THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

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 Acquisition of Westar Energy, Inc. by Great Plains Energy Incorporated.	))))))	Docket No. 16-KCPE-593-ACQ

NOTICE OF RE-FILING STAFF'S PRE-FILED DIRECT TESTIMONY WITHOUT REDACTIONS

The Staff of the Kansas Corporation Commission (Staff and Commission or KCC, respectively), pursuant to the Commission's January 26, 2017, *Order on Prehearing Motions*, hereby files un-redacted versions of the same testimony Staff filed with redactions on December 16, 2016. Staff also states the following:

1. The Commission's *Order on Prehearing Motions* ordered redaction removal from all parties' testimony except for information that fell into one of the following categories: (1) attorney-client privilege, (2) attorney work-product, or (3) critical infrastructure information which poses a security risk if made public.

2. Relevant to Staff, Attachment 1 of the *Joint Applicants' Response to Staff's Motion to Declassify All Staff Testimony and Exhibits* (Joint Applicant's Response), filed January 20, 2016, contained an itemized list, categories (1)-(7), identifying the particular confidential classifications claimed by the Joint Applicants included in Staff's pre-filed direct testimony. Category (4) was listed as "Advice of counsel or other outside experts, advisors or consultants." Category (7) was listed as "Critical infrastructure information that poses a security risk if made public."

3. The Joint Applicants did not designate any information in Staff's direct testimony under category (4).

4. Category (7), pertaining to critical infrastructure, referenced KCC Staff Data Requests (DRs) 47, 50, and 52. These are addressed solely in the pre-filed direct testimony of Walter Drabinski. Staff has kept redacted the portions of testimony pertaining to these DRs, but un-redacted the remainder of his testimony.

WHEREFORE, Staff respectfully submits its un-redacted pre-filed direct testimony for Justin Grady, Adam Gatewood, Walter Drabinski, Ann Diggs, Casey Gile, and Robert Glass. Note that Jeff McClanahan and Scott Hempling also filed on December 16, 2016, but their testimony did not contain any confidential information.

Respectfully Submitted,

Mil Nez

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STATE OF KANSAS)
) ss.
COUNTY OF SHAWNEE)

VERIFICATION

Michael Neeley, being duly sworn upon his oath deposes and states that he is Litigation Counsel for the State Corporation Commission of the State of Kansas, that he has read and is familiar with the foregoing *Notice of Re-filing Staff's Pre-Filed Direct Testimony Without Redactions* and that the statements contained therein are true and correct to the best of his knowledge, information and belief.

Michael Neeley # 25027
Kansas Corporation Commission of the
State of Kansas

Subscribed and sworn to before me this 27rd day of January, 2017.

VICKI D. JACOBSEN
Notary Public - State of Kansas
My Appt. Expires 6-30-18

Vicki D. Jacobsen
Notary Public

My Appointment Expires: June 30, 2018

BEFORE THE STATE CORPORATION COMMISSION
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PUBLIC

DIRECT TESTIMONY

PREPARED BY

Adam H. Gatewood

UTILITIES DIVISION

KANSAS CORPORATION COMMISSION

December 16, 2016
Resubmitted on January 27, 2017

****Denotes information that was considered confidential in December 16, 2016 filing****

This Testimony was unredacted and resubmitted on January 27, 2017 to comply with Commission Order Issued on January 26, 2017

Q. Would you please state your name and business address?

A. My name is Adam H. Gatewood. My business address is 1500 Southwest Arrowhead Road, Topeka, Kansas, 66604.

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

A. I am a Managing Financial Analyst in the Utilities Division of the Kansas Corporation Commission.

Q. What is your educational and professional background?

A. I graduated from Washburn University with a B.A. in Economics and a Masters of Business Administration. I have filed testimony before the Commission in more than 100 proceedings involving electric, natural gas, and telecommunications utilities primarily on cost of capital issues. Other areas of testimony and analysis before the Commission have been on the topics of transmission formula rates, mergers, and financing of nuclear decommissioning trusts. I have also filed testimony on cost of capital issues before the Federal Energy Regulatory Commission in natural gas pipeline and electric transmission dockets.

Q. What Merger Standards do you address?

A. My testimony addresses two of the Commission's Merger Standards:

a) i): The effect of the transaction on consumers, including: the effect of the proposed transaction on the financial condition of the newly created entity as compared to the financial condition of the standalone entities if the transaction did not occur;

a) iii): The effect of the transaction on consumers, including: whether ratepayer benefits resulting from the transaction can be quantified;

and

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

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I. Summary

Q. What is your recommendation?

A. I recommend that the Commission reject the Transaction because it does not meet the public interest tests espoused in Merger Standards a) i), a) iii), or d). If instead, the Commission chooses to approve the Transaction, Staff requests that it issue a decision that states its position on the use of the consolidated capital structure to set rates for the utility operating companies and the inclusion of capital cost savings in determining total merger savings. If it is the Commission's decision to approve the Transaction and use the consolidated capital structure, it should attach restrictions that only allow the transaction to proceed once the Joint Applicants can prove that GPE and its subsidiaries and Westar will maintain at least their current bond ratings. Staff believes such evidence must include a detailed financial plan that encompasses a path for GPE to deleverage from the $4.4 billion of debt related to this acquisition and return to a more balanced consolidated capital structure.

Q. What are your findings with respect to Merger Standard a) i)?

A. The Transaction takes two financially sound utilities and creates a new entity that, while retaining an investment-grade bond rating, is measurably weaker, even assuming highly favorable regulatory outcomes that are unlikely and counter to past Commission actions. More likely regulatory outcomes, less favorable to the Joint Applicants, would compound the financial weakness of the new entity.

Q. What are your findings with respect to Merger Standard a) iii)?

A. The Transaction harms consumers because it will require them to pay rates that are based on higher capital costs than the actual capital costs incurred by the Utilities. I estimate the cost to consumers to be between $90 million and $136 million annually based on my own analysis and the Joint Applicants' data request response to KCC-153.

Q. Why does Staff believe it is important to evaluate the effect of a merger transaction on the utilities' financial condition?

A. It is clear from prior Commission Orders on mergers that the Commission, as it should, takes this issue very seriously when evaluating a potential merger of public utilities. It is indisputable that the financial condition of a utility has an effect on the cost of providing service to consumers. Utilities with relatively poorer financial health pay relatively higher capital costs and utilities pass those higher costs on to consumers. There is also the added risk that utilities with poor financial health will likely focus less on providing high quality, reliable service, and more on rectifying the state of their poor financial health. In addition, utilities in financial distress consume considerably more of this agency's time and resources and the associated costs are ultimately passed on to customers.

Q. On a standalone basis, what is the financial condition of the Joint Applicants?

A. All of the parties involved in this acquisition are financially sound and possess investment-grade bond ratings. With the Transaction announcement, the rating agencies have put the Joint Applicants' ratings under negative watch and outlook. The following table summarizes the credit ratings of the Joint Applicants and their subsidiaries. Rating agency reports for each utility are attached as Data Request Industrials – 18.

Current Bond Ratings of Joint Applicants

	Moody's	S&P	Fitch
Westar Energy, Inc.	Baa1	BBB+	BBB+
Outlook	Stable	Negative	-
Watch	-	-	Negative
	5/31/2016	5/31/2016	6/1/2016
KG&E	Baa1	BBB+	BBB+
Outlook	Stable	Negative	-
Watch			Negative
	5/31/2016	5/31/2016	6/1/2016
Great Plains Energy	Baa2	BBB+	
Outlook	-	Negative	
Watch	Negative	-	
	5/31/2016	5/31/2016	
KCPL	Baa1	BBB+	
Outlook	Stable	Negative	
	5/31/2016	5/31/2016	
KCPL-GMO	Baa2	BBB+	
Outlook	Stable	Negative	
	5/31/2016	5/31/2016	
Source: SNL Financial			

The following table summarizes the lexicon of each credit rating agency. All of the ratings for the Joint Applicants are in the lower third of the investment-grade ratings. The vast majority of regulated public utilities fall into that same range.

	Fitch	Standard & Poors	Moody's
Investment Grade	AAA	AAA	Aaa
	AA+	AA+	Aa1
	AA	AA	Aa2
	AA-	AA-	Aa3
	A+	A+	A1
	A	A	A2
	A-	A-	A3
	BBB+	BBB+	Baa1
	BBB	BBB	Baa2
	BBB-	BBB-	Baa3
Speculative Grade	BB+	BB+	Ba1
	BB	BB	Ba2
	BB-	BB-	Ba3
	B+	B+	B1
	B	B	B2
	B-	B-	B3
	CCC+	CCC+	Caa1
	CCC	CCC	Caa2
	CCC-	CCC-	Caa3
	CC	CC	Ca
	C	C	C
Default	D	D	C

Q. Did Staff analyze the financial condition of the "newly created entity"?

A. Yes, Merger Standard a) i) requires a comparison of the existing, stand-alone entities to the new, merged entity. In my view, this particular Merger Standard is very important in the current financial climate in which we have witnessed acquisitions offering shareholders record high acquisition premiums relative to rate base or book value of the target utility. These high acquisition premiums are troublesome for regulators because they intensify the inherent conflict between shareholders and ratepayers. That is, shareholders are seeking a return on their investment in the merged utility (including the acquisition premium) that is commensurate with returns that are available in the market, while regulators set allowed returns only on the net book value of the merged utility's rate base. There is no return or revenue requirement provided for the acquisition premium paid to acquire the target utility. The acquisition premiums may first appear to be solely a problem for the shareholders who must endure having a significant amount of capital that does not directly earn a return or generate a revenue requirement. However, the problems spread to other stakeholders if the cash flows of the utility strain to cover the increased financing costs associated with high acquisition premiums. The result is a merged utility that may not offer healthy returns to equity investors or sufficient safety for bondholders. If the merged utility has difficulty enticing debt and equity investors, it will likely have problems raising capital on reasonable terms to finance future additions to its rate base, or at the very worst, problems simply continuing to provide efficient and sufficient service.

With this Transaction, GPE will issue an additional $4.4 billion of debt. Thus, at the close of this Transaction, GPE's balance sheet will contain all of the pre-merger long-term debt issued by the operating-utilities, plus an additional $4.4 billion of GPE long-term debt to service. However, there is no additional rate base to generate funds to pay the interest and principal on the $4.4 billion of GPE debt associated with the acquisition premium.

Q. How does Staff evaluate transactions under this particular Merger Standard?

A. For Merger Standard a) i), Staff relies heavily on the projections and forecasts provided by credit rating agencies. The utilities contract with rating agencies to provide a view of the potential credit rating post-transaction based upon assumptions provided by the utility's management. This is not a perfect situation given that the utility hires the rating agency and provides the underlying key assumptions for the analysis. However, there is some balance in that the rating agencies provide services to bond investors, too. Thus, they do have a reputation to protect. Through this process with the ratings agencies, the acquiring utility is able to obtain a relatively independent view of the financial condition of the merged entity prior to even making the acquisition offer to the target. From a regulator's perspective, this process is beneficial not only because we get the benefit of a third party's view of the risks associated with the transactions, but we also learn of management's assumptions for the merged entity. Both pieces of information are important for us to assess the expected financial condition of the merged entity.

II. The Merger Proposal Does Not Promote the Public Interest in light of Standard a) i) Because the Transaction Will Weaken the Financial Profiles of Each of the Joint Applicants.

A. Credit agency reports indicate a weaker financial profile for the newly created entity as compared to the Utilities' current financial profile.

Q Why do you believe that the Transaction does not promote the public interest in light of Standard a) i)?

A. The Transaction will result in a utility company that is measurably weaker than the Utilities were prior to the Transaction. Currently Westar, and its subsidiary KGE, as well as GPE, and its subsidiaries KCPL and GMO, are all financially sound, with investment grade bond ratings. There is no evidence that any of these entities would be in financial distress or could expect reduced credit ratings if they continued on their current, separate paths. There is no doubt that the financial weakness expected and forecasted by rating agencies and by the Joint Applicants is solely attributable to this Transaction. The Transaction proposed by the Joint Applicants results in a financially weaker utility, and, for that reason, it fails to meet the public interest test espoused in the Commission's Merger Standard a) i).

Q. Please discuss the evidence that points to a measurably weaker utility company.

A. The evidence comes from the credit rating agencies that assign credit ratings to Westar, KGE, GMO, KCPL, and GPE, as well as GPE's own financial model. These sources indicate that there will be a decline in the metrics relied on to measure credit quality of GPE, even if the Commission grants the Joint Applicants' request in full, exactly as proposed.

The credit profiles of the merged-utilities decline further if the Kansas and/or Missouri Commissions use the highly leveraged, consolidated corporate capital structure of GPE to set the revenue requirements for Westar, KCPL, and GMO, which is a very real possibility, and in Staff's view, the most likely outcome if the Transaction is approved.

Q. Why are the views of credit rating agencies important?

A. Credit rating agencies evaluate the credit worthiness of companies, that is, the likelihood that the holders of the companies' bonds will receive interest and principal payments in timely manner. The views of credit rating agencies are important because they are an indicator of how much risk is associated with a particular utility, which – in turn – translates into the return required by investors to be enticed to purchase the bonds issued by that utility. Consumers pay the interest expense of a utility's bonds; thus, a change in a utility's credit rating has a direct effect on ratepayers. Credit rating agencies' views of a utility may also change the pricing of a utility's bonds that are outstanding. Such a change in pricing of a utility's existing debt does not change the interest expenses paid by consumers, but it does change the value of those bonds held by investors. With regard to the Transaction, I believe the opinions expressed by the rating agencies are important evidence for the Commission to consider, as all three credit rating agencies are expressing concern that, with this Transaction, the Joint Applicants will be riskier investments than they are currently as stand-alone entities. Any increase in risk is likely to cause an increase in debt costs for the Joint Applicants and lower value on their existing bonds that are outstanding.

Q. Please discuss the credit rating services' response to the Transaction.

A. With respect to the credit rating services statements regarding Westar and KGE, the following pages contain excerpts from the reports with particularly significant findings emphasized. The reports are attached in their entirety to my testimony.

1. Moody's on Westar:

> Pro-forma under GPE ownership, we expect **Westar to increase its dividend from the amount it has historically paid to shareholders, in order to come more in-line with the 70% corporate payout of GPE (2015 and LTM 1Q16) and in order to help shoulder the load of acquisition debt**. We estimate that Westar will constitute roughly 50% of Great Plains' consolidated business. This would translate into at least $225 million of dividends from Westar to cover its share of the full amount of parent interest and dividend expense, or 75% payout of its 2015 Net Income.
>
> **Therefore, the limited parent financial flexibility at GPE, weak consolidated financial metrics and demand for increased utility dividends will constrain the rating of Westar at Baa1, despite prospects for improvement after conclusion of its wind expansion.**
>
> We do not see any downward pressure for Westar's rating, at this time, given the regulatory oversight of the utility operating company and strategic importance to GPE going forward. **We do note a high potential for additional ring-fencing type provisions to be introduced from the KCC as part of the requirements for merger approval. Should the upstream dividend demands for Westar become excessive or substantial customer benefits (e.g. bill credits or rate freezes) result in a multi-year reduction of Westar's retained cash flow, there would likely be negative ratings pressure at the utility**. ("Westar Energy, Inc.; Vertically Integrated Regulated Electric Utility;" Moody's Investor Services, Credit Opinion; June 2, 2016; p. 4)[1] (Emphasis added.)

This June 2nd report by Moody's (full report attached as Data Request Industrials – 18) on Westar/KGE notes that the $4.4 billion of acquisition debt at GPE will require "dividend" payments from the subsidiary (Westar and KGE) in order for GPE to make its interest payments on the acquisition debt. This is because GPE has few other means of generating

[1] Response to BPU 3-39.

cash flow to make its interest payments other than its equity stake in the utility companies. Moreover, Westar and KGE both have their own long-term debt to service, which is why the comment in the preceding paragraph indicates that regulatory commissions likely will place restrictions on the amount of annual dividends forwarded from Westar to GPE as a means of safeguarding the financial health of the subsidiary, Westar. While restricting dividend payments would protect the subsidiary's ability to finance its operations, such a protection would potentially be to the determent of the parent that depends on the dividend stream to make its interest payments. Moody's also reminds the reader that there is a potential for regulatory agencies to require immediate payments or rate reductions to consumers as part of the merger. Had Staff recommended approval of this Transaction, these types of predictable conditions would have been necessary. However, GPE did not include either assumption, although likely to occur, in the scenario it presented to rating agencies or its Financial Model, even though both are established practices in Kansas.

2. S&P on Westar:

On May 31st, S&P issued a review of Westar's and KGE's ratings, affirming the current ratings but noted a change to a negative outlook from the previous stable outlook. The discussion from S&P refers to the "combined entity's financial performance," noting that if the combined entity's financial health deteriorates, it will downgrade Westar. S&P bases its evaluation on the financial scenario that GPE modeled. Staff views some of the assumptions in that model to be overly optimistic because of the absence of the assumptions discussed above. I will discuss those assumptions later in my testimony.

> We are affirming our ratings on Westar and subsidiary Kansas Gas & Electric Co. (KGE), including the 'BBB+' issuer credit ratings, and revising the outlook to negative from stable.
>
> **The negative outlook reflects the potential for lower ratings on Westar, after the merger closes, if the combined entity's financial performance weakens such that funds from operations to total debt is consistently less than 13% after 2018.** ("Westar Energy Inc. And Sub Rtgs Affirmed And Outlook Revised To Negative On Proposed Acquisition By Great Plains Energy;" Ratings Direct: S&P Global Ratings; May 31, 2016; p. 2.) [2] (Emphasis added)

GPE's Financial Model provided in response to KCC-169 **indicates that the resulting "funds from operations to debt" is initially 12.9% in 2018, 14.7% in 2019, and 15.3% in 2020. Again, GPE bases its estimates on assumptions that Staff believes are overly optimistic outcomes in terms of rate concessions and sharing of savings. These ratios are barely above the 13% threshold set by S&P, but they are much lower than the stand-alone ratios of Westar and GPE for the 2019-2020 period; GPE's funds from operations to debt ratio ranges from 19% to 21% and Westar's ranges from 21% to 23%.** Funds from operations to debt is a measure of the amount of debt a company has taken on, and must service, relative to the cash flow the company generates.

3. Fitch Press Release on Westar:

Fitch issued statements in a press release at its website that are the strongest public statements on the financial ramifications of the leverage involved in the Transaction (Attached). Fitch states that it views the mere closing of the merger transaction as a credit-negative event that would result in a downgrade of Westar from its current BBB+ rating to either BBB (a one-notch reduction) or BBB- (a two notch reduction). Note that BBB- is the

[2] Response to BPU 3-39.

lowest investment grade rating. Furthermore, Fitch finds that the amount of leverage and resulting free cash flow relative to debt is indicative of a sub-investment grade rating.

4. Fitch Press Release on Westar (Negative Watch):

> High Consolidated Leverage: The sheer size of the acquisition compared to GXP's current balance sheet will weigh on GXP's financial profile. Fitch notes that the acquisition-related debt of $4.4 billion, excluding hybrid securities, is larger than GXP's consolidated reported debt of $4.2 billion at March 31, 2016. Adding Westar's existing debt of $3.6 billion, Fitch estimates that pro forma consolidated adjusted debt will likely exceed $13 billion while consolidated EBITDA will be close to $2 billion resulting in adjusted debt to EBITDA of about 6.5x. Fitch's estimates are roughly consistent with management's guidance of 13% -14% FFO-debt leverage post-merger. **These metrics typically equate to a 'BB' rating category, absent a firm and credible commitment to deleveraging.**
>
> Future developments that may, individually or collectively, lead to a negative rating action: **Fitch believes that the completion of the acquisition, based on the proposed financing structure as disclosed, would result in a one or two notch downgrade of Westar's ratings.** Fitch would consider a one-notch downgrade if GXP presents a firm and credible path to deleveraging to a capital structure consistent with a 'BBB-' rating and/or if regulatory approval of the acquisition results in effective ring-fencing of Westar. **On the other hand, Fitch would consider a two-notch downgrade if GXP relies heavily on hybrid issuance to finance the acquisition, follows an aggressive financial policy, and/or there is limited regulatory ring-fencing of Westar post-merger.**[3] (Emphasis added)

I remain concerned that the Joint Applicants have not provided any type of plan to deleverage from acquisition debt, nor are they presenting Staff or rating agencies any financial forecasts beyond the year 2020. Thus, when Fitch comments that the amount of debt typically equates to a sub-investment grade rating absent a plan to deleverage, Staff has to consider that a sub-investment grade rating for Westar is a very real possibility.

[3] Fitch Website; https://www.fitchratings.com/site/pr/1005447

5. Moody's Press Release Statements on GPE:

Moody's public statements express deep concern regarding the amount of leverage applied by GPE. It notes that GPE has sacrificed its strong financial profile in this Transaction and has created a situation that allows little flexibility. (Data Request Industrials – 18)

> "Great Plains Energy is sacrificing its strong financial profile to acquire its neighbor," said Ryan Wobbroock, Vice President-Senior Analyst. "This is a bigger is better merger, where Westar will help Great Plains double its assets. But, the financing plan will triple its debt, leaving little financial flexibility and is indicative of management's higher tolerance for financial risk."
>
> The addition of approximately $4.4 billion of parent-level acquisition debt is likely to result in a one-notch downgrade, to Baa3, for Great Plains.
>
> **The transaction's financing plans are viewed as a signal that Great Plains' management and board of directors have a higher risk tolerance for leverage than previously considered, which is a long-term credit negative. With little financial cushion, Great Plains will be more exposed to risks associated with successfully executing transition and integration plan and long-term issues, such as waning regulatory support and softening of regional macro-economic fundamentals.**[4]

6. Moody's Credit Opinion on GPE:

Moody's Credit Opinion on GPE provides a more detailed discussion beyond that contained in the press release. In the Credit Opinion, we see that the amount of debt at the holding company is at the upper end of the acceptable range for an investment grade rating. The relevant measurement here is the percentage of debt at holding company, GPE, relative to the consolidated total company debt. Prior to the Transaction, GPE debt amounted to about 3% of the consolidated company debt. With the $4.4 billion of acquisition debt, GPE's debt amounts to a full one-third of the consolidated company debt. GPE will support the debt

[4] 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.

using dividends that it will receive from Westar, KCPL, and KCPL-GMO. The three operating-utilities have their own debt to service in addition to GPE's new debt. As you can see in the following cites, Moody's finds the cash flow relative to the amount of total company debt at the lowest end of investment grade; a decline in quality from its current position. Moody's echoes the sentiments of Fitch that the cash flow relative to the amount of debt are close to that deserving of a speculative or below investment grade rating. It is important to keep in mind that the financial scenarios that Moody's reviewed were a best-case outcome for the Joint Applicants with respect to requirements imposed by state regulators. Even assuming a best-case scenario as GPE did in its Financial Model, GPE's investment grade rating will be stressed by the Transaction. As Moody's press release clearly stated, GPE has sacrificed its strong financial profile to execute this Transaction.

> The review for downgrade is expected to result in a one-notch downgrade, leaving GPE investment grade. **We see a strong investment grade floor, but ratings could be downgraded below investment grade if the ratio of holding company debt to consolidated debt rose higher than the 35% level we are expecting post-close.** Ratings could also be downgraded if a more contentious regulatory environment developed in its principal jurisdictions.
>
> **Given the significantly weakened financial position at close (e.g., 13% CFO pre-WC to debt), the ratings could be downgraded to speculative grade if anticipated financial improvements are jeopardized.** If the ratio of CFO to debt were between 10% and 13% for a sustainable period, ratings could be downgraded below the investment grade threshold. This could occur from any combination of circumstances, including **waning regulatory supportiveness, financially restrictive merger requirements, a stagnant or declining economic environment, inability to capture synergies from the Westar acquisition,** a change in equity treatment for hybrid securities, or operating and/or regulatory challenges a the Wolf Creek nuclear generating station. (Great Plains Energy Incorporated: A Midwest Utility Holding

Company; Moody's Investment Service; Credit Opinion; June 1, 2016; p. 2)[5] (Emphasis added.)

The Financial Model provided in response to Data Request KCC-169 demonstrates the drop in credit quality resulting from the Transaction. **As stand-alone entities, Westar and GPE CFO to debt ratios for 2018-2020 are forecasted to range from 21% to 23% and 21% to 24%, respectively. With the Transaction, the combined entity's CFO to debt will fall to a range of 13.4% to 16.2% for years 2018-2020.** In my opinion, the term "regulatory supportiveness" that Moody's uses in its report, likely refers to issues such as capital structure, up-front sharing of merger savings, and rate case moratoriums. In response to KCC-153, GPE ran a financial model that reversed just one of those assumptions. KCC-153 models the effects of using the higher leverage capital structure of GPE for setting rates – a scenario Staff would have insisted upon if it had recommended approval. **If that is done in Kansas for Westar and KCPL-KS, the combined entity's CFO to debt ratios fall more than an percentage point to a range of 13.3% to 14.8%. If Missouri instituted the same policy, the ratios fall to 13.2% to 14.2%.** This example illustrates the effect of just one of several regulatory concessions that will affect the financial health of the new entity.

