increasing costs for
21 environmental and other factors, we've had cases
22 much more frequently than every four years. So, I
23 would suggest that if we were able to stay out four
24 years because we are earning our authorized return
25 or closer to, that that is an indirect benefit to

1 customers because they're not seeing increases that
2 probably would have been asked for absent this
3 transaction and the savings that allowed us to stay
4 out.

5 **Q. But those savings would be realized**
6 **after the rate case?**

7 A. I would say they're realizing them by
8 the fact that we're staying out and they're not
9 seeing increases that would come absent the
10 transaction, but yes, the going into a case gets
11 them realized through new rates that are set, but I
12 would say they realize them by not setting new rates
13 that might increase absent the transaction.

14 **Q. Will these savings accrue to GMO**
15 **ratepayers as well?**

16 A. Yes.

17 **Q. And when is the next GMO rate case do**
18 **you anticipate?**

19 A. I think GMO concluded about a year or so
20 in front of this current KCP&L case. So, probably
21 in the range of a year apart.

22 **Q. And you're not -- you have not proposed**
23 **to adopt an earlier obligation to file a rate case?**

24 A. I have not. I've also not proposed that
25 we won't come in earlier than the FAC required

1 timetable.

2 Q. Do you have an objection to having such
3 a requirement be included as among the merger
4 conditions?

5 A. I think there's a strong likelihood that
6 we may be in in a similar timetable to what we're in
7 in Kansas. I think Mr. Bassham discussed some of
8 the ongoing investment that we are making regardless
9 of this transaction. The most significant one being
10 the CIS, customer billing system that we are putting
11 in for both to serve both GMO and KCP&L. Those
12 costs, because they're a system and they are
13 amortized over a fairly short timetable are pretty
14 costly if you don't start recovering them relatively
15 soon after you put a system of that magnitude in.

16 Q. So, is it your testimony that you
17 anticipate that you may come in before the four
18 years?

19 A. I think there's a reasonable chance.

20 Q. And --

21 A. Look, there are -- there are lots of
22 facts and circumstances that impact the timing and a
23 need for a general rate case at a utility.
24 Certainly, the achievement of efficiencies allows us
25 to have, you know, lower future increases and

1 hopefully slower rate requests, but we are still
2 operating the utilities, still putting in new
3 systems, we're still putting in new infrastructure
4 investment that can result in a need to come in for
5 cases.

6 **Q. Let's move on to Item No. 18 on this**
7 **same chart, and this is a condition that Westar and**
8 **KCP&L proposed in the KCC proceeding as a result of**
9 **that proceeding regarding capital structure; is that**
10 **correct?**

11 A. It is. It was really in response to
12 some conditions that were proposed by other parties
13 in their direct testimony in that proceeding around
14 capital structure. We also have proposed this
15 particular condition in my surrebuttal testimony in
16 this proceeding.

17 **Q. Okay. So, this is among those that**
18 **would be included?**

19 A. Yes, it is.

20 **Q. Item No. 26. This is a -- can you**
21 **describe this condition?**

22 A. Number 26?

23 **Q. Yes.**

24 A. Yeah. The specific words are that we
25 commit that in future rate case proceedings KCPL and

1 Westar, again this is Kansas commitment, will
2 support their assurances provided in this document
3 with appropriate analysis testimony and necessary
4 journal entries fully clarifying and explaining how
5 any such determinations were made.

6 **Q. And that also is a commitment that was**
7 **added during the proceeding, the KCC proceeding?**
8 **Under the listing you've got existed, expanded or**
9 **new. This is identified as new.**

10 A. Well, so, maybe we should talk a little
11 bit about how the Kansas proceeding, how that
12 process went to make sure we're saying the same
13 thing.

14 When we filed our direct testimony in
15 our application in Kansas, we provided a number of
16 ring-fencing and acquisition merger commitments. As
17 we went through that proceeding and we had dialogue
18 with parties in that case and parties put direct
19 testimony in and we ultimately got to the -- to the
20 determination that we weren't going to be able to
21 have effective settlement negotiations resulting in
22 a joint set of commitments, we looked at where we
23 were heading in to being in front of the Commission
24 and we did not have a good enough comprehensive set
25 of conditions for that commission to consider

1 approval of the transaction. So, in our rebuttal
2 testimony we looked at the positions of other
3 parties, we looked at conditions that had been
4 approved not only in Kansas, but in surrounding
5 jurisdictions and in recent transactions across the
6 country and we put together a slate of conditions
7 resulting in these 43 that we felt addressed the
8 concerns of parties, were mainstream conditions that
9 regulatory bodies across the country had approved
10 for similar transactions and gave the Commission a
11 path to approve the transaction with the appropriate
12 protections for Kansas customers in that case. So,
13 that's kind of the history of how it all came about.
14 So, when we put this list in here and it
15 says is it new or expanded, it's talking about is it
16 a new condition that I put in rebuttal on behalf of
17 the joint applicants that wasn't part of our direct
18 filing.

19 **Q. Thank you for that explanation.**

20 **So, this condition is -- is this**
21 **condition included as among your proposed merger**
22 **commitments before the MPSC?**

23 **A.** Give me a second. I've got a lot of
24 different versions of commitments.

25 **MR. FISCHER:** Judge, to move it along,

1 could I suggest looking at G-1.

2 JUDGE BURTON: G-1.

3 MR. FISCHER: Staff's stip.

4 Q. (By Ms. Roby) Well, actually, if I may,
5 it is schedule DRI-4 is the --

6 A. So, DRI-4 are the commitments in
7 addition to anything that's in the staff or the OPC
8 stipulation.

9 Q. Very good.

10 JUDGE BURTON: Let me clarify here for
11 the record because I think there might be some
12 confusion as far as which versions are being passed
13 around and I think that this might be, and correct
14 me if I'm wrong, the schedule MPG-1, which is the
15 attachment to Gorman's testimony and that is the
16 rebuttal testimony of Mr. Ives in the -- was that
17 the KCC case?

18 THE WITNESS: Yeah. So, so, what she's
19 been walking me through right now is schedule DRI-3
20 from my Kansas proceeding and the conditions that
21 were put forward in Kansas, and I think what she's
22 asking me is, you know, is there something in the
23 staff S&A, the OPC S&A or my additional commitments
24 in DRI-4 in this proceeding that gives a similar
25 protection in Missouri.

1 JUDGE BURTON: In that case, I know we
2 previously had the motion to include Mr. Gorman's
3 prefiled rebuttal testimony --

4 MS. ROBY: That's correct.

5 JUDGE BURTON: -- from Ms. Roby. I
6 would say let's go ahead at this point offer and
7 admit that in as Exhibit 9, because the document
8 that you're referring to and being questioned to, I
9 believe, is included in this record through that
10 attachment.

11 MS. ROBY: It's actually appended to
12 Natelle Dietrich's surrebuttal testimony.

13 JUDGE BURTON: Okay.

14 MS. ROBY: Which is what I'm walking him
15 through.

16 JUDGE BURTON: Okay.

17 MS. ROBY: I very much would like to
18 take advantage of the opportunity to move in
19 Mr. Gorman's at the appropriate time, if we may.

20 JUDGE BURTON: If it's referred to in
21 Ms. Dietrich's --

22 MS. ROBY: It is appended to
23 Ms. Dietrich's surrebuttal testimony, yes.

24 A. So, back to your question, and I had not
25 gotten there, but as I flipped through to G-1 there

1 is a parent company condition in the staff S&A that
2 part of that condition says that GPE agrees it will
3 uphold the conditions agreed to by KCP&L and GMO in
4 this stipulation.

5 Q. (By Ms. Roby) Can you refer me to what
6 it is that you're reading again?

7 A. Yeah. So, it's page 20 of the
8 stipulation and agreement between the companies and
9 staff.

10 Q. Okay. Would you give me one moment.

11 A. Sure.

12 Q. So, G-1, excuse me, G-1 says that the
13 parent -- GPE -- would you compare G-1 with 26.

14 A. Yeah. So, 26 says that we commit in
15 future proceedings that KCP&L -- GPE commits that
16 KCP&L and Westar will support their assurances
17 provided in the document with appropriate analysis,
18 testimony, necessary journal entries, and G-1 says
19 that GPE on behalf of itself, its successors,
20 assignees and its subsidiaries agrees it will uphold
21 the conditions agreed to by KCP&L and GMO in this
22 stipulation.

23 Q. So, they're not identical, correct?

24 A. They are not the same words.

25 Q. And, in fact, 26 puts on GPE an

1 affirmative obligation to support the assurances by
2 providing analysis, testimony, and necessary journal
3 entries explaining how the determinations of
4 compliance were made?

5 A. That's what it says, yes.

6 Q. And that's not the same commitment that
7 GPE is offering in this proceeding?

8 A. GPE in this proceeding says that we will
9 uphold those conditions, which I think by necessity
10 means that we will be -- have to be able to support
11 the fact that we have upheld those commitments.

12 Q. If asked?

13 A. If asked.

14 Q. Rather than putting a -- is there an
15 objection to including 26 as a condition?

16 A. If the Commission wanted to put that
17 condition in place and receive additional support
18 into the record around that, they could certainly do
19 that. We will be obligated, regardless of that
20 condition, to be in a position to uphold and support
21 these commitments.

22 Q. Can we turn to 27, Item 27. This is a
23 commitment by KCP&L and Westar to file with the KCC
24 an executed copy of affiliate service agreements. I
25 know we've discussed this at some point today. Can

1 **you just, for the record, explain why this condition**
2 **isn't included here?**

3 A. Well, again, in Kansas they don't have
4 the type of affiliate transaction reporting
5 requirements that we are subject to in, in Missouri.
6 With our newly-adopted cost allocation manual in
7 Missouri, which will need to be updated
8 post-transaction, one of the commitments in that
9 process is to provide updates to any changes in
10 affiliate service agreements in some relatively
11 short time frame after they occur. So, we already
12 have that commitment in Missouri under the affiliate
13 transaction rules. There's no need to restate it in
14 this set of commitments.

15 **Q. And the waiver doesn't ask to be excused**
16 **of that commitment?**

17 A. The waiver does not ask to be excused of
18 that commitment.

19 **Q. Can we go to 32?**

20 **Can you describe this commitment?**

21 A. So, commitment 32 says that applicants
22 shall maintain separate books and records, system of
23 accounts, financial statements, bank accounts,
24 Westar and KCP&L, and that books and records will be
25 maintained under the FERC uniform system of

1 accounts.

2 Q. And this one is listed as being expanded
3 compared to what was originally filed in the direct
4 testimony; is that right?

5 A. That's right.

6 Q. Can you explain how this was expanded?

7 A. I really don't remember off the top of
8 my head. I think there was a fairly high level
9 commitment in our application for the maintenance of
10 separate books and records and this may have added
11 some words based upon Dr. Deshmukh's recommendations
12 in Kansas, maybe around the maintenance of the FERC
13 uniform system of accounts.

14 Q. And can you identify or state whether
15 this condition is also included before the MPSC and
16 where we might find it?

17 A. So, so, I don't know if it's
18 specifically addressed in the conditions and
19 commitments in Missouri. I do know that Missouri
20 has some statutory requirements for the maintenance
21 of separate books and records, as well as having
22 adopted the FERC uniform system of accounts as the
23 accounts that will be utilized by the utilities
24 under the jurisdiction of the Commission. And I
25 think if we went back to the 2001 holding company

1 agreement there's language in that holding company
2 agreement that indicates that we would maintain
3 separate books and records for the jurisdictional
4 utilities. So, this is another circumstance where I
5 think the rules and the obligations and the
6 requirements in Missouri are already sufficient to
7 address a condition that somebody thought was
8 important for inclusion in Kansas where their rules
9 and statutes might not be as specific.

10 One of the things I can tell you in a
11 difference between Kansas and Missouri is the
12 Missouri Commission does a much more detailed job of
13 putting rules in place that prescribe requirements
14 and activities. The Kansas Commission doesn't,
15 doesn't generally do as many rules. They rely upon
16 statute and then they rely upon individual rulings
17 in utility cases and agreements to set the path
18 forward in Kansas. So, this is one where we believe
19 we are adequately already -- have already addressed
20 it under the rules in Missouri.

21 Q. Thank you.

22 As a practical matter for this
23 particular condition, what you would agree to for
24 KCP&L for purposes of KCC would necessarily also
25 apply for the MPSC, would it not?

1 A. There's nothing in this commitment that
2 we don't already do today in Missouri for KCP&L and
3 GMO under the GPE holding company.

4 **Q. All right. Thank you.**

5 **MS. ROBY: If I may have just a few**
6 **minutes.**

7 **No further questions, Your Honor.**

8 JUDGE BURTON: Okay. Questions from the
9 bench?

10 CHAIRMAN HALL: Good afternoon.

11 THE WITNESS: Good afternoon, Chairman.

12 CHAIRMAN HALL: So, MPG-1, which is
13 attached to Ms. Dietrich's surrebuttal testimony was
14 filed in the Kansas case; is that correct?

15 THE WITNESS: That's the one we were
16 just walking through, the 17-page tabular?

17 CHAIRMAN HALL: Seventeen page?

18 THE WITNESS: Yeah. I think they're
19 front and back.

20 CHAIRMAN HALL: Eighteen pages is what I
21 have.

22 THE WITNESS: Seventeen and a --

23 CHAIRMAN HALL: Yeah, okay. So, this
24 was a set of conditions that Great Plains and KCP&L
25 agreed to in that case --

1 THE WITNESS: This is a set of
2 conditions that Great Plains, KCP&L and Westar
3 collectively offered --

4 CHAIRMAN HALL: Offered.

5 THE WITNESS: -- in the case.

6 CHAIRMAN HALL: Okay. Because in this
7 case there was not a negotiation with the staff on a
8 set of conditions?

9 THE WITNESS: That's correct.

10 CHAIRMAN HALL: So, these were
11 essentially a unilateral offer?

12 THE WITNESS: That's right. As I
13 mentioned, we were unable to come to agreement for a
14 discussion around conditions in Kansas because there
15 were a couple parties that just had a threshold
16 belief that the transaction should not move forward.
17 So, they didn't even want to negotiate conditions
18 for the Commission to consider.

19 CHAIRMAN HALL: Was the Kansas staff one
20 of those parties?

21 THE WITNESS: Yes, they were.

22 CHAIRMAN HALL: Can you summarize for me
23 what staff -- what the Kansas staff's fundamental
24 concern was with the transaction?

25 THE WITNESS: Yeah. There are -- there

1 are a couple things that were important to them, but
2 the way I would summarize it, and I think their
3 testimony summarizes it this way too, they believe
4 that the price that we offered for Westar was too
5 high and too big for GPE to handle without creating
6 a detriment to customers.

7 CHAIRMAN HALL: So, the acquisition
8 premium?

9 THE WITNESS: Yeah. The totality. The
10 acquisition premium, the overall price of the \$60.
11 So, the 8.6 billion, plus the assumed debt they
12 believed was too big of a transaction for Great
13 Plains Energy.

14 CHAIRMAN HALL: So, essentially it was
15 the Kansas staff's position that no condition or no
16 set of conditions could properly or adequately
17 insulate Kansas ratepayers from the -- from the
18 detriments of the transaction?

19 THE WITNESS: That was what they told
20 their Commission. We, obviously, disagree with
21 that.

22 CHAIRMAN HALL: I understand that.

23 So, in this case the companies came to
24 an agreement with both staff and OPC on a number of
25 conditions.

1 THE WITNESS: Yes, we did.

2 CHAIRMAN HALL: And then staff added to
3 that set of conditions in Ms. Dietrich's surrebuttal
4 testimony, and those conditions are identical to the
5 conditions set forth in DRI-4; is that correct?

6 THE WITNESS: Yeah, a couple exceptions.
7 In DRI-4 we reworded the conditions that
8 Ms. Dietrich put in hers because she put directly
9 the conditions that were listed in Kansas that were
10 written to the Kansas utilities. So, we reworded
11 them to be applicable to KCPL and GMO on a Missouri
12 basis, and then we added Condition 18 which I spoke
13 about with the Independence attorney a little bit
14 earlier on the band around the capital structure and
15 that was one that we, we put in in Kansas and we
16 also felt was responsive to a condition that
17 Mr. Gorman had put in in his testimony in this case.

18 CHAIRMAN HALL: Okay. Well, I can
19 certainly ask Ms. Dietrich some questions about this
20 as well, but it's your understanding that the staff
21 is in agreement with the conditions that are set
22 forth in DRI-4?

23 THE WITNESS: Yes, with the
24 clarifications that I think Mr. Thompson went
25 through with me on the two questions we had.

1 CHAIRMAN HALL: Turning to the first
2 condition in the agreement with staff, which I
3 believe is attached to your direct testimony.

