

IN THE MATTER OF THE JOINT APPLICATION OF )  
GREAT PLAINS ENERGY INCORPORATED, KANSAS )  
CITY POWER & LIGHT COMPANY, AND WESTAR )  
ENERGY, INC. FOR APPROVAL OF THE ) DOCKET No. 16-KCPE-593-ACQ  
ACQUISITION OF WESTAR ENERGY, INC. BY )  
GREAT PLAINS ENERGY INCORPORATED. )

DIRECT TESTIMONY

PREPARED BY

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KANSAS CORPORATION COMMISSION STAFF

December 16, 2016

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

2 A. Jeffrey D. McClanahan, 1500 SW Arrowhead Road, Topeka, Kansas.

3 **Q. Who is your employer and what is your title?**

4 A. I am employed by the Kansas Corporation Commission (Commission or KCC) as  
5 Director, Utilities Division.

6 **Q. What is your educational background and professional experience?**

7 A. I hold a Bachelor of Arts degree in Accounting from West Texas State University.  
8 I was employed for approximately eight years by a Savings and Loan institution  
9 in professional positions in auditing and accounting. I joined the KCC in  
10 December 1997 as a Utility Auditor II. I was promoted to Senior Auditor in May  
11 1998 and was subsequently promoted to Chief of Accounting and Financial  
12 Analysis in February 2002. I have held my current position since April of 2012.

13 **Q. Have you previously testified before the Commission?**

14 A. Yes, I have filed testimony in numerous dockets before the Commission. A list of  
15 my filed testimony is available upon request.

16 **Q. What is the purpose of your testimony?**

17 A. Due to the length of Staff witnesses' testimony and the number of issues involved  
18 in this case, I am primarily providing a summary of Staff's major issues in this  
19 case to aid the Commission in its review of Staff's positions, conclusions, and  
20 recommendations. I will also provide an overview of the transaction, an  
21 introduction of Staff's witnesses, and a summary of Staff's overall  
22 recommendation. A review of my outline above will indicate that I am not  
23 organizing my testimony by the Commission adopted Merger Standards. Rather,

1 I have organized my summary testimony by broader categories addressing Staff's  
2 major issues. Under each category, I will provide a summary of each witness's  
3 positions and conclusions along with a reference to the relevant section of the  
4 witness's testimony.

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**I.**  
**Overview of Transaction and Introduction of Witnesses**

9

**A. Overview of Transaction**

10 **Q. Please provide an overview of the proposed merger transaction.**

11 A. Great Plains Energy's (GPE) proposal to acquire Westar Energy (Westar) results  
12 in the two largest investor-owned electric utilities in Kansas will be separately-  
13 owned subsidiaries of a singular holding company – GPE. The general financial  
14 terms are as follows:

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**Total Transaction value:** The Transaction value is about \$12.2 billion. GPE will pay \$8.6 billion for all of Westar's equity, while assuming all \$3.6 billion of Westar's debt.

**Payment to Westar shareholders:** Westar shareholders will receive approximately \$60 per share. Each share of Westar stock will be converted into a right to receive \$51.00 in cash, plus an amount of GPE stock worth approximately \$9.00 (subject to a 7.5 percent collar based upon the Great Plains Energy common stock price at the time of the closing). The compensation to Westar shareholders is therefore about 85% cash and 15% stock. This compensation amounts to an acquisition premium estimated at \$4.9 billion (233%) over book value and \$2.3 billion (36%) over Westar's "undisturbed stock price."

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**Financing:** GPE will finance its purchase of Westar with approximately 50% equity and 50% debt."

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*Post-acquisition entity:* After closing, Westar will be a wholly-owned subsidiary of GPE. Westar shareholders will own about 15% of GPE.  
[Hempling at Section I. B., cites omitted].

**B. Introduction of Staff’s witnesses**

**Q. Who will be offering testimony on behalf of Staff?**

A. I will introduce Staff’s witnesses and then introduce the consultants testifying on behalf of Staff. Following my narrative introducing the witnesses, I will provide a listing of each merger standard along with the witnesses and issues addressed by the witness. The witnesses are as follows:

*Staff Witnesses:*

**Justin Grady:** Mr. Grady discusses the fact that the purchase price GPE has agreed to pay cannot be determined to be reasonable in light of the savings that can be demonstrated and it is not within a reasonable range. Mr. Grady performs financial analysis and evaluates the purchase price and related acquisition premium and finds that the primary reason GPE can pay such a high acquisition fee is due to its withholding of cost savings related to lowering overall capital costs. Finally, in support of Staff witness Hempling’s control premium analysis, Mr. Grady supports a calculation of the value of the control premium that should be passed on to customers.

**Adam Gatewood:** Mr. Gatewood discusses the fact that the post-merger entity will be financially weaker than the existing stand-alone entities. He also asserts that the merger is not in the public interest because customers will be asked to pay

1 rates that are in excess of the cost of providing services. Finally, the transaction  
2 weakens the Commission's ability to effectively regulate the post-merger entity.

3 **Casey Gile:** Mr. Gile recommends quality of service standards.

4 **Robert Glass, Ph.D.:** Dr. Glass discusses merger standard (c) and finds that the  
5 transaction will have a negative effect on the Kansas economy. Dr. Glass also  
6 addresses: 1) whether there will be any economic waste, 2) whether the  
7 transaction will maximize Kansas energy resources, and 3) whether there is an  
8 impact on existing competition.

9 *Staff's Consultants:*

10 **Scott Hempling, President of Scott Hempling, Attorney at Law LLC:** Mr.  
11 Hempling discusses the \$2.3 billion control premium represents  
12 overcompensation to Westar's shareholders and that it conflicts with the public  
13 interest. He also discusses the fact that the claimed savings do not satisfy the  
14 public interest standard, allocation of the merger savings through rate cases means  
15 allocating without regulatory principle, and the across-the-fence rivalry between  
16 Joint Applicants pressures monopolies to perform. Finally, Mr. Hempling  
17 discusses basing acquisition policy on a public interest first as the appropriate  
18 policy.

19 **Ann Diggs, CPA:** Ms. Diggs discusses transaction savings, shared services  
20 savings, quantification of ratepayer benefits, preservation of KCC jurisdiction,  
21 and affiliate transactions and cost allocations.

22 **Walter P. Dabrinski, President, Vantage Energy Consulting, LLC:**  
23 Mr. Drabinski discusses generations system analysis, analysis of transmission and

1 distribution integration, customer service integration, supply chain savings, and  
2 potential merge conditions.

3 **C. Witnesses by Merger Standard**

4 **Q. Which witness or witnesses address each Merger Standard?**

5 A. Staff's testimony, as a whole, addresses each and every Merger Standard. The  
6 witness or witnesses addressing each Merger Standard are as follows:

7 (a) The effect of the transaction on consumers, including:

8 (i) the effect of the proposed transaction on the financial condition of the  
9 newly created entity as compared to the financial condition of the stand-  
10 alone entities if the transaction did not occur;

11 *Discussed by: Adam Gatewood*

12 (ii) reasonableness of the purchase price, including whether the purchase  
13 price was reasonable in light of the savings that can be demonstrated from  
14 the merger and whether the purchase price is within a reasonable range;

15 *Discussed by: Scott Hempling, Justin Grady, and Ann Diggs*

16 iii) whether ratepayer benefits resulting from the transaction can be  
17 quantified;

18 *Discussed by: Scott Hempling, Ann Diggs, Walter Drabinski,*

19 *Casey Gile, and Adam Gatewood*

20 (iv) whether there are operational synergies that justify payment of a  
21 premium in excess of book value; and

22 *Discussed by: Scott Hempling, Ann Diggs, Justin Grady, and Walt*

23 *Drabinski*



1 (v) the effect of the proposed transaction on the existing competition.

2 *Discussed by: Scott Hempling, Dr. Robert Glass, and Walt*  
3 *Drabinski*

4 (b) The effect of the transaction on the environment.

5 *Discussed by: Walter Drabinski*

6 (c) Whether the proposed transaction will be beneficial on an overall basis to state  
7 and local economies and to communities in the area served by the resulting public  
8 utility operations in the state. Whether the proposed transaction will likely create  
9 labor dislocations that may be particularly harmful to local communities, or the  
10 state generally, and whether measures can be taken to mitigate the harm.

11 *Discussed by: Dr. Robert Glass, Walt Drabinski, and Casey Gile*

12 (d) Whether the proposed transaction will preserve the jurisdiction of the KCC  
13 and the capacity of the KCC to effectively regulate and audit public utility  
14 operations in the state.

15 *Discussed by: Scott Hempling, Ann Diggs, Walt Drabinski, and*  
16 *Adam Gatewood*

17 (e) The effect of the transaction on affected public utility shareholders.

18 *Discussed by: Justin Grady and Adam Gatewood*

19 (f) Whether the transaction maximizes the use of Kansas energy resources.

20 *Discussed by: Robert Glass and Walt Drabinski*

21 (g) Whether the transaction will reduce the possibility of economic waste.

22 *Discussed by: Dr. Robert Glass and Scott Hempling*

23

1 (h) What impact, if any, the transaction has on the public safety.

2 *Discussed by: Casey Gile*

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## II.