7. Moody's Ratings Assessment Service (RAS):

The materials that I discussed thus far are statements published in press releases and subscription publications of the three rating agencies. The Ratings Assessment Service (RAS) performed by Moody's Investor Services contains stronger and more detailed

[5] Response to Industrials 1-18.

language.[6] Moody's performs RAS at the request of a party for that party to ascertain the potential credit ratings impact of a company's financial plan. GPE obtained the RAS before it made its $60/share bid for Westar. GPE hired Moody's to review five unique financial plans to acquire Westar. The financial plans include GPE's assumptions with regard to the total cost of the Transaction including expectations for payments to customers, retention of savings, and ratemaking actions of the regulators. While I will discuss GPE's assumptions later in my testimony, I believe many of GPE's assumptions were unrealistic.

In correspondence dated May 12, 2016, Moody's explained its analysis of the three potential bid scenarios proposed by GPE. Westar did not accept these bid levels. Weeks later, GPE presented two new scenarios for Moody's RAS to review. These scenarios, numbered four and five, formed the basis for the winning bid and the Transaction. In correspondence dated May 18, 2016, Moody's states that GPE can expect a one notch downgrade from Baa2 to Baa3 and that the operating-utilities, KCPL, KCPL-GMO, Westar, and KGE, would retain their current ratings of Baa1, Baa2, Baa1, and Baa1, respectively.

> **However, the RAS committee also views the financing strategies presented in Scenario 4 and 5 as taking marked steps of financial risk that differ from those provided in Scenarios 1 through 3 and note **that under the degree of leverage, presented in Scenarios 4 and 5, Great Plains would be weakly rated in the Baa3 category, with no cushion to absorb a negative credit event**. For example, if financial performance were to underperform forecast assumptions for any reason, **or the degree of regulatory support offered by Kansas, Missouri, or the FERC were to deteriorate slightly,** it is likely that a negative ratings action of Great Plains would follow (e.g., -negative ratings outlook, review for downgrade or downgrade). (Emphasis added)**

[6] Response to KCC-24; Moody's Investor Service; May 18, 2016, correspondence: Ratings Assessment Service—Project Wizard Scenarios 4 and 5 (Confidential).

In this section of the commentary, Moody's expresses its concern that the degree of leverage is at the upper limit of the investment-grade rating. Compounding my concern is Moody's position that GPE will have little to no cushion to absorb the unexpected, particularly changes in "regulatory support" from the Commissions. My interpretation of this statement is that Moody's believes there will be very little room for regulators to deviate from GPE's assumed post-transaction regulatory accommodations. After the Transaction closes, if one of the Commissions does not follow GPE's expectations, GPE could receive a below investment grade rating; a prospect that may leave Commissions with limited options when making revenue requirement decisions for the operating-utilities in the future. To put it bluntly, future Commissions could call upon consumers to pay a higher revenue requirement as a means to support GPE's investment grade credit rating. And this scenario does not even contemplate other potential financial risks that are beyond the control of the Commission and Joint Applicants, such as an increase in interest rates when GPE must refinance its acquisition debt as it comes due or the current review of corporate income tax policies by the new President and Congress.

> **We would also incorporate a qualitative view that the financial policies of Great Plains management and board of directors have **become decidedly more tolerant of risk—a credit negative and a deviation from what we have incorporated into our ratings, historically.** (Emphasis added.)**

This statement in the Moody's RAS mirrors the statement in Moody's press release, that the actions GPE has taken to acquire Westar are indicative of a change in policy of GPE management and board of directors. In Moody's eyes, GPE is now willing to accept a greater degree of financial risk, and that policy change, in and of itself, has a negative effect on credit ratings.

> **Lastly, it is possible that the credit ratings for Westar, KCPL, and GMO could be constrained or negatively impacted going forward. **While no change to utility ratings would likely occur at close of the transaction, the high amount of family leverage would begin to weigh on upward ratings mobility of the subsidiaries, due to the contagion risk at the parent level and increased need for upstream dividend support.** Scenario 4 and 5 leverage would weaken the positioning of Westar, KCPL, and GMO within their respective ratings categories. (Moody's RAS Correspondence, p. 4) (Emphasis added.)**

This portion of Moody's RAS commentary highlights the reality that the financial leverage at GPE will have a spillover effect on the operating-utilities. Ring-fencing instituted by regulators can block some flow of funds from an operating-utility up to its holding-company parent, which may help preserve the operating-utilities' credit rating, likely to the detriment of the parent holding company that is depending on the cash-flow.

> **These financial metrics result in a weakly positioned Baa3 holding company that has average consolidated regulatory support and unique exposure to a single-unit nuclear facility. **Average cash flow to debt metrics around 14% leave little room for error within the Great Plains forecast assumptions, including regulatory outcomes and economic factors (including interest rate levels) that are outside of management control. The combination of these factors would expose Great Plains to a lower tolerance threshold for negative credit events, and a higher likelihood for a downgrade in the face of an adverse circumstance.** (Moody's RAS Correspondence, p. 5) (Emphasis added.)**

Again, Moody's RAS cautions GPE that a $60/share bid with these financing plans leaves little room for deviations caused by factors outside of GPE's control.

> **Management's Higher Risk Tolerance:
> The amount of leverage in Scenario 4 and 5 would evidence a higher risk tolerance for Great Plains management and board of directors. Great Plains has historically operated with negligible holding company debt and a focus on executing utility capital plans and improving the regulatory relationship and support in its primary jurisdictions. While we understand the unique opportunity that Project Wizard provides, and funding strategy necessary to achieve the transformative transaction, we view the amount of acquisition debt in Scenarios 4 and 5 – that more than doubles Great Plains' existing debt

> **– as highly aggressive and evidence of financial engineering.** (Moody's RAS Correspondence, p. 6) (Emphasis added.)**

Here, Moody's comments center on the changes observed at GPE from a utility that had been focused on conservative financial management to a new path of aggressively financed acquisition that Moody's has called "financial engineering." Financial engineering refers to GPE's plan to ask that regulators use the higher cost weighted average cost of capital (WACC) of the operating-utilities to set rates and ignore the lower cost WACC that GPE has achieved through greater leverage and lower cost debt financing. In such a scenario, the savings generated by the difference between the operating-utilities' WACC and GPE's WACC would accrue only to shareholders. The "engineering" is merely recapitalizing the utility and retaining the benefits for shareholders.

> **Kansas and Missouri service territories are not high growth areas that will provide Great Plains with a clear path of paying down the acquisition debt, so **we view the $4.3 billion of Scenario 4 debt and the $4.6 billion of Scenario 5 debt as permanent leverage in Great Plains capital structure. This debt will be increasingly difficult to service in a rising interest rate environment and could pressure utility subsidiaries for additional upstream dividends in the future.****

> **For this reason, we see the potential for Kansas regulators to impose some form of ring-fencing provision as part of the merger approval process, which would limit the amount of support that Westar might be able to provide parent level debt. **While this is not a risk that is factored into the RAS ratings outcomes, we highlight it as another potential risk associated with a large amount of parent level debt.** (Moody's RAS Correspondence, p. 6) (Emphasis added.)**

Moody's RAS notes that GPE has never presented a plan for deleveraging from the $4.4 billion of acquisition debt. In fact, GPE informed Staff and CURB at the November 3, 2016, meeting that there is not a formal plan at this time and that there is no financial forecast beyond the year 2020; the last year forecast in the Financial Model. With the acquisition debt in place and no plan to de-lever, GPE will have to service the debt with dividends from the Utility Companies and will have to refinance the acquisition debt as it matures over the next decade. If the Commission does not recognize the leverage of GPE's capital structure when setting rates for the operating-utilities, that is it uses the operating-utility capital structure, then GPE will have little or no incentive to deleverage. Recall the "financial engineering" discussion earlier, the benefits of the lower-cost capital structure will accrue only to shareholders if the Commission does not use it to set rates. **Moody's comments emphasize that they believe the degree of leverage at the parent company without any de-leveraging plan will likely cause a reaction by regulators in Kansas that could limit the amount of dividends flowing from Westar to GPE, which would be detrimental to GPE's credit rating. Moody's notes that this is a potential risk, but it is not factored into the Moody's RAS because ring-fencing was not part of the assumptions GPE provided to Moody's. Additionally, the RAS does not factor in the following:**

> *8. Key Assumptions to Moody's RAS:*
>
> **No material customer credits, or rate freezes, are required as part of the KCC transaction approval
>
> No ring-fencing type provisions are introduced that would significantly limit the upstream dividend capabilities of Westar or the Great Plains utilities.
>
> All scenarios incorporate projected operating results calculated based on individual regulated rate bases, equity thickness and ROE for each operating subsidiary, there are no differences between scenarios. (Moody's RAS Correspondence, Appendix A; contained in KCC – 24 Confidential)**

The full list of the assumptions in the Moody's RAS analysis are attached as KCC – 24 Confidential as Appendix A to the May 18th RAS from Moody's. I have highlighted these three problematic assumptions because each is contrary to existing Commission policy and highly unlikely to occur. If Staff were recommending approval of the Transaction, it would almost certainly recommend the Commission include these conditions in any order to meet the public interest threshold. At no point in the Joint Applicants' testimony have they requested that the Commission accept these key assumptions into the order approving the Transaction. Past mergers approved by the Commission have included rate freeze and/or bill credits as a way of sharing benefits between shareholders and consumers. These policies are issues in the recent round of merger transactions nationally, and of course, the Commission spent two years with a general investigation on ring-fencing requirements for Kansas utilities, that resulted in the Commission adopting annual filing requirements.

The third assumption addresses the capital structure that the Commission will use to set the revenue requirements of the operating-utilities, Westar and KCPL. The assumption is that each operating-utility's revenue requirement will be set using the operating-utility's capital structure rather than the lower cost consolidated GPE capital structure. GPE CEO Terry Basham made it clear that they expect this rate treatment from regulators in Kansas and Missouri during a webcast with analysts, investors, and the public on November 4, 2016. The operating-utilities will have thicker equity ratios than the GPE consolidated capital structure. Using the thicker equity capital structures will result in higher revenue requirements than the GPE consolidated capital structure that contains the $4.4 billion in acquisition debt. The higher revenue requirements will allow the operating-utilities to pay GPE more in dividends and, thus, support the parent level debt associated with the Transaction. This assumption is problematic because it is contrary to past practices of Staff and the Commission.

Regulatory Research Associates (RRA) routinely issues reports on individual mergers and acquisitions in the utility industry, as well as comprehensive reports on the activity in the industry. In a July 19, 2016, report on current and past M&A activity in the industry, RRA stated that the state regulatory authorities are deeply involved in constructing the outcome of transactions, as each state commission has to apply their state's public interest standards. RRA reports that state regulators have required a host of provisions from parties to meet their state's public interest standards.[7]

> Such provisions may include: rate concessions; ring-fencing measures; customer protections, such as service quality guarantees, anti-competitive conduct-prohibitions and affiliate relationships restrictions; and, community considerations, such as job preservation and charitable contributions, continued stakeholder access to information, and maintenance of a corporate presence in the state. Rate concessions may take the form of rate-case-stay-out provisions, rate credits, rate reductions, or synergy saving sharing mechanisms.
>
> In addition, in the context of merger approvals, it is fairly common for commissions to adopt various ring-fencing/corporate governance provisions including: capital structure requirements; dividend restrictions; collateralization requirements; working capital restrictions; unregulated investment restrictions; maintenance of stand-alone bond ratings; inter-company loan restrictions; prohibitions on utility asset sales; and, the creation of independent boards of directors. All transactions that have been consummated in recent years have been approved following settlements reached with major parties to the proceedings. For additional detail concerning the statutory authority in each jurisdiction refer to the RRA Topical Special dated April 6, 2016, entitled *Electric and Gas Utility Mergers and Acquisitions – Regulatory Overview of Merger Review Standards*.

The critical issues tied to these three assumptions are not simply issues that are important to the Commission; these issues are part of mergers that have occurred across the nation. Such concessions will likely be a part of any future merger order in Kansas and should be part of

[7] RRA Topical Special Report: Electric and Gas Utility Mergers and Acquisitions—Timeline of Transactions 1985-2016; Regulatory Research Associates, S&P Global Market Intelligence; July 19, 2016; p. 2.

financial forecasts so that regulators can have as accurate picture as possible of the newly created entity.

Q. Based on your review of the comments from the rating agencies and the Ratings Assessment Service, what are Staff's primary concerns?

A. **Clearly, the best case scenario leaves GPE and its subsidiaries weakened and financially vulnerable, and the assumptions built into that best case scenario do not include likely events such as rate freezes, customer credits, use of the consolidated capital structure, and ring-fencing of subsidiaries. The results of the Financial Model barely support an investment grade rating for the Joint Applicants. My concern is that GPE created its Financial Model around assumptions that are not realistic, and even the rating agencies express doubt about GPE's choice of assumptions. Changing any of those assumptions discussed above to a more realistic viewpoint results in a weaker set of financials than those considered by the ratings agencies.**

B. *Equity analysts express the same concerns as credit rating agencies regarding the amount of leverage in the Transaction and GPE's assumption regarding the capital structure that regulatory commissions will use to set rates.*

Q. Has Staff reviewed reports from equity analysts to assess the financial health of the utility after the Transaction?

A. Yes, Staff obtained the equity analysts' reports through KCC-131 and BPU 3-39. I reviewed the commentary and found that the equity analysts expressed many of the same concerns about the amount of leverage in the Transaction, as well as the assumed capital structure that state commissions will use to set revenue requirements.

Q. What services do the equity analysts provide?

A. Equity analysts provide coverage of companies for a subscription service or as part of broader investment advisory service for clients of an asset management company. Their analyses attempt to reveal the prospective profitability of equity investments and, to do so, they evaluate the potential for future earnings. They also assess what is a reasonable price (stock price) an investor should pay for those future earnings.

Q. Why are the views of equity analysts important to your evaluation under merger standard a) i)?

A. The views of the equity analysts are an indicator of the equity markets' assessment of the utility's risk as an equity investment. If analysts and the market view the utility as taking on additional risks to earn profits in the future, then stockholders will demand a higher return as compensation for that added risk. The added cost due to that higher required return will be passed on to consumers in the form of a higher "return on equity." Even if regulators attempt to insulate consumers from the added cost, there is no guarantee that they will be successful at that. Successful or not, that can be a difficult and undoubtedly a contentious process that could continue through several successive rate cases.

Q. What aspects of the equity analysts' commentary are particularly noteworthy?

A. In general, equity analysts highlight the large amount of leverage taken on to finance the acquisition and the risks that the high debt ratio poses to the company in rate cases. Specifically,

- **We are particularly focused on the equity ratio pieces of the cost of capital equation as KS and/or MO could look beyond the subsidiary level capital structure in light of parent leverage. (Wells Fargo Equity Research; August 5, 2016; p. 1.)

- The amount of pro-forma leverage raises natural concerns over the sanctity of the utility operating company capital structure in both jurisdictions and it is crucial that holding company/operating dividing line remain intact. (J.P. Morgan; September 29, 2016; p. 4)

- Management says that neither MO nor KS is expected to look-through to the parent with operating cap structure unaffected but this could be a key question in upcoming rate cases. (UBS Global Research, Westar Energy, Inc.; May 31, 2016; p1)

- The merger amplifies earnings growth potential if synergies are realized, but **at the cost of a very weak balance sheet due to significant leverage.** (Wolf Research, Great Plains Energy; October 2, 2016; p. 3 of 8) (Emphasis Added.)

- **We see the pro forma company at 60% debt-to-capital, which is higher than nearly all peers,** and somewhat of a concern considering the size of the company. **Further, the debt to fund the deal is being issued at the parent, which could present risks should regulators ever deem it necessary to "look-through" to the consolidated capital structure.** That said, we now see this as less of a risk in Missouri given the recent GMO settlement and the potential for GXP to provide assurances such as ring-fencing. **Similarly, the debt at the parent as a percentage of total debt (30%) would also be higher than peers and a reason why GXP has been placed on watch for a ratings downgrade at the credit rating agencies.** Finally, the FFO/Debt metrics of the pro forma company are simply the lowest quality—**we see GXP struggling to stay above 13% initially, which is the threshold Moody's has laid out as the floor for remaining investment grade.** (Wolf Research, Great Plains Energy; October 2, 2016; p. 5 of 8) (Emphasis Added.)**

The fact that GPE's actions have caused it to stand out to independent analysts as being a much more leveraged company than its peers is particularly concerning. The added leverage is at the holding company level, but equity analysts, similar to the credit rating agencies, warn that regulators may look at the capital structure of the consolidated company in rate proceedings. This would result in lower revenue requirements for the operating-utilities and lower earnings for GPE than what GPE has presented through its Financial Model.

C. There is no financial modeling beyond 2020 and no plan to de-lever. Thus, going forward, staff has to assume there would be no deleveraging and the capital structure will be a contentious issue in future rate cases

Q. Are you concerned about the lack of financial projections beyond 2020?

A. Yes. I am concerned because there is no plan to evaluate the prospects of GPE de-leveraging from the acquisition debt. After the Transaction, for the years 2018, 2019, and 2020, GPE will have a consolidated capital structure with an equity ratio of 41% to 42%, as compared to pre-Transaction equity ratio of 49% to 50%.[8] With such a limited time horizon in the Forecast Model, we do not know if there is a plan to deleverage GPE or if the higher degree of leverage is permanent. Given there is no plan to de-leverage, I have to consider the increased leverage as a permanent change to GPE and not simply a temporary or transitional issue. As a permanent change to GPE's consolidated capital structure, it is likely that the question of which capital structure to use in setting rates will be a contentious issue in Westar and KCPL rate cases for many years into the future.

Furthermore, even without the capital structure issue, we are left with the fact that the Joint Applicants are taking on $4.4 billion in debt without investing any of it in assets that produce an additional stream of revenue. That is to say, the additional debt will not create new rate base to serve consumers and the $4.4 billion of new debt is greater than the amount of debt in place to finance the rate base of the utility being acquired. These facts indicate

[8] KCC-169; Dashboard tab.

that this is an extraordinary transaction; it is reasonable for regulators to want to know something about the financial health of the new entity beyond the next four years that ends in 2020.

Q. Why is there even a question of which capital structure to use for setting the revenue requirements?

A. The corporate structure that is created by GPE being a holding company that will own the common stock of KCPL, KCPL-GMO, and Westar causes there to be two different approaches to assessing the capitalization and capital costs for each utilities' revenue requirement. The capital structure is a critical question in this Transaction because the consolidated capital structure of the holding company, GPE, will be markedly different from the capital structures at each of the utility-operating companies. The consolidated capital structure of GPE will contain considerably more leverage than the capital structures of the operating-utilities. That difference could result in a significant change in the revenue requirements of the operating-utilities if the Kansas Commission and/or the Missouri Public Service Commission choose to recognize the additional leverage.

The Joint Applicants assume that all regulatory bodies that set rates for the operating-utilities will set their respective revenue requirements solely on the capital structures of the individual operating-utilities and not on the GPE consolidated capital structure. As I discussed earlier, all of the financial modeling performed by the Joint Applicants and communications with credit rating agencies relied solely on the use of the less-leveraged, operating-utility capital structures for setting future revenue requirements. Staff found it very odd that the Joint Applicants were unwilling to acknowledge through its Financial

Model the possibility that regulators could indeed set the operating-utilities' revenue requirements using the GPE consolidated capital structure.

Q. Why do you find the Joint Applicant's position on capital structure odd?

A. It is odd because it is contrary to the manner in which the Kansas Commission, the Missouri Public Service Commission, and the Federal Energy Regulatory Commission currently set rates for Westar and GPE's subsidiaries. All three of these regulatory agencies set revenue requirements for GPE subsidiaries using GPE's consolidated capital structure. Furthermore, for the past two decades, KCC Staff has consistently investigated capital structures in rate cases to determine which capital structure represents the most efficient and economical financing. Thus, accepting the operating-utility capital structure is not the default option in Kansas.

Q. Have the Joint Applicants made an explicit and unambiguous request that the Commission use the operating-utility company capital structure in the future?

A. No, they do not make that request. I assume their avoidance of this threshold issue is an indication that they would rather put the question off until upcoming rate cases, when it can no longer be avoided and options for the Commission might be self-limiting. In a meeting with the Joint Applicants, I inquired if they are going to request the Commission make a determination to use the operating-utilities' capital structure in future Westar and KCPL rate cases. In response, Darrin Ives stated that the Joint Applicants are not making such a request as they did not want to ask this Commission to make a commitment that would bind the hands of future Commissions. My analysis and the Joint Applicant's own Financial

Model shows that if the Commission approves this Transaction, it will practically have "bound" future Commissions to using the operating-utility capital structure in order to maintain the financial health and investment grade bond ratings of Westar, KCPL, and GPE. Therefore, it is essential to examine the issue in this proceeding.

D. GPE's Financial Model Further Demonstrates the Risk to the Joint Applicants' Financial Health

Q. Has Staff attempted to ascertain the effect of the capital structure issues on the credit metrics of the Joint Applicants?

A. Yes, through an evaluation of the Financial Model that is the basis of the Joint Applicants' financial projections provided to the rating agencies,[9] **Staff has been able to assess the impact of a key assumption by the Joint Applicants; that the consolidated capital structure will not be used to set revenue requirements. Staff issued KCC-153 (Confidential) asking the Joint Applicants for the Financial Model to be run using the consolidated capital structure of GPE as the capital structure used in calculating the revenue requirements for the KCPL and Westar. The Applicants acknowledge that change does have a significant, negative impact on the pro-forma financials of GPE. The Applicants' provided the Financial Model results and a response that included the following discussion.**

> **A 'Compare' tab has also been added to the model attachments, for comparison of key financial results in the original model results, and highlights the significant negative impact of using the pro-forma consolidated combine capital structure versus the standalone capital structures for ratemaking. (KCC-153 Confidential)**

[9] CURB-42

The Financial Model confirms that the lower revenue requirements caused by recognizing the added leverage reduces the cash flow that GPE will have to cover its interest payments, which erodes the pro-forma financial metrics. While the credit metrics are clearly weaker under this scenario, Staff needed to ascertain whether using the consolidated capital structure would definitively result in a downgrade. The Applicant provided the following response.

> The Joint Applicants have not discussed the results included in the attachments to Data Request KCC_20160923_153 which includes a comparison of certain metrics using GPE consolidated capital structure versus the existing utility company capital structures, as presented to the rating agencies when evaluating our transaction. In addition, Joint Applicants have not developed separate KCP&L and Westar pro forma financial statements or credit metrics.
>
> Joint Applicants cannot speculate as to if GPE, KCP&L and Westar would a) maintain their existing credit ratings and b) maintain an investment grade credit rating if the Commission uses a GPE consolidated capital structure to set revenue requirements for KCP&L and Westar. However, Joint Applicants believe the comparative results included in the attachments to Data Request KCC_20160923_153 speak for themselves and would likely create concerns by the rating agencies. (KCC-266)

We do know that the use of the consolidated capital structure results in weaker financial metrics. The Joint Applicants readily admit that they believe the weaker financial metrics would be a significant issue and would be a cause for concern among the rating agencies. As the response above notes, the Joint Applicants did not provide this scenario to the rating agencies for their opinion. **As noted earlier, the Joint Applicants told the rating agencies to assume the operating-utility capital structure for setting rates.**

Q. Did the Applicants discuss with the rating agencies any scenarios that involved the Commission using the GPE consolidated capital structure to set rates?

A. Staff inquired of the Joint Applicants if they had discussed this issue with rating agencies. The response was that they had not.