4 THE WITNESS: Yes. Under the financing
5 conditions.

6 CHAIRMAN HALL: Yes.

7 THE WITNESS: I'm there.

8 CHAIRMAN HALL: That first condition is
9 similar to the -- to a condition in the 2001
10 stipulation, is it not?

11 THE WITNESS: I don't have that
12 stipulation in front of me, but I expect that there
13 is a similar one in that agreement.

14 CHAIRMAN HALL: Okay. Condition 6-G of
15 that stipulation, and I'm reading from staff's
16 investigative report, says that KCP&L shall maintain
17 separate debt. So, I'm seeing that as a similar
18 condition to this one, to condition one in the
19 stipulation with staff. Is that a fair
20 understanding?

21 THE WITNESS: I think that's right.
22 This is a little bit more prescriptive, but
23 certainly the same intent that the utilities will
24 issue separate debt, they will have separate
25 revolving facilities with separate pricing, they

1 will maintain their own credit ratings for
2 themselves and for that debt. So, it's what
3 Ms. Quilici talked about earlier as far as the type
4 of separation that you hope to get from ring-fencing
5 for the operating utilities.

6 CHAIRMAN HALL: Now, my understanding is
7 that after the 2001 stipulation, KCP&L and GMO
8 attempted to comply with this agreement, but the
9 rating agencies did not believe that there was
10 enough insulation between KCP&L and GMO and Great
11 Plains and, so, used a credit rating for GPE and
12 concerning both KCP&L and GMO; is that correct?

13 THE WITNESS: No. There's been a lot of
14 confusion about what they call the linkage of credit
15 ratings between a parent company and the operating
16 companies. KCPL, GMO have their own issuer credit
17 ratings from S&P and Moody's and they also get
18 individual issue ratings to the extent that they
19 issue public debt. That particular debt gets a
20 rating at that time, too, just like GPE does. Where
21 the linkage comes into play is there is some level
22 of connection between a utility holding company and
23 utility operating companies when the operating
24 companies are providing much of the financial
25 support for the holding company like our situation.

1 So, they'll move a little bit away from each other.
2 Like, you can get a one or two notch movement from
3 GPE to the utilities, but you're not going to get a
4 huge separation between them because they
5 necessarily are dependent upon each other. The
6 utilities have some level of protection and support
7 from the holding company and the holding company
8 also gets dividends up from the utility. So, they
9 can't -- they just don't completely de-link, but
10 they have their own separate issuer and issue credit
11 ratings, the operating utilities do.

12 CHAIRMAN HALL: So, Moody's did not
13 downgrade KCP&L or GMO's credit rating as a result
14 of this transaction?

15 THE WITNESS: They did not, nor
16 Westar's.

17 CHAIRMAN HALL: Nor Westar. But it --
18 but Moody's did downgrade Great Plains?

19 THE WITNESS: It downgraded Great Plains
20 one notch. S&P did not, and there was some
21 discussion about that earlier, and you had some
22 dialogue about this, but there are specific
23 financial metrics and measures that each of the
24 rating agencies rely on more, you know, more than
25 other things as they evaluate. Moody's in

1 particular looks at holding company debt as a
2 percentage of total corporation debt and they have
3 kind of this 30 percent threshold where if you go
4 above that they're typically going to downgrade you
5 because they think that's a higher financial risk.
6 S&P does not have such a bright-line holding company
7 debt as a -- as a percentage of total corporate
8 debt. So, that's why S&P didn't put as much
9 emphasis on that. They look at FFO to cash flow and
10 other things. So, that's the metric that really
11 distinguished Moody's from S&P, and that's why
12 Mr. Bryant can tell you that he feels confident that
13 if we can pay down, you know, three to five
14 hundred million dollars in the next three to five
15 years, that holding company debt will move back
16 within that kind of bright-line band that Moody's at
17 least today looks at and when we get back to that
18 30 percent range that he talked about, he'll be able
19 to go make a strong case that we're supportive of
20 moving back and getting that notch back at GPE.

21 CHAIRMAN HALL: Continuing on this first
22 condition in the stipulation with staff. Do you
23 believe that that provision is inconsistent with
24 staff's position in KCP&L's rate case concerning
25 KCP&L's capital structure?

1 THE WITNESS: I don't believe that that
2 one is.

3 CHAIRMAN HALL: Well, in that case isn't
4 staff proposing that the Commission use a GPE
5 capital structure for KCP&L's rate requirement?

6 THE WITNESS: Yes, unfortunately, they
7 are.

8 CHAIRMAN HALL: Well, how is that not
9 inconsistent?

10 THE WITNESS: This says we will maintain
11 separate capital structures.

12 CHAIRMAN HALL: Right.

13 THE WITNESS: Which is certainly --

14 CHAIRMAN HALL: No. I don't mean it's
15 legally contrary. I just mean that is it from a
16 financial perspective is it inconsistent?

17 THE WITNESS: No. I think there's
18 one -- I think there's one further back that
19 probably -- that probably hits your point a little
20 bit better. I'm trying to find it. There's one in
21 here that says we intend to utilize the operating
22 utility capital structure to set rates and in that
23 particular one, is it -- I just need to read.
24 Number two. I should have just looked a little
25 further. Number two says we have indicated to staff

1 our intent to utilize the utility-specific capital
2 structure. That would be in conflict with staff's
3 current position. And I think if you flow down
4 through that we go on to say that GPE, KCPL and GMO
5 acknowledge that this provision can't limit the
6 position or positions of any party might take in a
7 rate case on this.

8 CHAIRMAN HALL: How important is the
9 Commission decision on capital structure in KCP&L
10 rate case to this transaction going forward?

11 THE WITNESS: Well, what we told Kansas,
12 because this issue was hotly contested in front of
13 the Kansas Commission, parties, parties came in --
14 that was really one of the primary threshold issues
15 that the staff in Kansas asserted. They said if, if
16 they couldn't use consolidated capital structure,
17 then they couldn't see the deal going through. And
18 what we told Kansas, because that Commission
19 indicated they felt like they might need to make
20 that decision in the approval proceeding, we said if
21 you -- if you make a decision that you will
22 definitely use the consolidated capital structure,
23 the transaction won't close. It is too financially
24 detrimental from a cash flow standpoint and so
25 inconsistent with the national treatment for

1 operating companies under a holding company that we
2 would not be able to close the transaction.

3 CHAIRMAN HALL: What would stop the
4 transaction from -- I mean, the company would decide
5 to pull the plug on it or one of your investors?

6 THE WITNESS: Yeah. So, if they put a
7 condition in their order that said you can move
8 forward with the transaction as you've proposed with
9 these 43 conditions, but the 44th condition is
10 you're going to be rate made using a consolidating
11 capital structure post-close at Westar and KCP&L,
12 that Commission -- or that condition, if they added
13 that, would require us to look at that order as too
14 detrimental to moving forward and we would not close
15 the transaction.

16 CHAIRMAN HALL: Do you anticipate a
17 similar reaction to a similar decision over here?

18 THE WITNESS: Well, so, fortunately or
19 unfortunately we don't have that hard-line decision
20 in front of this Commission, not to say the
21 Commission couldn't decide to address that in their
22 order, but the way this condition is worded I think
23 staff and we recognized that this Commission usually
24 doesn't like to bind future commissions for rate
25 making decisions.

1 CHAIRMAN HALL: Well, it's beyond that.
2 We can't.

3 THE WITNESS: Right. So, that's why
4 it's a little bit different over here. The
5 Commission in Kansas has indicated because of the
6 positions of the Consumer Advocate Office and their
7 staff that they feel like they may need to address
8 it in their order on the transaction approval.

9 CHAIRMAN HALL: What if this Commission
10 were to make that decision in the rate case? What
11 does that do to the transaction?

12 THE WITNESS: In the current KCPL rate
13 case?

14 CHAIRMAN HALL: Yes.

15 THE WITNESS: So, might get a little
16 theoretical on you, but I would argue that what the
17 Commission has in front of it in this rate case, the
18 KCPL rate case is a set of capital structures that
19 aren't materially different. So, it would still be
20 within the bounds of what you could look at from
21 across the country as being in the range of
22 reasonableness. Where we differ post-transaction is
23 that 40, 40 percent equity does not look like a
24 reasonable capital structure for
25 similarly-situated --

1 CHAIRMAN HALL: Got you.

2 THE WITNESS: -- utilities.

3 CHAIRMAN HALL: That makes sense.

4 And let me return for a moment to -- I
5 got too much paperwork here. Here. I'm sorry. To
6 MPG-1. There's not -- and this is, again, this is
7 what was attached to Ms. Dietrich's surrebuttal.
8 You would not be opposed to the inclusion of any of
9 these provisions in here? I mean, obviously, some
10 don't apply because they are specifically Kansas
11 related, but you wouldn't be opposed to any of
12 these, right?

13 THE WITNESS: So, we've certainly
14 offered these in Kansas. There's nothing to oppose
15 in here from our standpoint, but, like I said and
16 you said, I think some of them are just not
17 applicable in Missouri.

18 CHAIRMAN HALL: Right.

19 THE WITNESS: Not applicable or are
20 already adequately addressed by your rules and
21 statutes.

22 CHAIRMAN HALL: Let me turn to MJMEUC's
23 two conditions, two proposed conditions. Do you
24 anticipate for any reason whatsoever that the
25 Westar, KCP&L and GMO SPP transmission pricing zones

1 might be consolidated any time in the next ten
2 years? Is there any rationale for that whatsoever
3 as far as you know?

4 THE WITNESS: I wouldn't wager to
5 predict for ten years. I had this discussion a
6 little bit with the attorney for Independence. We
7 had a commitment at one point in time with this
8 Commission for ten years not to have a fuel
9 adjustment clause because at that point in time we
10 thought the market was such that it would not be,
11 you know, so detrimental that we couldn't stay away
12 from it for ten years. We found that not to be true
13 and it was very damaging over a ten-year commitment.
14 So, ten years is a long time, particularly when
15 you're talking about a dynamic market like SPP. We
16 don't have any plans to do a consolidation in the
17 near term, but that really is an SPP process under
18 an SPP tariff. If there were SPP market benefits to
19 having less transmission zones than what they have
20 today for any number of reasons I suppose, there may
21 be parties that would be interested to move that
22 route. And if it delivered -- if there was a cost
23 benefit study to the region that indicated that it
24 was the right thing to do, we would certainly have
25 to look at that.

1 CHAIRMAN HALL: What if that condition
2 was modified such that you would be prohibited from
3 seeking a modification of those pricing zones in any
4 way that increased revenue so that any modifications
5 had to be revenue neutral to the company? Would you
6 still have concerns about that?

7 THE WITNESS: So, I was here and I
8 listened to Mr. Jarrett's opening where I think he
9 mentioned that maybe they would just increase the
10 transmission pricing in KCPL and GMO to the cost at
11 Westar. That's not feasible from a combination of
12 zones. A combination of zones would take the costs
13 that are being incurred in those zones and blend
14 them. There would be no impact to the company from
15 that type of activity.

16 CHAIRMAN HALL: That would be revenue
17 neutral?

18 THE WITNESS: Yeah. From a company
19 perspective it's going to be revenue neutral if you
20 put those zones together as long as you're combining
21 just our zones.

22 CHAIRMAN HALL: So, if the prohibition
23 was attempting to modify the pricing zones in order
24 to increase revenues, you wouldn't have a problem
25 with that?

1 THE WITNESS: At a company level I
2 wouldn't have a problem with that.

3 CHAIRMAN HALL: How about -- how about
4 the second condition --

5 THE WITNESS: I should just clarify. I
6 mean, there -- we have multiple companies. You
7 know, post-transaction we will have a Westar
8 company, we will have KCPL, we have GMO. That
9 umbrella in total would be revenue neutral. So, if
10 that's the condition that you can't do something
11 that tries to make money for the aggregate, then I'd
12 be fine with that because I don't think that's
13 feasible and I don't think that can happen.

14 CHAIRMAN HALL: Okay. Concerning the
15 second MJMEUC condition that you will not pass along
16 any costs attributed to the merger to any of the
17 Iatan co-owners. It would violate rate-making
18 principles for you to do that at all, right?

19 THE WITNESS: Yes. I'm not sure how
20 that could happen.

21 CHAIRMAN HALL: So, that condition
22 really is just a restatement of very basic
23 rate-making principles? Is that -- would you agree?

24 THE WITNESS: Well, so, I listened to I
25 think it was Mr. Jarrett's hypothetical of taking

1 employees and loading them up at the Iatan facility
2 because we aren't able to get efficiencies in other
3 things that we've identified. One, I think there
4 would be -- that would increase the cost of that
5 generating plant which would make it less economic
6 to participate in the SPP marketplace. I think it
7 would be subject to prudence review by the
8 Commission, both Commissions that we operate under,
9 because Kansas also would be affected by that, as
10 well as --

11 CHAIRMAN HALL: Well, that's my point
12 exactly, that if I can't imagine a scenario where
13 this would occur, that would not be considered
14 imprudent?

15 THE WITNESS: I agree with that. And I
16 think the other thing I would add is when you --
17 when you look at transaction costs in the
18 traditional term that the costs that we're incurring
19 to affect this transaction and the goodwill that is
20 being created as a result of this transaction, we
21 have commitments around those and it's pretty clear
22 that they stay up at the Great Plains Energy level
23 and aren't on the books and records that drive costs
24 to Iatan.

25 CHAIRMAN HALL: In the Kansas proceeding

1 did any of the conditions suggested by Mr. Gorman or
2 by the City of Independence or by MJMEUC, did any of
3 those come up as far as you know?

4 THE WITNESS: There was discussion
5 around the transmission zone issue. Our response,
6 obviously, was the same as it has been here.
7 Mr. Gorman had several of the same conditions in
8 Kansas, he was a witness for another party over
9 there, that are in his testimony in this proceeding,
10 and our response was the same as in our rebuttal
11 here. We added the condition 18 to address the
12 bounds of reasonableness around equity component of
13 the capital structure to address his 50 percent
14 equity component. But for all the reasons in our
15 testimony here we didn't agree that the others were
16 necessary in Kansas either.

17 CHAIRMAN HALL: I have no further
18 questions.

19 THE WITNESS: Thank you.

20 COMMISSIONER STOLL: Just a couple quick
21 questions.

22 Has there ever been a case in the
23 Southwest Power Pool where zones were combined,
24 pricing zones? I mean, I know that Independence was
25 placed in the pricing zone with KCP&L, but has there

1 been a merger where because of the acquisition that
2 the zones were combined?

3 THE WITNESS: I'm not sure as a result
4 of an acquisition that there have been combined, but
5 you're absolutely right. Very relevant and I think
6 this Commission is aware of it, Independence worked
7 with the SPP to get themselves included in KCPL's
8 pricing zone and submit -- you know, SPP submitted
9 that FERC tariff. We not only disputed that at SPP,
10 we also availed ourselves of the ability to dispute
11 that at the FERC itself. Ended up with a settled
12 position at FERC, but it resulted in an increased
13 cost to our Missouri retail customers due to the
14 legacy cost of Independence being borne by KCP&L's
15 customers and there certainly was no discussion of a
16 hold harmless to our Missouri customers when
17 Independence was pursuing that.

18 COMMISSIONER STOLL: And so, in a case
19 like that, that doesn't come to our attention
20 because, you know, and I'm not trying to beat up on
21 anybody, but we don't regulate Independence. Is
22 that the case?

23 THE WITNESS: That's right. I mean,
24 certainly the Commission participates at SPP. So,
25 the Commission was aware of what was going on there

1 and the Commission certainly has an ability to
2 intervene in FERC proceedings just like we do. So
3 again, what is the avenue like we propose in this
4 situation would be address it at SPP, if you don't
5 like the answer at SPP, address it at the Commission
6 that has ultimate jurisdiction, FERC, and the
7 Missouri Commission recourse in that regard would be
8 to participate at SPP and intervene at FERC if they
9 had a position on that as well.

10 COMMISSIONER STOLL: Okay. And you've
11 probably been around SPP longer than I have, but if
12 a combining of these two pricing zones, it would
13 have to, and I think as we stated, would have to go
14 through the stakeholder process. And I didn't get
15 to ask Adam or Walt about this today, but would that
16 also come before the Regional State Committee
17 because it would have to do with cost allocation?

18 THE WITNESS: You know, I'm not as --
19 I'm not as tight on all those. I believe because
20 it's cost allocation there's a good chance that the
21 Regional State Committee would at least be part of
22 that discussion. It may go in front of other
23 stakeholder committees as well.

24 COMMISSIONER STOLL: Yeah.

25 THE WITNESS: But the end result,

1 ultimately, would be SPP would have to determine
2 that it needed to submit a tariff for that change
3 and then, like we talked about, even if they did
4 that, parties still can avail themselves of the
5 rights at FERC to dispute a tariff even if they're a
6 participating member of SPP.