5 **Summary of Staff’s Position: The Proposed Merger Should be Denied Because**

6 **it does not Promote the Public Interest when evaluated in light of the**

7 **Commission’s Merger Standards and it Creates an Unacceptably High**

8 **Financial Risk for Both Current and Future Customers and Shareholders**

9

10 **A. The proposed merger is not in the public interest.**

11 **Q. What is the Public Interest Standard and how is it applied in merger**  
12 **dockets?**

13 A. Generally speaking, the public interest is served when ratepayer interests are  
14 carefully considered and protected. In the context of a rate case, the public  
15 interest can be served when ratepayers are protected from unnecessarily high  
16 prices, discriminatory prices and/or unreliable service. In the context of a merger,  
17 the Commission’s Order in Docket Nos. 172,745-U and 174,155-U<sup>1</sup> (KPL/KGE  
18 Merger) states the following:

19 All parties generally agree that the merger should be approved only  
20 if it is “in the public interest.” The parties have differed, however,  
21 on specifically what “in the public interest” means in the context of  
22 utility mergers. The Commission notes there are various cases  
23 addressing generally the meaning of “the public convenience and

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<sup>1</sup> The Commission’s Order in Docket Nos. 172,745-U and 174,155-U dated November 14, 1991 approved the merger of Kansas Power and Light Company with the Kansas Gas and Electric Company.

1                   necessity.” Public convenience means the convenience of the  
2                   public, not the convenience of particular individuals. 206 Kan.  
3                   670, 676 (1971). Public necessity does not necessarily mean there  
4                   must be some showing of absolute need. As used, the word  
5                   “necessity” means a public need without which the public is  
6                   inconvenienced to the extent of being handicapped. Id.<sup>2</sup>  
7

8                   Consistent with its broad authority to regulate public utilities for  
9                   the benefit of the public interest, the Commission believes that in  
10                  reviewing a merger or acquisition, it should consider a variety of  
11                  factors. The Commission believes that to simply adopt a “no  
12                  detriment” test as suggested by the Applicants or a “net benefits”  
13                  standard as suggested by CURB is too simplistic. Utility mergers  
14                  and acquisitions are complex transactions that affect both  
15                  ratepayers and shareholders for many years to come and have  
16                  significant implications for the utility service to be provided.  
17                  Consistent with its mandate in approving the initiation of utility  
18                  service as set out in K.S.A. 66-131, the Commission concludes that  
19                  mergers and acquisitions be approved where the applicant can  
20                  demonstrate that the merger or acquisition will promote the public  
21                  interest. In determining whether a transaction promotes the public  
22                  interest, the Commission looked to the variety of sources presented  
23                  by the parties in their testimony and briefs. The Commission  
24                  adopts the following list of factors it will weigh and consider in  
25                  determining whether the proposed transaction promotes the public  
26                  interest...<sup>3</sup> [Listing of Merger Standards omitted].  
27

28                  The Commission believes these factors will allow the Commission  
29                  to uniformly review mergers and acquisitions that may be  
30                  presented to the Commission in the future while maintaining some  
31                  flexibility to deal with the particular circumstances of each  
32                  transaction. Additionally, these factors will provide utilities  
33                  contemplating a merger or acquisition with a standard that will be  
34                  utilized to review any contemplated transaction.<sup>4</sup>  
35

36                                 In the September 28, 1999 Order on Merger Application in Docket No.  
37                                 97-WSRE-676-MER, the Commission stated the following:

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<sup>2</sup> Id. at p. 34.  
<sup>3</sup> Id. at pp. 34-35.  
<sup>4</sup> Id. at p. 36.

1 The November 15, 1991 Order approving the merger between KPL  
2 and KGE (Docket Nos. 172,745-U and 174,155-U) stated that  
3 mergers should be approved where the applicant can demonstrate  
4 that the merger “will promote the public interest.” (p. 35.) The  
5 Order set forth a number of factors to be weighed and considered  
6 in determining whether this standard is met... [List of Merger  
7 Standards Omitted].<sup>5</sup>  
8 The Commission reaffirms that the information in these standards  
9 should be addressed by parties in merger cases. These factors are  
10 the beginning criteria to be used when evaluating a merger  
11 application, and are to be supplemented by any other  
12 considerations that are relevant given the circumstances existing at  
13 the time of the merger proposal. In essence, the question is whether  
14 the public interest is served by approving the merger as determined  
15 by the specific facts and circumstances of each case. The Joint  
16 Applicants bear the burden of proof in this case, and must  
17 demonstrate through the evidence in the record a sufficient basis  
18 upon which to approve the merger.<sup>6</sup>  
19

20 The current Commission has reaffirmed the merger standards in its order  
21 in this docket dated August 9, 2016. Specifically, the Commission stated:

22 In determining whether a proposed merger will promote the public  
23 interest, the Commission will evaluate the application under the  
24 following criteria.<sup>7</sup> [Merger Standards omitted].  
25

26 The Commission recognizes that the 97-676 Docket allows for  
27 some flexibility in the merger standards, including modifying those  
28 standards or even adding additional standards or considerations. At  
29 the same time, the Commission will require any deviation from the  
30 standards reaffirmed in paragraph 5 of this Order to be clearly  
31 identified in the application and justified in supporting testimony.  
32 Similarly, if Staff or an intervenor believes the standards need to  
33 be modified in a particular docket, they are obligated to explain the  
34 proposed modification and provide grounds supporting the  
35 proposed modification.<sup>8</sup>  
36

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<sup>5</sup> Docket No. 97-WSRE-676-MER, Order on Merger Application at ¶17.

<sup>6</sup> Id. at ¶18.

<sup>7</sup> Docket No. 16-KCPE-593-ACQ, Order on Merger Standards at ¶5.

<sup>8</sup> Id. at ¶7.

1           Based on the above statements, it is clear that the merger standards are  
2           entrenched as “...the beginning criteria to be used when evaluating a merger  
3           application, and are to be supplemented by any other considerations that are  
4           relevant given the circumstances existing at the time of the merger proposal.”<sup>9</sup>  
5           Moreover, the Commission confirmed that the merger standards are the primary  
6           determination of whether the public interest is being promoted when it stated,  
7           “The Commission adopts the following list of factors [merger standards] it will  
8           weigh and consider in determining whether the proposed transaction promotes the  
9           public interest.”<sup>10</sup>

10           It is also clear that whether the public interest is promoted is based on  
11           “...whether the public interest is served by approving the merger as determined  
12           by the specific facts and circumstances of each case.”<sup>11</sup>

13   **Q. Does the Joint Application promote the public interest?**

14   A. No. As reflected in Staff’s overall recommendation, the Joint Application for  
15   approval of Great Plains Energy’s (GPE) acquisition of Westar Energy (Westar)  
16   does not satisfy a majority of the merger standards. What’s more, the proposed  
17   transaction would leave ratepayers, the state, and even the post-transaction entity  
18   in a worse position moving forward. In fact, this Transaction primarily promotes  
19   the interests of Westar’s shareholders – due to the overcompensation they will

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<sup>9</sup> Docket No. 97-WSRE-676-MER, Order on Merger Application at ¶ 18

<sup>10</sup> Docket Nos. 172,745-U and 174,155-U, Order at p. 35.

<sup>11</sup> Docket No. 97-WSRE-676-MER, Order on Merger Application at ¶ 18

1 receive – to the detriment of the public interest.<sup>12</sup> Because the Commission uses  
2 the merger standards as guidance as to whether a transaction promotes the public  
3 interest, failure to meet the majority of the merger standards is a strong indication  
4 that the public interest will not be promoted by approving the Transaction.

5 **B. Staff’s overall recommendation.**

6 **Q. Please provide Staff’s overall recommendation.**

7 A. The merger transaction – as structured – should be denied.

8 **Q. It is typical for Staff to recommend denial of a merger transaction as**  
9 **proposed, but provide specific merger conditions that allow Staff to**  
10 **recommend approval. Is that the case here?**

11 A. No. Staff cannot recommend approval of the merger even with conditions.  
12 Merger conditions cannot remedy several fundamental flaws within the  
13 transaction as proposed. These fundamental flaws are:

- 14 • The purchase price of \$12.2 billion is too high because it results in GPE  
15 and its subsidiary Westar being in a significantly weaker financial position  
16 post-acquisition.
- 17 • Even though Joint Applicants assert they are not explicitly requesting  
18 recovery of the AP, ratepayers will inevitably pay this acquisition  
19 premium (AP) implicitly through financial engineering.<sup>13</sup>

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<sup>12</sup> Direct Testimony of Scott Hempling at Section II.

<sup>13</sup> Financial engineering will be defined later in this testimony, but it essentially requires the Commission to change its current approach to setting a utility’s cost of capital by allowing GPE to earn equity-level returns on investment financed with lower-cost debt.

- 1           • Joint Applicants have failed to demonstrate that the transaction benefits  
2           customers through demonstrable and quantifiable savings which can be  
3           reasonably attributed to the acquisition.
- 4           • Joint Applicants have failed to provide any certainty with regard to the  
5           continued financial health of the companies.

6   **Q. Why is the purchase price a fundamental flaw in this transaction?**

7   A. GPE's and Westar's weaker financial positions post-acquisition are due primarily  
8   to the amount of debt used to finance the excessive acquisition price. This  
9   imposes unacceptably high risks on current and future customers and  
10  shareholders. The potential harms from these risks include increased capital costs  
11  due to credit rating downgrades, increased rates due to increased borrowing costs,  
12  and the diminished capacity of the Commission to effectively regulate a  
13  financially troubled utility. Moreover, these potential harms occur *with the*  
14  *financial engineering included* in the Joint Applicant's financial modeling.  
15  [Grady at Section II.]. [Gatewood at Sections II. and IV.].