> The Joint Applicants have not discussed with rating agencies scenarios in which the Commission uses a GPE consolidated capital structure for setting KCPL's and Westar's revenue requirements. (KCC-265)

Q. Have Joint Applicants expressed whether this issue is important to the completion of the Transaction?

A. Yes, as Staff reviewed the Financial Model and the concerns expressed by the rating agencies, we asked the Joint Applicants for their view as to whether the Transaction is dependent or largely dependent on the Commission <u>not</u> applying the GPE consolidated capital structure to set rates. The Joint Applicants responded with the following answer:

> Yes, it is the Joint Applicants position that completion of the Transaction is largely dependent on the Commission not applying the GPE consolidated capital structure ratios when setting Westar's and KCPL's revenue requirements. (KCC-264)

Q. Does the Joint Applicants' stance on this issue surprise you?

A. Yes, I am surprised that the Joint Applicants would commit to this Transaction where a successful outcome is "largely dependent" on this specific issue of capital structure from not just the Commission but also the Missouri Public Service Commission. The reason for my surprise is that the use of a consolidated capital structure is common practice in setting rates; granted it is not a universal practice, but it is common. In fact, this Commission frequently uses consolidated capital structures to set rates in Kansas. In reviewing KCPL's current rate case filing in Missouri, it is apparent that the Missouri Public Service Commission also uses this practice.[10] FERC also uses GPE's consolidated capital structure in setting KCPL's and KCPL-GMO's transmission formula rate.[11] All three of the economic regulators of GPE and Westar have set rates for GPE and Westar using a consolidated or parent company capital structure, yet the Joint Applicant's Transaction hinges on changing that practice. Oddly enough, the Joint Applicants are not asking the Commission whether it is willing to commit to changing this practice. It appears that the Joint Applicants are willing to leave this key (arguably threshold) issue open-ended, in essence, shifting the risk to future Commissions. That risk being, once the deal has closed and $4.4 billion of debt is on GPE's books, does a future Commission want to be the regulator that sets rates using the consolidated capital structure if that action might cause the Joint Applicants' credit rating to be down-graded? That is the risk that the Joint Applicants are willing to take, or more accurately, it is a risk that the Joint Applicants are willing to push off to future Commissions. It is highly unlikely that sophisticated, seasoned management teams of two electric utilities would overlook the critical issue of capital structure. Rather, Staff believes it is the Joint Applicants' strategy to place future commissions in a box with difficult options; either set rates using a cost of capital that is higher than GPE's cost of capital or set rates at the actual cost of capital and risk a downgrade.

Q. Do you believe the Commission should leave a decision on capital structure open?

A. Absolutely not. I believe the public (meaning bond holders, stock holders, and consumers) is best served if the Commission expresses its position on this issue in this Docket so that Joint

[10] ER-2016-0285.
[11] See Protocols set in EC10-230.

Applicants know what to expect in the future. This issue is a primary point of Staff's disagreement with the Joint Applicants and one of the reasons why Staff opposes the Transaction. With that information from the Commission, the Joint Applicants could ask for additional guidance from rating agencies on a financial structure that would support the existing credit quality. Staff has made its position clear on this issue, not only to the Joint Applicants but also in previous testimony prior to this Transaction.

If this Transaction and the ratemaking treatment used by this Commission in the past are going to cause a downgrade of the operating-utilities' credit ratings, the cost of that downgrade should be factored into the cost-benefit analysis of the Transaction. Costs associated with higher interest rates caused by a downgrade are no more speculative than forecasts of operational savings. If there is a downgrade, the Joint Applicants will pay higher interest rates. The costs associated with a downgrade could be a nearly immediate issue because of the debt maturity profile of the Joint Applicants. Both Westar and KCPL have debt due in next four years plus a portion of the acquisition debt at GPE.

Issuing Company	Funding Type	Original Issue	Coupon/ Rate	Amount Out ($000)	Maturity Date
Kansas City Power & Light Company	Senior Debt	6/4/2007	5.8500	$ 250,000	6/15/2017
Kansas City Power & Light Company	Senior Debt	4/1/2013	1.2500	$ 31,000	7/1/2017
Kansas City Power & Light Company	Senior Debt	3/11/2008	6.3750	$ 350,000	3/1/2018
Kansas City Power & Light Company	Senior Debt	3/24/2009	7.1500	$ 400,000	4/1/2019
Kansas City Power & Light Company	Credit Facility - Revolving	8/9/2010	Variable	$ 2,800	10/17/2019
Westar Energy, Inc.	Senior Debt	1/18/2005	5.1500	$ 125,000	1/1/2017
Kansas Gas and Electric Company	Senior Debt	6/11/2009	6.7000	$ 300,000	6/15/2019
Westar Energy, Inc.	Credit Facility - Revolving	9/29/2011	Variable	$ 12,600	9/29/2019
Westar Energy, Inc.	Senior Debt	6/30/2005	5.1000	$ 250,000	7/15/2020
				$ 1,721,400	
			Long-Term Debt at Sept 30, 2016		
			Westar, KG&E	$ 3,834,181	
Source: SNL Financial			KCP&L	$ 2,283,500	
				$ 6,117,681	Total

This table summarizes the existing debt of KCPL, KGE, and Westar that will come due from now until the end of 2020, which amounts to about 28% of their total long-term debt.

The table above refers only to existing debt issues; the $4.4 billion of acquisition debt comes due within 10 years.

Q. Do you have any concluding remarks with regard to Merger Standard a) i)?

A. Both Staff's and third-party's analysis has demonstrated that the Transaction, as proposed by the Joint Applicants, does have a negative effect on the financial health of the Utilities involved; even if the Joint Applicants receive the regulatory treatment provided in the Financial Model it shared with credit rating agencies. The regulatory treatment that is the core of the assumptions in the Financial Model are farfetched and unlikely based on past Commission practice. If the Transaction were to go forward and include upfront payments to consumers for savings, a rate case moratorium, and/or a look through to the consolidated capital structure, then going forward with the Transaction would weaken the utilities even further.

III. The Merger Proposal Does Not Promote the Public Interest in light of Merger Standard a) iii) Because Consumers Are Being Asked to Pay Revenue Requirements that are Greater Than the Cost of Providing Service

Q. Please address Merger Standard a) iii) the effect of the Transaction on consumers, including: whether ratepayer benefits resulting from the Transaction can be quantified.

A. As filed, the Transaction would impose a negative benefit on the customers of Westar and KCPL through the Joint Applicants' proposal to use a higher equity ratio than is actually used to capitalize the company. The Joint Applicants must commit to returning the savings to ratepayers by using the consolidated capital structure in future rate cases. Staff views the savings from financial instruments the same as any operational savings; consumers should receive the benefits of a cost reduction, whether it is labor efficiencies or a lower cost of capital.

Q. How does the higher equity ratio result in a higher cost to ratepayers?

A. Equity capital is riskier than debt, thus it requires a higher return than debt capital. Equity capital must also be grossed-up for income tax expense, which further raises its cost over that of debt capital.

Q. Why is subsidiary company capitalization an issue that gets scrutiny by regulators?

A. When a utility subsidiary depends on a parent company for equity capital, it can become difficult to determine precisely how the utility subsidiary is actually financed. Staff has encountered instances where parent companies manipulate capital assignments to their rate-of-return regulated subsidiaries to the direct benefit of the stockholders of the parent company. As a stand-alone, publicly traded company, it is very easy for Staff to know exactly what proportions of debt and equity Westar is using to finance its rate base since the information is readily available and easily verified from many sources. If GPE acquires Westar, it will no longer obtain its own, market-traded equity capital. Instead, Westar will depend on GPE for equity capital decisions.

Q. Explain how parent companies can manipulate subsidiary company capital structures for the benefit of the parent company's shareholders.

A. The equity capital that a parent company assigns to a subsidiary is through a book entry that is at the discretion of the parent company. The assigned capital does not have to reflect the capitalization of the parent company. Staff has found instances where the parent company capital structure contained significantly more leverage, thus a lower weighted cost, than the capital structure assigned to the subsidiary. In other words, the parent company is completely within its right to issue debt and use the proceeds from that debt to make an equity infusion to its subsidiary. In those instances, if regulators merely accept the subsidiary's capital structure without reviewing the capital structure of the parent, it will result in a windfall to the parent company's shareholders. The shareholder windfall occurs because the stockholders of the parent company collect an equity level return on what is actually debt capital. Moreover, the income tax gross up of the equity capital exacerbates the windfall. Therefore, the windfall to the shareholders of the parent company is unreasonable as it is an unnecessary cost paid by ratepayers through rates that fails to reflect the much lower true cost of capital for the utility.

Q What is your estimate of the cost reduction stemming from the difference in parent and subsidiary capital structures?

A I estimate that the cost reduction that the Joint Applicants propose to retain for GPE shareholders is in the range of $90 million to $136 million annually, depending on the assumptions factored into the revenue requirement calculations. The calculations appear in Schedule AHG – 1, that calculates the consolidated GPE pro-forma cost of capital, and Schedule AHG – 2, which calculates the revenue requirements using the pro-forma cost of capital and the respective rate bases of Westar and KCPL-KS. My analysis is static, in that it relies on the rate bases in their abbreviated rate cases filed in Dockets 17-WSEE-147-RTS and 17-KCPE-201-RTS. I have also assumed the convertible preferred stock has not converted to common. Thus, my analysis provides the Commission with a picture of the savings that GPE intends to retain by lowering its weighted average cost of capital and not reflecting that cost reduction in rates. This is the "financial engineering" discussed earlier by rating agencies.

Q. Why are there two estimates – one for $90 million and another at $136 million?

A. The $90 million estimated savings assumes the consolidated capital structure and applies each operating-utilities' embedded cost of debt in the revenue requirement calculation. The $136 million estimated savings assumes that both the consolidated capital structure and consolidated GPE weighted average cost of capital is used to calculate the revenue requirement. The higher estimate reflects the economic benefit that GPE hopes to retain each year by not passing on the savings to consumers. The lower estimate estimates minimum amount of savings that should be returned to consumers so that consumers at least receive the benefit that stems from the higher debt ratio.

Q. Should the Commission approve the Transaction, which methodology will you use to calculate the revenue requirements for the Utilities?

A. I will recommend that Staff use the weighted average cost of debt of the consolidated company and the consolidated company capital structure. I view the Transaction as effectively recapitalizing the Utilities, thus the consumers should receive the savings from the lower cost debt.

Q. Did you ask the Joint Applicants to estimate the savings associated with the recapitalization of GPE?

A. Yes, in Data Request KCC-153, Staff requested the Joint Applicants use their Financial Model to estimate the credit metrics associated with the Commission using the GPE consolidated capital structure. Within that run of the Financial Model is an estimate of the annual change in the revenue requirements of Westar and KCPL-KS. **The estimated annual reduction is $31.6 million for KCPL-KS and $104.1 million for Westar, for a total of $135.7 million. That is to say, the added leverage of the consolidated capital structure results in a cost savings of $135.7 million in Kansas that GPE currently plans to retain for its shareholders.** The Joint Applicants' estimate is different from my own estimate because their estimate also contains all of the assumptions of rate base growth and rate case timing that is contained in the Financial Model. My estimate is a static analysis based on the abbreviated cases that Westar and KCPL-KS have before the Commission.

Q. Have the Joint Applicants responded to the prospect of using the consolidated capital structure to set rate for Westar and KCPL?

A. Yes, in the Supplemental Direct Testimony of Darrin Ives at page 12, Mr. Ives rejects the principle, stating,

> This would be inappropriate and unreasonable because, among other reasons, the debt used by GPE to finance the Transaction will be dedicated to paying the acquisition premium in excess of book value as well as transaction costs and none of the proceeds of that debt will be available to support the regulated operations of GPE's utility subsidiaries. (Supplemental Direct Testimony of Darrin Ives; p. 12; lines 9-13; filed November 2, 2016)

Q. Do you agree with the rationale offered by Mr. Ives?

A. Absolutely not. I understand the Joint Applicants' position to mean that they view the $4.4 billion of new debt to be solely dedicated to paying for the acquisition premium portion of GPE's purchase of Westar's common stock, and, therefore, that debt should not be used to set the revenue requirements of Westar or KCPL. The theory expressed by Mr. Ives is wholly in consistent with the financial modeling of GPE's advisors and GPE's own Financial Model that was used to support the $60/share bid. In the minds of the Joint Applicants, they believe that they are using equity capital to purchase the book value or rate base of Westar, and they are separately using the $4.4 billion of debt to purchase Westar's stock value that is above its book value. The Commission should reject this notion as it has no basis in reality for several reasons. The "acquisition premium" does not produce any cash flow or earnings that can support interest and principal payments on those bonds. That debt will be supported by the dividends (cash flows) that GPE receives from its ownership of Westar, KCPL, and KCPL-GMO common stocks. Thus, it is not reasonable to believe that the $4.4 billion of debt can be separated from the cash flows that the Joint Applicants use to support the debt. In other words, the only security GPE can offer its creditors is the cash flow from its stake in the operating-utilities.

A. Policy of using consolidated capital structure is reasonable and within the Commission's discretion

Q. Why do you believe it is reasonable to set rates using the consolidated capital structure and cost of debt?

A. In situations where we set rates for a utility that is a wholly owned subsidiary, we carefully review the capitalization of the subsidiary, as well as the capitalization of the parent company. For the purpose of determining the weighted average cost of capital or allowed rate of return, we will rely on the capitalization that results in the lowest weighted average cost of capital. Thus, if the parent company exhibits a higher debt ratio than the subsidiary, we will use the parent company's capital ratios to calculate the revenue requirement.

Staff believes this approach is reasonable because it recognizes the reality of the parent company's absolute control over the operations of the subsidiary. Credit rating agencies also recognize the control and interrelated nature in that they will only allow a couple of notches difference between a parent and subsidiary. They recognize that a weakness in either will drag on the credit worthiness of the other. There will be very little separation between GPE and its subsidiaries, as GPE and each of its subsidiaries will have the same board of directors, who in turn set the dividend and capitalization policies of the parent and the subsidiaries. Staff has made its position clear through testimony filed in past rate cases, and this Commission has through orders it issued, that the consolidated capitalization is reviewed and could be used to set rates. In Staff's view, this is a reasonable means to reduce or eliminate incentives to manipulate subsidiary capital structure solely for the benefit of stockholders. Staff's policy recommendation on capital costs simply seeks to treat capital costs like all other parent-subsidiary transactions and applies an asymmetrical approach. Just as with the parent providing labor or office space to the subsidiary, the parent should <u>not</u> profit from providing capital to the subsidiary at a higher cost than it incurred to obtain the capital. In some sense, recognizing the consolidated capital structure is a form of ring-fencing.

Q. Has this policy been accepted by the Commission?

A. Yes, it has. I have been on the Utilities Division Staff since 1988. I have consistently applied this methodology since at least 2000 in telephone, gas distribution, and electric rate cases, and the Commission has consistently accepted it. As is discussed extensively in rate cases, the Courts give regulatory agencies, such as the Commission, wide latitude to determine a fair rate of return, of which capital structure and cost of debt are two of the components.

B. Ring-fencing requirements are not sufficient to protect consumers

Q. Does Staff believe that ring-fencing of the subsidiaries Westar and KCPL would prevent them from being damaged from this Transaction?

A. Staff would support ring-fencing measures applied to Westar and KCPL, but such measures are largely reactionary. That is, they may only come into play when a financial problem at the parent begins to surface. By that time, we will already have a problem of a distressed company owning a jurisdictional utility. Ring-fencing measures can force the utility subsidiary to retain cash (forego dividends to the parent) so that the utility can maintain its rate base and service its own debt. This action does not help the parent company; dividend restrictions may intensify the parent's financial problems, as the dividend could be its only source of funds. Instead of a reactionary form of ring-fencing, Staff believes using the lowest cost capital structure is a proactive form of ring-fencing that would discourage parent companies from overleveraging and discourage parent companies from attempting to profit from transactions that only amount to financial engineering.

Q. Has Staff recommended the use of the lowest cost capital structure as a requirement to a recent merger or acquisition?

A. Yes, in 16-EPDE-410-ACQ, Staff informed the parties to that Transaction that it would be part of Staff's requirements put forth in testimony to the Commission. The parties in that Docket reached an agreement that included various ring-fencing mechanisms and the requirement that Empire District Electric Company use the lowest cost capital structure in future rate cases. Parties filed the Settlement Agreement and supporting testimony on October 6, 2016.

IV. The Transaction does not meet Merger Standard d) because the Transaction will create a financially weaker utility that will reduce the Commission's ability to "effectively regulate" the new entity.

Q. Please explain why Staff believes that the Transaction could diminish the Commission's ability to regulate the new entity.

A. Merger Standard d) is as follows:

> d): Whether the proposed transaction will preserve the jurisdiction of the KCC and the capacity of the KCC to effectively regulate and audit public utility operations in the state.

Given the relative financial weakness of the merged entity, Staff believes the Transaction cannot meet Merger Standard d); the important aspect in this condition is "effectively regulate." It is Staff's opinion that even though the Transaction does not change the Commission's jurisdiction or legal authority to regulate the newly created entity, the financial weakness highlighted by the ratings agencies will likely leave the Commission fewer options. Given the restrictive nature of the regulatory and ratemaking assumptions that the Joint Applicants believe are necessary for a financially sound company; those were the assumptions provided to Moody's and discussed on page 21. If the Transaction closes and the Commission desires that the Joint Applicant's maintain an investment grade bond rating, the Commission would have little choice but to fulfill these assumptions based on the opinions expressed by the ratings agencies and the Joint Applicant's own Financial Model. If the Commission deviates from those assumptions, it could result in a downgrade. As Moody's warned in its commentary,

> The transaction's financing plans are viewed as a signal that Great Plains' management and board of directors have a higher risk tolerance for leverage than previously considered, which is a long-term credit negative. **With little financial cushion, Great Plains will be more exposed to risks associated with successfully executing a transition and integration plan and long-term issues, such as waning regulatory support and softening of regional macro-economic fundamentals. (Emphasis Add.)**[12]

I view the term "regulatory support" to refer to regulatory agencies' willingness to set revenue requirements in a manner that is more than fair to the utility. That is to say, regulators will be compelled to adopt practices that they might not otherwise adopt – to provide a higher stream of revenue to the utility – to support the parent company's new debt. The obvious example would be the capitalization issue discussed on page 40. This Commission has a history of looking at parent company capital structures for setting rates. That practice, even if it based on sound regulatory principles, will not produce a revenue stream that is sufficient to prevent a downgrade. Staff believes that a commission could be hesitant to use a rate making principle, even if it is sound policy and established practice, if it is likely to result in a downgrade of the utility.

Q. Why does Staff believe that to be the case?

[12] 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.

A First off, access to capital is vital for electric utilities. Debt capital finances half of the rate base of the Joint Applicants and the cost of that debt is passed on to consumers. A downgrade or erosion of the Joint Applicant's financial health will be a cost for consumers. Therefore, it is important for utilities to maintain access to reasonably priced debt capital. It is apparent from past events that rebuilding a credit rating can take a number of years once it is lost. During that time, the costs to consumers will mount.

The Commission should consider its experiences with Utilities that have lost their investment grade rating to recall just how long investigations and restoration of credit ratings can take. The two largest examples were Westar and Aquila, both required special dockets to investigate and closely oversee their financial problems. In the case of Westar, Docket 01-WSRE-949-GIE was opened on May 8, 2001, and closed on August 26, 2005, or about four and a half years. The following tables illustrate how long it took Westar to regain its investment credit rating. Westar was rated below-investment grade by at least one rating agency from March 29, 2000, until February 27, 2007.

Standard and Poor's Credit Rating			
Date	Company	Corporate Credit Rating	Rating Outlook
4/15/1996	WR/KGE	A-	Watch Negative
1/22/1997	WR/KGE	BBB+	Watch Negative
9/8/1997	WR/KGE	BBB+	Stable
3/19/1998	WR/KGE	BBB+	Watch Positive
2/7/1999	WR/KGE	BBB+	Watch Positive
3/7/1999	WR/KGE	BBB+	Negative
6/17/1999	WR/KGE	BBB+	Watch Positive
11/4/1999	WR/KGE	BBB+	Developing
1/3/2000	WR/KGE	BBB+	Negative
5/19/2000	WR/KGE	BB+	Developing
11/9/2000	WR/KGE	BB+	Positive
7/25/2001	WR/KGE	BB+	Developing
11/7/2001	WR/KGE	BB+	Negative
11/5/2002	WR/KGE	BB+	Watch Negative
2/6/2003	WR/KGE	BB+	Developing
1/5/2004	WR/KGE	BB+	Positive
2/27/2007	WR/KGE	BBB-	Stable
4/28/2009	WR/KGE	BBB-	Positive
4/27/2010	WR/KGE	BBB	Stable
4/11/2013	WR/KGE	BBB	Positive
4/29/2014	WR/KGE	BBB+	Stable
5/31/2016	WR/KGE	BBB+	Negative

Moody's Credit Rating			
Date	Company	Corporate Credit Rating	Rating Outlook
5/11/1995	WR/KGE	Baa1	Stable
3/29/2000	WR/KGE	Ba2	Negative
4/29/2002	WR/KGE	Ba2	Negative
4/14/2004	WR/KGE	Ba2	Positive
2/23/2005	WR/KGE	Ba1	Positive
5/8/2006	WR/KGE	Baa3	Stable
5/19/2010	WR/KGE	Baa3	Positive
1/6/2012	WR/KGE	Baa2	Stable
1/31/2014	WR/KGE	Baa1	Stable

The investigation of Aquila's financial issues began on March 11, 2002, with the Commission opening Docket 02-UTCG-701-GIG. That Docket was closed on February 16, 2009, although most of the investigation was wrapped up with the sale and merger initiated on April 4, 2007.

V. Conclusion

Q. Please summarize your concerns as detailed in your testimony.

A. My testimony evaluated whether the proposed Transaction was in the public interest in light of Merger Standards a) i) and a) iii). The proposed Transaction does not promote the public interest in light of Merger Standard a) i) for several reasons. First, credit agency reports indicate a weaker financial profile for the newly-created entity as compared to the Utilities' current financial profile. Second, equity analysts express the same concerns as credit rating agencies regarding the amount of leverage in the proposed Transaction and GPE's assumptions regarding the capital structure that regulatory commissions will use to set rates.

Third, there is no financial modeling beyond 2020 and GPE has no plan to de-lever. Therefore, Staff assumes there will be no deleveraging of GPE. Fourth, GPE's financial model further demonstrates the risk to the Joint Applicants' financial health following the proposed Transaction. In short, the proposed Transaction will weaken the financial profiles of each of the Joint Applicants. Additionally, the proposed Transaction does not promote the public interest in light of Merger Standard a) iii) because consumers are being asked to pay revenue requirements that are greater than the cost of providing service. The Commission's long-standing policy of using consolidated capital structure is reasonable and well-within the Commission's discretion; further, ring-fencing requirements are not sufficient to protect consumers from this harm.

Q. In light of your concerns, what is your recommendation to the Commission?

A. I recommend the Commission find the proposed transaction fails to promote the public interest in light of Merger Standards a) i) and a) iii), and likewise deny the Joint Application.