7 COMMISSIONER STOLL: Yeah. Okay. One
8 other -- one other quick thing. In the discussion
9 of the standards about granting or denying a merger,
10 acquisition, and I don't know that this has been
11 brought up and I'm not sure how much it matters to
12 us, but there are different standards in Missouri
13 and in Kansas as far as approving a merger. Isn't
14 that correct?

15 THE WITNESS: Yes, there are.

16 COMMISSIONER STOLL: And in Missouri --

17 THE WITNESS: Missouri it's, you know,
18 not detrimental to the public interest and in Kansas
19 it's basically a benefit to the public interest and
20 then Kansas goes a little further, they have
21 basically 12 merger criteria that they've put
22 together over the course of time that they use as
23 guidelines for how they evaluate transactions. To
24 be fair, they also say that they look at specific
25 facts and circumstances of the transaction in front

1 of them, but they always start with those 12 factors
2 and how they are met by a transaction in
3 demonstrating a benefit to the public interest.

4 COMMISSIONER STOLL: So, I guess that
5 brings it to the Missouri Commission in our decision
6 making that we have to determine whether or not we
7 believe that the conditions are adequate to protect
8 Missouri customers and the whole question of
9 ring-fencing and that our customers are protected
10 from any detriment as opposed to creating a benefit?

11 THE WITNESS: Yeah, that's correct from
12 my perspective. And I think it's no different than
13 what this Commission has faced on other merger and
14 acquisition transactions and really no different
15 from that standpoint on what any commission in the
16 country faces. Whether your standard is benefit or
17 no detriment, more often than not you end up getting
18 a set of conditions as well as the other benefits of
19 the transaction because it usually takes all of that
20 to get everybody comfortable that the customers are
21 adequately protected.

22 COMMISSIONER STOLL: Yeah, yeah. You
23 want to see that there's no detriment, but also it's
24 good to see, have the belief that your customers are
25 going to benefit too, which I guess is all part of

1 the equation, so...

2 THE WITNESS: Absolutely.

3 COMMISSIONER STOLL: Thank you.

4 THE WITNESS: And we believe that will
5 happen here.

6 COMMISSIONER STOLL: Okay. Thank you
7 very much.

8 COMMISSIONER KENNEY: Good afternoon,
9 Mr. Ives. How are you?

10 THE WITNESS: I'm good. How are you?

11 COMMISSIONER KENNEY: Good. This
12 probably doesn't have a ton to do with this merger
13 case, but I'm curious. You know, the economy and
14 the market's been going nuts since Trump got elected
15 with a lot of expectation of removal of a lot of
16 regulations and income tax cut. How do you -- on a
17 merger like this how do you prepare for potential
18 corporate income tax cut for your parent company?
19 Because that's, obviously, a lot of income that's
20 lost.

21 THE WITNESS: Yeah. So, it's been a hot
22 topic in the industry and certainly in our
23 organization tax reform and what form that might
24 take, if anything, the one I think you're referring
25 to or the component of it, and I won't go too deep

1 because we have Ms. Hardesty here that lives the tax
2 reform stuff, but the one I think you're referring
3 to is the deductibility of interest for debt.

4 COMMISSIONER KENNEY: No, no, no. I'm
5 specifically talking about income tax that you
6 collect from ratepayers. On your rate base you pay
7 corporate income tax and that 35 percent goes to
8 your holding company and that money rarely gets paid
9 in taxes because it's used and moved around. I
10 mean, have you guys discussed that, how that
11 affects? I'm just curious how that affects your
12 parent company because that's a lot of money.

13 THE WITNESS: Yeah. So, so, it
14 certainly is a cash differential, but you might --
15 I'm sure you're aware that, you know, when they had
16 the tax reforms back in the mid-80s that that also
17 reduced the tax rate for utilities.

18 COMMISSIONER KENNEY: Are you talking
19 about the '86 tax law that crippled the S&L, savings
20 and loans industry because they retroactively passed
21 a tax? They went back and said you got this
22 deduction going forward, the government said, yeah,
23 invest, invest, invest, and they said, by the way,
24 we're taking that away.

25 THE WITNESS: And it also lowered

1 corporate tax rates for the utilities which resulted
2 in a number of cases in Kansas and Missouri for
3 utilities coming in and adjusting their deferred
4 taxes and, you know, lowering their tax effect,
5 which ended up being beneficial to customers, right,
6 lower taxes lowers the cost to customers. So, it
7 might have a cash impact to us from that regard, but
8 I would tell you it would be beneficial to
9 customers. It would be faced by every utility in
10 the country. So, we wouldn't be positioned
11 differently in that regard.

12 COMMISSIONER KENNEY: Oh, I understand
13 it affects everybody, but I was just curious how
14 that would affect the holding company because of the
15 15 percent reduction in anticipated revenue for that
16 year. I'm sure you can adjust years later, but...

17 THE WITNESS: Yeah. We don't think --
18 we don't think that particular provision has the
19 type of long-term implications that gives us any
20 concern with the transaction.

21 COMMISSIONER KENNEY: All right. Thank
22 you.

23 COMMISSIONER RUPP: Good afternoon.

24 THE WITNESS: Good afternoon.

25 COMMISSIONER RUPP: I'm looking for a

1 history lesson going back to 1999 on the Westar
2 proposed merger. We were told you could shed a
3 little bit more light on that and what the regulated
4 business interests they had. Can you...?

5 THE WITNESS: I, unfortunately, am one
6 of the longer-tenured people on the list of
7 witnesses that you have from the company.

8 So, yeah, I started in '96. So, we were
9 in the midst of everything that was going on in that
10 regard. Mr. Bassham stated it pretty well. We were
11 working through a merger vehicles with Aquila at the
12 time. Western Resources at the time initiated a
13 hostile take over for Kansas City Power & Light to
14 break up that transaction and acquire KCP&L. They
15 were successful in their hostile take over attempt,
16 got approval of their shareholders and ours to do
17 that, and we went down the path to the point that
18 this Commission as well as the Kansas Commission
19 approved the transaction with conditions and
20 regulatory treatments much as -- much as you would
21 expect. As we were working through the finish line,
22 they started having a lot of financial difficulties
23 at Western Resources and it was around, as
24 Mr. Bassham stated, their Protection One business
25 which was a nonregulated competitor in home

1 security. They were -- they did the same thing as
2 like ADT or somebody like that. They had financial
3 difficulties. It took Western Resources share price
4 down significantly. Part -- much of the financing
5 for that transaction was stock for stock and there
6 was a collar in the merger agreement that said if
7 you get outside of this collar of stock or the value
8 of Western Resources stock, then KCP&L would have
9 the ability to terminate the transaction. So, when
10 they got outside of that collar and they were
11 dramatically below the bottom end of that collar
12 because of the Protection One deal, we sent a
13 letter -- our CEO sent a letter to Western Resources
14 and said this deal is now not financially viable for
15 our shareholders because your stock price is so low
16 and we're going to terminate the transaction.

17 COMMISSIONER RUPP: All right. I
18 appreciate the history lesson. So, why -- and this
19 is for my own education. Why would Westar, what
20 they were called at that time, why would they want
21 to try to hostile take over to stop the Aquila,
22 KCP&L? What was their business motive? How would
23 they be harmed if KCP&L was purchased by Aquila?

24 THE WITNESS: So, it was an interesting
25 time back in that -- back in that era. There's a

1 lot of history with these companies. Back prior to
2 that there was -- KCP&L, I believe, attempted to
3 acquire Kansas Power & Light down in the Wichita
4 area. KG&E, the southern part of Westar, came in
5 and did a hostile and ended up successful to combine
6 in the early 90s with KPL. So, they got a little
7 bit bigger, they got a little bit better footprint
8 and then if we would have joined with Aquila, that
9 maybe, maybe it put them in a view that we were
10 getting big enough that they might become a target
11 again someday down the line. So, there might have
12 just been a little bit of ego, boundary issue
13 protection that made sure they didn't -- they didn't
14 want to have somebody bigger right beside them.

15 You know, if you go through history, and
16 we actually had a retired CEO from Westar testify in
17 Kansas public hearings who indicated that these
18 companies have been trying to combine since the 60s,
19 started talking about building La Cygne and some
20 plants and at that time decided that maybe it made
21 sense to combine and do it together, couldn't come
22 to an agreement. Then you had to the early 90s
23 issue. You had the issue again in the late 90s and
24 now you're back again. This time both of us
25 interested in getting together. But I think both

1 companies for decades have seen that there is value
2 to customers of combining these two utilities that
3 are so close together. We just haven't had all the
4 right dynamics to get it done and now we are in line
5 to get it done.

6 COMMISSIONER RUPP: Thank you for the
7 history. I appreciate that.

8 You mentioned, you know, there's a stock
9 collar price. Is there any type of that in this
10 pending merger case? And I'm sure I could find it,
11 but what are the bands?

12 THE WITNESS: Yeah. So, so, a couple of
13 things. I'm not sure I have the bands in front of
14 me, but, but 15 percent of the transaction price is
15 payable to Westar shareholders in Great Plains
16 Energy stock. So, it's not nearly as large of a
17 piece of the consideration as it was back in that
18 deal, but to provide certainty to Westar
19 shareholders we did put a collar on the shares. So,
20 if it stays within the collar that they get the
21 value that's within the collar. It's like a 7 1/2
22 percent collar roughly from what the price was at
23 the time we initiated the transaction, and then to
24 the extent that it goes above it they get less
25 shares, but they kind of lock their value and if it

1 goes below it, they get more shares, but they kind
2 of lock their value at the bottom. So, it's a
3 different structure of a collar. It's really about
4 trying to give value certainty to Westar
5 shareholders within that collar range.

6 COMMISSIONER RUPP: So, it's not really
7 like an escape clause. It's just adjusting the
8 number of shares to try to keep the --

9 THE WITNESS: Keep the value kind of
10 within a reasonable range for that 15 percent of the
11 consideration. So, very different mechanism of a
12 collar than that prior deal.

13 COMMISSIONER RUPP: And then I had
14 forgotten to ask this question earlier, so I'm going
15 to ask it of you. I believe it was in Mr. Bryant's
16 testimony that the bids or the offers for Westar
17 range from \$50.50 to \$60. Do you know where the
18 next-lowest bid was besides you?

19 THE WITNESS: I think that might be in
20 Mr. Bryant's testimony as well, but it was somewhere
21 around the 58, 58 1/2 range. The offers from
22 parties that weren't successful, a couple of them
23 are a little bit nebulous in the proxy discussion.
24 They say they could go up to here, but they never
25 got a final definitive because they selected our

1 offer and kind of stopped negotiating. So, there's
2 a little bit of fuzz around them, but they were
3 somewhere -- the one closest to us was somewhere in
4 the range of a dollar and a half below our offer.

5 COMMISSIONER RUPP: All right. That's
6 all I have. Thank you.

7 JUDGE BURTON: I have a few questions.

8 THE WITNESS: Okay.

9 JUDGE BURTON: Now, I know the direct
10 testimony was filed a while ago and there's been
11 some discussion about the stock amounts, but do you
12 have an estimate right now of what the dollar amount
13 would be for the acquisition premium? Has it
14 changed?

15 THE WITNESS: Well, so, the -- so, I
16 think Mr. Bryant put in his surrebuttal testimony,
17 and I want to make sure we're talking about the same
18 terms, from a goodwill standpoint the amount above
19 of net book value right now it's probably around
20 4.7 billion. It's come down a little bit from when
21 we first announced because of additional retained
22 earnings that Westar has earned since the
23 transaction was announced, subject to -- you know,
24 I'm an accountant by trade. So, I just have to say
25 subject to you do some final determinations after

1 closing within that first year to fair value a few
2 items and make some adjustments. So, it will -- it
3 will not be set until probably about a year after we
4 close what that final goodwill amount ends up being.

5 JUDGE BURTON: Is there a condition in
6 the stip and agreement for that to be provided to
7 the Commission?

8 THE WITNESS: I know there's a condition
9 that says that we will provide -- we will provide
10 any goodwill impairment testing. I know there's a
11 condition that says provide full access to books and
12 records. I don't know that there's one specifically
13 that says we'll give that final, final set of
14 journal entries or whatever it is. Certainly, we'll
15 have it. It will be available for parties to look
16 at and review, no doubt.

17 JUDGE BURTON: Okay. Now, in the past
18 has this Commission recognized in a merger case or,
19 excuse me, in a rate case recovery for acquisition
20 premium?

21 THE WITNESS: In the recent term they
22 generally have not. I don't know that -- I don't
23 know that I can speak to ever. It used to be across
24 the country a little more prevalent to have recovery
25 of acquisition premiums to the extent that

1 efficiencies and savings kind of outpaced recovery
2 of that acquisition premium. So, across the country
3 it used to be more prevalent than it is today. I
4 would say generally across the country you see less
5 recovery of acquisition premium over the last
6 handful of years, and I know this Commission has
7 not -- has not authorized an acquisition premium for
8 the last several M&A transactions that it's done,
9 and we're not asking for it.

10 JUDGE BURTON: What about the Kansas
11 Corporation Commission?

12 THE WITNESS: The Kansas Corporation
13 Commission has provided recovery in a number of
14 cases. In the 1991 KG&E, KPL transaction that I was
15 talking with the Chairman about there was a recovery
16 of a portion of acquisition premium to the extent
17 that it was exceeded by savings. In the '99
18 transaction between Western Resources and KCPL that
19 was approved but not completed, there was a
20 mechanism for recovery of part of the acquisition
21 premium to the extent the savings allowed for that.
22 So, they've had a pretty strong history of providing
23 it until the last few cases. But similar to where
24 we are here, we did not ask for recovery of
25 acquisition premium in Kansas either.

1 JUDGE BURTON: Now you've, obviously,
2 heard discussion about the additional commitments
3 that Gorman has requested or he recommended in
4 rebuttal testimony as well as City of Independence
5 and MJMEUC. Can you identify any detriments to the
6 public interest from the inclusion of any of those
7 commitments?

8 THE WITNESS: Sure. You know, we talked
9 about -- we talked about the one -- or I talked with
10 the Chairman about the one on the ten-year
11 commitment for not combining transmission zones. I
12 mean, unless we all have a crystal ball, we don't
13 know if that's an overall detriment or an overall
14 benefit for locking that out for ten years. If SPP
15 came up with, you know, a cost-benefit analysis that
16 says it's the right thing to do to combine
17 transmission zones, but we had to say we can't do it
18 because we've got a state commission commitment that
19 doesn't allow us to unlock those benefits, that
20 could be detrimental.

21 JUDGE BURTON: How could that harm the
22 public?

23 THE WITNESS: How could that harm the
24 public?

25 JUDGE BURTON: Yes. Could you expand on

1 that a little?

2 THE WITNESS: Yeah. So, if SPP does
3 that cost-benefit analysis, they're saying in the
4 region, which includes Missouri, there would be
5 overall net benefits over cost of combining those
6 transmission zones. Much like when they assess
7 transmission construction, they look at overall
8 benefits compared to cost before they approve a new
9 transmission line to be constructed. So, if they
10 said there were more benefits than cost and we said
11 we couldn't do it because this Commission had, you
12 know, put a ten-year commitment in place where we
13 couldn't do that, that would be detrimental to the
14 public because we wouldn't -- those benefits
15 wouldn't flow through the SPP back to customers.

16 JUDGE BURTON: Any other examples from
17 the commitments requested by Gorman, Independence?

18 THE WITNESS: Yeah. So, so, there was a
19 lot of discussion earlier today about, I guess,
20 these independent boards and I'm not even sure I
21 know what Mr. Gorman is actually asking for. I'm
22 not sure how you could implement an independent
23 board at the operating companies that has some
24 defined set of responsibilities. I mean, those
25 board members, as Ms. Quilici, discussed would have

1 response -- fiduciary responsibility to the owner,
2 which would be Great Plains Energy. But assuming
3 you could do that and you could find a way to set
4 these, you know, restrictions on that operating
5 company board, I think you run the risk of too
6 tightly binding governance on utilities where they
7 couldn't take actions that might ultimately end up
8 in a cost savings or a benefit to the public because
9 we've hard lined a restriction in there that says
10 you can't even consider that. So, it's a little bit
11 hypothetical because you don't know what you're
12 going to face once that restrictions gets set. I
13 just know that when you over-govern and get overly
14 restrictive in places where it's not necessary, it
15 has a strong potential of creating harm and -- maybe
16 the better way to say it is unintended consequences.