16 **Q. Why is the planned indirect recovery of the AP through financial engineering**  
17 **a fundamental flaw in this transaction?**

18 A. Despite the fact that the Joint Applicants' assert that they are not seeking recovery  
19 of the AP of \$4.9 billion, ratepayers are in effect being asked to pay for the AP  
20 through financial engineering. This financial engineering requires the  
21 Commission to change its current approach to setting a utility's cost of capital by  
22 allowing GPE to earn equity-level returns on investment financed with lower-cost  
23 debt. Moreover, the Joint Applicants have stated that "...completion of the

1 Transaction is largely dependent on the Commission not applying the GPE  
2 consolidated capital structure ratios when setting Westar’s and KCPL’s revenue  
3 requirements.”<sup>14</sup> Therefore, it appears the threshold feasibility of the proposed  
4 acquisition hinges on the Commission’s decision related to the financial  
5 engineering used by GPE. [Hempling at Section II. D. a.]. [Gatewood at Section  
6 II. D., citing KCC-264].

7 **Q. How is the failure to demonstrate quantifiable savings reasonably**  
8 **attributable to the merger a fundamental flaw to the proposed transaction?**

9 A. Joint Applicants have asserted that that they have reviewed prior merger dockets  
10 and understand that “the Commission views potential savings as a significant  
11 driver in the determination of whether a merger/acquisition is in the public  
12 interest.”<sup>15</sup> Yet Joint Applicants have failed to demonstrate that the transaction  
13 benefits customers through demonstrable and quantifiable savings which can be  
14 reasonably attributed to the acquisition. Joint Applicants have failed to  
15 demonstrate savings because the Joint Application relies on preliminary savings  
16 efficiency targets that will be validated through the integration planning process  
17 *currently* underway. Staff has not seen the results of the integration planning  
18 process because it is not expected to be completed until January 2017. [Diggs at  
19 Sections II., III., and V.].

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<sup>14</sup> Staff Data Request KCC-264.

<sup>15</sup> Direct Testimony of Darrin R. Ives at p. 5.



1    **Q.    Do the Joint Applicants believe that the requirement of merger standard**  
2           **(a)(ii) “reasonableness of the purchase price, including whether the purchase**  
3           **price was reasonable in light of the savings that can be demonstrated from**  
4           **the merger and whether the purchase price is within a reasonable range” is**  
5           **relevant to the Commission’s determination of whether this transaction is in**  
6           **the public interest?**

7    A.    No. Apparently the Joint Applicants believe that, because they are not explicitly  
8           requesting recovery of the acquisition premium, then even \$1 of savings<sup>16</sup> is a  
9           benefit to customers. As KCP&L witness Darrin Ives states:

10                   Staff appears to have overlooked this important wording in Merger  
11                   Standard (a)(ii), which causes Staff to similarly fail to  
12                   appropriately recognize the fact that *Joint Applicants are not*  
13                   *requesting recovery of any portion of the purchase price (i.e., the*  
14                   *acquisition premium in excess of net book value or transaction*  
15                   *costs) in revenue requirement and rates paid by customers for*  
16                   *electric service and, as such, any savings realized from the*  
17                   *Transaction that are reflected in revenue requirement and rates*  
18                   *through the ratemaking process represent benefits for customers in*  
19                   the form of rates that are lower than they would have been absent  
20                   the Transaction. [Supplemental Direct Testimony of Darrin Ives, p.  
21                   4]. [Emphasis added].  
22

23           Joint Applicants’ position that it is not seeking recovery of the acquisition  
24           premium is obviously a fundamental disagreement with Staff since Staff  
25           asserts the Joint Applicants’ use of financial engineering does in fact  
26           require customers to support the acquisition premium. Moreover, Staff  
27           witness Grady asserts in his testimony at Section III. F. that the implicit

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<sup>16</sup> Supplemental Direct Testimony of Kevin Bryant at p. 6.

1 recovery of the AP through financial engineering will cost ratepayers  
2 much more than the traditional approach of sharing a portion the AP with  
3 shareholders based on demonstrated savings.

4 **Q. How is Joint Applicants' failure to provide certainty with regard to the**  
5 **continued financial health of the companies a fundamental flaw to the**  
6 **proposed transaction?**

7 A. Joint Applicants have failed to provide any certainty with regard to the continued  
8 financial health of the companies, as contemplated in merger standard (a) (i), the  
9 effect of the proposed transaction on the financial condition of the newly created  
10 entity as compared to the financial condition of the stand-alone entities if the  
11 transaction did not occur. Application of this standard demands the Commission  
12 deny the transaction because the Joint Applicants' financial model only goes  
13 through the year 2020, providing no certainty of the companies' future financial  
14 condition. [Gatewood at Section II. C.].

15 **Q. Given Staff's position that merger conditions cannot remedy the**  
16 **fundamental flaws, is the Commission to assume Staff will not provide any**  
17 **merger conditions in its testimony?**

18 A. Staff witnesses do provide illustrative guidance by discussing certain merger  
19 conditions in testimony. While it should be clearly noted that Staff is not  
20 recommending approval of the proposed transaction—even with conditions—for  
21 issues that are not related to the fundamental flaws identified previously we  
22 identify and discuss placing specific conditions on discrete issues which would  
23 otherwise be appropriate in a merger transaction. These conditions are intended

1 as guidance for future transactions involving Kansas’s electric utilities. As  
2 discussed previously, merger conditions will not remedy the fundamental flaws  
3 with this proposed transaction. However, Staff’s concerns expressed in its  
4 testimony should provide guidance for the Commission and Joint Applicants  
5 regarding Staff’s positions, particularly with how the cost savings associated with  
6 the use of financial engineering should be allocated to customers.

7 **C. Brief overview of major mergers in Kansas.**

8 **Q. Please provide a brief overview of major mergers in Kansas.**

9 A. The table below provides an overview of the major mergers in Kansas  
10 beginning with the KGE/KPL merger filed in October of 1990.

Major Electric Utility Mergers and Acquisition in Kansas 1990-2016				
Date	Docket No.	Acquiring Company	Target Company	Status
7/1990	172,745_U	Kansas Power & Light	Kansas City Power & Light	Terminated 12/1990
12/1990	91-UCUE-226-MER	UtiliCorp United	Centel	Completed 9/1991
10/1990	172,745-U & 174,155-U	Kansas Power & Light	Kansas Gas & Electric	Completed 3/1992
4/1996	97-WSRE-676-MER	Western Resources	Kansas City Power & Light	Terminated 1/2000
1/1996	Not Docketed	UtiliCorp United	Kansas City Power & Light	Terminated 9/1996
5/1999	00-UCUE-677-MER	UtiliCorp United	Empire District	Terminated 1/2001
11/2000	Not Docketed	Western Resources	PNM Resources	Terminated 1/2002
11/2005	06-MKEE-524-ACQ	Mid-Kansas Electric	Aquila Inc. West Plains Kansas Div.	Completed 2/2007
2/2007	07-KCPE-1064-ACQ	Great Plains Energy	Aquila Inc. (formerly UtiliCorp)	Completed 7/2008
3/2016	16-EPDE-410-ACQ	Liberty Utilities	Empire District	S&A to Approve; Order Pending
5/2016	16-ITCE-512-ACQ	Fortis	ITC Holdings	Completed 10/2016
6/2016	16-KCPE-593-ACQ	GPE	Westar Energy	In Process

11

12

13 As the table indicates, there have been twelve major mergers since the KPL/KGE  
14 merger. Of the twelve mergers, five were terminated by the merging parties. In

1 addition, the transactions involving Kansas Gas & Electric and Aquila as the  
2 target companies were initiated because they were in poor financial health.

3 **Q. The terms “merger” and “acquisition” seem to be used interchangeably in**  
4 **merger cases, is there a difference?**

5 A. Yes. A merger is defined as combining two separate companies into a newly  
6 created company. An acquisition is defined as the purchase of one corporation by  
7 another. Most utility merger transactions that have been filed in Kansas have  
8 been acquisitions of one utility by another utility, and this case is no different. So,  
9 while Staff’s witnesses sometimes refer to this transaction as a merger, these are  
10 simply shorthand references to the acquisition of Westar by GPE.

11

12

**III.**

13

**The Effect of the Purchase Price and Acquisition Premium on the Post-**

14

**Merger Entity’s Financial Condition**

15

16

**A. Development of the purchase price.**

17

**Q. What do the Joint Applicants assert as the primary reason for the**  
18 **Transaction?**

19

A. Staff witness Scott Hempling notes at Section II. C. that Darrin Ives asserts  
20 “[c]reating efficiencies is the primary driver of the Transaction.” Mr. Hempling  
21 notes that this statement cannot be reconciled with the facts because, once Westar  
22 identified GPE as the most cost-effective acquirer, Westar would simply have  
23 agreed to merge without demanding a premium.

1 **Q. How was the purchase price GPE agreed to pay for Westar developed?**

2 A. In order to maximize the purchase price, the \$12.2 billion purchase price was  
3 achieved through a competitive bid process. Staff witness Scott Hempling  
4 explains at Section II. B. that this led to a significant acquisition premium (excess  
5 of purchase price over Westar’s book value) and the control premium (excess of  
6 purchase price over Westar’s pre-acquisition stock value) of \$4.9 billion and \$2.3  
7 billion respectively. Moreover, the emphasis on price dominated all other  
8 considerations, relegating customer value and the public interest to incidental  
9 considerations.

10 **Q. What is Staff’s view of the reasonableness of the purchase price?**

11 A. Staff’s conclusion is that the purchase price is not within a reasonable range based  
12 on a comparison to other recent merger and acquisition (M&A) activity as well as  
13 in light of potential merger savings

14 **B. Westar’s and GPE’s financial advisors’ “fairness” opinions.**

15 **Q. Did GPE and Westar each obtain a fairness opinion from their respective**  
16 **financial advisors?**

17 A. Yes. Westar retained Guggenheim Securities, LLC (Guggenheim), and GPE  
18 retained Goldman Sachs and Co. (Goldman).