Q. Does this conclude your testimony?

A. Yes.

Schedule AHG - 1 (Confidential)
Docket 16-KCPE-593-ACQ

Weighted Average Cost of Capital of Westar and GPE at June 30. 2016
& Pro Forma Weighted Average Cost of Capital for Great Plains Energy with Acquistion Financing

	Westar Energy, Inc.			**Great Plains Energy, Inc.**										
				****Consolidated GPE****					****Acq. Financing****		****GPE Pro forma Consolidated****			
	Balance	Weight	Cost	Balance	Cost	Balance	Weight	Cost	Balance	Cost	Balance	Weight	Cost	WACC
Long-term Debt	$ 3,426,940	48.12%	4.88%											
				KCPL										
				$2,563,931	5.51%									
				GMO										
				$1,078,940	5.10%									
				GPE										
				$ 103,269	7.25%	$ 3,746,140	50.41%	5.44%	$ 4,325,000	3.95%	$ 11,498,080	58.55%	4.72%	2.76%
Preferred Equity	$ -		0.00%			$ 39,000	0.52%	4.29%	$ 1,613,000	7.13%	$ 1,652,000	8.41%	7.06%	0.59%
Common Equity	$ 3,695,133	51.88%	9.35%			$ 3,646,378	49.07%	9.35%	$ 2,843,000		$ 6,489,378	33.04%	9.35%	3.09%
	$ 7,122,073		7.20%			$ 7,431,518		7.35%			$ 19,639,458			

WACC using GPE Consolidated Capital Structure and OpCo Costs of Debt	6.74%	7.06%

Consolidated WACC, Post Transaction	6.44%

Sources:

Acquisition Financing Debt Costs KCC-145 Confidential

Long-term Debt	Tenor	Cost	
$ 750,000	3	2.82%	16.7%
$ 1,500,000	5	3.36%	33.3%
$ 750,000	7	3.80%	16.7%
$ 1,500,000	10	4.14%	33.3%
$ 4,500,000		3.60%	
	w/35 bps cushion	3.95%	

Acquisition Financing: KCC-169 Confidential

Long-term Debt	$ 4,325	
Omers conv pref	$ 750	
Public conv pref	$ 863	$ 1,613
Common sold to public	$ 1,552	
Common paid to WR	$ 1,291	$ 4,456

Shaded areas contain confidential data

WACC assumes a 9.35% cost of equity
KCC-263 updates Westar and GPE capital strutures to June 30, 2016
KCC-145 (Confidential) provides estimated cost of debt for acquisition financing from Goldman Sachs
Industrials-9 (confidential)

Revenue Requirement Change Associated with Recapitalization of Kansas Rate Base ($ in 000's) Using Operating Utility Cost of Debt

Westar:	*Pre Transaction WACC*	a)		7.65%
	Post Transaction WACC	b)		6.74%
	Change	c)		-0.91%
	Westar Ratebase	d)	$	5,101,727
	Change in Operating Income	e)	$	(46,636.37)
	Tax Gross-up Factor	f)		0.6045
	Change in Revenue Requirement	g)	**$**	**(77,148.67)**
KCPL-Ks:	*Pre Transaction WACC*	h)		7.44%
	Post Transaction WACC	i)		7.06%
	Change	j)		-0.38%
	KCPL-Ks Ratebase	k)	$	2,104,628
	Change in Operating Income	l)	$	(7,901.31)
	Tax Gross-up Factor	m)		0.6045
	Change in Revenue Requirement	n)	**$**	**(13,070.82)**
	Change in Total Kansas Revenue Requirement Due to Recapitalization	o)	**$**	**(90,219.49)**

a) Weighted average cost of capital estabished in 15-WSEE-115-RTS
b) Post transaction Consolidated GPE capital ratios and
Westar June 30, 2016 weighted cost of debt
c) b-a
d) 17-WSEE-147-RTS; Sec 3
e) c*d
f) Tax gross up factor from 15-WSEE-115-RTS
g) e/f; Reduction in Revenue Requirement Due to Lower WACC
h) Weighted average cost of capital estabished in 15-KCPE-116-RTS
i) Post transaction Consolidated GPE capital ratios and
KCP&L June 30, 2016 weighted cost of debt
j) i-h
k) 17-KCPE-201-RTS; Sec 3
l) j*k
m) Tax gross up factor from 15-KCPE-116-RTS
n) l/m; Reduction in Revenue Requirement Due to Lower WACC
o) g + n Reduction in Revenue Requirement for Kansas Rate Base
Due to Lower WACC

6/1/2016

FitchRatings

Fitch Places Westar on Negative Watch Following Acquisition Announcement

Fitch Ratings-Chicago-01 June 2016: Fitch Ratings has placed the 'BBB+' Issuer Default Ratings (IDRs) of Westar Energy, Inc. (Westar) and Kansas Gas & Electric Co. (KGE) on Rating Watch Negative following the announcement of the proposed acquisition by Great Plains Energy Inc. (GXP; not rated by Fitch) for $12.2 billion, including $3.6 billion of assumed debt. Westar will become a direct wholly owned subsidiary of GXP upon deal closing, which is expected to occur by Spring 2017. A full list of rating actions is at the end of this press release.

Fitch's primary concern is the level of GXP consolidated leverage following the acquisition, inclusive of $4.4 billion of parent-level debt plus an undetermined amount of hybrid securities (Fitch typically assigns 50% to 100% debt value to hybrid structures prevalent in the utility sector). Fitch estimates that consolidated funds from operations (FFO)-adjusted leverage could exceed 6.5x following the merger, which is significantly weaker than the 5x average for utilities rated in the 'BBB' category. Fitch typically limits the notching difference between the parent and its subsidiaries to one or two notches, depending on the level of operational, functional and financial ties. Thus, elevated leverage at GXP would negatively weigh on Westar's and KGE's ratings and could result in a one or two notch downgrade. GXP's long-term financial policy, the amount of hybrids used to finance the acquisition, GXP's deleveraging plan as well as the level of integration and/or ring-fencing going-forward will become key criteria in assessing Westar's and KGE's credit profiles after the acquisition is completed.

GXP plans to acquire Westar for $7.3 billion in cash plus $1.3 billion of GXP common stock. At $60/share, the purchase price represents a 36% premium over the closing price on March 9, 2015, when rumours of a potential transaction surfaced. The transaction value of $12.2 billion, including assumed debt of $3.6 billion, represents a 12x multiple to Westar's latest 12 months (LTM) EBITDA at first-quarter 2016. GXP has secured $8 billion of committed financing and $750 million of mandatorily preferred convertible equity commitment but intends to ultimately finance the transaction using a mix of debt and equity, including equity-like hybrids.

KEY RATING DRIVERS

High Consolidated Leverage: The sheer size of the acquisition compared to GXP's current balance sheet will weigh on GXP's financial profile. Fitch notes that the acquisition-related debt of $4.4 billion, excluding hybrid securities, is larger than GXP's consolidated reported debt of $4.2 billion at March 31, 2016. Adding Westar's existing debt of $3.6 billion, Fitch estimates that pro forma consolidated adjusted debt will likely exceed $13 billion while consolidated EBITDA will be close to $2 billion resulting in adjusted debt to EBITDA of about 6.5x. Fitch's estimates are roughly consistent with management's guidance of 13%-14% FFO-debt leverage post-merger. These metrics typically equate to a 'BB' rating category, absent a firm and credible commitment to deleveraging.

Business Profile Mostly Unchanged: The combination of GXP and Westar brings together similar business models likely to generate synergy savings while presenting low integration risk, in Fitch's opinion. GXP and Westar operate contiguous service territories with significant connecting transmission lines and co-ownership of large generation assets. Improved scale and greater integration of these assets will likely result in significant synergies. While synergies are unlikely to be retained by Westar or GXP, they should create headroom in the retail rates for further rate-base investments and earnings growth. Furthermore, GXP is already familiar with the regulatory construct in Kansas through its ownership of Kansas City Power & Light (KCP&L).

Regulatory Approvals: State regulatory approval is only needed in Kansas, where the Kansas Corporation Commission (KCC) has 300 days from filings to judge whether the proposed acquisition is in the public interest based on an established list of criteria. The transaction will also need approval from the Federal Energy

Regulatory Commission, the Nuclear Regulatory Commission as well as from Westar and GXP shareholders, amongst others. Management expects the transaction to close in Spring 2017.

Stable Stand-Alone Credit Metrics: Under its base case scenario, Fitch anticipates Westar's credit metrics will remain relatively stable over the rating horizon with adjusted debt to EBITDAR and FFO-adjusted leverage estimated at 3.5x-3.7x over the 2016-2019 forecast period.

Parent/Subsidiary Rating Linkage: KGE is a wholly-owned operating utility of Westar and its ratings are the same, reflecting highly centralized operations with shared employees, treasury and corporate functions, and a consolidated capital structure for rate-making purposes. Business is also conducted under the Westar names in contiguous geographies and WR's revolving credit facilities are collateralized by KG&E's first mortgage bonds, which include cross default provisions.

KEY ASSUMPTIONS

Fitch's key assumptions within our rating case for the issuer include:
--Compound annual kwh sales growth of 0.50%;
--Rate increase of $78 million effective October 2015 and with incremental rate increase of $15 million effective July 2017;
--Return on equity on FERC-regulated assets of 10.3%;
--Capex of about $1.100 billion in 2016, $800 million in 2017, $750 million in 2018 and $700 million in 2019; and
--Debt/equity maintained around 53/47;
--Acquisition financing includes $750 million of mandatory preferred convertible equity (assigned 100% equity credit), $1.35 billion of hybrids (assigned 100% debt credit), $2.3 billion of equity and $4.4 billion of long-term debt as well as assumption of Westar's existing debt.

RATING SENSITIVITIES
Future developments that may, individually or collectively, lead to a positive rating action:
No positive rating action is anticipated in the near term given the pending acquisition and incremental parent leverage.

Future developments that may, individually or collectively, lead to a negative rating action:
Fitch believes that the completion of the acquisition, based on the proposed financing structure as disclosed, would result in a one or two notch downgrade of Westar's ratings. Fitch would consider a one-notch downgrade if GXP presents a firm and credible path to deleveraging to a capital structure consistent with a 'BBB-' rating and/or if regulatory approval of the acquisition results in effective ring-fencing of Westar. On the other hand, Fitch would consider a two-notch downgrade if GXP relies heavily on hybrid issuance to finance the acquisition, follows an aggressive financial policy, and/or there is limited regulatory ring-fencing of Westar post-merger.

FULL LIST OF RATING ACTIONS

Fitch has placed the following ratings on Rating Watch Negative:

Westar
--Long-Term IDR 'BBB+';
--Senior secured debt 'A';
--Senior unsecured debt 'A-';
--Short-Term IDR 'F2';
--Commercial paper 'F2'.

KGE
--Long-Term IDR 'BBB+';
--Senior secured debt 'A';
--Pollution control revenue bonds 'A';
--Short-Term IDR 'F2'.

6/1/2016

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Additional information is available at 'www.fitchratings.com'.

Applicable Criteria
Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (pub. 17 Aug 2015) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869362)

Additional Disclosures
Solicitation Status (https://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=1005447)
Endorsement Policy (https://www.fitchratings.com/jsp/creditdesk/PolicyRegulation.faces?context=2&detail=31)

11/5/2015

FitchRatings

Fitch Rates Westar's $550MM FMBs 'A'

Fitch Ratings-Chicago-05 November 2015: Fitch Ratings has assigned an 'A' rating to Westar Energy, Inc.'s (WR) new $550 million issue of first mortgage bonds (FMBs). Proceeds will be used to redeem $300 million of 8.625% FMBs due 2018, repay short-term debt and for general corporate purposes.

KEY RATING DRIVERS

General Rate Case (GRC): The Kansas Corporation Commission (KCC) adopted a settlement in September 2015 authorizing a net rate base increase of $78 million for WR and Kansas Gas & Electric Co. (KG&E). The new rates will take effect Oct. 28, 2015. Fitch views the outcome to the GRC as balanced. While not specified in the approved settlement, Fitch estimates the rate increase represents about a mid-9% allowed ROE, which is slightly below the industry average. Credit-positive features of the settlement include the approval of a security tracker, new distributed generation residential tariffs, and fixed residential service fee increase to $14.50 from $12. WR is also permitted to file an abbreviated rate case no later than October 2016 for capital costs that include up to $50 million of grid resiliency improvements, the remainder of the environmental capex at its La Cygne Energy center, projects at Wolf Creek Generating Station, and 2015 environmental projects that would have been recovered through the environmental cost recovery (ECR) rider. Fitch notes the loss of ECR rider in the GRC settlement but expects the impact to be manageable given the lower expected environmental spend over the medium term and the ability to request an ECR rider for specific projects, if needed.

Low Business Risk Profile: The ratings reflect WR's and KG&E's relatively predictable earnings and cash flows, competitive retail rates, management's conservative strategy focused on integrated utility operations in Kansas, and a generation fleet generally compliant with current environmental regulations.

Constructive Regulatory Compact: WR and KG&E benefit from a balanced regulatory compact in Kansas, including statutory time limits for the adjudication of GRCs, single-issue rate cases and automatic cost-recovery mechanisms. The timeliness and perceived predictability of the Kansas regulatory compact is a key factor supporting WR's and KG&E's ratings. WR has negotiated KCC-approved settlements for its GRCs filings in recent years, underscoring the utility's solid relationship with its key constituent groups.

Lower ROE on Transmission Assets: The KCC filed a challenge to WR's approved ROE on Federal Energy Regulatory Commission (FERC)-regulated transmission assets of 11.3% in August 2014. WR and KCC reached a settlement of 10.3% ROE (9.8% base plus 0.5% adder), which is currently pending FERC approval. The 100bp ROE reduction represents about an $11 million reduction in annual earnings, given a FERC-regulated rate base of approximately $1.1 billion.

Declining Capex Plans: After significant investments in environmental upgrades, WR's capex program is expected to moderate to about $675 million annually in 2015-2017, from about $815 million annually in 2012-2014. Transmission investments will grow in importance to about one-third of spending. Planned environmental upgrades are very modest at $40 million or less annually starting in 2016. Probable investments in wind farms to modernize and reduce the carbon footprint of the generation fleet have yet to be quantified thus are not included in our analysis.

Improving Credit Metrics: Under its base case scenario, Fitch anticipates WR's credit metrics will strengthen over the rating horizon, driven by higher rates effective in October 2015 and lower capex till 2017. Fitch expects debt-to-EBITDAR to improve to 3.5x and EBITDAR interest coverage to exceed 5x in 2016-2017.

Parent/Subsidiary Rating Linkage: KG&E is a wholly owned operating utility of WR, and its ratings are the same, reflecting highly centralized operations and a consolidated capital structure for rate-making purposes. Business is also conducted under the Westar names in contiguous geographies and WR's revolving credit facilities are collateralized by KG&E's FMBs.

KEY ASSUMPTIONS

Fitch's expectations are based on our internally produced, conservative rating case forecasts. They do not represent the forecasts of rated issuers individually or in aggregate. Key Fitch forecast assumptions include:

--Net annual rate increase of $78 million effective Oct. 28, 2015 in accordance with KCC ruling.
--FERC approval of the settlement of 10.3% ROE and $10 million-$20 million annual increase in revenues from growing FERC-regulated portfolio of assets.
--Compound annual kwh sales growth of 1%.
--Capex program of about $675 million annually in 2015-2017.
--No incremental debt or equity issuance.

RATING SENSITIVITIES

Positive rating sensitivities:

A positive rating action is unlikely as the current ratings already incorporate the modest deleveraging over the 2015-2017 period. However, future positive rating actions would be likely if WR strengthened its balance sheet beyond Fitch's expectations, including EBITDA leverage declining to 3.3x or less on a sustainable basis.

Negative rating sensitivities:

An adverse shift in the regulatory compact, including prolonged elevated environmental spending without supportive recovery mechanisms, could trigger negative rating actions. A change in management strategy, meaningfully higher capex, or prolonged unexpected plant outage at a major base load could also negatively impact WR's credit profile.

LIQUIDITY

Ample Liquidity and Modest Maturities: WR has $1 billion of revolving credit available through $730 million and $270 million bank facilities that mature in September 2019 and February 2017, respectively. The bank facilities support a commercial paper (CP) program of up to $1 billion, with combined borrowings not exceeding $1 billion at any given time. The facilities may be extended by one year and modestly upsized, subject to lender participation. All borrowings under these facilities are secured by KG&E FMBs. WR had $292 million of CP outstanding and no borrowings under either credit facility at Oct. 27, 2015. WR typically maintains minimal cash and cash equivalents.

WR's debt maturity schedule is modest and debt issuance is expected to be limited to opportunistic refinancing over the rating horizon.

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Date of Relevant Committee: Oct. 1, 2015

Additional information is available on www.fitchratings.com

Applicable Criteria
Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (pub. 17 Aug 2015) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869362)

Additional Disclosures
Solicitation Status (https://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=993509)
Endorsement Policy (https://www.fitchratings.com/jsp/creditdesk/PolicyRegulation.faces?context=2&detail=31)

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KCPL KS
Case Name: 2016 Westar Aquisition
Case Number: 16-KCPE-593-ACQ

Response to Grady Justin Interrogatories - KCC_20160818
Date of Response: 08/30/2016

Question:24

Please provide a copy of all Great Plains Energy or Kansas City Power and Light presentations or correspondence with S&P, Moody's or Fitch regarding the potential acquisition/merger of Westar by Great Plains.

Number of Attachments:

Response:

This response and attached files are **CONFIDENTIAL** because they contain confidential reports related to work produced by external consultants, contain strategies employed, to be employed or under consideration, and contain information concerning private financial and business information.

The attached files contain presentations and information provided to and reports from S&P and Moody's regarding the potential acquisition/merger of Westar by Great Plains Energy. GPE and KCP&L are not rated by Fitch and there has been no correspondence with Fitch.

Attachments:
Q24_CONF_Wizard 160511-1640 SandP.xlsx
Q24_CONF_Project Wizard - Rating Agency Presentation May-2016_SandP.pdf
Q24_CONF_Project Wizard - Rating Agency Presentation_Moodys.pdf
Q24_CONF_Project Wizard - Rating Agency Presentation_SandP.PDF
Q24_CONF_Wizard 160422-1744 Moodys.xlsx
Q24_CONF_Wizard 160422-1744 SandP.XLSX
Q24_CONF_Project Wizard - Rating Agency Presentation May-2016_Moodys.pdf
Q24_CONF_Wizard 160511-1640 Moodys.xlsx
Q24_CONF_Project Wizard Scenarios 4 and 5 RAS-Rating Letter.pdf
Q24_CONF_Great Plains Energy_RES_2016MAY9 Report.pdf
Q24_CONF_Great Plains Energy RES 2016MAY18 Report.pdf
Q24_CONF_2015-05-12_Moodys RAS Letter - Project Wizard.pdf
Q24_Verification.pdf

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Lori Wright
Great Plains Energy
P.O. Box 418679
Kansas City, MO 64141-9679

For the Attention of: Lori Wright

May 12, 2016

RATING ASSESSMENT SERVICE – **Project Wizard**

Dear Ms. Wright,

At your request, Moody's Investors Service ("Moody's") has reviewed the scenarios presented to us through a presentation dated April 27, 2016 (RAS) and various telephone conversations during the period April 27, 2016 to May 11, 2016 with a view to assigning a Rating Assessment. Rating Assessments are not equivalent to and do not represent traditional Moody's Credit Ratings. However, Rating Assessments are expressed on Moody's traditional rating scale. Moody's has assigned the Rating Assessment (the "Assessment") detailed below. This letter and the Assessment contained within it are subject in all respects to the terms of your application for the Assessment.

A. Outline of the Scenarios:

You have indicated to us that Great Plains Incorporated (Great Plains or GXP; Baa2 senior unsecured, stable) proposes to acquire 100% of the common equity of Westar Energy Incorporated (Westar or WR; Baa1 issuer rating, stable) for a share price of $58 (approximately $8.0 billion) plus assumed debt. Westar (including direct subsidiary Kansas Gas & Electric[1] (KGE; Baa1 issuer rating) - a vertically integrated utility whose ratings are based on the ratings of Westar) is a fully regulated vertically integrated utility based in Topeka, Kansas and is regulated by both the Kansas Corporation Commission (KCC) and the Federal Energy Regulatory Commission (FERC).

[1] Any reference to "Westar" hereafter assumes the inclusion of KGE

You have requested an assessment of the impact of the acquisition on the ratings of: Great Plains, Westar, Kansas City Power & Light Company (KCPL; Baa1 issuer rating, stable), and KCPL – Greater Missouri Operations (GMO; Baa2 issuer rating, stable), under three proposed financing scenarios described below.

Exhibit 1: RAS Scenarios

		Issuance to Market						
	Purchase Price per Share	Debt Financing	Common Equity Financing	Mandatory Convertible Financing	Total Issuance to Market	Stock Consideration to Sky	Assumed Sky Debt	Total Transaction Value
Scenario I	**$58.00**	$3.5bn (40%)	$1.7bn (20%)	$1.2bn (15%)	**$6.4bn (75%)**	$2.1bn (25%)	$4.1bn	$12.5bn
Scenario II	**$58.00**	$3.8bn (45%)	$1.7bn (20%)	$1.3bn (15%)	**$6.8bn (80%)**	$1.7bn (20%)	$4.1bn	$12.5bn
Scenario III	**$58.00**	$4.1bn (48%)	$1.8bn (21%)	$1.3bn (16%)	**$7.2bn (85%)**	$1.2bn (15%)	$4.1bn	$12.5bn

Under each scenario, interim bridge financing is assumed to be provided by Goldman Sachs & Co. for the full cash component of the purchase price ($6.4 billion - $7.2 billion), with syndication to GXP's existing bank group immediately after the transaction announcement. Permanent debt and equity financing is contemplated on or around the transaction close (assumed to be between June 2017 and Year-end 2017).

B. Information and Assumptions

See Appendix A

C. Summary of the Assessment

Moody's Committee has assessed the impact of the proposed transaction and has concluded that the potential ratings of each of the scenarios would be as follows (ratings changes highlighted in yellow):

Exhibit 2: Summary assessments for Great Plains and utility operating companies

Great Plains Energy Incorporated	Current Rating	Scenario 1	Scenario 2	Scenario 3	Comment
Senior Unsecured Shelf	(P)Baa2	(P)Baa3	(P)Baa3	(P)Baa3	One notch downgrade across all scenarios.
Subordinate	Baa3	Ba1	Ba1	Ba1	
Subordinate Shelf	(P)Baa3	(P)Ba1	(P)Ba1	(P)Ba1	
Preferred Stock	Ba1	Ba2	Ba2	Ba2	
Outlook	STA	STA	STA	STA	
KCP&L Greater Missouri Operations Company					
Issuer Rating	Baa2	Baa2	Baa2	Baa2	Affirmed ratings across all scenarios.
Commercial Paper	P-2	P-2	P-2	P-2	
Senior Unsec. Shelf	(P)Baa2	(P)Baa2	(P)Baa2	(P)Baa2	
Outlook	STA	STA	STA	STA	
Kansas City Power & Light Company					
Issuer Rating	Baa1	Baa1	Baa1	Baa1	Affirmed ratings across all scenarios.
Commercial Paper	P-2	P-2	P-2	P-2	
Senior Unsec. Shelf	(P)Baa1	(P)Baa1	(P)Baa1	(P)Baa1	
Senior Secured Shelf	(P)A2	(P)A2	(P)A2	(P)A2	
Outlook	STA	STA	STA	STA	
Westar Energy, Inc.					
Issuer Rating	Baa1	Baa1	Baa1	Baa1	Affirmed ratings across all scenarios.
Commercial Paper	P-2	P-2	P-2	P-2	
Senior Secured Bank Credit Facility	A2	A2	A2	A2	
Outlook	STA	STA	STA	STA	
Kansas Gas and Electric Company					
Issuer Rating	Baa1	Baa1	Baa1	Baa1	Affirmed ratings across all scenarios.
Senior Secured Shelf	(P)A2	(P)A2	(P)A2	(P)A2	
Backed First Mortgage Bonds	A2	A2	A2	A2	
First Mortgage Bonds	A2	A2	A2	A2	
Outlook	STA	STA	STA	STA	

D. Moody's Rationale

The RAS committee saw no material differences, across the scenarios, in the pro-forma credit profile of Great Plains. As such, each scenario resulted in a downgrade of GXP's unsecured rating to Baa3. The primary drivers for the downgrade are the following characteristics, evident in each RAS Scenario:

- Holding company debt is greater than 30% of total consolidated debt. This level of holding company debt often results in multiple rating-notches between the parent company rating and its principal operating subsidiaries. In the case of GXP, a two-notch differential between the parent and primary subsidiaries (i.e., Baa1 Westar and Baa1 KCPL) would be viewed as appropriate across all three scenarios.

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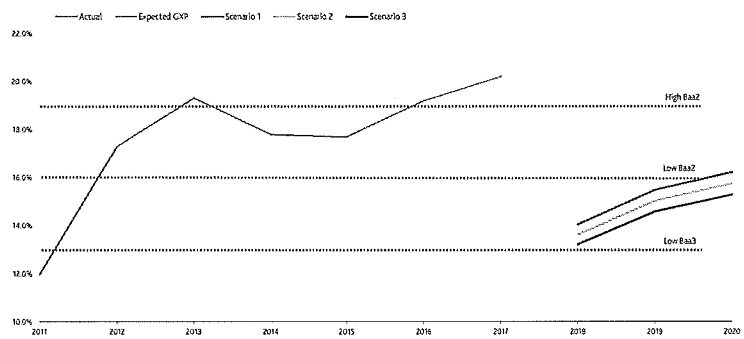
Exhibit 3: Acquisition leverage immediately reduces financial flexibility across all scenarios

	Pre-M&A		Post-M&A Debt Impacts		
	GXP	GXP + WR	Scenario 1	Scenario 2	Scenario 3
Total Rate Base	$ 6,526	$ 12,826	$ 12,826	$ 12,826	$ 12,826
Scenario Debt			$ 3,500	$ 3,800	$ 4,100
As Rpt Debt	$ 4,155	$ 7,736	$ 11,236	$ 11,536	$ 11,836
Debt / Current Rate Base	64%	60%	88%	90%	92%
HoldCo Debt / As Rpt Debt	2%	0%	32%	33%	35%
CFO / As Adj. Debt	16%	17%	11%	11%	11%

- Consolidated debt levels result in weak financial metrics, such as cash flow to debt in the low-teens, until 2020. This level is more reflective of a Baa3 type of financial metric. That said, the RAS committee sees Great Plains as a strongly positioned Baa3, given the company business mix and regulated asset profile.