17 JUDGE BURTON: Are there any advantages
18 to the public in those commitments?

19 THE WITNESS: Again, you talk to the
20 board commitment. I agree with Ms. Quilici that
21 what we have from the NYSE independent board members
22 serving in a mirror capacity is already more
23 substantial than what the majority of operating
24 utilities under holding companies have today, and I
25 think it's served our customers and the public and

1 our shareholders well since we put it in place in
2 2001 when KCP&L became an operating utility under
3 Great Plains Energy, and I don't see any reason why
4 it won't continue to be a benefit for our customers.
5 You know, I think the others -- and maybe the
6 simplest way to put it is, you know, Ms. Quilici
7 said it well, but when you're putting ring-fencing
8 in and you're putting conditions in that for the
9 most part operate in perpetuity unless altered by
10 the Commission, you really need to assess the facts
11 and circumstances of what you're trying to fix and
12 put the things in place that do that, but not just
13 pick the flavor of the month because one utility in
14 another jurisdiction that might have been -- might
15 have had an acquirer that was six notches under
16 investment grade put it in place.

17 JUDGE BURTON: In the stipulation and
18 agreement there's the reference, I believe it's B-2
19 and I think you mentioned this here today, but also
20 in your surrebuttal testimony on page 21 that first
21 GPE, KCP&L and GMO clearly stated that they will not
22 seek rate recovery of the acquisition premium and
23 will honor that commitment?

24 THE WITNESS: Yes.

25 JUDGE BURTON: There is an exception to

1 that, though, correct?

2 THE WITNESS: There is a very limited
3 exception to that, yes.

4 JUDGE BURTON: And what is that limited
5 exception?

6 THE WITNESS: It is -- and I think the
7 words are pretty specifically that if any party to
8 any KCPL or GMO general rate case proposes to impute
9 the cost or proportion of the debt GPE is using to
10 finance the transaction to either KCPL or GMO for
11 purposes of determining a fair and reasonable return
12 for either utility, then we would reserve the right
13 to seek in that rate case recovery and recognition
14 of rates of the premium. So, how this came about,
15 just to give a little context, we really didn't
16 expect this to be an issue and, you know, when we
17 get capital structure set in front of a
18 jurisdiction, I don't like to talk about it the way
19 the words have to come out on the paper in terms of
20 consolidating capital structure or operating utility
21 capital structure. What we're always asking for is
22 that you rate make us on the operating -- or on the
23 capital structure that is deployed to invest in the
24 assets that the utility is putting into place. And
25 for instance, we have had the consolidated capital

1 structure in place for a number of years used for
2 rate making purposes. It is virtually identical to
3 the operating company capital structure. There's no
4 meaningful difference in the ratio of debt to
5 equity. So, it fits squarely within the band of
6 reasonableness for a capital structure that you
7 would look at if you were doing a Hope Bluefield
8 type review and you looked out across the peer
9 companies for similarly-situated utilities. It
10 would be right in the wheelhouse. So, that's what
11 we've always assumed the Commission would do is they
12 would continue to apply those same Hope Bluefield
13 standards and they would make sure that the capital
14 structure that they rate make us on is consistent
15 with the capital structure that's deployed to invest
16 in the utility operations and that they would do
17 that by looking at how we're -- how we're funding
18 those investments and look at how that fits with the
19 industry across the country. And that consolidated
20 capital structure post-close will not meet those
21 criteria. It will not show that it's the capital
22 structure that was used to invest in assets because
23 it also supports \$4.7 billion of goodwill that is
24 outside of the utilities. So, it won't support
25 that, and it won't fit within the standard of

1 looking at similarly-situated utilities.

2 So, all we've asked for is to rate make
3 us consistently with how the commissions in both
4 states have rate made us, and specific to this
5 condition we've said and if a party is urged to do
6 otherwise, we need to be able to make the argument
7 in front of the Commission that part of that capital
8 structure is funding that acquisition premium and
9 that transaction cost and if you're taking the
10 advantages of the capital structure, you should take
11 the costs that it's supporting, which is the
12 acquisition premium and the transaction cost.

13 JUDGE BURTON: Wouldn't that be
14 accomplished if the stipulation agreement said that
15 if the Commission determines to use the consolidated
16 capital structure, the Commission shall also
17 consider acquisition premium? Because the way it's
18 worded now if any party at any time just makes a
19 suggestion, then that opens the door for
20 consideration of acquisition premium in perpetuity,
21 correct?

22 THE WITNESS: Well, yeah. I mean,
23 maybe, maybe in perpetuity the way it's written. I
24 mean, it's written to be around, around the
25 transaction and the effects of the transaction on

1 it, but you're right. I mean, what we're really
2 saying is there should be symmetry to the treatment.
3 If the Commission wants to rate make on a capital
4 structure that includes debt that funded an
5 acquisition premium, they also ought to evaluate the
6 acquisition premium for recovery because you're
7 asymmetrical and out of balance if you don't. And
8 the way that agreements were being offered by other
9 parties, it was going to -- they wanted us to write
10 a commitment that would say we will never ask for an
11 acquisition premium from this transaction. That was
12 too harsh of a commitment with all of the -- what
13 we're facing in the KCP&L Missouri case around
14 consolidated capital structure. It was a one-sided
15 commitment that left us exposed as an organization.

16 So, if you had one that said if the
17 Commission is -- a commitment that said the
18 Commission is considering use of a consolidated
19 capital structure, they will consider all of the
20 attendant costs that that capital structure
21 supports, which includes acquisition premium and
22 transaction costs, that would be what we're striving
23 for here.

24 JUDGE BURTON: Okay. And this is --
25 this is something I'm sort of going back to is a

1 concern. Have you reviewed the Ag Processing
2 decision by the Missouri Supreme Court in 2003?

3 THE WITNESS: I have reviewed it, yes.

4 JUDGE BURTON: Does that place a
5 restriction on this Commission -- or if the
6 Commission determines it places a restriction on
7 them allowing a consideration of acquisition
8 premiums in future rate cases --

9 THE WITNESS: So --

10 JUDGE BURTON: -- would this address
11 this? Because otherwise my concern is that if it's
12 agreed to as the language is in the stip and
13 agreement, odds are someone at some point will
14 challenge the request.

15 THE WITNESS: I would hope not, but I
16 assume not.

17 JUDGE BURTON: Realistically.

18 THE WITNESS: I assume the odds
19 realistically are more sided to your view.

20 So, our belief -- and Mr. Hack talked
21 about it I think in his opening or it was in
22 response to questions. Our belief is that the
23 Commission in here -- or the condition that we have
24 that says rates will not go up as a result of this
25 transaction helps address the Ag Processing, because

1 even if the Commission made a decision in the future
2 to do a consolidated capital structure and then the
3 Commission agreed with us that they would also
4 consider recovery of the acquisition premium to the
5 extent that they looked at consolidated capital
6 structure, we believe we would be bound by not
7 having the capital struc -- or the cost of capital
8 or rates go up so that there would have to be a
9 measurement of the impact of the consolidated
10 capital structure in alignment of the amortization
11 of that acquisition premium so that it didn't result
12 in an increase to rates. So, we think you could
13 address it later. You still already have a
14 commitment that kind of buttresses the Ag Processing
15 concern.

16 JUDGE BURTON: All right. Thank you.

17 A few more questions. Can you describe
18 what transition costs are?

19 THE WITNESS: Yes. So, generally
20 transition costs are the type of work that we need
21 to do to unlock efficiencies. For example, there
22 may be an efficiency from putting two IT systems
23 together and operating on one platform going forward
24 instead of the two stand-alone company platforms.
25 So, there's probably a cost of modifying one of

1 those systems -- oh, sorry -- to get it to work for
2 the other company.

3 JUDGE BURTON: So, is it fair to say
4 that transition costs in relations to this
5 transaction proposed in the merger -- or proposed
6 merger is the cost to merge Westar into KCPL, GMO,
7 GPE's systems?

8 THE WITNESS: In all cases it won't be
9 our systems. Sometimes we'll move to a system that
10 may be on Westar's books, but it's a better system
11 than what KCPL and GMO have today.

12 JUDGE BURTON: Okay.

13 THE WITNESS: So, it could go either
14 way.

15 JUDGE BURTON: That's what I want to get
16 to. How does it benefit Missouri customers or the
17 public for the recoupment of transition costs?

18 THE WITNESS: So, so, if there's an
19 overall savings to being on one system versus two,
20 because you have one set of system costs that now
21 can be spread across 1 1/2 million customers instead
22 of 800,000 customers that we have today, so your
23 cost per customer of that system goes down, then
24 that's an efficiency to our customers today and as
25 long as the money you spend to be able to do that

1 leaves you in a net efficiency position, we should
2 get to recover those transition costs, as long as
3 there's a net benefit to customers. Does that make
4 sense?

5 Let me pick a different one because it
6 might be easier to understand. If there are head
7 count reductions because we don't need two full
8 operating accounting departments, we can -- we can
9 do the combined operation with one-and-a-half of
10 those sets of departments. Right? So, we've got a
11 head count reduction. If we can't do that head
12 count reduction through attrition or open positions
13 or voluntary retirements, we may have an involuntary
14 severance for some individuals. Maybe it's two
15 weeks of salary for every year of service. Well,
16 that's a cost. That's a transition cost that we
17 would incur that will create a savings of labor
18 \$100,000 a year, let's say. So, should you give the
19 customers the benefit of having a reduction of
20 \$100,000 and make the shareholders eat the cost to
21 unlock that benefit of \$20,000 or should the cost be
22 looked at on a net basis and should customers pay
23 for that transition cost because they're still
24 getting a benefit by customers being served with
25 less labor? We would argue that it's the net cost

1 that as long as it's still driving a benefit to the
2 customers, it's right for both pieces to go to the
3 customer side of the equation.

4 JUDGE BURTON: Even if the benefits
5 result from changes that are on Westar's side?

6 THE WITNESS: Yeah, because at the end
7 of the day we're going to have -- let's just say all
8 of those accountants end up being KCP&L employees at
9 the end of the day. They're still going to bill
10 over to Westar. So, Westar's going to pay part of
11 that cost. That's what creates the benefit to KCP&L
12 and GMO because now those employees, less overall
13 head count, you have less costs that are serving
14 KCP&L and GMO, and the inverse is true. I mean, put
15 them all on the Westar side if you want, all of the
16 accountants are Westar employees. Still going to
17 bill over to KCP&L and GMO. So, you have to make
18 sure that there's less overall accounting costs
19 billed to KCP&L and GMO than we had when we were
20 stand-alone. As long as we can do that and
21 demonstrate that we can still do that after
22 incurring the transition cost, it's beneficial to
23 customers and should be recognized through rates.

24 JUDGE BURTON: Thank you. I have no
25 further questions.

1 Any recross?

2 MR. THOMPSON: No questions. Thank you,
3 Judge.

4 MR. OPITZ: No, thank you, Judge.

5 MR. JARRETT: Yes. Sorry. I just have
6 a couple of questions based on the bench questions.

7 RECROSS-EXAMINATION

8 BY MR. JARRETT

9 Q. Mr. Ives, do you remember your
10 conversation with Chairman Hall when you talked
11 about the two MJMEUC conditions, the first one being
12 the transmission pricing zones? And I believe you
13 indicated that any attempt to merge those zones
14 would be revenue neutral to the company. Is that
15 accurate?

16 A. Yes. To the operating utilities under
17 GPE.

18 Q. Right. But that doesn't necessarily
19 mean that it would be neutral to Missouri
20 transmission customers, does it?

21 A. Not necessarily. That wasn't the
22 question.

23 Q. Well, I'm asking you to expand on that
24 then. So, it's possible that a combination of those
25 zones could increase costs for Missouri transmission

1 **customers?**

2 A. Assuming that there aren't other
3 benefits that are the reason you're pursuing the
4 combination.

5 Q. Right. And that sort of segues into the
6 conversation you had with Judge Burton about the
7 fact that you would be hamstrung, for want of a
8 better word, that if SPP had identified benefits in
9 combining the zones that you couldn't do it; is that
10 correct?

11 A. That's correct.

12 Q. But isn't MJMEUC condition is that the
13 company won't initiate or support. And if SPP
14 decided to do it, they could do it on their own?

15 A. They could certainly bring it up. I'm
16 not sure -- if we're not supportive of it and it's a
17 combination of our zones, that might not be very
18 helpful.

19 Q. Well, the condition doesn't say you have
20 to oppose it. It just says you can't initiate or
21 support it?

22 A. Can't support it. That's what it said.
23 So, if they're our zones and we don't support it,
24 that doesn't sound like a very good proposition,
25 particularly if it's unlocking benefits that could

1 be benefits to our customers.

2 Q. And the second one was about the Iatan
3 II, when you discussed Iatan II condition with
4 Chairman Hall, and you had indicated, I think, that
5 because such a -- putting costs in from as a result
6 of the merger into the Iatan II operating costs
7 would never pass a prudence test, that this could
8 really never happen. Is that accurate?

9 A. Yeah, I'm not certain I can figure a
10 position where it would happen.

11 Q. Okay. What would be the harm, then, to
12 the company if the Commission imposed that condition
13 if it could never happen?

14 A. I'm not sure what the value of the
15 condition is. I mean, at the end of the day all of
16 the owners to Iatan operate under an Iatan joint
17 operating agreement. It's a contract. To the
18 extent that any party disagrees with the billings to
19 come under that contract, there's certainly avenues
20 that the parties can take to dispute those charges
21 and ultimately pursue action under what's allowed
22 under that contract. Why this Commission needs to
23 get in and get in the middle of an individual
24 contract of the utilities, and nobody's asking them
25 to get into the joint operating agreement for Wolf

1 Creek or the joint operating agreement for La Cygne,
2 it is an individual party interest that I believe is
3 beyond the scope of this proceeding.

4 Q. Well, how about good customer relations?
5 The wholesale customers, transmission customers in
6 Missouri, you know, wouldn't it send a message, if
7 you added this superfluous condition, at least send
8 a message to those customers that you were listening
9 to them and that you care about their concerns and
10 you're attempting to do something to take care of
11 those concerns?

12 A. For this particular condition, that
13 might do that for the individual intervenor of
14 MJMEUC. I don't know that it makes any difference
15 to all the other wholesale customers that aren't an
16 owner of Iatan II.

17 Q. Well, you do understand that MJMEUC is
18 funded by member cities and, so, it's not just
19 MJMEUC that would be affected? It would be the
20 member cities as well?

21 A. None of the other member cities that
22 surround us that are a part of our territory that
23 are a part of MJMEUC would see any benefit of it.

24 Q. What do you mean see any?

25 A. See any benefit out of that agreement.

1 I just -- I think it's beyond the scope of what this
2 Commission should be considering for approval of the
3 transaction. I think the conditions that are
4 available at the FERC level are more than adequate
5 to address the wholesale issues that are out there.
6 I think the contract that's in place specifically
7 for the joint operation of Iatan II is the vehicle
8 to address any concerns by parties on costs that are
9 being incurred in that plant. And as I talked with
10 the Chairman about, ultimately any increase of cost
11 in that plant will be subject to and under
12 consideration of this Commission and parties for
13 prudence to the extent they disagree with costs that
14 are added to a specific plant in our service
15 territory.

16 MR. JARRETT: Thank you. I have nothing
17 further, Judge.

18 MS. ROBY: Yes, I have a few follow-up
19 questions.

20 RECROSS-EXAMINATION

21 BY MS. ROBY

22 Q. First, following up on Chairman Hall's
23 line of questioning on MJMEUC's proposed condition
24 on the joint pricing or the combined pricing zones.
25 You clarified with MJMEUC's counsel that from when

1 **you stated that combining them would result in a**
2 **revenue-neutral position for the company, that was**
3 **for the GPE company; that's correct?**

4 A. That's right. I think I also clarified
5 that with the Chairman.

6 Q. Thank you.

7 **The transmission costs or transmission**
8 **rates are cost-based rates, correct?**

9 A. Yes, they are.

10 Q. **And Westar's transmission rates are**
11 **higher than KCP&L rates; is that correct?**

12 A. Virtually every transmission operator in
13 SPP has different rates based on their individual
14 costs. So, yes, Westar's at this point in time are
15 higher today than KCP&L's.

16 Q. **And Westar's rates are higher than GMO's**
17 **transmission rates?**

18 A. They are. They might not be higher than
19 Independence rates.

20 Q. **And when you speak from a company, GPE,**
21 **revenue-neutral basis and you say you don't want to**
22 **foreclose a scenario where there may be**
23 **opportunities, if the company is revenue neutral**
24 **what benefit is there to Missouri companies in**
25 **combining those zones?**

1 A. If the overall cost goes down to the
2 region or our customers as a result of the
3 combination, we may be revenue neutral, but it still
4 may be the right thing to do for our customers.

5 **Q. Which customers?**

6 A. Since it's revenue neutral, it could be
7 all of them.

8 **Q. KCP&L customers, do you believe they**
9 **would support a combining of the Westar transmission**
10 **zonal rate and the KCP&L zonal rate?**

11 A. It depends upon what the components are
12 of this future hypothetical cost-benefit study that
13 says it's the right thing to do to combine zones.