19 **Q. Does Guggenheim’s financial analysis provide support that GPE’s purchase**  
20 **price for Westar is excessive?**

21 A. Yes. Mr. Grady addresses this issue in his testimony at Section II.C.1. Mr.  
22 Grady’s review and analysis indicates that:

- 1           • The transaction multiples used by Guggenheim indicate the purchase  
2           price (inclusive of the acquisition premium) is among the highest or the  
3           highest paid for an electric public utility. In fact, Mr. Grady’s analysis  
4           and critique of the multiples results in a conclusion that GPE’s purchase  
5           price of Westar’s equity is higher than every other relevant electric utility  
6           in the country.
- 7           • Guggenheim’s Discounted Cash Flow (DCF) analysis and Peer Group  
8           Trading analysis both derive a low and high price with the high range  
9           being \$54.46 and \$57.38 respectively, both of which are clearly below the  
10          \$60 purchase price GPE agreed to pay. Guggenheim’s DCF analysis also  
11          uses a weighted average cost of capital (WACC) of between 4.5% and  
12          5.5%, which is significantly lower than the 6.6% used to set Westar’s  
13          current rates.
- 14          • Guggenheim’s Precedent M&A Transaction Analysis valued its high  
15          range price of \$57.76.
- 16          • Guggenheim did provide, “solely for informational purposes,” a  
17          Transaction Premiums Paid Analysis that was the only analysis  
18          supporting a purchase price at or above \$60 per share. However, Mr.  
19          Grady discounted this valuation as it relied on faulty assumptions.
- 20
- 21

1    **Q.     Did Goldman’s financial analysis provide support that GPE’s purchase price**  
2           **for Westar is excessive?**

3    A.     Yes. Staff witness Justin Grady addresses this issue in his testimony at Section  
4           II.C.2. Mr. Grady’s review and analysis indicates that:

- 5           • Mr. Grady reviewed Goldman’s Purchase Premium Paid analysis and  
6           concludes that GPE’s agreed-upon premium over Westar’s unaffected  
7           stock price compared to other recent comparable transactions is the  
8           highest observation and is also substantially higher than the average  
9           premium paid when gas transactions are removed.
- 10          • Goldman conducted a Selected Transaction Analysis that used one-year  
11          forward price-to-earnings ratios to develop and earnings per share  
12          multiple. Mr. Grady’s analysis again removes gas related transactions,  
13          which result in GPE’s multiple being the highest (*i.e.*, the most  
14          expensive).
- 15          • Goldman performed a DCF that derives a low and high price with the low  
16          price being \$43.16 and the high price being \$57.47 per share, both of  
17          which are clearly below the \$60 purchase price GPE agreed to pay.  
18          Goldman’s highest DCF analysis also uses a weighted average cost of  
19          capital (WACC) of 3.5%, which is significantly lower than the 6.6% used  
20          to set Westar’s current rates.

- 1           • The overall present value per share Goldman’s DCF analysis developed is  
2           \$43.16 per share to \$57.47 per share when not including efficiencies and  
3           \$54.95 to \$71.48 per share when including forecasted efficiencies.
- 4           • Mr. Grady’s analysis of Goldman’s DCF found the analysis that included  
5           efficiencies was based on several faulty assumptions that Joint Applicants  
6           have designated as confidential and will not be discussed explicitly in my  
7           testimony. However, Mr. Grady does indicate that Goldman’s DCF  
8           analysis of the valuation per share related to the inclusion of efficiencies  
9           should not be relied on because of the faulty assumptions. This is the only  
10          DCF analysis that Goldman created that provided a value at or above \$60  
11          per share.

12          **C. GPE’s financial model.**

13          **Q. Did GPE develop a financial model that includes financial projections to**  
14          **determine whether the additional debt and equity related to this transaction**  
15          **can be supported by projected cash flows from all sources including**  
16          **regulated cash flows?**

17          A. Yes. Staff witness Adam Gatewood discusses GPE’s financial model at Section  
18          II. C. of his testimony. Mr. Gatewood expresses concern because GPE’s financial  
19          model does not address de-leveraging the acquisition debt and only provides  
20          financial projections post-transaction for the years 2018, 2019, and 2020. This is  
21          unusual because most merger transactions filed with the Commission have long-  
22          term financial projections included in financial modeling.

23



1 **Q. What particular financial concerns did Mr. Gatewood identify?**

2 A. Mr. Gatewood identified a number of issues relative to the capital structure. Of  
3 particular concern to Mr. Gatewood are the following:

- 4 • GPE will have a consolidated capital structure with an equity ratio of 41%  
5 to 42% compared to a pre-transaction equity ratio of 49% to 50%.
- 6 • GPE's short-term financial model as well as GPE discovery responses  
7 provides no plan for de-leveraging so Staff must assume the leverage is a  
8 permeant change to GPE's consolidated capital structure.
- 9 • A permeant change to GPE's consolidated capital structure creates a  
10 markedly different capital structure at the GPE parent company level  
11 from the capital structures of the utility operating subsidiaries. This issue  
12 raises the question as to which capital structure – consolidated or utility  
13 operating company – should be used in setting rates for the utility  
14 operating subsidiaries.
- 15 • The difference in capital structures between consolidated parent company  
16 and utility operating company could result in a significant reduction in the  
17 revenue requirements of the utility operating companies if the Kansas  
18 Corporation Commission (KCC) and/or the Missouri Public Service  
19 Commission (Missouri PSC) and the Federal Energy Regulatory  
20 Commission (FERC) choose to recognize the additional leverage at the  
21 parent company.

- 1           • The Joint Applicant’s assume that all regulatory bodies that set rates for  
2           the utility operating companies will set their respective revenue  
3           requirements solely on the operating company capital structures. This  
4           assumption is included in all financial modeling developed by GPE and  
5           was provided to credit rating agencies for their evaluation of the credit  
6           worthiness of the post-transaction entities.
- 7           • The Joint Applicant’s assumption that all regulatory bodies will set rates  
8           based on the utility operating companies higher cost capital structure is  
9           troubling because it is contrary to how all regulatory bodies set rates, that  
10          is rates are set based on the consolidated capital structure. Moreover,  
11          Staff has consistently investigated capital structures in rate cases to  
12          determine the most efficient and economical financing available (lowest  
13          cost capital structure) for the past two decades.

14          **D. GPE’s use of financial engineering.**

15          **Q. How would you describe GPE’s use of low-cost debt to fund the higher-cost**  
16          **operating company capital structure?**

17          A. I would describe this arrangement as defined as “double leverage” or  
18          “financial engineering.” In describing why the gain from financing equity  
19          purchased with debt owes nothing to Westar shareholders at Section II. D. 1. A.,  
20          Mr. Hempling defines it as such through the following question and answer:

21                  **Q. Explain why the gain from financing equity purchase**  
22                  **with debt owes nothing to Westar shareholders.**

23                  A. To finance its purchase of \$8.6 billion in Westar equity,  
24                  GPE plans to borrow \$4.4 billion, with the rest of the purchase  
25

1 financed by issuing new stock (to Westar shareholders and to the  
2 public). Debt is, of course, less costly than equity because its risk  
3 (to investors) is lower: the borrower has a contractual obligation to  
4 pay back the principal with interest; the stock issuer normally has  
5 no obligation to pay the stock buyer anything. GPE anticipates the  
6 interest rate on the acquisition debt to be 3.86%; Westar's most  
7 recent authorized return on equity approved by the Kansas  
8 Corporation Commission is 9.35%. If GPE can finance \$3.7  
9 billion of Westar's equity at but earn on that equity 9.35%, its  
10 financial planners will have produced a large profit. The  
11 anticipation of that profit is one reason why GPE is willing to pay  
12 the premium. (Financial analysts describe this action as "double-  
13 leveraging," because there is debt at both the holding company  
14 level and the utility level. They also call it "financial engineering,"  
15 because the profit comes not from physical improvements but from  
16 financial arrangements.).  
17

18 **Q. Did the Joint Applicant's make an explicit request to change or modify the**  
19 **traditional lowest-cost capital structure approach used in Kansas?**

20 A. No, they did not make such a request either in the Application or in direct  
21 testimony. However, Staff has had conversations with the Joint Applicants and  
22 has issued discovery on this issue. Based on our expressed concerns, GPE  
23 witness Darrin Ives addresses this issue in his Supplemental Direct Testimony  
24 dated November 2, 2016 at page 12. Specifically Mr. Ives states:

25 Q: Has GPE committed that it will not seek to recover costs of the  
26 premium in excess of book value or transaction costs associated  
27 with the Transaction through inclusion in revenue requirement and  
28 retail rates paid by customers of KCP&L and Westar?  
29

30 A: Yes, and that commitment remains in place. *We have become*  
31 *aware, however, that some party or parties may desire to make use*  
32 *of the debt used by GPE to finance the Transaction during post-*  
33 *closing general rate cases of GPE's utility subsidiaries for*  
34 *purposes of determining a fair and reasonable return and setting*  
35 *customer rates. This would be inappropriate and unreasonable*  
36 *because, among other reasons, the debt used by GPE to finance*  
37 *the Transaction will be dedicated to paying for the acquisition*

1                    *premium in excess of book value as well as transaction costs and*  
2                    *none of the proceeds of that debt will be available to support the*  
3                    *regulated operations of GPE's utility subsidiaries. But if a party to*  
4                    *a KCP&L or Westar general rate case advances such a proposal,*  
5                    *then KCP&L or Westar must have the ability to present all facts*  
6                    *and counter-proposals necessary to fully explain and rebut it.*  
7                    *Therefore, if – and only if – any party to a KCP&L or Westar*  
8                    *general rate case proposes to impute the cost or proportion of debt*  
9                    *used by GPE to finance the Transaction for purposes of*  
10                   *determining a fair and reasonable return, then Westar and*  
11                   *KCP&L reserve the right to seek, in any such rate case, recovery*  
12                   *of the acquisition premium in excess of book value and transaction*  
13                   *costs associated with the Transaction through inclusion in revenue*  
14                   *requirement and retail rates in order to match the recovery of the*  
15                   *use of funds with such a request to utilize the source of funds in*  
16                   *setting retail rates. [Emphasis added].*  
17

18    **Q.    Did Staff request the Joint Applicants to use the Financial Model to run a**  
19                   **scenario that uses the consolidated capital structure of GPE post-**  
20                   **transaction? If so, what were the results?**

21    **A.**    Yes. Mr. Gatewood discusses the results of Staff's requested Financial Model run  
22                   with the use of GPE's consolidated capital structure at Section II. D. in his  
23                   testimony. Mr. Gatewood describes the results as having the following impacts:

- 24                   • The Joint Applicant's acknowledge that the use of the consolidated capital  
25                   structure does have a significant and negative impact on the pro-forma  
26                   financials of GPE.
- 27                   • The Joint Applicants confirm that the lower revenue requirements caused  
28                   by recognizing the added leverage in the consolidated capital structure  
29                   reduces the cash flow that GPE will have to cover its interest payments  
30                   resulting from the debt necessary to finance this transaction.