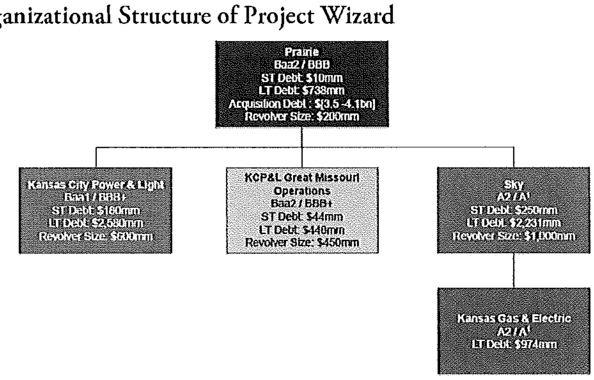
Exhibit 4: Cash flow to Debt Ratio versus Rating Methodology Metric Ranges



Source: Moody's Financial Metrics and Wizard RAS projections

- Since the acquisition is financed entirely at the GXP level, and Westar is simply added as a subsidiary of GXP with unchanged capital structure, dividend policies and capex plans, Westar's ratings will remain unchanged. The same rationale applies to GXP's current subsidiaries, KCPL and GMO, which will retain their current ratings and stable outlook.

Exhibit 5: Proposed Organizational Structure of Project Wizard

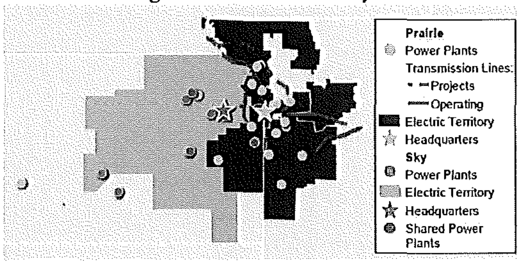


Source: Project Wizard RAS presentation

Improved Size, Scale, Scope and Regulatory Exposure is Credit Positive

The industrial logic behind the merger is a material credit positive. Great Plains is uniquely positioned to acquire Westar due to its current operations in the state of Kansas which provide: a contiguous operating footprint, first-hand expertise in managing political and regulatory relationships within the state and at the KCC, and the ability to realize cost synergies that other potential suitors would not.

Exhibit 6: Integrated service territory should result in cost savings post-merger



Source: Project Wizard RAS presentation

From a credit perspective, Great Plains will benefit most from increased exposure to the Kansas regulatory environment and roughly $1.2 billion of FERC regulated transmission rate base. We find the Kansas regulatory environment to be more supportive to credit based on the use of certain tracking mechanisms (e.g., quarterly fuel and purchase power adjustments, pension costs, transmission costs, etc.) the allowance for a "predetermination" of some capital investments (which sets the parameters for prudently incurred costs of a future project) and construction work in process (CWIP) into rates, as well as the use of abbreviated rate cases for periodic investment recovery of certain large projects. All of these features allow for more timely cost recovery and a greater assurance of future revenues – especially when compared to the Missouri regulatory environment that operates on a more historical recovery basis, with relatively few riders, trackers or single-item recovery mechanisms.

We view the FERC regulatory framework as one of the most credit supportive – if not, the most credit supportive – jurisdictions in the US. Westar's transmission rate base will add an additional $1.2 billion of rate base that benefits from forward-looking, cost-based formula rates which provide for highly predictable cost recovery and very stable earnings. Moreover, the high base level FERC ROEs, incentive return adders, and high equity layers of capitalization, result in very strong cash flow generation vis-à-vis most state jurisdictions in the US.

These factors result in a direct improvement in the cost recovery factors for Great Plains, as seen in Exhibit 7.

Exhibit 7: Improved regulatory exposure enhances qualitative scoring for Great Plains

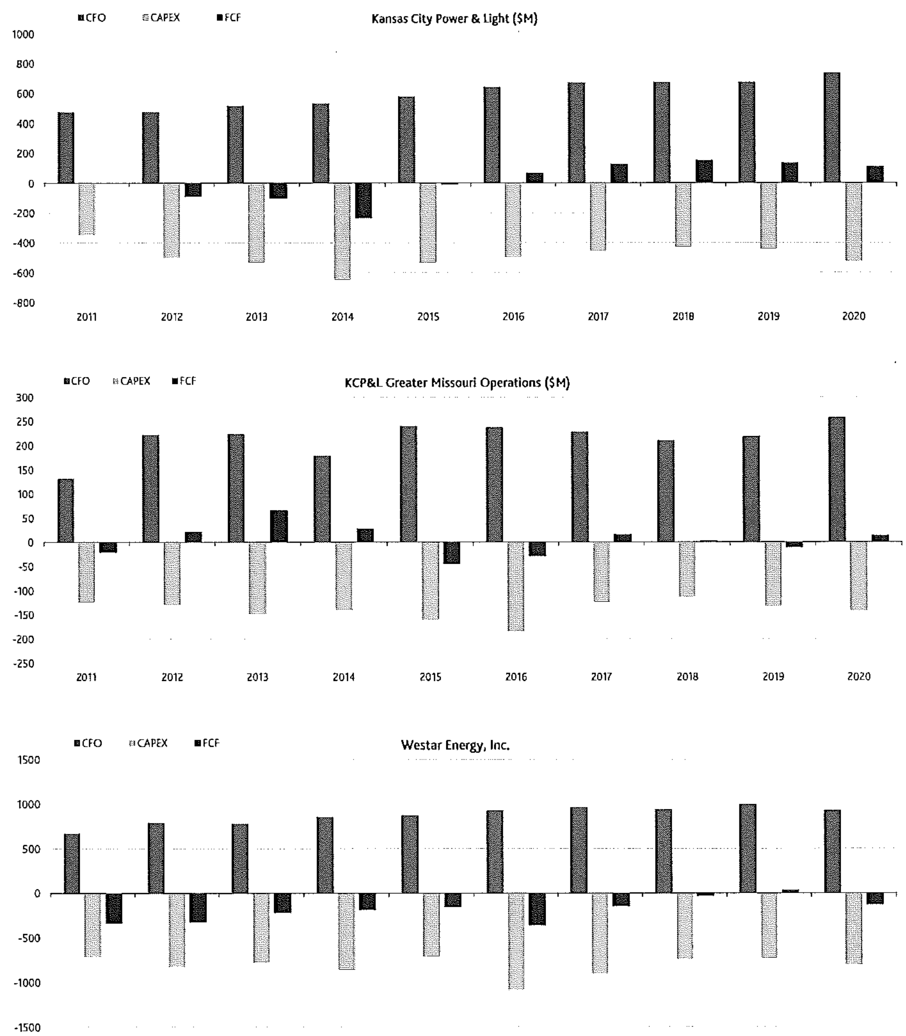
Regulated Electric and Gas Utilities	GXP	Project Wizard
Factor 1: Regulatory Framework (25%)		
1a. Legislative and Judicial Underpinnings of the Regulatory Framework	A	A
1b. Consistency and Predictability of Regulation	A	A
Factor 2: Ability to Recover Costs and Earn Returns (25%)		
2a. Timeliness of Recovery of Operating and Capital Costs	Baa	A
2b. Sufficiency of Rates and Returns	Ba	Baa
Factor 3: Diversification (10%)		
3a. Market Position	Baa	Baa
3b. Generation and Fuel Diversity	Ba	Ba

<u>Operating Company Credit Profiles are Improving</u>

Underpinning the strength of the post-merger holding company, is an expectation for improved financial performance of each utility subsidiary. This improvement is driven by the conclusion of extensive environmental capital plans, which have been in progress for the past several years, as each utility has prepared to meet Federal emissions standards, such as Mercury Air Toxic Standards (MATS).

These collective investments will be fully incorporated into rate base, earning allowed returns, over the near-term. These investments, including capital expenditures for new wind generation at Westar, customer information system advancement at Great Plains, and general infrastructure improvements across all systems, contribute over $270 million of annual revenue increases in the forecast (i.e., effective between 2017 and 2019). These revenue increases, combined with a reduced capex plan, results in a significant improvement in the cash flow generation of the consolidated entity.

Exhibit 8: Improving cash position across utility subsidiaries ($M)



Source: Moody's Financial Metrics and Great Plains Forecast

Business Risk Remains Unchanged

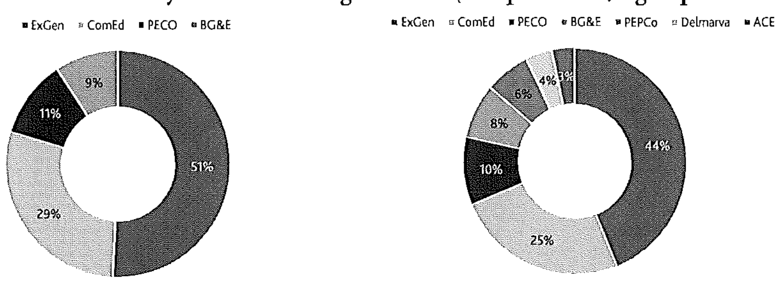
The acquisition of Westar will enhance the business profile of Great Plains in many of the aforementioned ways, we note that the general business mix of the company remains unchanged. That is, GXP will still be a vertically integrated electric utility based in the states of Kansas and Missouri, with a smaller portion of FERC transmission investments. Therefore, we regard the transaction as positive and scale-enhancing, but not as transformative and credit-enhancing as some of the comparable transactions we've seen in recent years.

By way of contrast, the recent Exelon Corporation (Baa2 sable) acquisition of Pepco Holdings (Baa2 stable) and Black Hills Corp. (BKH; Baa1 negative) purchase of SourceGas LLC (Baa1 stable) were highly levered transactions, but were also deals that significantly changed the acquiring company's business mix, diversification and risk profile, as seen in Exhibit 9, below. For example, Exelon transitioned from roughly 50/50 regulated/unregulated to 60/40 and BKH increased their lower risk local gas distribution utility (LDC) exposure from 25% of operations to 42% after the SourceGas acquisition.

See the Peer Comparison Analysis for more information on how we view these transactions versus Project Wizard.

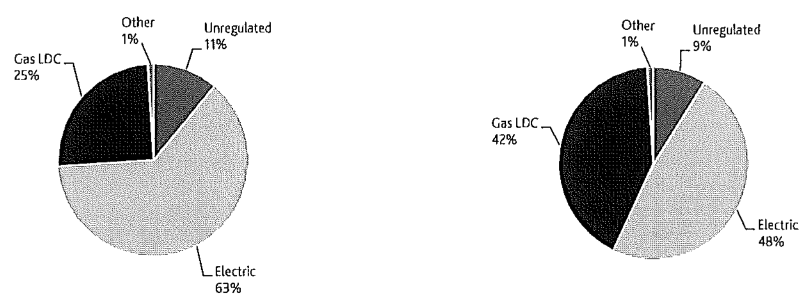
Exhibit 9[2]: Illustrative Business Risk: Exelon and BKH M&A reduces business risk

Exelon diversifies assets away from merchant generation (left: pre-M&A; right: post-M&A)



Source: Moody's estimates

Black Hills adds lower-risk LDCs to its business mix (left: pre-M&A; right: post-M&A)



Source: Moody's estimates

[2] See Appendix B for listing of referenced subsidiary names and ratings

Furthermore, many of the recent M&A transactions included a large, diverse company acquiring lower-risk, high-quality assets in especially supportive regulatory environments; Exhibit 10 lists some of these.

Exhibit 10: Business Risk: Large Holding Companies Acquiring High-Quality Targets

	Duke	Piedmont	Dominion	Questar	Fortis Inc.	ITC Holdings
Rating	Baa1	A2	Baa2	A2	NR	Baa2
1a. Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A	NA	Aaa
1b. Consistency and Predictability of Regulation	Aa	Aa	Aa	A	NA	Aaa
2a. Timeliness of Recovery of Operating and Capital Costs	A	A	A	A	NA	Aa
2b. Sufficiency of Rates and Returns	Baa	A	Baa	Aa	NA	Aaa
Total Assets ($M)	122.5	5.5	59.1	4.2	28.6	7.6

The relative size of the targets makes the debt financing less material to the consolidated financial position of the ultimate company and the excellent regulatory support for the target helps to offset some of the financial risk assumed at the parent level.

We view the Great Plains transaction as a merger of equals, which combines a slightly above-average regulatory environment in Kansas, with a below-average regulatory environment in Missouri. The combination of material size and average consolidated regulatory oversight places a higher emphasis on the financial impacts of the GXP transaction.

Lastly, the company's ownership of Wolf Creek provides a unique risk aspect, compared to other regional neighboring utilities. As a single-unit nuclear facility, we expect that the costs to operate this facility will continue to increase, and likely be above regional power markets and comparable owned generation resources.

Financial Analysis

Project Wizard may lack some of the diversification benefits that comparable M&A transactions have produced, but the proposed financing is considered to be more conservative. For example, many recent M&A deals have come at over 30% premiums for target stock price, and acquisition debt to total rate base exceeding 100%. In contrast, the three scenarios for Project Wizard assume a, roughly, 12% premium to Westar's stock price as of the May 9 close and acquisition debt of approximately 56% of Westar's total rate base in Scenario 1, 60% in Scenario 2 and 65% in Scenario 3, resulting in Great Plains consolidated debt to rate base slightly below 100% in all scenarios.

GXP's consolidated debt to rate base may be subjectively below many recent comparable transactions, but, in objective terms, it far exceeds the leverage level of a typical regulated utility capital structure of 50% debt to rate base. Since the vast majority of GXP's holdings are assets under state utility regulation, we view the nearly 100% consolidated debt to rate base as significantly increasing the financial risk of the parent holding company.

The amount of additional debt used in the proposed transaction results in a deterioration of consolidated financial metrics in all three scenarios. As a result, Great Plains exhibits cash flow metrics that are more in-line with the Baa3 rating category (i.e., around 13% - 16% CFO pre-WC to debt), as seen in Exhibit 11 on the next page.

Exhibit 11: Acquisition leverage results in a degradation of key financial metrics through 2020

Moody's Adjusted Figures ($M)	GXP Actual			GXP Standalone Projections					
	2013	2014	2015	2018	2019	2020			
CFO pre-WC	$ 752	$ 742	$ 779	$ 944	$ 1,040	$ 1,074			
Total Debt	$ 4,240	$ 4,602	$ 4,710	$ 4,559	$ 4,425	$ 4,436			
CFO pre-WC Interest Coverage	4.2	4.4	4.5	5.2	5.9	6.3			
CFO pre-WC / Debt	18%	16%	17%	21%	24%	24%			
(CFO pre-WC - Dividends) / Debt	15%	13%	13%	17%	19%	20%			
Debt / Equity	121%	127%	127%	114%	109%	110%			
	Scenario 1			Scenario 2			Scenario 3		
	2018	2019	2020	2018	2019	2020	2018	2019	2020
CFO pre-WC	$ 1,783	$ 1,963	$ 2,048	$ 1,771	$ 1,950	$ 2,035	$ 1,758	$ 1,937	$ 2,022
Total Debt	$ 12,703	$ 12,679	$ 12,623	$ 13,004	$ 12,982	$ 12,929	$ 13,303	$ 13,285	$ 13,234
CFO pre-WC Interest Coverage	4.1	4.4	4.6	4.0	4.3	4.5	3.9	4.2	4.4
CFO pre-WC / Debt	14%	15%	16%	14%	15%	16%	13%	15%	15%
(CFO pre-WC - Dividends) / Debt	11%	12%	13%	10%	12%	12%	10%	11%	12%
Debt / Equity	142%	140%	136%	151%	148%	144%	159%	157%	152%

This weakened financial position persists for several years, as there is immaterial deleveraging of consolidated debt through 2020. Furthermore, at no point of the forecast period do consolidated financial metrics return to the level that Great Plains is currently producing (e.g, 17% CFO pre-WC to debt), let alone approach what was expected prior to the transaction (e.g., 24% CFO pre-WC to debt).

Holding Company Notching

Currently, Great Plains has only $100 million of holding company debt, or around 2% of consolidated debt outstanding. The financing of Project Wizard will increase holding company debt to over 30% of consolidated debt, in all three scenarios. While not embedded in any rating methodology, common practice is that when holding company debt - which must be serviced by the upstream dividends of utility subsidiaries – is around 25% - 30% of total consolidated debt, we begin to introduce additional notches between the rating of the holding company and the rating of its subsidiaries. This is done in order to reflect increased structural subordination between the parent company debt and the utility subsidiary debt, since operating companies have payment priority in bankruptcy and the utility debt is serviced directly by its own cash flow from operations (as opposed to dividends from a subsidiary).

Notching considerations depend on several variables, including the amount of holding company debt as a percentage of consolidated debt; the strength and stability of upstream dividends from subsidiaries; the influence of any ring-fencing type provisions between legal entities within the corporate family; business and credit profile of subsidiaries or affiliates; breadth and diversity of subsidiaries and cash flow; among others.

Since Great Plains has three operating utility subsidiaries, with most of the operations in Kansas and Missouri, and a weighted-average rating of Baa1, we would apply one downward ratings notch for typical holding company structural subordination and an additional downward notch due to the amount of holding company debt; or, Baa3 for GXP's unsecured debt.

Dividend Analysis

The additional leverage will also place an increased burden on utility subsidiaries to upstream enough cash to service holding company interest payments. Project Wizard assumes a dividend payout of around 70% of consolidated Net Income, on average, over the forecast period 2018-2020. This is a large increase from the payout ratio of both Great Plains (i.e., 2013-2015 average of 63%, but increasing year-over-year) and Westar (i.e., 2013-2015 average of 56%), currently – a credit negative.

We also observe that the collective utility dividend to the parent holding company is only enough to cover the consolidated dividend and holding company interest by about 75%, at most (see Exhibit 12, below).

Exhibit 12: Utility dividends as a percent of holding company cash uses

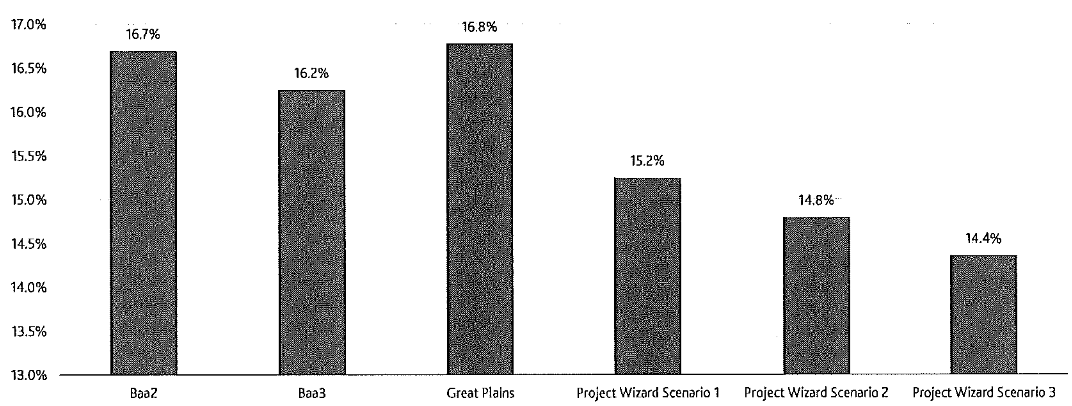
				Scenario 1			Scenario 2			Scenario 3		
Wizard Debt				$ 3,500			$ 3,800			$ 4,100		
Wizard Interest @ 4.23%				$ 148			$ 161			$ 173		
	5yr Avg	2016E	2017E	2018E	2019E	2020E	2018E	2019E	2020E	2018E	2019E	2020E
Westar	$ 165	$ 205	$ 220	$ 226	$ 238	$ 250	$ 231	$ 238	$ 254	$ 231	$ 238	$ 254
KCPL	$ 72	$ 83	$ 88	$ 94	$ 99	$ 102	$ 94	$ 99	$ 102	$ 94	$ 99	$ 102
GMO	$ 75	$ 83	$ 88	$ 94	$ 99	$ 102	$ 94	$ 99	$ 102	$ 94	$ 99	$ 102
Total OpCo	$ 312	$ 370	$ 396	$ 413	$ 435	$ 454	$ 418	$ 435	$ 457	$ 418	$ 435	$ 457
Wizard Dividends				$ 423	$ 443	$ 463	$ 423	$ 443	$ 463	$ 423	$ 443	$ 463
HoldCo Interest				$ 148	$ 148	$ 148	$ 161	$ 161	$ 161	$ 173	$ 173	$ 173
Total Corp. Payments				$ 571	$ 591	$ 611	$ 584	$ 604	$ 624	$ 596	$ 616	$ 636
OpCo as % Wizard Div.				98%	98%	98%	99%	98%	99%	99%	98%	99%
OpCO as % Wizard Div. + Int.				72%	74%	74%	72%	72%	73%	70%	71%	72%

Source: Moody's, company projections and Project Wizard RAS presentation

Peer Comparison Analysis

The Baa3 unsecured rating for Great Plains is appropriate based on financial and qualitative peer comparisons with other utility holding companies. For example, GXP's low-teens average CFO pre-WC to debt (2018-2020 average) lags that produced by Baa2 and Baa3 holding company averages over the past three years 2013-2015.

Exhibit 13: 2013-2015 Average CFO to Debt for Baa2 and Baa3 Holding Companies



Source: Moody's and Project Wizard RAS presentation

When compared to regional peers with significant amounts of holding company debt, GXP's Baa3 is also appropriate, since it has similar financial metrics, but different diversification and/or business risk characteristics than neighboring Spire Inc. (Baa2 stable) and BKH.

Spire Inc. (Baa2 stable)

Spire's holdings consist of A2 and A3-rated LDCs, which provide more stable and predictable cash flow compared to GXP's vertically integrated, Baa1 and Baa2-rated subsidiaries. With the recently announced acquisition of EnergySouth, Inc. (unrated), parent debt is expected to breach 40% of consolidated debt and reduce cash flow to debt metrics, somewhat, from the mid-teens range we had been anticipating pre-announcement. If cash flow to debt ratios drop below 13% for an extended period of time, downward rating pressure could result.

Black Hills Corp. (Baa1 negative)

BKH's acquisition of SourceGas increased its holding company debt to just below 30% and will reduce financial metrics to the mid-teens range (i.e., 15% - 17%), if other initiatives, such as its pursuit of utility investment in gas reserves, do not come to fruition. The SourceGas acquisition also lowered the consolidated business risk profile for BKH, since a greater portion of its cash flow is sourced from stable and predictable LDCs.

E. Conclusion

Please note that Moody's conclusions are based upon the scenario(s) presented by you and Moody's expectations regarding the Issuer's financial fundamentals. The Assessment has been assigned on a "point-in-time" basis and will not be monitored going forward. Also, in accordance with our usual policy, existing assigned credit ratings are subject to revision or withdrawal by Moody's at any time, without notice, in the sole discretion of Moody's. Please be aware that the contents of this letter are strictly confidential. This Assessment is only for the benefit of the Applicant/Issuer and should not be disclosed to any other person except strictly in accordance with your application for the Assessment. Moody's reserves the right to publish the Assessment upon any public disclosure of the Assessment.

Yours faithfully,

Ryan Wobbrock
Vice President – Senior Analyst
Moody's Investors Service

Appendix A

Information and Assumptions used in the Assessment

The potential ratings of the scenarios are based solely information and assumptions provided by the Applicant to us up to and including the April 27, 2016 Project Wizard RAS presentation. Such confidential information and assumptions include the following:

General

- The company performs broadly in line with its consolidated forecast leading to the Moody's adjusted financial metrics presented in this RAS letter.
- All issuance under the scenarios is considered net of issuance costs
- For the purposes of the financial model, the transaction closes December 31, 2017
- No material customer credits, or rate freezes, are required as part of the KCC transaction approval
- No ring-fencing type provisions are introduced that would significantly limit the upstream dividend capabilities of Westar or the Great Plains utilities
- All scenarios incorporate projected operating results calculated based on individual regulated rate bases, equity thickness and ROE for each operating subsidiary, there are no differences between scenarios.
- Hybrid instruments achieve basket E treatment (100% equity) under Moody's hybrids methodology.
- Planned equity issuance is consistent with Moody's methodology for 100% equity treatment.
- We have not differentiated between short term and long term regulatory assets and liabilities and their effects on CFO pre-W/C and followed the treatment of working capital items as provided by Great Plains Energy.
- The company will have sufficient bridging facilities in place to close the acquisition and at no time will the company have less than 12 months left on bridging facilities prior to terming out the holding company acquisition debt.

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Lori Wright
Great Plains Energy
P.O. Box 418679
Kansas City, MO 64141-9679

For the Attention of: Lori Wright

May 18, 2016

RATING ASSESSMENT SERVICE – Project Wizard Scenarios 4 and 5

Dear Ms. Wright,

At your request, Moody's Investors Service ("Moody's") has reviewed the scenarios presented to us through a presentation dated May 11, 2016 (RAS) with a view to assigning a Rating Assessment. Rating Assessments are not equivalent to and do not represent traditional Moody's Credit Ratings. However, Rating Assessments are expressed on Moody's traditional rating scale. Moody's has assigned the Rating Assessment (the "Assessment") detailed below. This letter and the Assessment contained within it are subject in all respects to the terms of your application for the Assessment.