14 **Q. Let's say --**

15 A. If there are overall benefits sufficient
16 to support them being on board with that, then the
17 answer would be yes.

18 **Q. Let's say all things being equal and**
19 **things are as they are today, is there any**
20 **benefit to -- do you believe that KCP&L ratepayers**
21 **would support a combination of Westar and**
22 **transmission pricing zones?**

23 A. If you're saying status quo and nothing
24 changes, then it's revenue neutral to us, there's no
25 reason for us to pursue a combination and KCP&L

1 customers would probably not be excited about one,
2 if that were the only -- if that were the only set
3 of circumstances.

4 **Q. And Southwest Power Pool is a regional**
5 **transmission organization, correct?**

6 A. Yes, they are.

7 **Q. With a license plate zonal rate**
8 **structure?**

9 A. Yes, they are.

10 **Q. And that license plate zonal rate**
11 **structure has been approved by the FERC?**

12 A. Yes, it has.

13 **Q. And that license plate zonal rate**
14 **structure was approved by FERC for a variety of**
15 **reasons, including the concern about cost shifts**
16 **from one zone being included into another zone?**

17 A. I think generally that's why the license
18 plate structure was there. As we discussed earlier
19 today, it has not held true in all cases.

20 **Q. And the Commission thus far, FERC --**
21 **excuse me. Are you aware that the Commission has**
22 **thus far rejected challenges to the license plate,**
23 **the zonal license plate structure in other regional**
24 **transmission organizations?**

25 A. Many of the other regional transmission

1 organizations don't operate on a license plate.
2 MISO certainly doesn't. So, I think there is a
3 mismatch at the federal level with these
4 organizations whether license plate is the
5 appropriate one or not.

6 **Q. Do you want to check your answer that**
7 **MISO does not follow license plate zonal structure?**

8 MR. FISCHER: Your Honor, I think I'm
9 going to object to this line of questioning. It's
10 clearly outside of the jurisdiction of the
11 Commission, what MISO or what the FERC is doing in
12 this area, and this witness is not here to testify
13 about FERC policies or about what SPP or MISO are
14 doing on their various license plate tariffs or
15 whatever they're called.

16 MS. ROBY: If I may, I'm following up on
17 the answer that if there may be benefits to
18 combining those zones and the company does not want
19 to foreclose those opportunities. I'm virtually
20 finished with this line of questioning. I do have
21 one more clarification.

22 JUDGE BURTON: I will allow one more
23 question on this, but let's stay close to the issue.

24 MS. ROBY: Sure.

25 **Q. (By Ms. Roby) Do you understand MJMEUC's**

1 proposed condition to be that if the company is
2 revenue neutral, that the zones -- well, let me
3 rephrase that.

4 Do you understand MJMEUC's condition
5 that there not be a combination of zones to be
6 premised on the GPE company being revenue neutral?

7 A. I don't think that was one of their
8 conditions. That was a discussion I had with the
9 Chairman.

10 Q. And just one follow-up from Commissioner
11 Stoll's line of questioning and this is a
12 clarification. There's a difference between a joint
13 pricing zone and combining existing pricing zones,
14 is there not, under the RTO structure?

15 A. There is. Although, they can both end
16 up with cost shifts.

17 MS. ROBY: Thank you. No further
18 questions.

19 JUDGE BURTON: Redirect?

20 MR. FISCHER: Judge, I'm happy to do
21 redirect. However, my witness has been up there for
22 two hours and 40 hours -- or 20 minutes. I wonder
23 if anybody needs a break? I can go right into it,
24 if you prefer.

25 THE WITNESS: I'm okay, Jim.

1 MR. FISCHER: Okay.

2 JUDGE BURTON: I would prefer we just
3 finish with this witness and then we'll take a
4 break.

5 MR. FISCHER: All righty. Sounds good.

6 REDIRECT EXAMINATION

7 BY MR. FISCHER

8 Q. Well, let's stay with that last topic.

9 Mr. Ives, are the -- how are the rates
10 for these various zones that we've been talking
11 about determined? Is it based upon the investment
12 and the transmission network?

13 A. There are cost-based rates, yes.

14 Q. Is the transmission construction market
15 a dynamic market today that's changing over time?

16 A. It has been for sometime, yes.

17 Q. Could you describe the relative
18 activity, if you want to call it that, in that
19 market between Kansas and Missouri zones in recent
20 years?

21 A. Yes. So, so, as the transmission
22 build-out has been occurring in SPP, some markets
23 have been more heavily invested in than others.
24 Kansas is one that has had some activity and in no
25 small part because of the wind generation resources

1 that are being added in Kansas, but are being moved
2 across Kansas to other areas. For example, we
3 participate in Kansas wind, but our load is in the
4 metro or east of there. So, there are also markets
5 in, you know, southern part of SPP and in the
6 northern part that have had more investments in than
7 others because of oil and gas operations and things
8 that have gone on. So, I think the point is those
9 markets are dynamic and the transmission needs
10 change over time, and one of our hesitancies with
11 this ten-year commitment has been that the market's
12 dynamic. Ten years is a long time to just preclude
13 ourselves from saying we won't combine transmission
14 zones. We don't know if there won't become a time
15 when it is beneficial for customers to combine those
16 transmission zones, and because of some private
17 interests have come into this proceeding and not --
18 and are not willing to continue to work through the
19 SPP and the FERC processes that are established for
20 just such a decision, we're just not willing to
21 commit to that.

22 **Q. Mr. Ives, is it hypothetically possible**
23 **that sometime during the next ten years Missouri**
24 **rates could be at least as high, if not higher than**
25 **the zones that are in Kansas?**

1 A. I think -- I think anybody's guess in
2 this room is as good as anybody else's on where
3 transmission is going to be required and what can
4 happen to transmission zonal rates over a ten-year
5 period.

6 Q. If that happened, hypothetically is it
7 possible Missouri wholesale customers could actually
8 benefit by the combination of those zones?

9 A. It is certainly possible.

10 Q. You were asked some questions, I think,
11 by Commissioner Stoll regarding when Independence
12 was placed in the SPP pricing zone or when they
13 joined and the effect that that had. I'd like for
14 you to elaborate upon that. I believe Commissioner
15 Stoll may have said it didn't really ever come in
16 front of the Commission, this Missouri Commission.
17 Was there an issue related to the Independence power
18 plant -- or power utility coming into the pricing
19 the SPP area and it's effect on both Missouri
20 customers or shareholders?

21 A. So, it has certainly come in front of
22 this Commission kind of after the fact. It didn't
23 come in front of this Commission for a decision as
24 to whether or not it was appropriate for
25 Independence to be placed in KCPL's pricing zone

1 because that was an SPP tariff decision that
2 ultimately went to FERC; but what came in front of
3 this Commission was the outcome of that action,
4 which resulted in higher transmission cost that are
5 reflected in Missouri's rates today, KCPL's Missouri
6 customer rates than would have been in there had
7 that action not taken place. So, after the fact the
8 Commission certainly was addressed with the need for
9 costs to be recovered, but they weren't part -- it
10 wasn't brought here for a decision on whether it was
11 appropriate or not because this wasn't the right
12 forum for that.

13 **Q. Was there a true-up issue, though, in**
14 **KCPL's last rate case where the company asked that**
15 **that cost be reflected in rates?**

16 **A.** Yes. So, the first time it came up was
17 in true-up in the 2014 case. It was in front of
18 this Commission because it was a relatively new
19 issue at that point. It didn't end up getting
20 addressed at that point in time based on arguments
21 put forth by other parties, other positions. So,
22 the effect was borne by the company's shareholders
23 until such time as we could come back in front of
24 the Commission and include it in -- well, presumably
25 it will be addressed in the Commission's order in

1 this current KCPL proceeding.

2 Q. So, until the rates go into effect in
3 this next -- the currently pending rate case, KCPL
4 rate case, GPE's shareholders have been bearing the
5 burden of the inclusion of Independence into SPP?
6 Is that what you're saying?

7 A. That's what I'm saying.

8 Q. Were GPE shareholders held harmless by
9 the inclusion of Independence into the SPP?

10 A. There was -- there was no interest in a
11 hold harmless in that proceeding. We went to FERC
12 and held discussions with SPP and Independence and
13 ultimately could not get any sort of hold harmless
14 protection from our customers in that proceeding.

15 Q. Staying with the detriments associated
16 to the public interest of Mr. Gorman or Mr. Herz's
17 conditions. I think you were asked some questions
18 about the provision of having independent boards.
19 Do you recall that?

20 A. Yes, I remember that discussion.

21 Q. Are there administrative costs or
22 administrative headaches to having separate boards
23 that are separate and apart from the existing
24 structure today?

25 A. Well, there certainly are administrative

1 costs and, like I said, I'm -- because a utility
2 board would be serving a fiduciary responsibility to
3 GPE, I'm not sure how you could have conflicts
4 unless a party tried to impose specific actions for
5 that board, which I'm not an attorney, but I'm not
6 even sure that would be a legal position to take.
7 But yeah, there's a potential for conflict. There's
8 certainly a potential for incremental administrative
9 costs by having more boards and more board members.

10 **Q. One of the other conditions I believe**
11 **that Independence is suggesting is that the**
12 **Commission require the applicants to provide an**
13 **opportunity for municipal utilities to participate**
14 **in and fund portions of future transmission**
15 **improvements. Do you recall that?**

16 A. I recall that suggested condition.

17 **Q. From your perspective is that a good**
18 **idea?**

19 A. Well, the short answer is it could be.
20 It depends on the facts and circumstances of any
21 general investment that might be pursued. I mean,
22 there are a number of partnerships with municipals
23 or incumbent utilities that are undertaken by other
24 parties. What is, in my opinion, not a good
25 solution is putting a condition in place that says

1 you have to, because it doesn't always make sense
2 and it certainly shouldn't be a have to or a
3 supposed to.

4 **Q. Is that another topic that would be**
5 **appropriately taken up by an SPP or at the FERC?**

6 A. Yeah. Certainly, you know, transmission
7 is a -- is generally a FERC, a FERC issue and
8 something that would be more appropriately addressed
9 by that commission.

10 **Q. Judge Burton was asking you about the**
11 **exception where the company might ask for an**
12 **acquisition premium recovery. Do you recall that?**

13 A. I do.

14 **Q. Is that addressed in some detail on**
15 **pages 22 and 23 of your surrebuttal testimony?**

16 A. I'm sure it's in there. Let me just
17 double-check and make sure I agree with the page
18 reference.

19 Yes, it is.

20 **Q. Okay. In answer to Commissioner Rupp**
21 **you gave a little bit of a history lesson and you**
22 **mentioned that, I believe, a retired western --**
23 **Westar CEO testified in Kansas in favor of this**
24 **transaction. Do you recall that?**

25 A. Yes. It was at the public hearing held

1 in Kansas.

2 Q. Did that happen to be James Haines?

3 A. Yes, it was Mr. Haines.

4 Q. Do you happen to know that he was an
5 employee of this Commission back in the 70s?

6 A. Yes. I'm aware of his background and
7 that part of it was time spent here.

8 Q. Deputy general counsel here?

9 A. Yes.

10 Q. During that discussion, I believe you
11 indicated that at one point Kansas City Power &
12 Light attempted to acquire KG&E and kind of began
13 the story; is that right?

14 A. That's right.

15 Q. And did both of those companies at that
16 time own Wolf Creek together?

17 A. That's correct.

18 Q. And then if I understood what you said,
19 KPL, Kansas Power & Light, was the acquiring
20 company, kind of the white knight that ended up
21 acquiring KG&E; is that true?

22 A. They would refer to themselves as the
23 white knight in that transaction, yes.

24 Q. And that combined company then became
25 eventually Westar Energy, which is the company we're

1 **trying to merge with in this proceeding, correct?**

2 A. That's right. That's the last major
3 acquisition they had prior to this point in time.

4 **Q. And I believe you indicated that there**
5 **might have been a business motive for all of that.**
6 **Does size matter on whether you're being a targeted**
7 **company or not in the merger and acquisition**
8 **marketplace?**

9 A. Yes, absolutely. Mr. Bassham talked
10 about it a little bit. We don't subscribe to the
11 belief that bigger is always better, but there are
12 certainly -- there are certainly some benefits to
13 being bigger in today's utility environment, many of
14 them are listed in testimony, and it's the size and
15 scale to negotiate, you know, supply chain contracts
16 and get more favorable pricing and reduce the number
17 of vendors and reduce redundancy costs. Those are
18 certainly easier ones. The second one is, you know,
19 very clear in testimony that there's been a lot of
20 consolidation in the electric utility space over the
21 last number of years. I think the numbers are
22 somewhere from utilities going from around 100 to 50
23 or less now. And we and Westar have consistently
24 moved down the pecking order in size of utilities
25 across the country. And if you believe

1 consolidation is going to continue, which Westar
2 certainly did when they put themselves up for
3 auction, then there are really two choices in that
4 regard. You can put yourself up like Westar did to
5 be acquired and get your skill through letting
6 somebody else run your operations, or you can take
7 the approach that we have and you can acquire that
8 near-term, nextdoor neighbor utility where you can
9 unlock benefits to customers, but retain local
10 presence, local ownership for your utility.

11 **Q. Given the current marketplace, would you**
12 **consider Westar and Kansas City Power & Light to be**
13 **large utilities?**

14 A. No, not at all. Stand-alone we are on
15 the low end of size for investor-owned utilities
16 that remain. Combined we will move closer to the
17 median, but we will not be large even on a combined
18 basis.

19 **Q. Commissioner Kenney was asking you about**
20 **tax reform, I believe. And do GPE's shareholders**
21 **benefit by the level of taxes that the utilities**
22 **collect from their ratepayers in terms of the bottom**
23 **line?**

24 A. Not in terms of the bottom line, but
25 certainly there are -- you know, when we don't pay

1 cash taxes, there are cash benefits.

2 Q. Well, aren't you largely a tax
3 collector, though, rather than -- that's not how you
4 make your money, correct?

5 A. Well, it's certainly not -- it's
6 certainly not our business model. It is an output
7 of our operations to pay taxes or be subject to
8 taxes.

9 Q. I believe you mentioned to him that in
10 1986 with that tax reform act that all the public
11 utilities were basically called into the Commission
12 to adjust their rates related to those taxes?

13 A. There was a lot of rate case activity in
14 that time. It was before my time, but I'm aware of
15 it.

16 Q. Okay. I believe it was Chairman Hall
17 that asked you about Condition No. 1, the financing
18 condition, and that led to a discussion about the
19 linkage in ratings.

20 A. Yes, I remember.

21 Q. Is the linkage of ratings by the rating
22 agencies affected by the amount of unregulated
23 activity that holding company participates in?
24 Well, let me phrase it differently.

25 Does GPE own only public utilities

1 **today?**

2 A. Primarily. I mean, we certainly have
3 some insignificant nonregulated operations, but
4 pretty much 100 percent of our earnings come from
5 regulated utility operations, and it's pretty clear
6 in our strategy that our focus is to be -- at the
7 GPE level is to be a holding company for regulated
8 utilities.

9 **Q. Are you aware of holding companies that**
10 **are de-linked on a ratings basis from their**
11 **operating subsidiaries or not?**

12 A. I am not. I suspect that it's possible
13 when you get into a situation where you have a lot
14 of unregulated holdings. You know, MidAmerican
15 might be a good example of something like that.

16 **Q. You were asked a number of questions by**
17 **I think it was counsel from Independence regarding**
18 **items that were proposed in Kansas, but had not been**
19 **brought over to Missouri. We can go through them**
20 **each individually, but which ones did you not**
21 **propose to propose here in Missouri? Generically**
22 **can you discuss which ones you would have not have**
23 **chosen to take over from Kansas?**

24 A. Well, I think I mentioned this to the
25 Chairman. Generally, we did not look to bring over

1 conditions or commitments that we believed were
2 specific to Kansas either because the facts and
3 circumstances and impacts to Kansas were different
4 than Missouri because they have the utility that's
5 getting acquired, we have Missouri utilities that
6 are continuing to operate as they operate today; or
7 they were adequately covered by statutes, rules or
8 obligations that we already have in Missouri. So,
9 it wasn't really necessary to repeat or redefine the
10 commitment in this transaction.

11 **Q. You were asked, I think, specifically**
12 **about the rate case commitment in Kansas. Were you**
13 **in the room this morning when Mr. Bassham testified**
14 **about the CIS system investment?**

15 A. I was.

16 **Q. Is it possible that that would drive**
17 **rate cases in Missouri?**

18 A. It is. I think I talked about that with
19 counsel from Independence a little bit that, you
20 know, while we -- while we have kind of a back-end
21 commitment to be in every four years to retain our
22 fuel adjustment clause, it doesn't change the fact
23 that we're going to continue to have investments
24 like CIS or other infrastructure investments at our
25 Missouri operating utilities that may result in us

1 coming in for a case prior to that four-year period.