1           • Staff inquired as to whether the Joint Applicants discussed the results of  
2           Staff’s model run with ratings agencies. The Joint Applicants responded  
3           that they have had no such discussion with rating agencies and could not  
4           speculate as to whether the use of a consolidated capital structure would  
5           maintain their existing credit ratings or maintain an investment grade  
6           credit rating if the Commission were to use a consolidated capital  
7           structure. The Joint Applicants did acknowledge the use of a consolidated  
8           capital structure would create concerns by the rating agencies.

9   **Q.   Given the negative financial impacts to GPE’s pro-forma financials that**  
10 **result from the use of a consolidated capital structure, have the Joint**  
11 **Applicants expressed concerns about their ability to complete the transaction**  
12 **if a consolidated capital structure is used by the Commission?**

13 A.   Yes. As described by Mr. Gatewood at Section II.D. of his testimony, the Joint  
14 Applicants indicate that their ability to complete the transaction is largely  
15 dependent on the Commission not applying the GPE consolidated capital structure  
16 ratios when setting Westar’s and KCPL’s revenue requirements.

17 **Q.   Is the Joint Applicants’ position that their ability to complete the transaction**  
18 **is largely dependent on the Commission not using GPE’s consolidated capital**  
19 **structure surprising?**

20 A.   Very much so. As Mr. Gatewood discusses at Section II. D.:

21           • It is surprising that the Joint Applicants would commit to a transaction  
22           such as this one when the outcome is largely dependent on a specific  
23           ratemaking treatment (use of utility operating company capital structure)

1                   that is contrary to the common practice of the KCC, Missouri PSC, and  
2                   FERC.

3                   • Most surprising of all, the Joint Applicants did not raise this issue at all in  
4                   their Joint Application or direct testimony and only briefly raise the issue  
5                   in the Supplement Direct Testimony of Darrin Ives. It appears that the  
6                   Joint Applicants are willing to defer a decision on an issue that is critical  
7                   to their ability to complete the transaction. This willingness shifts a  
8                   tremendous amount of risk to future rate cases and, as will be discussed  
9                   later, impairs the Commission’s ability to effectively regulate the post-  
10                  transaction entity.

11               **E. Overall effect of the purchase price and acquisition premium on the**  
12               **newly created entity compared to the stand-alone entities.**

13               **Q. What is the overall effect of the proposed transaction on the financial**  
14               **condition of the newly created entity as compared to the financial condition**  
15               **of the stand-alone entities if the transaction did not occur?**

16               A. Staff witness Mr. Gatewood states at Section II. A. that the overall effect of the  
17               proposed Transaction on the financial condition of GPE and Westar post-  
18               acquisition as compared to the financial condition of the stand-alone entities  
19               results in a newly created entity that is measurably financially weaker. Both GPE  
20               and Westar are currently financially sound with investment grade credit ratings;  
21               therefore, the transaction, as proposed, fails merger standard (a)(i).

22  
23

1 **Q. What evidence supports Staff's conclusion?**

2 A. Mr. Gatewood relies primarily on parties' (credit rating agencies' and equity  
3 analysts') published statements of to support his conclusion

4 **1. Analysis of the transaction by GPE's and Westar's credit**  
5 **rating agencies.**

6 **Q. What are the views of GPE's and Westar's credit ratings agencies?**

7 A. GPE's and Westar's credit rating agencies were requested by GPE and Westar to  
8 evaluate the proposed transaction and determine the credit worthiness of the post-  
9 transaction entity. The credit rating agencies' views are important because their  
10 analysis provides an indication of how much risk is associated with a particular  
11 entity and results in an assignment of what level of investment grade an entity  
12 should be. It is critical to note that the credit ratings agencies' evaluations are  
13 based on the Joint Applicants' transaction as proposed. The Joint Applicants  
14 provided the credit rating agencies the financial model and pro forma financial  
15 information that was based on the financial engineering discussed above.  
16 Specifically, the pro-forma financial information included the utility's operating  
17 capital structure to derive revenues. As indicated below, even with this best case  
18 scenario, the rating agencies expressed deep concerns.

19 Moody's and Standard & Poors (S&P) provided indicative ratings on the  
20 transaction as proposed, while Fitch performed a research update. And all three  
21 rating agencies expressed concerns regarding the post-transaction entity's  
22 financial strength for both Westar as a subsidiary and GPE as the parent company.  
23 As a result, all three agencies view GPE and Westar as financially weaker post-

1 transaction, with certain concerns pointing either to a weakly positioned  
2 investment grade utility or to the potential for sub-investment grade ratings.

3 Primary concerns expressed by the rating agencies are:

- 4 • Limited financial flexibility at GPE, weak consolidated financial  
5 metrics and demand for increased utility dividends.<sup>17</sup>
- 6 • Ring-fencing provisions and/or substantial customer benefits through  
7 bill credits or rate freezes would likely put negative ratings pressure on  
8 the utility (Westar subsidiary).<sup>18</sup>
- 9 • High consolidated leverage without a plan from GPE to de-lever.<sup>19</sup>
- 10 • GPE is sacrificing its strong financial profile and the transactions  
11 financing plans are viewed as a signal that GPE's management and  
12 board of directors have a higher tolerance for leverage than previously  
13 considered, which is a long-term credit negative.<sup>20</sup>
- 14 • GPE's significantly weakened financial position at close could result  
15 in a downgrade to speculative grade if anticipated financial  
16 improvements are jeopardized due to less regulatory supportiveness,  
17 financially restrictive merger requirements, declining or stagnant

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<sup>17</sup> "Westar Energy, Inc.; Vertically Integrated Regulated Electric Utility;" Moody's Investor Services, Credit Opinion; June 2, 2016; p. 4, Direct Testimony of Adam Gatewood, Section I.A.

<sup>18</sup> "Westar Energy, Inc.; Vertically Integrated Regulated Electric Utility;" Moody's Investor Services, Credit Opinion; June 2, 2016; p. 4, Direct Testimony of Adam Gatewood, Section I.A.

<sup>19</sup> Fitch website; <https://www.fitchratings.com/site/pr/1005447>, Direct Testimony of Adam Gatewood, Section I.A.

<sup>20</sup> Moody's website; [https://www.moodys.com/research/Moodys-Places-Great-Plains-Energy-on-Review-for-Downgrade-Westar--PR\\_349858](https://www.moodys.com/research/Moodys-Places-Great-Plains-Energy-on-Review-for-Downgrade-Westar--PR_349858); May 31, 2016 Press Release by Moody's Investor Service. Direct Testimony of Adam Gatewood, Section I.A.



1 economic environment, or inability to capture synergies from  
2 acquisition.<sup>21</sup>

3 • There is little room for error within GPE’s financial forecasts,  
4 including regulatory outcomes and economic factors (including  
5 interest rate levels) which creates a lower tolerance threshold for  
6 negative credit events, and a higher likelihood for a downgrade.<sup>22</sup>

7 • The amount of debt related to the acquisition is viewed as highly  
8 aggressive and evidence of financial engineering.<sup>23</sup>

9 **2. Analysis of the transaction by GPE’s and Westar’s equity**  
10 **analysts.**

11 **Q. What are the equity analysts’ views of the transaction?**

12 A. Equity analysts provide coverage of companies as a subscription service or as part  
13 of a broader investment advisory service for clients. The views of equity analysts  
14 are important because they are an indicator of the equity market’s assessment of  
15 the risk a specific utility company poses as an equity investment.<sup>24</sup> The equity  
16 analysts’ views expressing concerns about the transaction as proposed generally  
17 are as follows:

18 • The amount of debt required to fund the transaction places GPE at  
19 risk.

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<sup>21</sup> Great Plains Energy Incorporated: A Midwest Utility Holding Company; Moody’s Investment Service; Credit Opinion; June 1, 2016; p. 2; Direct Testimony of Adam Gatewood, Section I.A.

<sup>22</sup> Moody’s RAS Correspondence, p. 5; Direct Testimony of Adam Gatewood at Section I.A.

<sup>23</sup> Moody’s RAS Correspondence, p. 6; Direct Testimony of Adam Gatewood at Section I.A.

<sup>24</sup> Direct Testimony of Adam Gatewood at Section II.B.