Furthermore, the May 11 presentation is an addendum to an original presentation provided on April 27, 2016 and assumes that most of the information provided in that presentation remains the same for this Rating Assessment; therefore, this Rating Assessment also incorporates said information and is scoped to address the new financial impacts provided in Scenarios 4 and 5. Thus, this Rating Assessment should be read and understood as part of the RAS letter dated May 12, 2016 (the "May 12 RAS Letter").

A. Outline of the Scenarios:

You have indicated to us that Great Plains Incorporated (Great Plains or GXP; Baa2 senior unsecured, stable) proposes to acquire 100% of the common equity of Westar Energy Incorporated (Westar or WR; Baa1 issuer rating, stable) for a share price of $60 (approximately $8.8 billion) plus assumed debt. Westar (including direct subsidiary Kansas Gas & Electric[1] (KGE; Baa1 issuer rating) - a vertically integrated utility whose ratings are based on the ratings of Westar) is a fully regulated vertically integrated utility based in Topeka, Kansas and is regulated by both the Kansas Corporation Commission (KCC) and the Federal Energy Regulatory Commission (FERC).

You have requested an assessment of the impact of the acquisition on the ratings of: Great Plains, Westar, Kansas City Power & Light Company (KCPL; Baa1 issuer rating, stable), and KCPL – Greater Missouri Operations (GMO; Baa2 issuer rating, stable), under two proposed financing scenarios described below.

Exhibit 1: RAS Scenarios 4 and 5

		Issuances to Market						
	Purchase Price per Share	Debt Financing	Common Equity Financing	Mandatory Convertible Financing	Total Issuances to Market	Stock Consideration to Sky	Assumed Sky Debt	Total Transaction Value
Scenario IV	$60.00	$4.3bn (50%)	$1.8bn (20%)	$1.2bn (14%)	$7.3bn (83%)	$1.5bn (17%)	$4.1bn	$12.8bn
Scenario V	$60.00	$4.6bn (53%)	$1.8bn (20%)	$1.2bn (14%)	$7.6bn (87%)	$1.1bn (13%)	$4.1bn	$12.8bn

Under each scenario, interim bridge financing is assumed to be provided by Goldman Sachs & Co. for the full cash component of the purchase price, with syndication to GXP's existing bank group immediately after the transaction announcement. Permanent debt and equity financing is contemplated on or around the transaction close (assumed to be between June 2017 and Year-end 2017).

B. Information and Assumptions

See Appendix A

C. Summary of the Assessment

Moody's Committee has assessed the impact of the proposed transaction and has concluded that the potential ratings of each of the scenarios would be as follows (ratings changes highlighted in yellow):

Exhibit 2: Summary assessments for Great Plains and utility operating companies

[1] Any reference to "Westar" hereafter assumes the inclusion of KGE

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Great Plains Energy Incorporated	Current Rating	Scenario 4	Scenario 5	Comments
Senior Unsecured Shelf	(P)Baa2	(P)Baa3	(P)Baa3	One notch downgrade in both scenarios.
Subordinate	Baa3	Ba1	Ba1	
Subordinate Shelf	(P)Baa3	(P)Ba1	(P)Ba1	
Preferred Stock	Ba1	Ba2	Ba2	
Outlook	STA	STA	STA	
KCP&L Greater Missouri Operations Company				
Issuer Rating	Baa2	Baa2	Baa2	Affirmed ratings in both scenarios.
Commercial Paper (823050683)	P-2	P-2	P-2	
Senior Unsec. Shelf	(P)Baa2	(P)Baa2	(P)Baa2	
Outlook	STA	STA	STA	
Kansas City Power & Light Company				
Issuer Rating	Baa1	Baa1	Baa1	Affirmed ratings in both scenarios.
Commercial Paper (809705934)	P-2	P-2	P-2	
Senior Unsec. Shelf	(P)Baa1	(P)Baa1	(P)Baa1	
Senior Secured Shelf	(P)A2	(P)A2	(P)A2	
Outlook	STA	STA	STA	
Westar Energy, Inc.				
Issuer Rating	Baa1	Baa1	Baa1	Affirmed ratings in both scenarios.
Commercial Paper (823083682)	P-2	P-2	P-2	
Senior Secured Bank Credit Facility	A2	A2	A2	
Outlook	STA	STA	STA	
Kansas Gas and Electric Company				
Issuer Rating	Baa1	Baa1	Baa1	Affirmed ratings in both scenarios.
Senior Secured Shelf	(P)A2	(P)A2	(P)A2	
Backed First Mortgage Bonds	A2	A2	A2	
First Mortgage Bonds	A2	A2	A2	
Outlook	STA	STA	STA	

D. Moody's Rationale

Scenarios 4 and 5 include a higher stock acquisition price and premium paid for Westar and a higher amount of total debt issued as part of the acquisition. The RAS Committee regarded all of the many other aspects of the merger in determining the ratings outcomes, but most of our analysis in this letter will focus on the financial impacts that we see as different in Scenarios 4 and 5.

The primary rating drivers for Scenarios 4 and 5 continue to include: strong underlying performance and improving credit profiles for the Great Plains utility subsidiaries; Great Plains benefitting from increased sized, scale and scope with heightened exposure to better regulatory support; Great Plains holding company debt exceeding 30% of total consolidated debt – a level that often results in a two notch rating differential between a holding company and its average utility subsidiary rating level; and weaker financial metrics, which are more reflective of a Baa3 type financial profile, on average 2018-2020 (see the May 12 RAS Letter for additional rationale). As such, the outcomes for Scenarios 4 and 5 resulted in a downgrade of GXP's unsecured rating to Baa3, the same as Scenarios 1 through 3.

However, the RAS committee also views the financing strategies presented in Scenario 4 and 5 as taking marked steps of financial risk that differ from those provided in Scenarios 1 through 3 and note that under the degree of leverage, presented in Scenarios 4 and 5, Great Plains would be weakly rated in the Baa3 category, with no cushion to absorb a negative credit event. For example, if financial performance were to underperform forecast assumptions for any reason, or the degree of regulatory support offered by Kansas, Missouri or the FERC were to deteriorate slightly, it is highly likely that a negative rating action for Great Plains would follow (e.g., negative ratings outlook, review for downgrade or downgrade).

We would also incorporate a qualitative view that the financial policies of Great Plains management and board of directors have become decidedly more tolerant of risk – a credit negative and a deviation from what we have incorporated into our ratings, historically.

Lastly, it is possible that the credit ratings for Westar, KCPL and GMO could be constrained or negatively impacted going forward. While no change to utility ratings would likely occur at close of the transaction, the high amount of family leverage would begin to weigh on upward ratings mobility of the subsidiaries, due to the contagion risk at the parent level and increased need for upstream dividend support. Scenario 4 and 5 leverage would weaken the positioning of Westar, KCPL and GMO within their respective ratings categories.

We view scenarios 4 and 5 as demonstrating much greater risk for the following reasons:

Holding company debt is approaching 40% of total consolidated debt

40% holding company debt, as a percentage of consolidated debt, often results in three rating-notches between the parent company rating and its principal operating subsidiaries.

Exhibit 3: Leverage is approaching levels that pressure holding company and utility ratings

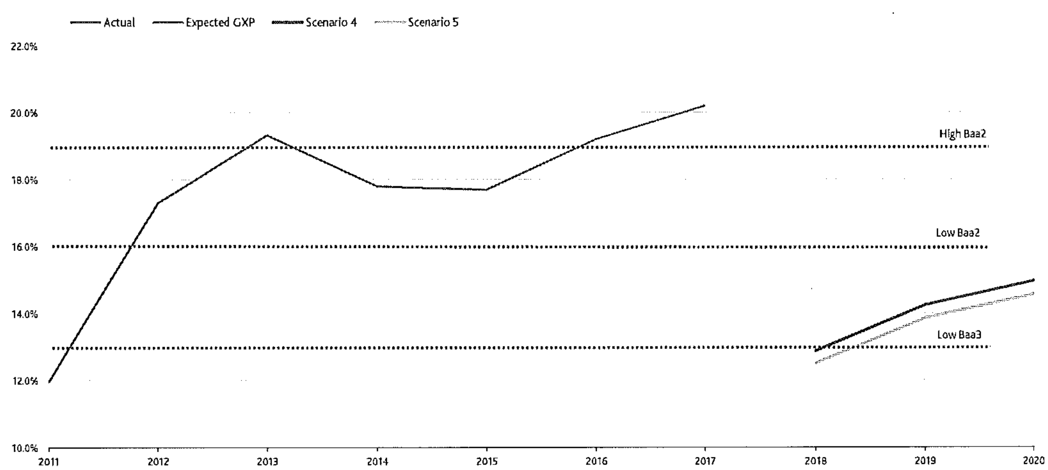
	Pre-M&A		Post M&A Debt Impacts				
	GXP	GXP + WR	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Total Rate Base	6,526	12,826	12,826	12,826	12,826	12,826	12,826
Scenario Debt			$ 3,500	$ 3,800	$ 4,100	$ 4,300	$ 4,600
As Rpt Debt	$ 4,155	$ 7,736	$ 11,236	$ 11,536	$ 11,836	$ 12,036	$ 12,336
Debt / Current Rate Base	64%	60%	88%	90%	92%	94%	96%
HoldCo Debt / As Rpt Debt	2%	0%	32%	33%	35%	36%	37%

The two notch differential applied to Great Plains in Scenarios 4 and 5 (i.e., Baa3 versus the weighted average utility rating of Baa1) results from an improving cash position of the utility companies (see Exhibit 8 from the May 12 RAS Letter) and consolidated debt to rate base numbers remaining below 100%; albeit at a more tenuous level.

Borderline investment grade financial metrics, for a vertically integrated holdco

Scenario 4 and 5 result in consolidated financial metrics reflect levels that are typically associated with a speculative grade financial profile in 2018 under both scenarios. Great Plains' cash flow before changes in working capital (CFO pre-WC) to debt is below 13% in 2018 and barely above in 2019 for Scenario 5 (see Exhibit 3, below).

Exhibit 3: Scenarios 4 and 5 result in no financial flexibility within the Baa3 ratings category



Source: Great Plains projections for Scenarios 4 and 5 and Moody's standard adjustments

These financial metrics result in a weakly positioned Baa3 holding company that has average consolidated regulatory support and unique exposure to a single-unit nuclear facility. Average cash flow to debt metrics around 14% leave little room for error within the Great Plains forecast assumptions, including regulatory outcomes and economic factors (including interest rate levels) that are outside of management control. The combination of these factors would expose Great Plains to a lower tolerance threshold for negative credit events, and a higher likelihood for downgrade in the face of an adverse circumstance.

Exhibit 4: Scenario 4 and 5 reflect a material degradation to GXP's financial position

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Moody's Adjusted Figures ($M)	GXP Actual			GXP Standalone Projections					
	2013	2014	2015	2018	2019	2020			
CFO pre-WC	$ 752	$ 742	$ 779	$ 944	$ 1,040	$ 1,074			
Total Debt	$ 4,240	$ 4,602	$ 4,710	$ 4,559	$ 4,425	$ 4,436			
CFO pre-WC Interest Coverage	4.2x	4.4x	4.5x	5.2x	5.9x	6.3x			
CFO pre-WC / Debt	17.7%	16.1%	16.5%	20.7%	23.5%	24.2%			
(CFO pre-WC - Dividends) / Debt	15%	13%	13%	17%	19%	20%			
Debt / Equity	121%	127%	127%	114%	109%	110%			
	Scenario 1			Scenario 2			Scenario 3		
	2018	2019	2020	2018	2019	2020	2018	2019	2020
CFO pre-WC	$ 1,783	$ 1,963	$ 2,048	$ 1,771	$ 1,950	$ 2,035	$ 1,758	$ 1,937	$ 2,022
Total Debt	$ 12,703	$ 12,679	$ 12,623	$ 13,004	$ 12,982	$ 12,929	$ 13,303	$ 13,285	$ 13,234
CFO pre-WC Interest Coverage	4.1x	4.4x	4.6x	4.0x	4.3x	4.5x	3.9x	4.2x	4.4x
CFO pre-WC / Debt	14%	15%	16%	14%	15%	16%	13%	15%	15%
(CFO pre-WC - Dividends) / Debt	11%	12%	13%	10%	12%	12%	10%	11%	12%
Debt / Equity	142%	140%	136%	151%	148%	144%	159%	157%	152%
	Scenario 4			Scenario 5					
	2018	2019	2020	2018	2019	2020			
CFO pre-WC	$ 1,747	$ 1,927	$ 2,013	$ 1,734	$ 1,915	$ 2,002			
Total Debt	$ 13,562	$ 13,528	$ 13,451	$ 13,862	$ 13,830	$ 13,754			
CFO pre-WC Interest Coverage	3.8x	4.2x	4.3x	3.7x	4.1x	4.3x			
CFO pre-WC / Debt	13%	14%	15%	13%	14%	15%			
(CFO pre-WC - Dividends) / Debt	10%	11%	12%	10%	11%	12%			
Debt / Equity	162%	159%	153%	172%	168%	162%			

Management's Higher Risk Tolerance

The amount of leverage in Scenarios 4 and 5 would evidence a higher risk tolerance for Great Plains management and board of directors. Great Plains has historically operated with negligible holding company debt and a focus on executing utility capital plans and improving the regulatory relationship and support in its primary jurisdictions. While we understand the unique opportunity that Project Wizard provides, and funding strategy necessary to achieve the transformative transaction, we view the amount of acquisition debt in Scenarios 4 and 5 - that more than doubles Great Plains' existing debt – as highly aggressive and evidence of financial engineering.

Kansas and Missouri service territories are not high growth areas that will provide Great Plains with a clear path of paying down the acquisition debt, so we view the $4.3 billion of Scenario 4 debt and the $4.6 billion of Scenario 5 debt as permanent leverage in the Great Plains capital structure. This debt will be increasingly difficult to service in a rising interest rate environment and could pressure utility subsidiaries for additional upstream dividends in the future.

For this reason, we see the potential for Kansas regulators to impose some form of ring-fencing provisions as part of the merger approval process, which would limit the amount of support that Westar might be able to provide parent level debt. While this is not a risk that is factored into the RAS ratings outcomes, we highlight it as another potential risk associated with a large amount of parent level debt.

Dividend Analysis

Scenarios 4 and 5 are positive, in that GXP's dividend payout ratio has been reduced to around 70%, from the roughly 75% in Scenarios 1-3. Furthermore, the total dividend and holdco debt payment is reduced over the forecast period 2018-2020. However, the payout ratio of 70% continues to outpace the historical level of both Great Plains (i.e., 2013-2015 average of 63%, but increasing year-over-year) and Westar (i.e., 2013-2015 average of 56%), currently – a credit negative.

In Scenarios 4 and 5, the collective utility dividend to the parent holding company continues to be about 75%, on average (see Exhibit 12, below).

Exhibit 5: Utility dividends as a percent of holding company cash uses

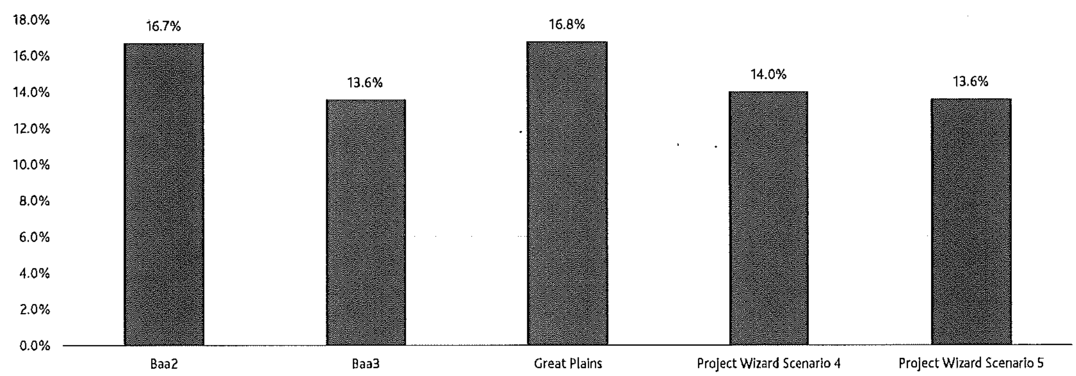
				Scenario 4			Scenario 5		
Wizard Debt				$ 4,300			$ 4,600		
Wizard Interest @ 4.23%				$ 182			$ 195		
	5yr Avg	2016E	2017E	2018E	2019E	2020E	2018E	2019E	2020E
Westar	$ 165	$ 205	$ 220	$ 226	$ 238	$ 250	$ 231	$ 238	$ 254
KCPL	$ 72	$ 83	$ 88	$ 94	$ 99	$ 102	$ 94	$ 99	$ 102
GMO	$ 75	$ 83	$ 88	$ 94	$ 99	$ 102	$ 94	$ 99	$ 102
Total OpCo	$ 312	$ 370	$ 396	$ 413	$ 435	$ 454	$ 418	$ 435	$ 457
Wizard Dividends				$ 387	$ 397	$ 406	$ 376	$ 386	$ 395
HoldCo Interest				$ 182	$ 182	$ 182	$ 195	$ 195	$ 195
Total Corp. Payments				$ 569	$ 579	$ 588	$ 571	$ 580	$ 589
OpCo as % Wizard Div.				107%	110%	112%	111%	113%	116%
OpCO as % Wizard Div. + Int.				73%	75%	77%	73%	75%	78%
Wizard Payout Ratio				71%	64%	64%	70%	62%	62%

Source: Moody's, company projections and Project Wizard RAS presentation

Peer Comparison Analysis

The Baa3 unsecured rating for Great Plains is appropriate based on financial and qualitative peer comparisons with other utility holding companies. For example, when comparing GXP's low-teens average CFO pre-WC to debt (2018-2020 average) to those of holding company averages over the past three years (2013-2015 average), GXP's metrics lag those produced by Baa2 holding companies, while is in the range of those produced by Baa3 holding companies.

Exhibit 6: 2013-2015 Average CFO to Debt for Baa2 and Baa3 Holding Companies



*The peer group used in this comparison excludes Entergy as well as adjusts Cleco's metrics to reflect pro-forma figures after its acquisition by investor group led by Macquarie Infrastructure Partners.

Source: Moody's and Project Wizard RAS presentation

Exhibit 7: Great Plains' financial profile is fitting for a highly levered utility holding company

Rating	Company Name	Date	(CFO Pre-W/C) / Debt (3 Year Avg)
Baa2	Otter Tail Corporation	12/31/2015	24%
Baa2	NV Energy Inc.	12/31/2015	19%
Baa2	Progress Energy, Inc.	12/31/2015	18%
Baa2	Great Plains Energy Inc.	12/31/2015	17%
Baa2	CMS Energy Corporation	12/31/2015	16%
Baa2	PPL Corporation	12/31/2015	16%
Baa2	Pepco Holdings, LLC	12/31/2015	16%
Baa2	Dominion Resources Inc.	12/31/2015	15%
Baa2	Spire Inc.	9/30/2015	11%
Baa3	PNM Resources, Inc.	12/31/2015	20%
Baa3	SCANA Corporation	12/31/2015	14%
Baa3	Cleco Corporation	12/31/2015	13%
Baa3	IPALCO Enterprises, Inc.	12/31/2015	13%
Baa3	Puget Energy, Inc.	12/31/2015	12%
Baa3	Duquesne Light Holdings, Inc.	12/31/2015	11%
Baa3	FirstEnergy Corp.	12/31/2015	11%

*The peer group used in this comparison excludes Entergy as well as adjusts Cleco's metrics to reflect pro-forma figures after its acquisition by investor group led by Macquarie Infrastructure Partners.

Source: Moody's Investors Service

E. Conclusion

Please note that Moody's conclusions are based upon the scenario(s) presented by you and Moody's expectations regarding the Issuer's financial fundamentals. The Assessment has been assigned on a "point-in-time" basis and will not be monitored going forward. Also, in accordance with our usual policy, existing assigned credit ratings are subject to revision or withdrawal by Moody's at any time, without notice, in the sole discretion of Moody's. Please be aware that the contents of this letter are strictly confidential. This Assessment is only for the benefit of the Applicant/Issuer and should not be disclosed to any other person except strictly in accordance with your application for the Assessment. Moody's reserves the right to publish the Assessment upon any public disclosure of the Assessment.

Yours faithfully,

Ryan Wobbrock
Vice President – Senior Analyst
Moody's Investors Service

Appendix A

Information and Assumptions used in the Assessment

The potential ratings of the scenarios are based solely information and assumptions provided by the Applicant to us up to and including the May 11, 2016 Project Wizard RAS presentation. Such confidential information and assumptions include the following:

General

- The company performs broadly in line with its consolidated forecast leading to the Moody's adjusted financial metrics presented in this RAS letter.
- All issuance under the scenarios is considered net of issuance costs
- For the purposes of the financial model, the transaction closes December 31, 2017
- No material customer credits, or rate freezes, are required as part of the KCC transaction approval
- No ring-fencing type provisions are introduced that would significantly limit the upstream dividend capabilities of Westar or the Great Plains utilities
- All scenarios incorporate projected operating results calculated based on individual regulated rate bases, equity thickness and ROE for each operating subsidiary, there are no differences between scenarios.
- Hybrid instruments achieve basket E treatment (100% equity) under Moody's hybrids methodology.
- Planned equity issuance is consistent with Moody's methodology for 100% equity treatment.
- We have not differentiated between short term and long term regulatory assets and liabilities and their effects on CFO pre-W/C and followed the treatment of working capital items as provided by Great Plains Energy.
- The company will have sufficient bridging facilities in place to close the acquisition and at no time will the company have less than 12 months left on bridging facilities prior to terming out the holding company acquisition debt.

KCPL KS
Case Name: 2016 Westar Acquisition
Case Number: 16-KCPE-593-ACQ

Response to Grady Justin Interrogatories - KCC_20160923
Date of Response: 10/4/2016

Question:153

Please refer to the financial model provided in response to CURB DR No. 42 entitled "QCURB-42_CONF_Wizard 160527.2200FINAL", Tab D, Line 155 in this model lists a Common Equity Ratio of 41.1%, 41.6%, and 42% respectively for years 2018-2020 for the proforma combined company post transaction. However, Tabs A, B, list assumed capital structures for ratemaking purposes during this time frame of 51% for KCPL and 54.30% for Westar. Please quantify the impact on the projections in the financial model (EPS accretion/dilution, pro forma S&P/Moody's credit metrics, and earned return on common equity) in the event that the consolidated capital structure of the proforma combined entity is used for ratemaking purposes in the KCPL and Westar rate cases that are assumed to take place during the model time frame.

Response:

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[redacted]

[redacted]

[redacted]

28 **End of Report**

[redacted]

Verification of Response

Kansas City Power & Light Company

Docket No. 16-KCPE-593-ACQ

The response to KCC Data Request# 153, submitted by KCP&L, is covered by this Verification of Response:

I have read the foregoing Information Request(s) and answer(s) thereto and find answer(s) to be true, accurate, full and complete, and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request(s).

Signed: [signature]

Title: Director, Financial Analysis

Date: 9/30/16

KCPL KS
Case Name: 2016 Westar Acquisition
Case Number: 16-KCPE-593-ACQ

Response to Gatewood Adam Interrogatories - KCC_20161020
Date of Response: 10/25/2016

Question:264

Follow up to KCC DR#152 & #153

The Joint Applicants' responses to KCC DR #152 & #153 indicate their belief that the appropriate capital structure to use in setting the revenue requirements for Westar and KCPL will be each subsidiaries respective per-books capital structure and not the consolidated capital structure of GPE. Is it the Joint Applicants position that completion of the Transaction is dependent or largely dependent on the Commission not applying the GPE consolidated capital structure ratios (the GPE ratios referenced in the 152 and 153 data requests) when setting Westar's and KCPL's revenue requirements.

Response:

Yes, it is the Joint Applicants position that completion of the Transaction is largely dependent on the Commission not applying the GPE consolidated capital structure ratios when setting Westar's and KCPL's revenue requirements.

Attachment: Q264_Verification.pdf

Verification of Response

Kansas City Power & Light Company

Docket No. 16-KCPE-593-ACQ

The response to KCC Data Request# 264, submitted by KCP&L, is covered by this Verification of Response:

I have read the foregoing Information Request(s) and answer(s) thereto and find answer(s) to be true, accurate, full and complete, and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request(s).

Signed: [signature]

Title: Director, Financial Analysis

Date: 10/21/16

KCPL KS
Case Name: 2016 Westar Acquisition
Case Number: 16-KCPE-593-ACQ

Response to Gatewood Adam Interrogatories - KCC_20161020
Date of Response: 10/31/2016

Question:265

Have the Joint Applicants discussed with rating agencies, scenarios in which the Commission uses a GPE consolidated capital structure for setting KCPL's and Westar's revenue requirements? If so, provide the correspondence and analyses from that discussion. If that discussion did not take place, explain why the Joint Applicants choose not to discuss this important issue with the rating agencies.