2 Q. Way back in the beginning of your
3 testimony you talked about the affiliated
4 transaction limited waiver.

5 A. I vaguely remember.

6 Q. Okay. Just to wrap it up, would you
7 explain and elaborate on why the Commission should
8 grant that limited waiver in this case?

9 A. Yes. You know, I'm glad you answered
10 that. There was a question, I think it was maybe
11 from Judge Burton earlier today, but that waiver --
12 you know, the Commission has already looked at this
13 once and it looked at it when -- maybe more than
14 once, but once that I'm specifically aware of and it
15 was in the acquisition of Aquila. And it is to
16 provide goods and services between the regulated
17 operations of GMO and KCP&L at cost and then it goes
18 on to say that, you know, costs that are subject to
19 FERC tariffs will be priced at the FERC tariff rate.
20 The words are more elegant than that, but that's the
21 gist of it.

22 And we're saying let's take that same,
23 same view and now apply it to the regulated
24 operations of KCPL, GMO and Westar and the reason to
25 do that, one, is because the rules were written and

1 put in place to not advantage nonregulated
2 affiliates with regulated costs and services.
3 That's not what we're talking about. We're talking
4 about regulated utility to regulated utility.
5 Providing those services at cost allows us to unlock
6 some of the efficiencies that we can generate from
7 this transaction. The prime example is people. We
8 talked about the accountants. I talked about the
9 accountants with Judge Burton. And if we had to --
10 if we had to do asymmetrical pricing for labor costs
11 for accountants, that means providing services to
12 Westar we would have to get paid the higher cost of
13 market, and taking services from Westar we would
14 have to pay the lower of cost of market. So, there
15 would be an imbalance between the regulated
16 operations for the provision of services and that's
17 what we don't think the rule is intended to do and
18 we think the variance takes care of that and helps
19 us unlock efficiencies for customers.

20 **Q. And was that addressed by this**
21 **Commission in the Aquila transaction?**

22 A. It was. The request that we've made
23 here is substantially word for word with the
24 variance that was approved by the Commission in that
25 proceeding for the same reasons that we articulated

1 our request here.

2 Q. Does this Commission also have pending
3 before it the request for the approval of a cost
4 allocation manual for your company?

5 A. It does, which -- and I think my
6 testimony is clear on this -- we'll have to update
7 that for changes in cost allocation process once a
8 transaction closes, but those processes are defined
9 in the agreements and defined under the rules.

10 MR. FISCHER: Judge, I think I'm done.
11 I apologize for the length.

12 JUDGE BURTON: No. Very good.

13 Why don't we take a ten-minute recess
14 and I will convene with the Commissioners to see
15 what their schedule is like for this evening and
16 we'll discuss how we want to proceed for the rest of
17 the night. Just go off record.

18 (A short break was taken.)

19 JUDGE BURTON: The plan is to at least
20 hear from Mr. Kemp and we'll see how far his
21 testimony takes us. It's currently 5:17 and we're
22 looking at 6:00 to 6:30 probably for a closing time,
23 and I'm assuming we should be able to get Kemp in
24 that amount of time.

25 MR. HACK: I think that's possible. So,

1 we appreciate the indulgence, and we call Mr. Kemp.

2 JUDGE BURTON: Would you, please, raise
3 your right hand. Do you swear or affirm that the
4 testimony you're about to give will be the truth,
5 the whole truth and nothing but the truth?

6 THE WITNESS: I do.

7 JUDGE BURTON: Thank you.

8 WILLIAM KEMP,
9 having been called as a witness herein, having been
10 first duly sworn, was examined and testified as
11 follows:

12 DIRECT EXAMINATION

13 BY MR. STEINER

14 Q. Please state your name and address for
15 the record.

16 A. William J. Kemp. My business address is
17 12 South Michigan Avenue, Chicago, Illinois.

18 Q. Are you the same William Kemp that
19 caused to be filed direct testimony which has been
20 premarked as Exhibit 9 and surrebuttal testimony
21 which has been premarked as Exhibit 10 in this case?

22 A. Yes, I am.

23 Q. Do you have any corrections to that
24 testimony?

25 A. Yes. I have two minor corrections that

1 are necessary to bring my surrebuttal testimony
2 completely in line with the numbers that were cited
3 in the Aquila and KCPL transaction. So, if you turn
4 to page 12 of my surrebuttal testimony, number 312
5 that appears on line 17 should be 305. And if you
6 turn to the next page, page 13, similarly on page 10
7 312 should be 305. By the way, that 305 is the
8 number that appears on schedule WJK-6, which is an
9 exhibit from Robert Zabors testimony in the KCPL
10 Aquila merger case. And then the final change would
11 be to correct a misplaced footnote on page 14,
12 footnote 7. The footnote itself is correct, but it
13 should be placed after the word "amount" on line 12,
14 page 13 because it refers to, if you'll look back at
15 schedule WJK-7, refers to the last merger savings
16 tracking filing that KCPL made about five years
17 after the conclusion of the KCPL Aquila merger.

18 And Mr. Bryant's not here anymore, but I
19 can stroke his ego a little bit. I think in
20 response to one of the questions this morning he was
21 asked what the total savings were from those tracker
22 filings and he said 762 million. If you look on the
23 last line of WJK-7, it's 760.6. So, he was very
24 close.

25 Q. Okay. Mr. Kemp, with those corrections,

1 if I were to ask you the questions contained in
2 Exhibits 9 and 10, would your answers be the same?

3 A. Yes.

4 Q. Are those answers true and correct to
5 the best of your knowledge and belief?

6 A. Yes.

7 MR. STEINER: At this time I move for
8 admissions of Exhibits 9 and 10, and tender the
9 witness for cross.

10 (KCP&L's Exhibit 9 and Exhibit 10 were
11 offered into evidence.)

12 JUDGE BURTON: Exhibits 9 and 10 have
13 been offered. Are there any objections?

14 Seeing none. Exhibits 9 and 10 are
15 received.

16 (KCP&L's Exhibit 9 and Exhibit 10 were
17 admitted into evidence.)

18 JUDGE BURTON: Staff?

19 MR. THOMPSON: No questions. Thank you,
20 Judge.

21 JUDGE BURTON: OPC?

22 MR. OPITZ: No, thank you, Judge.

23 JUDGE BURTON: MJMEUC?

24 MR. JARRETT: No questions, Judge.
25 Thanks.

1 JUDGE BURTON: City of Independence?

2 MS. ROBY: No questions. Thank you.

3 JUDGE BURTON: The bench?

4 CHAIRMAN HALL: Yes, I have a few.

5 Good afternoon.

6 THE WITNESS: Good afternoon.

7 CHAIRMAN HALL: In your direct testimony
8 you indicate that a 7 to 10 percent cost savings is
9 reasonable for mergers of this sort; is that
10 correct?

11 THE WITNESS: Yes. That reference was
12 to advice I typically would give to utility
13 management on the front end of a consideration of a
14 potential transaction and that number applies to the
15 range in nonfuel O&M savings that we could usually
16 expect between neighboring utilities.

17 CHAIRMAN HALL: And the 305 million that
18 was anticipated to be saved as a result of the
19 Aquila merger, what percentage savings was that?

20 THE WITNESS: That 305 million by the
21 time the final filing was made with the Commission
22 in November of 2007 became -- actually, that was
23 305. That was -- and it is -- I believe it was
24 10.1 percent. I'd have to go back. It was in
25 schedule WJK-3 of that Aquila filing.

1 CHAIRMAN HALL: And so, the actual
2 savings turned out to be 367 million, so that was in
3 excess of the 10 percent?

4 THE WITNESS: Correct.

5 CHAIRMAN HALL: Okay. So, looking at
6 the factors that affect levels of savings that you
7 set forth on page 33 of your direct testimony.

8 THE WITNESS: Yes.

9 CHAIRMAN HALL: I'm wondering if you can
10 compare the Aquila acquisition and the transaction
11 that's at issue in this case based upon these one,
12 two, three, four, five factors.

13 THE WITNESS: Correct. Okay. I'll take
14 them in order. The first one is relative size. I
15 think that is a factor that would have similar
16 impacts in both transactions. The Aquila/KCPL
17 transaction was approximately similarly-sized
18 entities at that point.

19 CHAIRMAN HALL: So, the more that the
20 companies are similarly sized, the more the savings?

21 THE WITNESS: Correct.

22 CHAIRMAN HALL: Okay.

23 THE WITNESS: If it's a very large
24 utility observing a very small one, it won't really
25 matter that much to the larger entity

1 percentage-wise.

2 CHAIRMAN HALL: That makes sense.

3 THE WITNESS: And Westar and KCPL -- or
4 GPE, KCPL and GMO are very similarly sized, too.

5 Relative operating performance. There I
6 would say there was relatively greater potential for
7 benefit in the Aquila transaction because Aquila was
8 lower performing in certain areas and had more room
9 for cost improvement. I would say GPE and Westar --
10 let me take that back. I mean, they are similar in
11 many of the operating areas. GPE is considerably
12 more advanced in its supply chain management
13 practices and that turned out to be one of the
14 biggest savings areas in the instant transaction
15 here.

16 CHAIRMAN HALL: But there those savings
17 will be on the Westar side, not on the KCP&L side,
18 or at least more so?

19 THE WITNESS: It would accrue to both
20 companies. The relative scale after the transaction
21 would allow superior negotiating leverage and better
22 ability to use strategic sourcing, which would
23 benefit both companies.

24 CHAIRMAN HALL: But help Westar more?

25 THE WITNESS: From the starting point

1 where they are now, I would say yes.

2 CHAIRMAN HALL: Okay. And then compare
3 that, and maybe you already did this, but with the
4 Aquila acquisition.

5 THE WITNESS: Aquila, I think, was
6 cash-starved in some respects because of the other
7 business activities of the parent company and,
8 again, probably Mr. Ives would be more familiar with
9 this than I am, but my sense is that GPE and Kansas
10 City -- is KCP&L basically in that case had stronger
11 operating performance than Aquila did and Aquila had
12 more to gain from that.

13 Okay. Going forward. Proximity.
14 Again, that's virtually the same here impact on
15 either one. They were both neighboring utilities.
16 So, I think that would have relatively equivalent
17 impact on the potential for savings.

18 Need for capacity. In a different
19 sense -- here there was not significant need for new
20 capacity back in the Aquila transaction to my
21 recollection, and it's really the flip side of it
22 here, that there is surplus capacity that could be
23 accelerated towards retirement in the GPE/Westar
24 transaction which have -- which turns out has a
25 significant potential for savings.

1 And then finally, corporate and
2 management culture. Westar has been a good
3 executing company. I think Mr. Bassham also made
4 that comment this morning. It's not like there's a
5 weak partner here as far as having a definite strong
6 management culture. There's a consistency of
7 culture in business objectives across the two
8 companies. So, there's less for Westar to gain or
9 vice versa from differences in culture, I think, in
10 this particular transaction.

11 CHAIRMAN HALL: So, you don't include
12 shared assets as a factor. Why is that?

13 THE WITNESS: Well, we do have some
14 minor benefits from the shared assets at Wolf Creek
15 and Iatan.

16 CHAIRMAN HALL: Right, but that's not
17 included as one of these factors.

18 THE WITNESS: That's normally because
19 the asset costs are the asset costs and they're
20 allocated to the owners. So, there's not
21 necessarily a lot of benefit from consolidating
22 ownership at a operating level.

23 CHAIRMAN HALL: Right. That makes
24 sense.

25 When were you hired? Were you hired for

1 purposes of this case or were you hired for purposes
2 of putting -- of evaluating the transaction at its
3 inception?

4 THE WITNESS: For this transaction I
5 walked through the timeline in my direct and I think
6 I had a regurgitation of that in my surrebuttal.

7 CHAIRMAN HALL: I apologize. I missed
8 that.

9 THE WITNESS: We were not involved in
10 this transaction formally until around April 20th of
11 2016. However, my firm, Innovation Partners, was
12 retained by GPE in early March, about six weeks
13 earlier, to give GPE management a high level
14 overview of what realized savings ranges had been in
15 other comparable utility transactions. We were not
16 advised at that point and were not aware of GPE's
17 existing contacts with Westar, which had started I
18 believe in February or prior to that. So, it was
19 really just giving GPE some context of industry
20 experience about what savings range they could
21 expect basically.

22 CHAIRMAN HALL: So, that would -- and
23 you said that was in March. So, that was -- that
24 was prior to announcement of the --

25 THE WITNESS: Correct.

1 CHAIRMAN HALL: -- of the transaction?

2 THE WITNESS: Correct.

3 CHAIRMAN HALL: And so, you would assume
4 that your input contributed to Great Plains Energy's
5 interests in the -- in the transaction?

6 THE WITNESS: I believe they were -- and
7 this was confirmed by Mr. Bassham and the other
8 members of the management team, Mr. Bryant, that our
9 input was some of the factual basis that they and
10 their deal team, including investment bankers,
11 considered in whether there was a range in stock
12 prices that they thought could win the deal and that
13 would still achieve net benefits for customers and
14 for shareholders.

15 CHAIRMAN HALL: At some point in your
16 direct you compare the cost per customer for GPE and
17 Westar?

18 THE WITNESS: That's in my surrebuttal,
19 I believe.

20 CHAIRMAN HALL: Page 26 then. Yeah.
21 How does that fact impact, if at all, the relative
22 cost savings for Westar versus GPE?

23 THE WITNESS: The relative potential
24 savings from the transaction?

25 CHAIRMAN HALL: Correct. Thank you.

1 THE WITNESS: To the extent, as I laid
2 out in the piece of the direct testimony that we
3 were just discussing, to the extent that there's a
4 large difference in the cost per customer in a
5 particular area, that may be a potential area of
6 savings where one company has better or more
7 efficient practices around that, not necessarily.
8 That's just, like I said, a potential indicator.
9 This metric was mainly used because Mr. Gorman had
10 used that metric in his benchmarking analyses to
11 allege that GPE and Westar were both high cost
12 performance.

13 CHAIRMAN HALL: Can you explain to me
14 what the -- what the -- what the transmission and
15 distribution savings will be in a -- at a high
16 level?

17 THE WITNESS: Mr. Noblet would be in a
18 better position to answer that later on, but broadly
19 speaking, our initial guidance and continuing
20 guidance, as I understand from Mr. Busser, was to be
21 very conservative around T&D and customer service
22 because those were areas of operations that directly
23 affected customer satisfaction and reliability. So,
24 the relative level of savings as a percentage of
25 total cost was much smaller in those areas than some

1 of the other major savings areas, and most of the
2 savings in transmission distribution come from
3 consolidation of central services such as assured
4 engineering or supply chain that serve both
5 companies. At the time of the bid process savings
6 estimates, we were not assuming any reduction in
7 field crews and things like that.

8 CHAIRMAN HALL: So, it doesn't reflect
9 any kind of savings in actual infrastructure costs?

10 THE WITNESS: Actual infrastructure
11 costs? Not so much in the direct O&M for the
12 infrastructure. For new construction, because we
13 will be hopefully procuring materials that go into
14 construction at a significantly-reduced cost, there
15 are some substantial savings in the capex costs for
16 new infrastructure.

17 CHAIRMAN HALL: Can you give me a little
18 flavor for the A&G cost savings?

19 THE WITNESS: A&G costs, that's WJK-4 in
20 my direct, but numerically it's about 6 percent, but
21 as far as where it comes from, those are shared
22 services. It's a consolidation of management
23 structures, consolidation of overlapping or
24 redundant shared services, finance accounting,
25 supply chain is part of that, if you want to

1 consider it a shared service. So, it's mostly --
2 almost all of the savings in A&G that were in the
3 bid process estimates were labor savings. We didn't
4 really look at nonlabor that much in the time that
5 we had available. It turns out I think, if you ask
6 Mr. Busser, that there are some potential savings in
7 the nonlabor area there, too, that are available.

8 CHAIRMAN HALL: And in the labor area
9 what is the -- what is the FTE count that you would
10 anticipate reduction?

11 THE WITNESS: Subject to check, I think
12 it was around 650 positions by year five -- no, by
13 2020.

14 CHAIRMAN HALL: And so, the savings
15 there you'd be done by 2010 then?

16 THE WITNESS: Yes.

17 CHAIRMAN HALL: Because you're -- okay.

18 THE WITNESS: Though, they're not
19 necessarily all -- as Mr. Bassham explained in his
20 testimony, GPE, of course, will try to use
21 attrition, voluntary retirements and so forth,
22 repositionings, relocations in order to minimize the
23 number of involuntary severance.