- 1                   • The amount of leverage raises concerns over whether the utility  
2                   operating company capital structure or the consolidated capital  
3                   structure will be used by regulators because it is important that the  
4                   operating company capital structure be used.

5           **F.     Effect of purchase price and acquisition premium on Westar’s**  
6           **shareholders.**

7   **Q.     What effect do the purchase price and acquisition premium have on**  
8           **Westar’s shareholders?**

9   A.     Mr. Grady discusses the effect of the transaction on Westar Shareholders at  
10           Section IV. A. of his testimony. Mr. Grady notes that GPE made its first board-  
11           sanctioned “preliminary proposal” to acquire Westar on October 7, 2015 for 20-  
12           25% over the then current market price. Assuming a 22.5% premium, GPE’s  
13           offer of \$46.75/share would have been 184% of Westar’s book value of  
14           \$25.32/share on June 30, 2015. GPE made its second board-sanctioned offer on  
15           February 18, 2016 at a price of \$54.86, which was a 20% premium over the  
16           current market price. The value to Westar’s shareholders would have been 212%  
17           of Westar’s book value on December 31, 2015.

18                   Westar did not accept either offer and instead decided to initiate an auction  
19                   process. As a result of the competitive bid process, GPE agreed to pay \$60/share,  
20                   which equates to a 230% premium over Westar’s book value as of June 30, 2016.  
21                   These final offer accepted by Westar of \$60/share results in a situation where  
22                   Westar’s shareholders went from a trading price of \$34.22/share on June 30, 2015  
23                   to \$60/share one year later. As described by Mr. Grady, this is an amazing level

1 of gain in shareholder value in just one year. Moreover, the shareholder gain was  
2 not related to an increase in the net book value of equity supporting utility assets  
3 as the net book value only increased slightly (\$0.76/share).

4 As Mr. Hempling notes in his testimony at Section II. D. 1. and 2., the  
5 control premium portion of the acquisition premium overcompensates Westar's  
6 shareholders. Mr. Hempling's rationale lies in the fact that when markets are  
7 efficient and when competition is effective, gain goes to those who create  
8 economic value. Thus, shareholders deserve gain when they take risks to improve  
9 their company and when their company's executives take action that increases  
10 quality or lowers costs. In Westar's case, the control premium of \$2.3 billion is  
11 not related to risk-taking by Westar's shareholders or managerial actions by  
12 Westar executives.

13 **G. Effect of the purchase price and acquisition premium on GPE's**  
14 **shareholders.**

15 **Q. What effect do the purchase price and acquisition premium have on GPE's**  
16 **shareholders?**

17 A. Mr. Grady determines that this Transaction will likely be detrimental to GPE's  
18 shareholders in his evaluation at Section IV. B. Mr. Grady's general observation  
19 is that while GPE's offer increased by \$2 billion from October 2015 through May  
20 31, 2016, the assets GPE purchased that generate earnings (book value of  
21 Westar's equity) only increased \$107 million and the staggering size of the total  
22 acquisition premium of \$5 billion over book value adds debt and equity to GPE's  
23 balance sheet, without a corresponding asset to produce regulated returns.

1                   Mr. Grady also runs numerous scenarios through GPE's financial model.  
2                   These scenarios include: 1) the impact of GPE's stock price decline; 2) the  
3                   Commission deciding to use GPE's consolidated capital structure; 3) the Missouri  
4                   PSC deciding to use GPE's consolidated capital structure; 4) the Commission  
5                   agreeing with Staff's recommendation to require a sharing of 50% of the  
6                   projected cost savings and that the savings be returned in the form of bill credits,  
7                   5) the Commission requires a rate moratorium of 3 years; and 6) a confidential  
8                   scenario that I do not address in my testimony. Of important note, many of these  
9                   scenarios are either likely to happen in a rate case or would be recommended as  
10                  conditions to this Transaction. While much of the details of Mr. Grady's analysis  
11                  are confidential, it is clear earnings per share and earned ROE are very  
12                  significantly and negatively impacted by any of these assumptions.

13                  **H.     Conclusions regarding the effect of the purchase price and acquisition**  
14                  **premium on the post-transaction entity.**

15                  **Q.     What conclusions does Staff draw from the effect of the purchase price and**  
16                  **acquisition premium on the post-transaction entity?**

17                  A.     The following conclusions can be drawn:

- 18                         •     The competitive bid process initiated by Westar derived a  
19                                 \$60/share value of Westar's shareholders. This value is 230%  
20                                 premium over Westar's book value as of June 30, 2016. It is clear  
21                                 that Westar was highly successful in maximizing value for its  
22                                 shareholders to the detriment of GPE's expected financial  
23                                 condition.

- 1           • The purchase price and corresponding acquisition premium and  
2                     control premium are so high that GPE is likely to be downgraded  
3                     by credit rating agencies, even with the financial engineering  
4                     included in GPE’s financial model.
- 5           • Any decision by the Commission to recognize the financial  
6                     engineering in rates by using GPE’s consolidated capital structure  
7                     to set Westar’s and KCP&L’s revenue requirements will most  
8                     likely result in GPE being downgraded to below investment grade.  
9                     The adverse financial results of such a decision have been modeled  
10                    by Mr. Grady.
- 11          • The purchase price, size of the acquisition premium, and financial  
12                     engineering included in GPE’s financial model all result in a  
13                     weakly positioned post-transaction entity, *as proposed*. Therefore,  
14                     Staff cannot recommend approval of the Transaction with typical  
15                     merger conditions because the merger conditions will further  
16                     degrade GPE’s financial condition and will most likely result in a  
17                     credit rating downgrade to below investment grade. This creates a  
18                     fatal flaw for the transaction. More specifically, Staff is in an  
19                     untenable position where it can’t recommend approval of the  
20                     Transaction with merger conditions knowing that such conditions  
21                     will result in severe financial difficulties for GPE, its subsidiary  
22                     utilities, and those utilities’ customers.

1    **Q.     The Commission’s prior merger decisions have not required a target**  
2           **company to select the acquirer that is the best fit for customers.**  
3           **Given the auction process Westar used to establish its purchase price**  
4           **and related acquisition premium, should the Commission order such**  
5           **in this case?**

6    A.    Mr. Hempling asks this question at Section II.C.2. Mr. Hempling’s  
7           response to this question in pertinent part states:

8                    Would it have been better had the Commission, prior to this  
9                    Transaction, made this point explicitly? Yes. But the rule  
10                   has always existed implicitly, in the utility's unambiguous,  
11                   undisputed obligation to minimize its customers' costs.  
12                   And the rule exists within the Commission's merger  
13                   standard (a)(ii). A purchase price cannot be "reasonable" if  
14                   it reflects a decision to put shareholder and ratepayer  
15                   interests in opposition, creating debt in the holding  
16                   company not for purposes of investing in customer benefits  
17                   but for purposes of providing target shareholders unearned  
18                   gain.  
19

20                   Mr. Hempling continues by discussing how the Commission can fix  
21                   the problem. Mr. Hempling advocates that one way to eliminate the  
22                   conflict between shareholders and ratepayer interests is to require a utility  
23                   to run a competition based on benefits to customers and, if there is a  
24                   control premium (the excess of purchase price over market price),  
25                   customers would receive a portion commensurate with their contribution  
26                   to its value. Elaborating on the utility’s obligation, as in a competitive  
27                   market, to put customers first, Mr. Hempling states:

28                   This reasoning fits well within the Commission's merger standards  
29                   (a)(ii), (a)(iv) and (g). In competition generally, in regulation

1 generally, and in just and reasonable ratemaking specifically,  
2 customer interests and shareholder interests are aligned—as long  
3 as those interests are legitimate. Customers need a utility whose  
4 financial condition is sufficiently strong to attract capital on  
5 reasonable terms. Shareholders need customers who are satisfied  
6 with their quality of service and the rates they pay. Just and  
7 reasonable rates satisfy both interests. There may be differences of  
8 opinion over methodologies and standards—differences that exist  
9 among customer groups as well as between customers and  
10 shareholders. But at bottom, the legitimate interests are aligned.  
11 The acquisition premium paid here creates a misalignment. It  
12 reflects Applicants' intent to set shareholders against ratepayers—  
13 to pay a purchase price determined not by the value of the  
14 transaction to consumers but by the gain-seeking goals of Westar  
15 shareholders. Such conflict cannot be consistent with the  
16 "reasonableness" criterion of Commission standard (a)(ii). And  
17 because the purchase price was determined by auction among  
18 buyers rather than analysis of customer savings, it violates the  
19 requirement of Commission standard (a)(iv), that there be  
20 operational synergies that justify payment of the premium.  
21 Finally, a transaction between monopolies, neither one disciplined  
22 by competition for the consumer, where the seller is seeking a  
23 price unrelated to the benefits it provides the consumers, is  
24 untethered from the goal of economic efficiency, necessarily  
25 violating Commission standard (g)'s requirement that the  
26 transaction "reduce the possibility of economic waste." Using  
27 dollars to pay Westar's gain rather than investing them prudently in  
28 needed infrastructure is the definition of "economic waste."  
29

30 **I. Recommendation regarding GPE's use of financial**  
31 **engineering.**

32 **Q. Given Staff's concerns noted above, what is Staff's recommendation**  
33 **regarding the financial engineering associated with the consolidated**  
34 **capital structure issue?**

35 A. Staff's recommendation is that the Commission should issue a decision in  
36 its order in this case that clearly states its position of whether it expects the  
37 consolidated capital structure to be used in future rate cases filed by GPE's

1 utility operating companies, as is now the case. If the Commission's  
2 decision is that GPE's consolidated capital structure should be used, then  
3 the Commission should order GPE and Westar to terminate the transaction  
4 unless they can agree to modifications to the Transaction that cure the  
5 multitude of financial issues associated with GPE's retention of the  
6 savings associated with the use of financial engineering. This, of course,  
7 would require the Joint Applicants to file a new application with the  
8 Commission. While it is highly unlikely the Joint Applicants choose to do  
9 so, the Commission could offer the opportunity. Should the Commission  
10 disagree with Staff and allow the use of a utility operating company  
11 capital structure, it is likely the merger could be completed from the Joint  
12 Applicants' perspective. However, as Staff points out in its testimony, its  
13 deep concerns related to the Joint Applicants' weakened financial  
14 condition, the short-term financial model, and undemonstrated savings  
15 associated with this Transaction. Therefore, the Commission should  
16 prohibit the Joint Applicants from completing the transaction until such  
17 time as they can provide savings estimates derived from the transition  
18 teams and can expand their financial model to at least ten years to provide  
19 a more accurate view of financial forecasts, including any plans to de-  
20 lever GPE.