Response:

The Joint Applicants have not discussed with rating agencies scenarios in which the Commission uses a GPE consolidated capital structure for setting KCPL's and Westar's revenue requirements.

Per the response to Data Request KCC_20160923_152 "The capital structures for the existing Westar and KCP&L companies will not be impacted by the new debt and equity projected to be issued and the resulting pro forma combined company projected capital structure is simply the result of eliminating the holding company's investment in Westar. No additional investments in rate base and no new debt or equity has been incurred by either the KCP&L or Westar utilities as a result of this Transaction."

Attachment:
Q265_Verification.pdf

Verification of Response

Kansas City Power & Light Company

Docket No. 16-KCPE-593-ACQ

The response to KCC Data Request# 265, submitted by KCP&L, is covered by this Verification of Response:

I have read the foregoing Information Request(s) and answer(s) thereto and find answer(s) to be true, accurate, full and complete, and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request(s).

Signed:

Title: Vice President - Corporate Planning, Investor Relations and Treasurer

Date: 10-28-16

KCPL KS
Case Name: 2016 Westar Acquisition
Case Number: 16-KCPE-593-ACQ

Response to Gatewood Adam Interrogatories - KCC_20161020
Date of Response: 10/31/2016

Question:266

If the Commission uses a GPE consolidated capital structure (consistent with capitalization ratios referenced in KCC DRs 152 and 153) to set the revenue requirements for Westar and KCPL, do the Joint Applicants believe that GPE, KCPL, and Westar would: a) maintain their existing credit ratings? and b) maintain an investment grade credit rating? Provide the documentation and support for the Joint Applicant's beliefs and conclusions.

Response:

Per the response to Data Request KCC_201601020_265 "The Joint Applicants have not discussed with rating agencies scenarios in which the Commission uses a GPE consolidated capital structure for setting KCPL's and Westar's revenue requirements."

Per the response to Data Request KCC_20160923_152 "The capital structures for the existing Westar and KCP&L companies will not be impacted by the new debt and equity projected to be issued and the resulting pro forma combined company projected capital structure is simply the result of eliminating the holding company's investment in Westar. No additional investments in rate base and no new debt or equity has been incurred by either the KCP&L or Westar utilities as a result of this Transaction."

The Joint Applicants have not discussed the results included in the attachments to Data Request KCC_20160923_153 which includes a comparison of certain credit metrics using a GPE consolidated capital structure versus the existing utility company capital structures, as presented to the rating agencies when evaluating our transaction. In addition, Joint Applicants have not developed separate KCP&L and Westar pro forma financial statements or credit metrics.

Joint Applicants cannot speculate as to if GPE, KCP&L and Westar would a) maintain their existing credit ratings and b) maintain an investment grade credit rating if the Commission uses a GPE consolidated capital structure to set revenue requirements for KCP&L and Westar. However, Joint Applicants believe the comparative results included in the attachments to Data Request KCC_20160923_153 speak for themselves and would likely create concerns by the rating agencies.

Attachment:
Q266_Verification.pdf

Verification of Response

Kansas City Power & Light Company

Docket No. 16-KCPE-593-ACQ

The response to KCC Data Request# 266, submitted by KCP&L, is covered by this Verification of Response:

I have read the foregoing Information Request(s) and answer(s) thereto and find answer(s) to be true, accurate, full and complete, and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request(s).

Signed: [signature]

Title: Vice President - Corporate Planning, Investor Relations and Treasurer

Date: 10-28-16

KCPL KS
Case Name: 2016 Westar Acquisition
Case Number: 16-KCPE-593-ACQ

Response to Zakoura James Interrogatories - Industrial_20160928
Date of Response: 10/07/2016

Question:18

Regarding the Direct Testimony of Joint Applicant witness Kevin E. Bryant, please provide indicated rating reports from credit rating agencies to the Joint Applicants concerning the proposed Transaction and the credit standing outlook for each of the GPE Holding Company utilities if the Transaction is completed as proposed.

Number of Attachments:

Response:

The attached reports and press releases have been published by the credit rating agencies since the Transaction was announced. Additional CONFIDENTIAL rating agency reports related to the Transaction can be found in response to CURB data request CURB_20160803 Question CURB-40.

Attachments:
Q18_Moodys Report 5-31-16.pdf
Q18_Westar Research Report by SP 5-31-2016.pdf
Q18_2016-06-02_Moodys Opinion_KCPL.pdf
Q18_GPE Research Report by SP 5-31-16.pdf
Q18_KCPL Summary report by SP 6-17-2016.pdf
Q18_2016-06-01_Moodys Opinion_GXP.pdf
Q18_2016-07_Moodys Issuer In-Depth_FAQ Great Plains Acquisition of Westar.pdf
Q18_Verification form.pdf

KCPL KS
Case Name: 2016 Westar Acquisition
Case Number: 16-KCPE-593-ACQ

Response to Zakoura James Interrogatories - Industrial_20160928
Date of Response: 10/07/2016

Question:18

Q18_Moodys Report 5-31-16.pdf

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's Places Great Plains Energy on Review for Downgrade; Westar Energy, Kansas City Power & Light and KCP&L Greater Missouri Operations Affirmed; Outlooks Stable

Global Credit Research - 31 May 2016

New York, May 31, 2016 -- Moody's Investors Service, ("Moody's") placed the long-term ratings of Great Plains Energy (Great Plains or GXP; see debt list below) on review for downgrade. The review is prompted by today's announcement that Great Plains agreed to acquire Westar Energy for over $12 billion, which includes the assumption of approximately $4 billion of Westar debt. Great Plains said the acquisition financing would include a mix of debt and equity.

At the same time, Moody's affirmed the long-term and short-term ratings of Kansas City Power & Light Company (KCPL), KCP&L -- Greater Missouri Operations Company (GMO) and Westar Energy (Westar) with stable outlooks.

On Review for Downgrade:

..Issuer: Great Plains Energy Incorporated

....Subordinate Shelf, Placed on Review for Downgrade, currently (P)Baa3

....Senior Unsecured Shelf, Placed on Review for Downgrade, currently (P)Baa2

....Pref. Stock Preferred Stock, Placed on Review for Downgrade, currently Ba1

....Subordinate Regular Bond/Debenture, Placed on Review for Downgrade, currently Baa3

....Senior Unsecured Regular Bond/Debenture, Placed on Review for Downgrade, currently Baa2

Outlook Actions:

..Issuer: Great Plains Energy Incorporated

....Outlook, Changed To Rating Under Review From Stable

..Issuer: Kansas City Power & Light Company

....Outlook, Remains Stable

..Issuer: Kansas Gas and Electric Company

....Outlook, Remains Stable

..Issuer: KCP&L Greater Missouri Operations Company

....Outlook, Remains Stable

..Issuer: Westar Energy, Inc.

....Outlook, Remains Stable

Affirmations:

..Issuer: Burlington (City of) KS

....Senior Secured Revenue Bonds, Affirmed A2

....Underlying Senior Secured Revenue Bonds, Affirmed A2

....Senior Unsecured Revenue Bonds, Affirmed Baa1

....Underlying Senior Unsecured Revenue Bonds, Affirmed Baa1

..Issuer: Kansas City Power & Light Company

.... Issuer Rating, Affirmed Baa1

....Senior Secured Shelf, Affirmed (P)A2

....Senior Unsecured Shelf, Affirmed (P)Baa1

....Senior Secured First Mortgage Bonds, Affirmed A2

....Senior Unsecured Commercial Paper, Affirmed P-2

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa1

..Issuer: Kansas Gas and Electric Company

.... Issuer Rating, Affirmed Baa1

....Senior Secured First Mortgage Bonds, Affirmed A2

....Senior Secured Shelf, Affirmed (P)A2

..Issuer: KCP&L Greater Missouri Operations Company

.... Issuer Rating, Affirmed Baa2

....Senior Unsecured Commercial Paper, Affirmed P-2

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa2

....Senior Unsecured Shelf, Affirmed (P)Baa2

..Issuer: La Cygne (City of) KS

....Senior Secured Revenue Bonds, Affirmed A2

....Underlying Senior Secured Revenue Bonds, Affirmed A2

....Senior Secured Revenue Bonds, Affirmed VMIG 2

..Issuer: Missouri Env. Imp. & Engy. Res. Auth.

....Senior Secured Revenue Bonds, Affirmed A2

..Issuer: State Env. Improv. and Energy Res. Auth. MO

....Senior Unsecured Revenue Bonds, Affirmed Baa1

..Issuer: Wamego (City of) KS

....Senior Secured Revenue Bonds, Affirmed A2

....Underlying Senior Secured Revenue Bonds, Affirmed A2

..Issuer: Westar Energy, Inc.

.... Issuer Rating, Affirmed Baa1

....Senior Secured Bank Credit Facility, Affirmed A2

....Senior Secured First Mortgage Bonds, Affirmed A2

....Senior Unsecured Commercial Paper, Affirmed P-2

RATINGS RATIONALE

"Great Plains is sacrificing its strong financial profile to acquire its neighbor," said Ryan Wobbrock, Vice President -- Senior Analyst. "This is a bigger is better merger, where Westar will help Great Plains double its assets. But, the financing plan will triple its debt, leaving little financial flexibility and is indicative of management's higher tolerance for financial risk."

The addition of approximately $4.4 billion of parent-level acquisition debt is likely to result in a one-notch downgrade, to Baa3, for Great Plains. The review period will be focused on several risk factors that Moody's sees beyond the added leverage, including: various regulatory reviews and approval proceedings; the potential for, and magnitude of, customer benefits required to close the transaction; execution of the financing plan, including equity and hybrid issuances; and any differences between the parent company's cash inflows and outflows, where subsidiary upstream dividends are insufficient to cover all of the parent company's dividend and interest expense obligations.

From a strategic perspective Moody's sees Westar as a natural fit for Great Plains, given overlapping service territories and a shared ownership of the 1,170 mega-watt Wolf Creek nuclear generation facility. Utilities with contiguous service territories tend to produce higher operating cost synergies. The primary credit benefit in acquiring Westar, is that Great Plains increases its exposure to the Kansas regulatory environment. Today, Moody's views the Kansas Corporation Commission (KCC) to be slightly more supportive to long-term credit quality than the Missouri Public Service Commission (MPSC), because Kansas provides a higher use of expense tracking mechanisms and the ability to file abbreviated rate cases for significant capital expenditures.

Moody's also sees the benefit of Westar bringing an additional $1.2 billion of Federal Electric Regulatory Commission (FERC) regulated transmission rate base. We view FERC as the most supportive regulatory jurisdiction in the US, due to forward looking, formula rates and relatively high allowed ROEs.

The acquisition debt will increase the percentage of parent holding company debt to total consolidated debt from a negligible 2% to over 35% at the transaction closing, which Moody's thinks will take about 12 months. The higher amount of parent holding company leverage will likely result in a wider rating-notch differential between the ratings of Great Plains and its principal utility subsidiaries, which include Kansas City Power & Light, Kansas Gas & Electric and Westar, and a weighted average rating of Baa1 senior unsecured.

The transaction's financing plans are viewed as a signal that Great Plains' management and board of directors have a higher risk tolerance for leverage than previously considered, which is a long-term credit negative. With little financial cushion, Great Plains will be more exposed to risks associated with successfully executing a transition and integration plan and longer-term issues, such as waning regulatory support and softening of regional macro-economic fundamentals.

At this time, Moody's expects no more than a one-notch downgrade for Great Plains, which would place its ratings in the Baa3 rating category, down from the Baa2 rating category. Pro-forma the acquisition, Moody's calculates a ratio of cash flow from operations to debt around the 13% range, down from the 17% that Great Plains produced for the twelve months ended March 2016.

The affirmation of KCPL's Baa1 and GMO's Baa2 ratings reflect the improving financial performance of each utility. This financial improvement is driven by the conclusion of extensive capital expenditures at each utility, which have been in progress for the past several years and were designed to help meet environmental compliance standards. Over the next two to three years, these investments should be fully incorporated into rate base, which will improve the cash position and standalone financial metrics of each utility (i.e., cash flow to debt slightly above 20% for KCPL and slightly below 20% for GMO).

The affirmation of the ratings and stable outlook for Westar reflects the maintenance of solid cash flow to debt metrics around 20% despite a robust capital plan to add wind generation to its supply portfolio over the next two years.

The principal methodology used in these ratings was Regulated Electric and Gas Utilities published in December 2013. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

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MOODY'S
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KCPL KS

Case Name: 2016 Westar Acquisition

Case Number: 16-KCPE-593-ACQ

Response to Zakoura James Interrogatories - Industrial_20160928

Date of Response: 10/07/2016

Question:18

Q18_Westar Research Report by SP 5-31-2016.pdf

S&P Global
Ratings

Research

Research Update:

Westar Energy Inc. And Sub Rtgs Affirmed And Outlook Revised To Negative On Proposed Acquisition By Great Plains Energy

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Table Of Contents

Research Update:

Westar Energy Inc. And Sub Rtgs Affirmed And Outlook Revised To Negative On Proposed Acquisition By Great Plains Energy

Overview

- Westar Energy Inc. has agreed to be acquired by Great Plains Energy Inc. (GPE) for $8.6 billion plus the assumption of Westar's debt. The transaction is expected to close by mid-2017.
- We are affirming our ratings on Westar and subsidiary Kansas Gas & Electric Co. (KGE), including the 'BBB+' issuer credit ratings, and revising the outlook to negative from stable.
- The negative outlook reflects the potential for lower ratings on Westar, after the merger closes, if the combined entity's financial performance weakens such that funds from operations to total debt is consistently less than 13% after 2018.

Rating Action

On May 31, 2016, S&P Global Ratings affirmed its ratings on integrated electric utilities Westar Energy Inc. and subsidiary Kansas Gas & Electric Co. (KGE), including the 'BBB+' issuer credit ratings, and revised the outlook to negative from stable.

Rationale

The ratings affirmation on Westar and KGE reflects our view that the acquisition by GPE will enhance GPE's business risk profile given that Westar's operations consist of regulated electric utilities that benefit from operations under a generally constructive regulatory framework and service territories with average customer growth.

The outlook revision to negative reflects the potential for lower ratings on Westar after the merger closes, if the combined entity's financial performance weakens such that funds from operations (FFO) to debt is consistently less than 13% after 2018. In addition to assuming Westar's debt, GPE plans to fund the acquisition price of about $8.6 billion with common equity, mandatory convertible preferred stock, Great Plains common stock, and debt.

When the merger closes, we expect to view Westar and KGE as core subsidiaries of the GPE group and that their issuer credit ratings will be aligned with those of the group. This is because we expect Westar and KGE will form a material part of the merged entity, contributing roughly one-half of combined

EBITDA, in our view are highly unlikely to be sold, and have a strong long-term commitment from senior management.

In addition to the factors above, we base our ratings affirmation on Westar on the company's excellent business and significant financial risk profiles. The excellent assessment incorporates the very low risk of a regulated utility focused on U.S. operations and markets. In addition, the business risk profile reflects that utility Westar and utility subsidiary KGE are the largest electric operation in Kansas and provide electricity to about 700,000 customers. The company operates with generally supportive regulation, a mainly residential customer base that supports cash flow stability, good operating efficiency, and absence of competition. Westar continues to focus on a regulated business strategy. The ongoing capital spending will require timely recovery of these costs through various rate mechanisms, including base rates and rate surcharges that should strengthen cash flow. Surcharge mechanisms exist for the recovery of fuel costs and transmission charges.

Based on the medial volatility financial ratio benchmarks, we assess Westar's financial risk profile as significant, largely benefiting from the timely recovery of approved infrastructure investments via regulatory riders. Under our base-case scenario, we expect stand-alone Westar will achieve FFO to debt of 18.5% to 19.5% over the next few years, while debt to EBITDA remains modestly over 4x.

Liquidity

We assess Westar's liquidity as adequate because we believe liquidity sources are likely to cover uses by more than 1.1x over the next 12 months and to meet cash outflows, even with a 10% EBITDA reduction. The adequate assessment also reflects the company's generally prudent risk management, sound relationships with banks, and a generally satisfactory standing in credit markets. The company's liquidity benefits from stable cash flow generation, ample availability under the revolving credit facilities, and modest debt maturities over the next few years.

Principal liquidity sources:

- We estimate FFO of about $860 million for the 12 months ending March 31, 2017.
- Revolving credit facility availability of $1 billion.

Principal Liquidity Uses:

- Debt maturities of about $280 million, including outstanding short-term debt, for the 12 months ending March 31, 2017.
- Capital spending (maintenance) of about $1.1 billion for the 12 months ending March 31, 2017.
- Dividends of about $200 million for the 12 months ending March 31, 2017.

Other Credit Considerations

The ratings on Westar reflect the application of a one-notch negative adjustment for our "comparable rating analysis". This adjustment partly accounts for owning a single nuclear plant through its 47% ownership in the Wolf Creek nuclear facility. Moreover, profitability has been more variable than typical utilities, partly due to a lower-growth service territory.

Group Influence

Under our group rating methodology, we view Westar as the parent of a group with member KGE. Westar's group credit profile is 'bbb+', leading to an issuer credit rating of 'BBB+'.

After Great Plains Energy acquires Westar, we would consider Westar and KGE as core entities of the GPE group. We believe the integrated electric utilities would be integral to GPE's long-term strategy and therefore, the issuer credit ratings on Westar and KGE would be in line with GPE's group credit profile.

Outlook

The negative outlook on Westar and KGE reflects the potential for lower ratings on Westar, after the merger closes, if the combined entity's financial performance weakens such that FFO to total debt is consistently less than 13% after 2018.

Downside scenario

We could lower Westar's ratings, which we expect to be aligned with the ratings on GPE post-merger, if the combined entity's financial performance weakens such that FFO to total debt is consistently less than 13% after 2018. This could occur if the transaction is funded disproportionately with debt or if capital spending increases materially while investment recovery lags, pressuring the consolidated credit profile.

Upside scenario

We could affirm the ratings on Westar, which we expect to be aligned with the ratings on GPE post-merger, if the combined company demonstrates that it can achieve FFO to total debt of over 13% after 2018.

Ratings Score Snapshot

Corporate Credit Rating: BBB+/Negative/A-2

Business risk: Excellent
- Country risk: Very low
- Industry risk: Very low
- Competitive position: Strong

Financial risk: Significant
- Cash flow/Leverage: Significant

Anchor: 'a-'

Modifiers
- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Negative (-1 notch)

Stand-alone credit profile: 'bbb+'
- Group credit profile: 'bbb+'

Recovery Analysis/Issue Ratings

Westar's first mortgage bonds benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an issue rating two notches above the issuer credit rating.

The short term rating on Westar is 'A-2' based on the company's issuer credit rating and our assessment of its liquidity as at least adequate.

Related Criteria And Research

Related Criteria
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1'

Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Utilities: Notching Of U.S. Investment-Grade Investor-Owned Utility Unsecured Debt Now Better Reflects Anticipated Absolute Recovery, Nov. 10, 2008
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings List

Ratings Affirmed; Outlook Revised

	To	From
Westar Energy Inc.		
Corporate Credit Rating	BBB+/Negative/A-2	BBB+/Stable/A-2
Kansas Gas & Electric Co.		
Corporate Credit Rating	BBB+/Negative/--	BBB+/Stable/--

Issue Ratings Affirmed

Westar Energy Inc.	
Senior Secured	A
Recovery Rating	1+
Commercial Paper	A-2
Kansas Gas & Electric Co.	
Senior Secured	A
Recovery Rating	1+
Senior Secured	BBB+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

KCPL KS
Case Name: 2016 Westar Acquisition
Case Number: 16-KCPE-593-ACQ

Response to Zakoura James Interrogatories - Industrial_20160928
Date of Response: 10/07/2016

<u>Question</u>:18

Q18_2016-06-02_Moodys Opinion_KCPL.pdf

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
2 June 2016

Update

Rate this Research

RATINGS

Kansas City Power & Light Company

Domicile	Kansas City, Missouri, United States
Long Term Rating	Baa1
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Kansas City Power & Light Company

A Regulated Electric Subsidiary of Great Plains Energy Inc.

Summary Rating Rationale

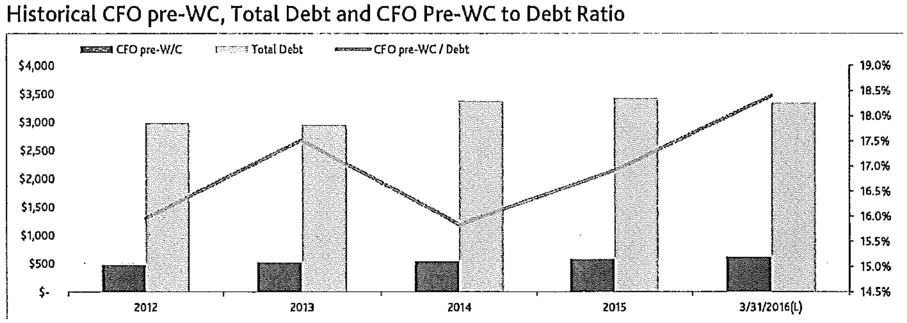
KCPL's Baa1 senior unsecured rating is based on the company's vertically integrated utility operation in generally stable regulatory environments. The rating reflects our expectation that KCPL will improve its standalone financial profile through ongoing rate case filings and receive supportive decisions from its primary regulators in Missouri and Kansas.

Recent Events

On 31 May, we affirmed the Baa1 rating and stable outlook of KCPL, following Great Plains Energy's (GPE; Baa2 ratings under review down) announced intention to acquire Westar Energy, Inc. (Westar; Baa1 stable) for over $12 billion, including the assumption of around $4 billion of expected Westar debt. At the same time, we placed GPE's ratings on review for possible downgrade, due to the expected addition of $4.4 billion in holding company debt to finance the transaction.

We see the additional leverage and new capital structure complexity reducing financial flexibility across the entire corporate family. At transaction close, GPE's ratio of parent holding company debt to consolidated debt will rise to 35%, from roughly 2% as of March 31, 2016, which could place greater pressure on upstream dividends from subsidiaries in order to service the corporate dividend and parent interest payments.

Exhibit 1
Historical CFO pre-WC, Total Debt and CFO Pre-WC to Debt Ratio



Source: Moody's Investors Service

Credit Strengths

» Ongoing rate case filings should produce greater cash flow generation through 2020

» Completion of environmental capex program reduces funding needs over the next several years

Credit Challenges

» Somewhat challenging regulatory relationships and some lag between cash outlays and ultimate recovery

» Great Plains' levered acquisition of Westar Energy will constrain KCPL's ratings

Rating Outlook

The stable outlook reflects our expectation that KCPL's Missouri and Kansas regulatory environments will remain stable and consistent, leading to an improving financial profile through reasonable general rate case outcomes over the next two years.

Factors that Could Lead to an Upgrade

If the Great Plains Energy acquisition of Westar closes according to plan, it is unlikely that KCPL will be upgraded. However, if there were significant positive improvements in the regulatory frameworks in Missouri and Kansas, reducing regulatory lag, or if KCPL were to demonstrate sustainable improved credit metrics such as CFO pre-WC to debt above 20% and CFO pre-WC less dividends to debt above 15%, with reduced holding company leverage, an upgrade could be considered.

Factors that Could Lead to a Downgrade

A downgrade could be considered if there were meaningful deterioration of the regulatory environment in Missouri or Kansas. Also, a significant reduction in key credit metrics such as if CFO pre-WC to debt falls below 16% or CFO pre-WC less dividends to debt below 13% over an extended period of time.

Further, if Great Plains were to increase parent debt to be approaching 40% of consolidated debt, it could have negative ratings implications for GMO and its affiliate utilities.

Key Indicators

Exhibit 2

KEY INDICATORS [1]

Kansas City Power & Light Company

	3/31/2016(L)	12/31/2015	12/31/2014	12/31/2013	12/31/2012
CFO pre-WC + Interest / Interest	4.9x	4.7x	4.5x	4.3x	4.2x
CFO pre-WC / Debt	18.4%	16.9%	15.8%	17.5%	16.0%
CFO pre-WC – Dividends / Debt	18.4%	16.9%	13.7%	14.4%	12.7%
Debt / Capitalization	48.2%	49.1%	50.9%	48.9%	50.4%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Investors Service

Detailed Rating Considerations

SOMEWHAT CHALLENGING REGULATORY RELATIONSHIPS

Since KCPL has roughly two-thirds of its operations subject to regulatory oversight by the Missouri Public Service Commission (MPSC), the Missouri regulatory environment and the company's relationship with the MPSC is the primary ratings driver for KCPL. The regulatory environment offers very few tracking mechanisms or single-issue rate making opportunities, which creates greater regulatory lag than we see in other jurisdictions across the US. Given the heavy reliance on historical-looking general rate case filings to recover costs in Missouri, we expect KCPL to continue to experience longer regulatory lag compared to peer utilities with a suite of cost recovery mechanisms (e.g., infrastructure trackers, decoupling mechanisms, etc.).