24 CHAIRMAN HALL: So, that's not part of
25 the additional \$200 million per year in savings?

1 THE WITNESS: That's part -- what is
2 not? I'm sorry.

3 CHAIRMAN HALL: Labor reduction. Your
4 labor reductions will be done by 2020.

5 THE WITNESS: Well, they'll be ongoing.
6 I mean, if those positions are not there in 2020,
7 they'll also not be there in 2021. So, it's an
8 ongoing savings compared to baseline.

9 CHAIRMAN HALL: On page 3 of your
10 surrebuttal you have a discussion about the
11 reduction in the O&M costs per customer before and
12 after the Aquila --

13 THE WITNESS: Yes.

14 CHAIRMAN HALL: -- transaction?

15 In both cases the O&M costs are still
16 above industry average; is that correct?

17 THE WITNESS: That is correct.

18 CHAIRMAN HALL: Do you have any sense as
19 to why the O&M costs are above industry average? Is
20 that outside the scope of your analysis?

21 THE WITNESS: We didn't really dig into
22 that. I mean, we were -- as I said other places in
23 my testimony, one of the motivations for the
24 transaction was to try to reduce cost for GPE's
25 customers.

1 CHAIRMAN HALL: I have no further
2 questions. Thank you.

3 COMMISSIONER STOLL: I have no
4 questions. Thank you.

5 COMMISSIONER KENNEY: I have no
6 questions. Thank you.

7 COMMISSIONER RUPP: None from me.

8 JUDGE BURTON: Any recross?

9 MR. THOMPSON: No, thank you, Judge.

10 MR. OPITZ: No, thank you.

11 MR. JARRETT: No.

12 JUDGE BURTON: Redirect?

13 MR. STEINER: Briefly, Your Honor.

14 REDIRECT EXAMINATION

15 BY MR. STEINER

16 Q. Mr. Kemp, the chairman was asking you
17 about when you first started your engagement with
18 the company and I think we've mentioned your initial
19 consultation was to evaluate some targets for bids?

20 A. Yes.

21 Q. Can you describe your work after you did
22 that?

23 A. We were retained then, as I said, about
24 April 20th to work with GPE as part of the -- not
25 the bid team, but the team that was preparing the

1 bid and the bid process, and once we were retained
2 we had access to the data room, we had access to GPE
3 executives and GPE employees to the extent they had
4 information that was necessary for the savings
5 estimation team to obtain, we also had the
6 opportunity to ask additional -- for additional data
7 from Westar through the data room, and then that
8 combined with the GPE executive's prior knowledge of
9 Westar from the long association in working together
10 was the basis of our information for the bid
11 process.

12 **Q. And so, what was the result of that work**
13 **you did? What did you come up with? What kind of**
14 **savings estimates did you come up with?**

15 **A.** We came up with, as I said in the
16 testimony, it was not a definitive estimate of
17 everything that was out there. We were asked a
18 question of is there at least this amount of savings
19 that is reasonably achievable so that we can be
20 comfortable that we can make a bid that we think
21 will win that can benefit customers when those
22 savings are flowed through, but it was GPE's
23 management who ultimately were responsible for the
24 final numbers and signed off on them. So, we were
25 consultants giving them ideas, providing structure,

1 challenging and so forth, but it was GPE's
2 executives that owned them and Mr. Busser will, I
3 think, be explaining about the process through which
4 they're going internally to fine-tune those
5 commitments.

6 **Q. Okay. And you also discussed with**
7 **Chairman Hall the Aquila transaction. Do you recall**
8 **that?**

9 A. I do.

10 **Q. And you were the witness regarding the**
11 **savings estimation process in that case; is that**
12 **correct?**

13 A. Yes.

14 **Q. And is your process -- was your process**
15 **close to the same in this particular case?**

16 A. Yes. In the Aquila process I was
17 brought in a bit after the fact to provide an
18 outside review, independent review of the savings
19 estimation process that was used and the
20 reasonableness of the savings estimates that were
21 developed by the team that had been working for a
22 number of months already on the Aquila transaction.
23 So, and by the way, I'm sure the commissioners have
24 read the Aquila decision by the Commission, but the
25 Commission at that point looked closely at the

1 process that was used and as it was described by me
2 my entire direct and surrebuttal testimony was
3 adopted by the Commission as finding of fact. So,
4 they liked the process, found it reliable, found
5 it -- gave them sufficient comfort that there was a
6 benefit and there wasn't any detriment, and that is
7 the same general process that we used in this
8 particular transaction. It was a more compressed
9 process time-wise, so we didn't have as much wealth
10 of information to deal with, but the same basic
11 logic and the same basic steps, the same basic way
12 of working with utility management to develop the
13 estimates and fine-tune them and then get ownership
14 over them was used.

15 MR. FISCHER: Thank you. I have nothing
16 further.

17 JUDGE BURTON: Thank you very much.
18 You're excused.

19 THE WITNESS: Thank you.

20 JUDGE BURTON: You may call your next
21 witness.

22 MR. STEINER: Call Mr. Steve Busser.

23 JUDGE BURTON: Would you, please, raise
24 your right hand. Do you swear or affirm that the
25 statements you're about to give will be the truth,

1 the whole truth and nothing but the truth?

2 THE WITNESS: I do, yes, ma'am.

3 JUDGE BURTON: Thank you.

4 STEVE BUSSEER,

5 having been called as a witness herein, having been

6 first duly sworn, was examined and testified as

7 follows:

8 DIRECT EXAMINATION

9 BY MR. STEINER

10 Q. Please state your name and address for
11 the record.

12 A. My name is Steven Busser. My address is
13 1200 Main Street, Kansas City, Missouri.

14 Q. Are you the same Steven Busser that
15 caused to be filed direct testimony which we had
16 premarked as Exhibit 11 and surrebuttal testimony
17 which we marked as Exhibit 12 in this consolidated
18 proceeding?

19 A. Yes, sir, I am.

20 Q. Do you have any corrections that need to
21 be made to those pieces of testimony?

22 A. I do not.

23 Q. If I were to ask you the questions
24 contained in that testimony, would your answers be
25 the same?

1 A. Yes, sir, they would.

2 **Q. Are your answers true and correct to the**
3 **best of your knowledge and belief?**

4 A. Yes, they are.

5 MR. STEINER: Your Honor, I'd move for
6 the admission of Exhibits 11 and 12, and tender the
7 witness for cross-examination.

8 (KCP&L's Exhibit 11 and Exhibit 12 were
9 offered into evidence.)

10 JUDGE BURTON: 11 and 12 have been
11 offered as exhibits. Are there any objections?

12 Seeing none. Exhibits 11 and 12 are
13 admitted.

14 (KCP&L's Exhibit 11 and Exhibit 12 were
15 admitted into evidence.)

16 JUDGE BURTON: Staff?

17 MR. THOMPSON: No questions, Judge.

18 JUDGE BURTON: Public Counsel?

19 MR. OPITZ: No, thank you, Judge.

20 JUDGE BURTON: MJMEUC?

21 MR. JARRETT: No questions. Thank you.

22 JUDGE BURTON: Independence?

23 MS. ROBY: No questions. Thank you.

24 JUDGE BURTON: Commission?

25 CHAIRMAN HALL: I have no questions.

1 Thank you.

2 COMMISSIONER STOLL: I have no
3 questions. Thank you.

4 COMMISSIONER KENNEY: I have no
5 questions.

6 COMMISSIONER RUPP: Me either.

7 JUDGE BURTON: Well, thank you very
8 much. You are excused.

9 THE WITNESS: Yes. That was a great
10 day.

11 JUDGE BURTON: Would you like to call
12 your next witness?

13 MR. STEINER: Melissa Hardesty, please.

14 JUDGE BURTON: Would you, please, raise
15 your right hand. Do you swear or affirm that the
16 statements you're about to give will be the truth,
17 the whole truth and nothing but the truth?

18 THE WITNESS: I do.

19 JUDGE BURTON: You may be seated.

20 MELISSA HARDESTY,
21 having been called as a witness herein, having been
22 first duly sworn, was examined and testified as
23 follows:

24

25

1 DIRECT EXAMINATION

2 BY MR. STEINER

3 Q. Please state your name and address for
4 the record.

5 A. Melissa K. Hardesty, 1200 Main Street,
6 Kansas City, Missouri.

7 Q. Are you the same Melissa Hardesty that
8 caused to be filed in this case surrebuttal
9 testimony, which we have marked as Exhibit 13-NP and
10 13-HC?

11 A. Yes.

12 Q. Do you have any corrections to this
13 testimony?

14 A. I do not.

15 Q. If I were to ask you the questions
16 contained in the testimony, would your answers be
17 the same?

18 A. Yes.

19 Q. Are those answers true and correct to
20 the best of your knowledge and belief?

21 A. Yes.

22 MR. STEINER: Your Honor, I move for the
23 admission of Exhibits 13-NP and 13-HC, and tender
24 the witness for cross.

25

1 (KCP&L's Exhibit 13-NP and Exhibit 13-HC
2 was offered into evidence.)

3 JUDGE BURTON: Exhibit 13 has been
4 offered. Are there any objections?

5 Seeing none. Exhibit 13 NP and HC is
6 admitted.

7 (KCP&L's Exhibit 13-NP and 13-HC was
8 admitted into evidence.)

9 JUDGE BURTON: Staff, do you have any
10 cross-examination?

11 MR. THOMPSON: No, thank you, Judge.

12 MR. OPITZ: No, thank you, Judge.

13 JUDGE BURTON: MJMEUC?

14 MR. JARRETT: No questions.

15 MS. ROBY: No questions.

16 JUDGE BURTON: Commissioner?

17 CHAIRMAN HALL: No questions.

18 COMMISSIONER KENNEY: Taxes. I have a
19 question. I think you heard my question to
20 Mr. Ives. I know it was an issue was raised once
21 Trump started talking about this utilities at
22 different conferences, and I would think it's the
23 rate -- looking at just the rate base or the --
24 based off the company's profits, 35 percent
25 corporate tax rate, correct? That gets passed

1 through to the -- to the parent company, in this
2 case GPE; is that correct?

3 THE WITNESS: Well, so, the 35 percent
4 tax rate is applied to all the subsidiaries and to
5 the extent there are taxes at the utility that go up
6 to the holding company so they can pay the
7 consolidated tax obligation, they do pass it up to
8 the holding company. In our case, we do have a
9 significant amount of net operating losses that we
10 are not actually paying those cash taxes to the IRS
11 because we have net operating losses that offset
12 those tax liabilities from certain --

13 COMMISSIONER KENNEY: Well, if you pay
14 off the net income, correct?

15 THE WITNESS: Well, so, for example, the
16 taxable income may be far less than what we're
17 collecting from ratepayers and cost of service.

18 COMMISSIONER KENNEY: Of course.

19 THE WITNESS: So, we do get to hold onto
20 that cash, which is why we then reduce rate base by
21 the deferred taxes from that acceleration of those
22 deductions for tax purposes.

23 In the instance of a reduction in rate,
24 currently there are provisions in the IRS code that
25 would keep those deferred taxes at the higher level

1 and those would be amortized back over a period of
2 time. Under the current rules it would be what they
3 call an average rate assumption method, which is
4 complex and I won't go into that.

5 COMMISSIONER KENNEY: Thank you.

6 THE WITNESS: It would -- it would
7 basically be returned back over the life of the
8 assets that we have in rate base. That benefit does
9 flow back to ratepayers, but it doesn't flow back
10 immediately. That would reduce cost to ratepayers.
11 A reduction in rate would also --

12 COMMISSIONER KENNEY: Your answer is
13 good, but that's not what I'm getting towards. I'm
14 just curious about how that's going to affect the
15 parent company.

16 THE WITNESS: So, there will --

17 COMMISSIONER KENNEY: Especially taking
18 on Westar. I'm curious as to a range possibility,
19 if it went from 35 to 20 percent.

20 THE WITNESS: So, there will be some
21 cash impacts. There will be some potential earning
22 impacts. Right now we don't actually have an
23 ability to look at. A reduction in rate has a
24 certain type of impact, but other provisions have
25 also been proposed, for example the elimination of

1 interest deductions. That sort of has an offsetting
2 cash impact, but then creates a larger earnings
3 impact. Things such as 100 percent expensing, the
4 cross border adjustment, those all have impacts. If
5 you look at one in isolation, it could have an
6 impact, but you kind of have to know what the total
7 package looks like to give you a range of what the
8 total impact will be. I do think there will be a
9 significant impact in cashes and potentially --

10 COMMISSIONER KENNEY: But it affects
11 every utility out there and every parent company?

12 THE WITNESS: That's correct.

13 COMMISSIONER KENNEY: It's going to
14 affect something. I was just --

15 THE WITNESS: And it likely will impact
16 the cost -- the interest deduction will impact the
17 cost of capital for all companies, not just
18 utilities.

19 COMMISSIONER KENNEY: Are you familiar
20 with what they didn't do in 1986?

21 THE WITNESS: In regard?

22 COMMISSIONER KENNEY: To offset some of
23 the -- because they made a major change in the way
24 they, which caused a bunch of investment shopping
25 centers across the nation to go under and then every

1 tax, every individual who invested in those had to
2 go back and pay back-taxes for that lost revenue or
3 that -- because it collapsed.

4 THE WITNESS: Right. I am aware there
5 were significant impacts on the savings and loan
6 industry that you're talking about and there were
7 significant impacts to the utility industry. I
8 don't think they were necessarily as dramatic as
9 what happened to the savings and loan industry.

10 COMMISSIONER KENNEY: Did they make
11 changes to deduction schedules for utilities at that
12 time; do you know?

13 THE WITNESS: They changed
14 the depreciation rate. They went up from the ACRS
15 method to the MACRS method. Around that same time
16 they got rid of the investment tax credit that was a
17 benefit to utility ratepayers. They did lower the
18 rates, but they had some offsetting impacts that
19 increased rates. So, it was kind of a total overall
20 impact and depending on the specific facts and
21 circumstances of each utility they were impacted
22 differently. The rate reduction wasn't quite -- I
23 mean, it was dramatic, but it wasn't quite as
24 dramatic as we're talking about here. The way they
25 made up the revenue was through these other

1 adjustments, depreciation rates, ITC. Right now I
2 don't have what that revenue offset's going to be.
3 So, I can't tell you what the net impact is going to
4 be to the company. I do believe it will be
5 significant impacts and we are monitoring it closely
6 and we've run various scenarios. There will be some
7 cash flow impacts, which might be the more
8 significant issue at the holding company than some
9 of the other issues that we have.

10 COMMISSIONER KENNEY: With the merger
11 does GPE, what, gain 40 percent in customers or
12 what's the -- do you know what the -- what's the
13 amount of the net or the gross value of the addition
14 of Westar? I mean, I'm trying -- what percentage
15 will Westar be of MGE once the merger?

16 THE WITNESS: Once the total merger of
17 the company, I believe they're slightly larger than
18 us customer-wise. So, they will be slightly larger.
19 The combined group they will be slightly over 50
20 percent. I don't know that exact percentage.

21 COMMISSIONER KENNEY: So, probably
22 revenue-wise also or close?

23 THE WITNESS: Close.

24 COMMISSIONER KENNEY: You guys would be
25 pretty close?

1 THE WITNESS: Yeah, yeah.

2 COMMISSIONER KENNEY: You won't double
3 in size?

4 THE WITNESS: Wester is slightly bigger
5 than us, but yes. So, approximately half, Westar
6 half Missouri. We believe customer-wise we'll be
7 approximately 60 percent Kansas, 40 percent Missouri
8 post-acquisition based on revenues.

9 COMMISSIONER KENNEY: Okay. All right.
10 Thank you. That's all I have.

11 COMMISSIONER RUPP: Thank you.

12 JUDGE BURTON: I have a quick question
13 to follow up on Commissioner Kenney's questions.
14 How would GPE be able to recover the transition --
15 or transaction costs if the amount of money it
16 recovers through the taxes from the utilities has
17 decreased?

18 THE WITNESS: So, the issue of the cash
19 taxes is a timing issue. So, we believe that if
20 there's an amount of cash taxes -- so, the cash
21 taxes is flowed through to customers, but it will
22 eventually even itself out. So, it's a timing
23 issue. It may delay the collection of cash by a
24 year or two or maybe even three years because we
25 will be paying taxes again in the relatively near

1 future. So, it's a timing issue and there may be
2 some financing of cash, but it's not a permanent
3 reduction in cash that the holding company will get
4 in order to pay dividends and other debt repayment
5 timing. So, we may have to refinance some debt if
6 that happens, but that's kind of the most
7 significant issue that we think might happen if the
8 cash taxes are less that go up to the holding
9 company for a period of time. It will only be for a
10 period, two- or three-year period of time and it's
11 not a permanent reduction in cash. It's just a
12 timing issue.