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**IV.**

**Limited Savings do not Justify the Purchase Price or a \$5 Billion  
Acquisition Premium**

**A. Staff’s NPV analysis of savings.**

**Q. Are there synergies that justify payment in excess of book value  
(Merger Standard (a)(iv))?**

A. Mr. Grady concludes the answer is no at Section III of his testimony. Mr. Grady’s conclusion is based on two different discounted cash flows analysis he performed to determine the net present value (NPV) of GPE’s expected savings, which demonstrate that the NPV of savings is nowhere near the premium GPE has agreed to pay in excess of Westar’s book value. Mr. Grady performed a NPV analysis of GPE’s expected retained synergies and derived an AP that can be supported of \$264.3 million. Mr. Grady also performed a NPV analysis of GPE’s expected total savings (rate recovery approach) that derived an AP that can be supported of \$685.15 million.

Mr. Grady also notes that GPE has indicated in discovery responses and its direct testimony that neither the purchase price, nor the purchase price over book value (AP) is directly tied to costs savings anticipated by GPE. In fact, GPE admits through the Supplemental Direct Testimony of Kevin Bryant on page 7 that “the amount of the acquisition premium and the savings resulting from the merger result from different

1 sources and are driven by different factors.”

2 **B. Reasons other than savings to pay the acquisition premium.**

3 **Q. If savings are not related to the acquisition premium, why would GPE pay a**  
4 **\$5 billion AP and not request recovery of it?**

5 A. Mr. Grady answers this question at Sections III. G and H. of his testimony. Mr.  
6 Grady notes that, because utility companies in Kansas are fully-regulated  
7 monopolies, their ability to create earnings and value for shareholders is directly  
8 tied to the book value of equity they have invested in utility assets. Therefore, if a  
9 utility buys another utility for a significant premium in excess of the book value  
10 of equity, either one of two must be the case. Either 1) the buyer expects to create  
11 additional cash flows (earnings) by cutting costs, increasing revenues, etc. which  
12 the seller was unable to do, or 2) the buyer’s expected cost of capital (required  
13 return on capital) is much less than is included in the rates of the acquired utility.

14 **C. Rationale for sharing of the \$2.3 billion control premium portion of**  
15 **the acquisition premium.**

16 **Q. Please summarize Staff witness Scott Hempling’s rationale for advocating for**  
17 **customers sharing in the control premium paid to Westar’s shareholders.**

18 A. Mr. Hempling defines control premium as the excess of GPE’s purchase price  
19 over Westar’s pre-acquisition “undisturbed” stock value, where “undisturbed  
20 means Westar’s stock price on March 9, 2016, the day before news leaked of a  
21 potential purchase of Westar. [Hempling at Section II.A.].

1 Mr. Hempling articulates his rationale for sharing the control premium based on  
2 each parties' contributions in creating the premium at Section I. C. where he  
3 states:

4 The \$2.3 billion control premium (the excess of purchase  
5 price over undisturbed market value), paid by GPE exclusively to  
6 Westar shareholders, conflicts with the public interest. The control  
7 premium results from Westar running a competition won by the  
8 contestant offering the highest price, with customer benefit only  
9 incidental. The premium overcompensates Westar shareholders  
10 because (a) its value is grounded in factors unrelated to their risk-  
11 taking or their executives' decision-making; and (b) it exceeds the  
12 legally required compensation they already have received due to  
13 this Commission's lawful rate-setting.

14 Adding to the public interest detriment is the large  
15 acquisition debt GPE would incur to buy Westar's equity at a  
16 premium. To pay off that debt, GPE would keep rates above costs  
17 plus reasonable profit. This plan contradicts Applicants' claim that  
18 their Transaction is the "best" for customers and that they will not  
19 recover the premium from customers. That same debt will  
20 constrain the Commission's future decisions, by making GPE less  
21 able to weather declines in revenue. Those declines could occur if  
22 the Commission or Legislature decides to attract new businesses to  
23 Kansas by offering them roles in expanding and modernizing  
24 Kansas's electricity infrastructure.

25 The size of the premium—and the accompanying GPE  
26 debt—is reason enough to reject this Transaction. But if the  
27 Commission grants approval, it still should address the  
28 overcompensation. It can do so by allocating the control premium  
29 (the excess of purchase price over market value) between  
30 shareholders and customers according to their contribution to the  
31 premium's value. Only that way will the Transaction, and  
32 Commission policy, align acquisition decisions with the principles  
33 of economic efficiency and fiscal conservatism.  
34

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1           **D.     Quantification of the factors creating the \$2.3 billion control**  
2                           **premium.**

3   **Q.     Can Staff quantify the factors driving the control premium?**

4   A.     Yes. Mr. Grady evaluates four factors that are key to GPE's economic decision to  
5           acquire Westar as such a significant premium. The factors are: 1) Westar's cost  
6           of equity is substantially lower than Westar's authorized return; 2) GPE's use of  
7           holding company debt to purchase Westar's equity; 3) operating cost savings and  
8           GPE's expectations that these savings can be retained from ratepayers (this factor  
9           was not allocated any dollars because Staff witness Diggs recommends that 50%  
10          of these cost savings be shared with ratepayers through bill credits); and 4) GPE's  
11          ability to accelerate the use of its regulated net operating losses. Mr. Grady's  
12          calculations result in \$1.545 billion being allocated to ratepayers. Mr. Grady  
13          suggests this value can be shared via a bill credit or cash refund in the amount of  
14          \$38.6 million over 40 years. Or the Commission could order Westar to issue a  
15          one-time rebate to customers of \$478.6 million, which is the net present value of  
16          \$38.6 million a year for 40 years discounted at Westar's last approved weighted  
17          average cost of capital of 7.65%. [Grady at III. I. and J.].

18           **E.     Quantification of the ratepayer impact from GPE's retention of the**  
19                           **savings created by financial engineering.**

20   **Q.     What impact does the financial engineering have on ratepayer benefits that**  
21           **can be quantified from the Transaction?**

22   A.     Mr. Gatewood defines the impact of the financial engineering as a negative  
23          benefit in his testimony at Section III. Mr. Gatewood's definition is based on the

1 fact that Staff views savings from financial instruments the same as operational  
2 savings and customers should receive the benefit of such savings, be they labor  
3 efficiencies or a lower cost of capital. Mr. Gatewood also explains:

- 4 • Parent companies can manipulate subsidiary company capital structures to  
5 the benefit of the parent company's shareholders. This manipulation can  
6 occur because parent companies do not have to assign capital to utility  
7 subsidiaries based on an accurate reflection of the capitalization at the  
8 parent company level. Staff has found instances where parent company  
9 capital structures contained significantly more leverage than the capital  
10 structure assigned to the utility operating company. Thus the parent  
11 company had a lower overall cost of capital than its subsidiary.
- 12 • Mr. Gatewood estimates that the Joint Applicants plan to use utility  
13 operating company capital structures results in the annual retention for  
14 GPE shareholders of between \$90 million and \$136 million when using  
15 data from Westar's and KCP&L's currently filed abbreviated rate cases.
- 16 • The Joint Applicants were asked to use their financial model to estimate  
17 the annual retention in savings from use of the consolidate capital  
18 structure. The estimated annual retention for GPE's shareholders is  
19 confidential but is in excess of \$100 million. This number is different  
20 from Mr. Gatewood's analysis because the financial model contains  
21 assumptions regarding rate base growth and rate case timing.

1           Based on the above analysis, it is clear there are significant annual cost savings  
2           that are not being shared with customers.

3   **Q.    What is Mr. Gatewood’s recommendation regarding the policy of using a**  
4           **consolidated capital structure to set rates?**

5   A.    Mr. Gatewood believes that the policy of using a consolidate capital structure and  
6           cost of debt is reasonable and within the Commission’s discretion. Mr. Gatewood  
7           supports his assertion at Section III. A. by describing the absolute control a parent  
8           company has over the operations of a subsidiary and that this fact is also  
9           recognized by credit rating agencies. Mr. Gatewood also notes that he has  
10          consistently used the consolidated capital structure since at least 2000 and the  
11          Commission has consistently accepted its use.

12

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**V.**

14           **The Proposed Transaction Preserves the Commission’s Jurisdiction but the**  
15           **Capacity of the Commission to Effectively Regulate the Post-Merger Entity**

16

**Will be Impaired**

17

18   **Q.    Why does Staff believe that the Transaction could diminish the**  
19           **Commission’s ability to effectively regulate the post-merger entity?**

20   A.    Mr. Gatewood addresses this issue in his testimony at Section IV. Mr. Gatewood  
21           asserts that, if the transaction is completed, the financial weakness of the post-  
22           transaction entity will be such that the Commission’s regulatory and ratemaking  
23           options will be limited. Moreover, Moody’s has concerns when it states “With

1 little financial cushion, Great Plains will be more exposed to risks associated with  
2 successfully executing a transition and integration plan and long-term issues, such  
3 as waning regulatory support and softening of regional macro-economic  
4 fundamentals.”<sup>25</sup> Given the fact that the post-transaction entity will have little  
5 financial cushion, a future Commission will be under pressure to adopt practices  
6 that it might not otherwise adopt in order to provide the regulatory support that  
7 Moody’s is concerned might wane.