13 JUDGE BURTON: Okay. Any recross?

14 MR. THOMPSON: No, thank you, Judge.

15 MR. OPITZ: No, thank you.

16 MR. JARRETT: No, thank you.

17 MS. ROBY: No, thank you.

18 JUDGE BURTON: Redirect?

19 REDIRECT EXAMINATION

20 BY MR. STEINER

21 Q. You were asked some questions about
22 taxes. You don't know the proposal that's going to
23 be -- you don't know what the new tax situation is
24 going to be? You're just running scenarios right
25 now; is that right?

1 A. That's correct. There is a House
2 blueprint that was put out in 2016 that is the basis
3 of what people are talking about, as well as a few
4 campaign promises by Trump, but there is no bill out
5 there, there is no provision that might become law
6 any time soon that we -- but we are concerned and we
7 are running scenarios to ensure that ratepayers as
8 well as the company are protected.

9 MR. STEINER: That's all I have. Thank
10 you.

11 JUDGE BURTON: Thank you, Ms. Hardesty.
12 You're excused.

13 It's currently 5:54. I believe we can
14 fit in another witness.

15 MR. HACK: We would call Kevin Noblet to
16 the stand.

17 JUDGE BURTON: Raise your right hand.
18 Do you swear or affirm that the statements you're
19 about to give will be the truth, the whole truth and
20 nothing but the truth?

21 THE WITNESS: I do.

22 JUDGE BURTON: You may be seated.

23
24
25

1 KEVIN NOBLET,
2 having been called as a witness herein, having been
3 first duly sworn, was examined and testified as
4 follows:

5 DIRECT EXAMINATION

6 BY MR. HACK

7 Q. State your name for the record, please.

8 A. Kevin Noblet.

9 Q. And, Mr. Noblet, are you adopting the
10 testimony of Scott Heidtbrink that was filed in Case
11 No. EE-2017-0113 on October 12th?

12 A. I am.

13 Q. And did you also cause to be filed
14 surrebuttal testimony that was filed in this docket,
15 EM-2017-0226 on March 27th?

16 A. I did.

17 Q. Do you have any corrections to either of
18 those pieces of testimony at this time?

19 A. I do have one correction to the
20 testimony I adopted.

21 Q. Mr. Heidtbrink's testimony?

22 A. Mr. Heidtbrink's.

23 Q. That will be Exhibit 14.

24 A. So, page 4, lines 21 and 22 should be
25 deleted.

1 Q. Subject to that correction, if I was to
2 pose to you today the questions that are asked in
3 what's been marked as Exhibits 14 and 15, the direct
4 and surrebuttal testimony, would your answers be
5 substantially the same?

6 A. They would.

7 Q. And are those correct -- are those
8 answers true and correct to the best of your
9 knowledge and belief?

10 A. They are.

11 MR. HACK: At this time we would offer
12 into evidence Exhibits 14 and 15 and tender
13 Mr. Noblet for cross-examination.

14 (KCP&L's Exhibit 14 and Exhibit 15 were
15 offered into evidence.)

16 JUDGE BURTON: Exhibits 14 and 15 have
17 been offered. Are there any objections?

18 Seeing none. Exhibits 14, Heidtbrink's
19 direct, and 15, Noblet's surrebuttal, are admitted.

20 (KCP&L's Exhibit 14 and Exhibit 15 were
21 admitted into evidence.)

22 JUDGE BURTON: Any cross?

23 CROSS-EXAMINATION

24 BY MR. THOMPSON

25 Q. What happened to Mr. Heidtbrink?

1 A. Mr. Heidtbrink has decided to retire.

2 MR. THOMPSON: No further questions.

3 A. And he also has some personal issues at
4 home.

5 JUDGE BURTON: Office of Public Counsel?

6 MR. OPITZ: No, thank you.

7 MR. JARRETT: No questions.

8 MS. ROBY: No questions.

9 JUDGE BURTON: Commission?

10 CHAIRMAN HALL: Hello.

11 THE WITNESS: Hello.

12 CHAIRMAN HALL: So, you are responsible
13 for transmission distribution and customer
14 service; is that correct?

15 THE WITNESS: That is correct.

16 CHAIRMAN HALL: Can you give me a flavor
17 for the savings that you anticipate from the
18 transaction related to transmission?

19 THE WITNESS: Sure. Our goal is to try
20 to get as many savings as possible, but from day one
21 it was very clear that we did not want to sacrifice
22 any customer service or quality of service related
23 to getting those savings. As it relates to
24 transmission, we have identified potential capital
25 cuts. We have not actually made those cuts yet. I

1 will tell you that those potential capital cuts are
2 all on the Westar transmission system. There have
3 been no identified transmission cuts on the KCP&L
4 system.

5 CHAIRMAN HALL: And by cuts do you
6 mean --

7 THE WITNESS: Project deferrals.
8 Several projects you could either -- some projects
9 get canceled. SPP goes through a process. You put
10 them in your budget. SPP may either reduce some of
11 the price of those. They may defer them out of the
12 five-year budget process. Some projects get
13 canceled altogether. We had our engineers sit down
14 with their engineers and go through KCP&L's capital
15 budget, Westar's capital budget and did a line-item
16 by line-item check and we did identify some SPP
17 reductions and some other reductions that we thought
18 we could defer.

19 CHAIRMAN HALL: So, there are not any
20 transmission projects that you intend to defer on
21 the GPE side?

22 THE WITNESS: That is correct.

23 CHAIRMAN HALL: How about distribution?

24 THE WITNESS: Again, there are no
25 distribution projects on the Great Plains Energy

1 side that will be deferred. There are a few on the
2 Westar system. When you do a transmission project,
3 a lot of times there will be what's called a
4 distribution underbuild. So, if I defer the
5 transmission project, you would -- you would assume
6 you would defer the distribution project as well.
7 So, there is a little bit of distribution on the
8 Westar side that is projected to be deferred.

9 CHAIRMAN HALL: So, is it just a
10 different governance that is -- a different
11 governing body that would make the decision to not
12 to -- to defer those projects on the Westar side, or
13 is there something about the merger that allows for
14 that deferral?

15 THE WITNESS: There's not a different
16 governing body.

17 CHAIRMAN HALL: Well, I mean, right now
18 Westar is making the decision.

19 THE WITNESS: Correct.

20 CHAIRMAN HALL: And after the
21 acquisition, it would be GPE making the decision.
22 So, I'm just wondering the basis for that decision.

23 THE WITNESS: Yeah. I would say that
24 this acquisition caused Westar and GPE to sit down
25 and scrutinize all projects. Would those projects

1 have been scrutinized if it weren't for the merger?
2 I can't say that they would have been, but since we
3 did sit down and scrutinize them we've been able to
4 determine and Westar is in agreement that there are
5 projects that can be deferred or all out canceled.

6 CHAIRMAN HALL: And were those project
7 deferrals put into evidence in the Kansas case?

8 THE WITNESS: They were not.

9 CHAIRMAN HALL: Concerning customer
10 service, right now how many employees at KCP&L do
11 customer service?

12 THE WITNESS: I'm going to answer that
13 from, like, the contact center. Chuck Caisley also
14 has some customer service personnel that he can talk
15 to, but we have approximately 100 people at our
16 Raytown facility, which would be our contact center.

17 CHAIRMAN HALL: And how many on the
18 Westar side?

19 THE WITNESS: Approximately would be the
20 same.

21 CHAIRMAN HALL: And post-merger how
22 many -- will it be one contact center?

23 THE WITNESS: No. There will be two.
24 We've made an agreement that we will have the
25 Wichita contact center will stay open, the Raytown

1 contact center will be open and both of them will be
2 staffed at the same levels. There will be no
3 reductions in staffing of call-takers as it relates
4 to this merger.

5 CHAIRMAN HALL: So, there's not any
6 savings on the customer service side?

7 THE WITNESS: There is not. Well,
8 there's not going to be customer savings as it
9 relates to manpower.

10 CHAIRMAN HALL: Cost savings.

11 THE WITNESS: There could be some IT
12 joint systems where you're paying maintenance costs.
13 There could be some joint subscription costs. There
14 could be things like that on that customer side, but
15 there won't be anything that in our opinion would be
16 a detriment to quality of service.

17 CHAIRMAN HALL: No reduction in FTE?

18 THE WITNESS: Correct.

19 CHAIRMAN HALL: One of the conditions
20 agreed to by staff and the company is that the
21 companies will -- that GPE will meet or exceed
22 customer service at operational levels currently
23 provided to Missouri customers. I assume you're
24 familiar with that?

25 THE WITNESS: I am.

1 CHAIRMAN HALL: Are there any metrics in
2 place to assure compliance with that condition?

3 THE WITNESS: There are. As it relates
4 to reliability it would be SAIDI, system average
5 interruption duration index. It would be SAIFI,
6 system average interruption frequency index. It
7 would be CAIDI, which is the customer average
8 interruption duration index. As it relates to the
9 contact center, we have agent service levels, which
10 is we have a goal of answering 70 percent of our
11 calls in 20 seconds or less. We have abandoned call
12 rate. We have a speed of answer. There's a variety
13 of them that have been identified. We currently
14 report on those, I believe, monthly, if not
15 quarterly. We also meet quarterly with the staff as
16 it relates to customer service. And those things
17 will be ongoing.

18 CHAIRMAN HALL: So, is it your
19 understanding that this condition incorporates those
20 metrics?

21 THE WITNESS: Yes.

22 CHAIRMAN HALL: Would you be opposed to
23 incorporating those metrics expressly?

24 THE WITNESS: I believe that they are
25 identified in the stip.

1 MR. HACK: They are. The numbers are
2 not.

3 THE WITNESS: Yes, the numbers are not,
4 but the actual metrics themselves are called out.

5 CHAIRMAN HALL: Where? Where are those
6 metrics spelled out?

7 THE WITNESS: I'm looking here.

8 CHAIRMAN HALL: Okay.

9 MR. HACK: Kevin, if I can --

10 THE WITNESS: Sure.

11 MR. HACK: -- help you. The bottom of
12 page 14 and the top of page 15.

13 THE WITNESS: Yes.

14 MR. HACK: For reliability.

15 THE WITNESS: Paragraph D.

16 MR. HACK: And then paragraph C for the
17 contact center metrics, which is just above on page
18 14.

19 CHAIRMAN HALL: Okay. I think that's
20 all I have. Thank you.

21 THE WITNESS: Okay.

22 COMMISSIONER STOLL: I have no
23 questions.

24 COMMISSIONER KENNEY: No questions.
25 Thank you.

1 JUDGE BURTON: Any recross?

2 MR. THOMPSON: No, thank you, Judge.

3 MR. OPITZ: No, thank you.

4 MR. JARRETT: No, thanks.

5 MS. ROBY: I do have just a few
6 follow-up questions.

7 RECROSS-EXAMINATION

8 BY MS. ROBY

9 Q. Chairman Hall asked you about the
10 deferrals that have been identified or you had
11 identified some deferrals on the Westar system for
12 transmission investment, correct?

13 A. Potential deferrals.

14 Q. And when did those deferrals, potential
15 deferrals become known to GPE?

16 A. I'm not sure if I know exactly. We've
17 been going through the integration process here for
18 several months. I would say sometime in the third
19 to fourth quarter of last year, probably closer to
20 the fourth.

21 Q. Okay. Have you finished that process?

22 A. No. It's always ongoing. Even our
23 normal budget without a merger acquisition, every
24 year we always have to re-prioritize and re-look at
25 capital budgets. There are certain projects that

1 always move in and move out. Sometimes you
2 anticipate some load growth in an area and that load
3 growth doesn't occur. We report on work performance
4 circuits. That can change some of our budgeting.
5 So, it's pretty standard for what we do year in and
6 year out.

7 MS. ROBY: No further questions. Thank
8 you.

9 JUDGE BURTON: Redirect?

10 MR. HACK: Yes, just a few.

11 REDIRECT EXAMINATION

12 BY MR. HACK

13 Q. On the topic that counsel for
14 Independence just talked to you about and Chairman
15 Hall asked you a question about. While the specific
16 projects were not discussed in the record in Kansas,
17 this topic was discussed while you were on the stand
18 in Kansas --

19 A. It was, yes.

20 Q. -- correct?

21 And, in fact, as I recall, the Westar
22 transmission capital budgets even with the potential
23 cuts we're talking about on a going-forward basis
24 exceed the average transmission capital budgets at
25 Westar over the past five years?

1 A. Yes. If you look at Westar's historical
2 spend over the last five years and then you look at
3 what we would propose if we made all those
4 deferrals, we would still be investing more going
5 forward than what they've done on average the last
6 five years.

7 **Q. So, this is not a hidden issue or an**
8 **issue that has not been discussed and available for**
9 **people to talk about?**

10 A. True. We just did not get into the
11 details of which projects were deferred.

12 **Q. Okay. No. That's fair.**

13 **In terms of keeping two contact centers**
14 **open, does that provide the potential for improved**
15 **reliability of access to customers to contact center**
16 **personnel?**

17 A. I believe it does. If you -- there's
18 many storms that will hit one service territory, but
19 not the other. And so, if Westar's getting hit with
20 a storm, their call center's probably taking a
21 tremendous amount of calls. Ultimately, we'd like
22 to get to a point that once we get on one CIS system
23 with Westar that we would be able to have the next
24 available agent take a call. So, that would
25 certainly improve the speed of answer. I think it

1 would help the agent service levels in some of those
2 metrics that we were talking about.

3 **Q. So, with respect to savings on the**
4 **customer side, you just mentioned the CIS system.**
5 **Mr. Hall -- or Chairman Hall asked you about**
6 **potential customer savings. So, talk a little bit**
7 **about the current CIS project at GMO and KCP&L and**
8 **how that potentially translates when it's rolled out**
9 **to Westar and kind of the benefits to both**
10 **organizations from that.**

11 A. We've got about a little over a year
12 left on that project and we're just getting ready to
13 get into the testing phase, so it's a real critical
14 portion. We coined the phrase one CIS because up
15 until this date since the merger we've had two CIS
16 systems, one for GMO and one for KCP&L. So, this
17 project was to get us on one CIS. Well, we'll get
18 that accomplished within a year or so and then we'll
19 have yet another CIS. So, I guess eventually our
20 goal is to get the Westar CIS combined in with KCP&L
21 and GMO. So, we would truly have one CIS at that
22 time.

23 The benefits at that time is if you are
24 doing next available agent taking a call, you in
25 theory might be able to go down a little bit in head

1 count because you're now instead of having 100
2 people and 100 people independently, now you might
3 be able to have 150 that were truly integrated.
4 It's a possibility that we're looking at. I think
5 you could certainly have savings as it relates to
6 IT. You're not going to have to support the Westar
7 system and a KCP&L system. Unrelated to that,
8 Westar's doing a maxima, which is an EAM project. I
9 think KCP&L is going to benefit from that prompt
10 going forward as Westar's figured those things out
11 and will implement some of the KCP&L things into the
12 Westar maxima system and, again, there will be like
13 savings.

14 MR. HACK: Okay. That's all the
15 questions I have. Thank you.

16 JUDGE BURTON: Thank you. You are
17 excused.

18 THE WITNESS: Okay.

19 JUDGE BURTON: It's currently 6:11 and
20 we're going to call it a night.

21 MR. HACK: And that is absolutely fine.
22 I would just say that Mr. Caisley may be able to
23 answer tax questions, not technical tax questions,
24 but political tax questions about what may be
25 happening in that landscape going forward. So, I

1 just wanted to offer that up.

2 JUDGE BURTON: All right. Thank you.

3 COMMISSIONER KENNEY: I'm just going to
4 wait till they pass it. My question is more just
5 curiosity.

6 JUDGE BURTON: So, we have one more
7 witness left for the applicants, five more for
8 staff, one for OPC and one for the City of
9 Independence. We also have agenda tomorrow, which I
10 believe is at 11:30. So, I would like for us to go
11 ahead and reconvene tomorrow at 8 o'clock in the
12 morning, that way we can have sufficient time to get
13 some testimony in before agenda.

14 MR. THOMPSON: Okay.

15 JUDGE BURTON: Kevin's, Kevin's looking
16 at me.

17 And with that being said, let's go ahead
18 and go off the record.

19 (The hearing recessed for the day at
20 6:12 p.m.)

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7 (The exhibits were retained by the Missouri Public
8 Service Commission.)

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I, Amanda N. Farrar, a Certified Court Reporter for the State of Missouri, do hereby certify that the witnesses whose testimony appears in the foregoing transcript were duly sworn; the testimony of said witnesses was taken by me to the best of my ability and thereafter reduced to typewriting by me; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this hearing was taken, and further that I am not a relative or employee of any attorney or counsel employed by the parties thereto, nor financially or otherwise interested in the outcome of the action.



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