8 **Q. Has the Commission experienced a financially troubled investor-owned**  
9 **electric utility before?**

10 A. Yes. The two examples were Westar and Aquila. Both of these utilities  
11 required general investigation dockets to investigate and closely oversee  
12 their financial problems. In the case of Westar, Docket No. 01-WSRE-  
13 949-GIE was opened on May 8, 2001, and closed on August 26, 2005.  
14 Westar’s credit rating remained below investment grade for approximately  
15 7 years by one credit rating agency. In the case of Aquila, the  
16 investigation of Aquila’s financial issues began on March 11, 2002, with  
17 the Commission opening Docket No. 02-UTCG-701-GIG. This docket  
18 was closed on February 16, 2009. Aquila did not survive its financial  
19 issues and was acquired in a series of transactions.

20

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<sup>25</sup> [https://www.moodys.com/research/Moodys-Places-Great-Plains-Energy-on-Review-for-Downgrade-Westar--PR\\_349858](https://www.moodys.com/research/Moodys-Places-Great-Plains-Energy-on-Review-for-Downgrade-Westar--PR_349858); May 31, 2016 Press Release by Moody’s Investor Service.

1    **Q.    Are there other issues that raise concerns regarding the Commission’s ability**  
2           **to effectively regulate the post-merger entity?**

3    A.    Yes. Mr. Hempling has similar comments to Mr. Gatewood’s. But Mr. Hempling  
4           also raises a relevant point regarding the use of surcharges, riders, and adjustment  
5           clauses at Section II. E. 1. Mr. Hempling specifically states:

6                           ... But once GPE incurs its acquisition debt there will be  
7                           pressure—from rating agencies, lenders, stockholders and GPE  
8                           management—to set authorized returns based not on proper capital  
9                           market theory and actual capital costs but on GPE's own needs—  
10                          its acquisition-induced needs. The Commission can avoid this  
11                          pressure by not allowing an acquisition that creates conflict  
12                          between GPE's own interests and Kansas's broader interests.

13  
14                          *This reasoning applies as well to the continuing conversation in*  
15                          *the regulatory field about the use of surcharges, riders and*  
16                          *adjustment clauses. Each of these devices is a departure from*  
17                          *traditional cost-based ratemaking. In traditional cost-based*  
18                          *ratemaking, the revenue requirement and the resulting rates are*  
19                          *based on predictions about costs and sales. Shareholders and*  
20                          *customers bear the risk that actual costs and sales will vary from*  
21                          *the predictions. The goal is always to allocate that risk in a way*  
22                          *that strikes a cost-effective balance between minimizing the cost of*  
23                          *capital (which rises with risk) and maximizing the utility's*  
24                          *incentive to act prudently (which creates benefits for consumers).*  
25                          [Emphasis added].

26  
27                          There are numerous ways to "skin this cat"—numerous ways to  
28                          allocate risks between shareholders and customers. My purpose is  
29                          not to advise the Commission on their merits. My purpose, rather,  
30                          is to emphasize that once the Commission approves an acquisition  
31                          for which the acquirer incurs large debt, it will face pressure to  
32                          reallocate risks from shareholders to customers, regardless of the  
33                          effects on economic efficiency.

34



1 Mr. Hempling also discusses in Section V. of his testimony the impacts of  
2 eliminating “across-the-fence rivalry” and “benchmark” competition between  
3 GPE and Westar. Of particular note, Mr. Hempling states:

4 Loss of benchmark competition was among the reasons the  
5 California Commission rejected the proposed merger between  
6 Southern California Edison and San Diego Gas & Electric. The  
7 Commission found that due to those two companies' longstanding  
8 rivalry, the public was "advantaged by the presence of proximate  
9 comparative data": data that spurred SDG&E to study the reasons  
10 for its higher rates. The Commission concluded that "the loss of  
11 SDG&E as a regulatory comparison is an adverse unmitigable  
12 impact of the proposed merger," diminishing the Commission's  
13 "ability to regulate the merged utility effectively." [Cite omitted].  
14

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## VI.

16

### **Staff's Evaluation of Claimed Merger Savings**

17

18 **Q. What are Staff witness Walt Drabinski's findings related to the savings**  
19 **claimed by the Joint Applicants?**

20 **A.** Mr. Drabinski performs an extensive generation unit retirement analysis on the  
21 generation units the Joint Applicants have included in their claimed savings at  
22 Section II. of his testimony. Overall, Mr. Drabinski finds that the Joint  
23 Applicants have not provided adequate analysis or support through testimony of  
24 the claimed savings. Mr. Drabinski concludes, in part:

25 • There is a great deal of uncertainty, hesitation, and disagreement as to  
26 exactly what will occur with the combined generation fleet post-merger.

- 1           • The fact that there is overcapacity in the Southwest Power Pool (SPP) and  
2           that SPP recently lowered its capacity reserve margin from 13% to 12% is  
3           a reason to evaluate generation unit retirement either pre or post-merger.
- 4           • Neither the Joint Applicants nor SPP has performed any comprehensive  
5           study to evaluate the impact of potential generation unit retirements.
- 6           • The generation unit retirements are not merger related because both  
7           Westar and GPE would face reserve margins that are well above the new  
8           requirements of SPP.
- 9           • The Joint Applicants did not include all of the costs to achieve the  
10          generation unit retirements. Excluded costs include stranded costs for the  
11          remaining net book value of each unit, the economic cost of dispatching  
12          the next highest cost unit, and lack of analysis on the impact to local  
13          communities.

14          Mr. Drabinski also evaluated supply chain savings at Section V. and determined  
15          that the savings can be achieved without a merger.

16   **Q.    What are Staff witness Ann Diggs' findings related to the savings claimed by**  
17   **the Joint Applicants?**

18   A.    Staff consultant Ann Diggs addresses the claimed transaction savings, shared  
19    services savings, and quantifies ratepayer benefits. Ms. Diggs summarizes her  
20    findings at Section II. Her general findings are that the Joint Applicants have the  
21    burden to demonstrate savings for the Commission to evaluate the effect of the  
22    transaction on consumers, and determine if the Transaction will promote the

1 public interest. Per Ms. Diggs, the Joint Applicants have failed to demonstrate a  
2 sufficient, credible estimate of savings.

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**VII.**

5

**Staff's Recommendation for Quality of Service Standards**

6

7 **Q. Does Staff recommend quality of service standards?**

8 A. Yes. Staff witness Casey Gile's testimony addresses quality of service  
9 standards and the rationale for implementing standards while Walt Drabinski's  
10 testimony at Section VI. provides quality of service metrics.

11 **Q. What is Staff's rationale for recommending quality of service standards?**

12 A. Mr. Gile provides a rationale for recommending quality of service standards in his  
13 executive summary. Mr. Gile's primary concern is with the Joint Applicants'  
14 ability to maintain and improve the quality of service currently provided to  
15 Kansas customers while dramatically reducing the operating costs of the  
16 combined company.

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**VIII.**

**Analysis of the Integration of Joint Applicants' Transmission and  
Distribution Systems**

**Q. Did Staff evaluate the Joint Applicants' transmission and distribution systems?**

A. Yes. Mr. Drabinski describes his analysis of the integration of the Joint Applicants' transmission and distribution systems in Section III. of his testimony. His analysis covers:

- Engineering Standards
- System design comparison
- Post-merger staffing and budget analysis
- Reliability programs and measurement
- Vegetation management
- Implementation of IT systems

**IX.**

**Conclusion**

**Q. What is Staff's overall conclusion?**

A. Staff's overall conclusion is that the proposed Transaction fails most of the merger standards and is, therefore, not in the public interest. Moreover, there are

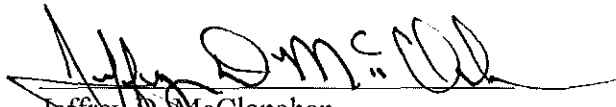
**Direct Testimony of Jeffrey D. McClanahan**  
**Docket No. 16-KCPE-393-ACQ**

1           fundamental flaws in the proposed Transaction that prohibit Staff from  
2           recommending merger conditions that would support a finding that the  
3           Transaction is in the public interest. Thus the proposed Transaction should be  
4           denied.

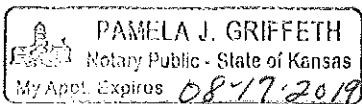
STATE OF KANSAS                    )  
  ) ss.  
COUNTY OF SHAWNEE            )

**VERIFICATION**

Jeffrey D. McClanahan, being duly sworn upon his oath deposes and says that he is Director, Utilities Division for the State Corporation Commission of the State of Kansas, that he has read and is familiar with the foregoing Direct *Testimony*, and that the statements contained therein are true and correct to the best of his knowledge, information and belief.

  
Jeffrey D. McClanahan  
Director, Utilities Division  
State Corporation Commission of the  
State of Kansas

Subscribed and sworn to before me this 16<sup>th</sup> day of December, 2016.



  
Notary Public

My Appointment Expires:

August 17, 2019

## CERTIFICATE OF SERVICE

16-KCPE-593-ACQ

I, the undersigned, certify that a true and correct copy of the above and foregoing Direct Testimony was served by electronic service on this 16th day of December, 2016, to the following:

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