KCPL's general rate case outcomes in Missouri are sufficient enough to allow the company to maintain cash flow to debt metrics in the high teens – a credit positive. However, we see the relationship between the company and MPSC, including 2015 rate order appeals and various unsuccessful attempts to gain more contemporaneous cost recovery measures, as somewhat challenging.

We view the regulatory environment for electric utilities in Kansas to be relatively constructive compared to the regulatory environment in Missouri. Although the average return on equity (ROE) authorized by the KCC has been below the industry average over the past five years, the Kansas electric utilities have a suite of riders and tracking mechanisms, such as a fuel adjustment clause rider, resulting in shorter regulatory lag for some investments and timely cost recovery. Kansas utilities can also utilize abbreviated filings to update their rate bases within 12 months of previous rate proceeding or in between general rate cases, a credit positive. Based on recent regulatory developments and rhetoric in the most recent electric utility rate cases, however, we believe the regulatory environment might be becoming less credit supportive, due to KCC challenges of FERC allowed returns on transmission investments.

CAPEX IS COMING DOWN AS CASH FLOW SET TO IMPROVE

KCPL has largely completed environmental upgrades which maintained its capital budget well above $500 million, on average, over the last four years. Going forward, general infrastructure investments at its generating facilities, including Wolf Creek, (a 1,700 MW nuclear facility, jointly owned with Westar) and related to its distribution and transmission facilities, will be the main investment drivers over the next five years. As such, we expect for funding needs to reduce, which will slow the growth of KCPL's debt.

At the same time, KCPL will be filing various rate cases in order to recover historical environmental capex and ongoing system improvement costs. For example, the company filed a rate case in Missouri in September 2015, looking to recover costs primarily associated with La Cgyne environmental expenditures. The company is requesting over $110 million in additional revenues and anticipates receiving the MPSC order some time in 3Q16. This will increase KCPL's cash flow generation significantly and we expect the company to improve key financial metrics, such as the production of CFO pre-WC to debt above 20% over the next several years.

GREAT PLAINS' PROPOSED ACQUISITION OF WESTAR CONSTRAINS KCPL'S RATING

If GPE's acquisition of Westar closes, we estimate that the holding company cash demands (i.e., corporate dividends and holding company interest payments) will be at least $450 million annually (excluding the additional hybrids to be issued), assuming a 4.5% coupon on the $4.4 billion of debt, 7.25% on privately placed committed hybrids, and a 6% dividend growth rate from GPE's 2015 dividend. KCPL paid no dividends to GPE in 2015, but has averaged around $90 million, on average, 2011 - 2014. Pro-forma with affiliate Westar, we would expect KCPL to constitute roughly 35% of Great Plains' consolidated business. This would translate into at least $160 million of dividends from KCPL to cover its share of the full amount of parent interest and dividend expense, or 100% payout of its LTM 1Q16 Net Income.

Therefore, the limited parent financial flexibility at GPE, weak consolidated financial metrics and demand for increased utility dividends will constrain the rating of KCPL at Baa1, despite the expected standalone financial improvement over the next several years.

We do not see any downward pressure for KCPL's rating, at this time, given the regulatory oversight of the utility operating company and GPE's conservative utility dividend policy over the past several years, during KCPL's heavy capex cycle (e.g., 48% 5-year average payout). Should the upstream dividend demands become excessive (e.g., something approaching the 100% payout scenario mentioned above), there would likely be negative ratings pressure at KCPL. We also note the potential for the MPSC to implement some type of ring-fencing provisions at the utility, like we've seen in other jurisdictions.

Liquidity Analysis

KCPL's short-term rating is P-2. We expect KCPL to maintain an adequate liquidity profile over the next 12 months.

KCPL has a $600 million revolving credit facility, expiring in October 2019. At March 31, 2016, KCPL had $85.8 million of commercial paper outstanding and $2.8 million of letters of credit issued. It did not have any cash borrowings under this facility. The terms of this credit facility permit GPE and KCPL to transfer up to $200 million of unused facilities between GPE and GPE's subsidiaries. Also, a default by KCPL on any other indebtedness higher than $50 million is considered a default under this facility. KCPL was in compliance with the covenant at March 31, 2016. KCPL's credit facility has a 65% maximum debt to capitalization covenant and KCPL was in compliance with the covenant at March 31, 2016.

At March 31, 2016, KCPL had $2.5 million of cash and cash equivalents on hand and $511.4 million available under the credit facility. KCPL's reported cash flow from operations in twelve months ending March 31, 2016 was $517 million and it did not pay any dividends to GPE.

The next long-term debt maturity is $250 million of 5.85% series senior notes due in June 2017.

Profile

Kansas City Power & Light Company (KCPL, Baa1 stable, P-2) is a vertically integrated regulated utility headquartered in Kansas City, Missouri. It serves electric customers in western Missouri and eastern Kansas. KCPL is the largest subsidiary of Great Plains Energy Inc. (GPE, Baa2, RUR-D) and contributed approximately 68% of revenue and 70% of cash flow from operations to GPE over the last four years.

KCPL is primarily regulated by the Missouri Public Service Commission (MPSC) and the Kansas Corporation Commission (KCC). KCPL owns 47% of the 1,168 MW Wolf Creek nuclear generating facility and its nuclear operation is under the regulatory purview of the Nuclear Regulatory Commission (NRC).

Rating Methodology and Scorecard Factors

Exhibit 3

Rating Factors				
Kansas City Power & Light Company				
Regulated Electric and Gas Utilities Industry Grid [1][2]	Current LTM 3/31/2016		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	Measure	Score	Measure	Score
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	Ba	Ba	Ba	Ba
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	Ba	Ba	Ba	Ba
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.7x	A	4x - 6x	A
b) CFO pre-WC / Debt (3 Year Avg)	17.4%	Baa	15% - 19%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	16.0%	Baa	13% - 17%	Baa
d) Debt / Capitalization (3 Year Avg)	49.5%	Baa	48% - 52%	Baa
Rating:				
Grid-Indicated Rating Before Notching Adjustment		Baa2		Baa2
HoldCo Structural Subordination Notching	0	0	0	0
a) Indicated Rating from Grid		Baa2		Baa2
b) Actual Rating Assigned		Baa1		Baa1

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2]As of 3/31/2016(L)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Investors Service

Ratings

Exhibit 4

Category	Moody's Rating
KANSAS CITY POWER & LIGHT COMPANY	
Outlook	Stable
Issuer Rating	Baa1
First Mortgage Bonds	A2
Senior Secured Shelf	(P)A2
Senior Unsecured	Baa1
Commercial Paper	P-2
PARENT: GREAT PLAINS ENERGY INCORPORATED	
Outlook	Rating(s) Under Review
Senior Unsecured	Baa2
Subordinate	Baa3
Pref. Stock	Ba1

Source: Moody's Investors Service

REPORT NUMBER 1029844

MOODY'S
INVESTORS SERVICE

KCPL KS
Case Name: 2016 Westar Acquisition
Case Number: 16-KCPE-593-ACQ

Response to Zakoura James Interrogatories - Industrial_20160928
Date of Response: 10/07/2016

Question:18

Q18_GPE Research Report by SP 5-31-16.pdf

S&P Global
Ratings

Research

Research Update:

Great Plains Energy Inc. Ratings Affirmed, Outlook Revised To Negative On Proposed Acquisition Of Westar Energy

Primary Credit Analyst:
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Research Update:

Great Plains Energy Inc. Ratings Affirmed, Outlook Revised To Negative On Proposed Acquisition Of Westar Energy

Overview

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

Rating Action

On May 31, 2016, S&P Global Ratings affirmed its ratings on Great Plains Energy Inc. (GPE) and subsidiaries Kansas City Power & Light Co. (KCP&L) and KCP&L Greater Missouri Operations Co. (GMO), including the 'BBB+' issuer credit ratings, and revised the outlook to negative from stable for all entities.

Rationale

The ratings affirmation on GPE and its subsidiaries reflects our view that the Westar acquisition will enhance GPE's business risk profile given that Westar's operations also consist of regulated electric utilities that benefit from operations under a generally constructive regulatory framework and service territories with average customer growth.

The outlook revision to negative reflects our view that GPE's financial risk profile will weaken due to the proposed financing, pressuring GPE's overall credit profile for the next few years. We expect that after the acquisition closes, the combined entity's financial profile will strengthen mainly due to ongoing regulatory recovery of costs such that funds from operations (FFO) to total debt is consistently above 13%. In addition to assuming Westar's debt, GPE plans to fund the acquisition price of about $8.6 billion with common equity, mandatory convertible preferred stock, Great Plains common stock, and debt.

We view GPE's business risk as excellent, which incorporates the very low risk of a regulated utility focused on U.S. operations and markets. In addition, the business risk profile reflects a competitive position based on utility subsidiaries KCP&L, which serves about 527,000 electricity customers in and around Kansas City and its suburbs, and GMO, which serves about 300,000 electricity customers in western Missouri. The company operates with generally supportive regulation, a mainly residential customer base that supports cash flow stability good operating efficiency, and an absence of competition. Riders and mechanisms exist for the recovery of fuel costs, transmission charges, and energy-efficiency costs. GPE continues to focus on a regulated business strategy in pursuing similarly regulated Westar.

Prospectively, the combined entity would have more diverse electric utility cash flow sources, strengthening the excellent business risk profile. GPE's customer mix would shift from being about three-quarters in Missouri before the Westar transaction to about 40% after the closing, with Kansas customers making up the difference. The customer base would be further bolstered with an almost doubling of customers, which would mitigate exposure to any one industry, and would boost the base level of usage from the combined 1.55 million largely residential and commercial customers. GPE's stand-alone rate base mix would shift from about 65% in Missouri and 30% in Kansas, with the remainder under Federal Energy Regulatory Commission (FERC) jurisdiction, to 55% Kansas, 32% Missouri, and the remainder under FERC regulation.

Based on the medial volatility financial ratio benchmarks, our assessment of GPE's financial risk profile is within the middle of benchmark ratios for an assessment of significant. We expect these financial measures to weaken considerably when the merger closes. Under our pro forma scenario, following the completion of the Westar acquisition, we would expect FFO to debt of between 12% and 13% and that would subsequently strengthen, resulting in FFO to total debt of more than 14% after 2018.

Liquidity

GPE has an adequate liquidity assessment because we believe the company's liquidity sources are likely to cover uses by more than 1.1x over the next 12 months and to meet cash outflows, even with a 10% decline in EBITDA. The adequate assessment also reflects the company's generally prudent risk management, sound relationships with banks, and a generally satisfactory standing in credit markets.

There are modest debt maturities over the next three years, with $380 million due in 2017. We expect the company to refinance those given its satisfactory credit-market standing.

Principal Liquidity Sources

- Cash of about $10 million in 2016.
- We estimate FFO of about $800 million in 2016.
- Revolving credit facility availability of an estimated $1.25 billion in

2016.

Principal Liquidity Uses

- Capital spending of roughly $750 million expected in 2016.
- Dividends of about $175 million in 2016.
- Debt maturities, including outstanding commercial paper, of about $400 million in 2016.
- $174 million of outstanding letters of credit that back up variable-rate bonds due in 2018.

Other Credit Considerations

The ratings on GPE include a one-notch negative adjustment for comparable rating analysis. This adjustment accounts for an excellent business risk profile assessment that includes partial ownership of a single nuclear facility that has had operational issues and exposure to somewhat less-credit-supportive regulation in Missouri. Moreover, when the acquisition is complete, and in the first year, the core financial ratio of FFO to total debt is nearer the higher end of the aggressive benchmark range. We expect financial measures to strengthen modestly within the significant range, but remain well below the midpoint of this range.

Group Influence

We base our ratings on GPE on the consolidated group credit profile and application of our group ratings methodology. We consider GPE as the parent of the group with members KCP&L and GMO. We assess both operating utilities as core subsidiaries of GPE, reflecting our view that KCP&L and GMO are highly unlikely to be sold and have a strong long-term commitment from senior management. There are no meaningful insulation measures in place that protect KCP&L and GMO from their parent and therefore, KCP&L's and GMO's issuer credit ratings are in line with GPE's group credit profile of 'bbb+'.

We would consider operating utility Westar and its subsidiary Kansas Gas & Electric Co. (KG&E). as core entities of the GPE group. We believe the integrated electric utilities would be integral to GPE's long-term strategy and, therefore, the issuer credit ratings of Westar and KG&E would be in line with GPE's 'bbb+' group credit profile.

Outlook

The negative outlook on GPE and its subsidiaries reflects the potential for lower ratings if GPE's financial risk profile, which will deteriorate due to the financing used in the acquisition, does not improve after the transaction closes such that FFO to total debt is well over 13% after 2018.

Downside scenario

We could lower ratings on GPE and its subsidiaries if GPE's financial risk profile remains weak after the merger such that FFO to total debt is consistently below 13%. This could occur if the transaction is funded disproportionately with debt or if capital spending increases materially while investment recovery lags.

Upside scenario

We could affirm the ratings on GPE after the merger closes if the combined company demonstrates that it can achieve FFO to total debt of over 13% after 2018.

Ratings Score Snapshot

Corporate Credit Rating: BBB+/Negative/A-2

Business risk: Excellent
- Country risk: Very low
- Industry risk: Very low
- Competitive position: Strong

Financial risk: Significant
- Cash flow/Leverage: Significant

Anchor: a-

Modifiers
- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Negative (-1 notch)

Stand-alone credit profile: bbb+
- Group credit profile: bbb+

Issue Ratings

We rate the senior unsecured debt at GPE one notch lower than the issuer credit rating because priority liabilities, including operating utility debt, exceed 20% of total assets. We rate the preferred stock two notches below the issuer credit rating to reflect the discretionary nature of the dividend and the deeply subordinated claim if a bankruptcy occurs. The short-term rating is 'A-2', based on the company's issuer credit rating in our assessment of its liquidity as at least adequate.

Related Criteria And Research

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov, 19, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Utilities: Notching Of U.S. Investment-Grade Investor-Owned Utility Unsecured Debt Now Better Reflects Anticipated Absolute Recovery, Nov. 10, 2008
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings List

Ratings Affirmed; Outlook Revised		
	To	From
Great Plains Energy Inc.		
Kansas City Power & Light Co.		
Corporate Credit Rating	BBB+/Negative/A-2	BBB+/Stable/A-2
KCP&L Greater Missouri Operations Co.		
Corporate Credit Rating	BBB+/Negative/--	BBB+/Stable/--
Issue Ratings Affirmed		
Great Plains Energy Inc.		
Senior Unsecured	BBB	
Preferred Stock	BBB-	
KCP&L Greater Missouri Operations Co.		
Senior Unsecured	BBB+	
Commercial Paper	A-2	
Kansas City Power & Light Co.		
Senior Secured	A	

Recovery Rating	1+
Senior Unsecured	BBB+
Commercial Paper	A-2

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

KCPL KS
Case Name: 2016 Westar Acquisition
Case Number: 16-KCPE-593-ACQ

Response to Zakoura James Interrogatories - Industrial_20160928
Date of Response: 10/07/2016

Question:18

Q18_KCPL Summary report by SP 6-17-2016.pdf

S&P Global
Ratings

Research

Summary:
Kansas City Power & Light Co.

Primary Credit Analyst:
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Summary:

Kansas City Power & Light Co.

Business Risk: EXCELLENT

Vulnerable — Excellent

Financial Risk: SIGNIFICANT

Highly leveraged — Minimal

a- a- a-

Anchor Modifiers Group/Gov't

CORPORATE CREDIT RATING

BBB+/Negative/A-2

Rationale

Business Risk: Excellent

- Regulated electric utility Kansas City Power & Light Co. (KCP&L) provides electricity in the greater Kansas City, Mo. metropolitan area.
- Relatively stable cash flows come from regulated electric operations.
- The regulatory framework in Kansas and Missouri is generally supportive.

Financial Risk: Significant

- Capital spending is declining.
- We expect financial measures to strengthen within the significant financial risk profile assessment.
- The company is committed to credit quality and maintaining a balanced capital structure.

Outlook: Negative

The outlook on KCP&L reflects the outlook on parent Great Plains Energy Inc. (GPE). The negative outlook on GPE and its subsidiaries reflects the potential for lower ratings if GPE's financial risk profile, which will deteriorate due to the financing used in the proposed acquisition of Westar Energy Inc., does not improve after the transaction closes such that funds from operations (FFO) to total debt is well over 13% after 2018.

Downside scenario

We could lower ratings on GPE and its subsidiaries if GPE's financial risk profile remains weak after the merger such that FFO to total debt is consistently below 13%. This could occur if the company funds the transaction disproportionately with debt or if capital spending increases materially while investment recovery lags.

Upside scenario

We could affirm the ratings on GPE after the merger closes if the combined company demonstrates that it can achieve FFO to total debt of more than 13% after 2018.

Standard & Poor's Base-Case Scenario

Assumptions

- Economic conditions in the company's service territory continue to improve incrementally, resulting in improving cash flow measures.
- Mid-single digit EBITDA growth rate over the forecast period.
- Adequate regulatory outcomes in Kansas and Missouri.
- Current rate surcharges are retained.

Key Metrics

	2015A	2016E	2017E
FFO/total debt (%)	17.4	17.0-18.8	17.5-19.0
Debt/EBITDA (x)	4.7	4.0-4.5	4.0-4.5
OCF/debt (%)	16.1	18.0-19.5	17.0-18.5

Note: Data represent S&P Global Ratings' adjusted figures. A--Actual. E--Estimate. FFO--Funds from operations. OCF--Operating cash flow.

Business Risk: Excellent

We base our assessment of KCP&L's business risk profile on what we view as the company's strong competitive position, very low industry risk stemming from the regulated utility industry, and the very low country risk stemming from the utility's U.S.-based operations. KCP&L's competitive position reflects the company's fully regulated integrated electric utility operations and our expectation for continued solid operational performance and generally credit-supportive regulation. The utility serves about 527,000 retail customers mainly in the greater Kansas City metropolitan area. The competitive position is also supported by an economically healthy service territory centered on a single metropolitan area with little industrial concentration, solid nuclear power operations, very low fuel costs, and lower electric rates. These attributes are partially offset by nuclear risks associated with the 47%-owned Wolf Creek station. The utility now operates with generally supportive regulation, cash flow stability from its customer base, and no competition.

Financial Risk: Significant

Based on our medial volatility financial ratio benchmarks, our assessment of KCP&L's financial risk profile is significant, reflecting the vertically integrated utility model and the recurring cash flow from selling electricity. As a utility, capital spending is ongoing for maintenance and for new projects. Recovery of these costs through rates has generally been supportive. We expect discretionary cash flow to turn positive over the next two years due to declining capital spending. Under our base case forecast, we expect FFO to total debt of about 18% to 19% and operating cash flow to debt to average about 18%, within the significant category.

Liquidity: Adequate

KCP&L has adequate liquidity. We believe the company's liquidity sources are likely to cover uses by more than 1.1x over the next 12 months and to meet cash outflows, even with a 10% decline in EBITDA.

There are modest debt maturities over the next three years, with the next material maturity of $281 million in 2017. We expect the company to refinance these given its satisfactory standing in the credit markets.

Principal Liquidity Sources	Principal Liquidity Uses
• We estimate FFO of about $570 million. • Revolving credit facility availability at an estimated $600 million.	• Capital spending of roughly $500 million. • Dividends of about $80 million. • Short-term borrowings of about $195 million. • $170 million of outstanding letters of credit that back up variable-rate bonds due in 2018.

Other Credit Considerations

Our assessments of modifiers result in no further changes to the anchor score.

Group Influence

Under our group rating methodology, we assess KCP&L to be a core subsidiary of GPE, reflecting our view that KCP&L is highly unlikely to be sold and has a strong long-term commitment from senior management. There are no meaningful insulation measures in place that protect KCP&L from its parent and, therefore, KCP&L's issuer credit rating is in line with GPE's group credit profile of 'bbb+'.

Ratings Score Snapshot

Corporate Credit Rating

BBB+/Negative/A-2

Business risk: Excellent

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Strong

Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: a-

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : a-

- **Group credit profile:** bbb+
- **Entity status within group:** Core (-1 notch from SACP)

Recovery Analysis/Issue Ratings

- KCP&L's first mortgage bonds benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an issue rating two notches above the issuer credit rating.
- We rate KCP&L's senior unsecured debt the same as the issuer credit rating.
- The short-term rating on KCP&L is 'A-2' based on the company's issuer credit rating and our assessment of its liquidity as at least adequate.

Related Criteria And Research

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Notching Of U.S. Investment-Grade Investor-Owned Utility Unsecured Debt Now Better Reflects Anticipated Absolute Recovery, Nov. 10, 2008
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

KCPL KS
Case Name: 2016 Westar Acquisition
Case Number: 16-KCPE-593-ACQ

Response to Zakoura James Interrogatories - Industrial_20160928
Date of Response: 10/07/2016

Question:18

Q18_2016-06-01_Moodys Opinion_GXP.pdf

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
1 June 2016

Update

Rate this Research

RATINGS

Great Plains Energy Incorporated

Domicile	Kansas City, Missouri, United States
Long Term Rating	Baa2 , Possible Downgrade
Type	Senior Unsecured - Dom Curr
Outlook	Rating(s) Under Review

Please see the ratings section at the end of this report for more information.The ratings and outlook shown reflect information as of the publication date.

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Great Plains Energy Incorporated

A Midwest Utility Holding Company

Summary Rating Rationale

The Great Plains Energy Inc. (GPE; Baa2, ratings under review down) credit profile is mainly driven by the regulatory support for its two primary operating subsidiaries, Kansas City Power & Light Company (KCPL, Baa1 stable, P-2) and KCP&L Greater Missouri Operations Company (GMO, Baa2 stable, P-2). These utility subsidiaries are regulated by the Missouri Public Service Commission (MPSC), the Kansas Corporation Commission (KCC) and the Federal Energy Regulatory Commission (FERC), with roughly two-thirds of consolidated cash flow generated in Missouri.

GPE's ratings also reflect its consolidated financial profile, which includes a ratio of cash flow from operations before changes in working capital (CFO pre-WC) to debt in the high-teen's range (i.e., 17% for the latest twelve months ended March 2016). Prior to the announcement about GPE's intent to buy Westar Energy Inc. (Westar; Baa1 stable), we had been expecting a slow and steady improvement to Great Plains' cash flows and debt, to where the ratio was getting into the 20% range over the course of 2016-2018.

Recent Events

On 31 May, GPE's ratings were placed on review for possible downgrade, following its announced intention to acquire Westar Energy for a total transaction value of over $12 billion, including the assumption of around $4 billion of expected Westar debt. GPE expects to finance the equity portion of the purchase price with a significant amount (i.e., $4.4 billion) of holding company debt, a material credit negative. The remainder will likely be financed with a combination of common equity and equity-like hybrid securities.

Together, we see the additional leverage and new capital structure complexity reducing financial flexibility across the entire corporate family. At transaction close, GPE's ratio of parent holding company debt to consolidated debt will rise to 35%, from roughly 2% as of March 31, 2016, assuming the company's equity and hybrid issuances go according to plan.

Exhibit 1

	Pre-M&A			Pro-Forma
	Great Plains Energy Inc.	Westar Energy	Great Plains Energy Inc. plus Westar Energy	
Total Rate Base	$ 6,526	$ 6,300	$ 12,826	$ 12,826
Acquisition Debt				$ 4,417
Reported Debt	$ 4,155	$ 3,581	$ 7,736	$ 12,552
Total Debt / Current Rate Base	64%	64%	60%	98%
HoldCo Debt / Reported Debt	2%	0%	1%	35%
CFO /Adjusted Debt	16%	18%	17%	13%

Source: Company presentations and Moody's Investors Service

Credit Strengths

» Rate regulated utility operations in generally supportive regulatory environments

» Reduced capex and future rate cases will improve utility cash flow

» Regulatory diversity is more balanced with Westar merger

Credit Challenges

» Westar acquisition funding will result in a weak financial profile through 2020

» Management's aggressive financial policies leave no flexibility for unforeseen challenges, at an investment grade level

Rating Outlook

GPE's ratings are under review for downgrade due to the pending acquisition of Westar. It is expected that a one notch downgrade to Baa3 will occur at the consummation of the merger.

Factors that Could Lead to an Upgrade

It is highly unlikely that GPE's ratings will be upgraded, or remain at the current Baa2 level.

Factors that Could Lead to a Downgrade

The review for downgrade is expected to result in a one-notch downgrade, leaving GPE investment grade. We see a strong investment grade floor, but ratings could be downgraded below investment grade if the ratio of holding company debt to consolidated debt rose higher than the 35% level we are expecting post-close. Ratings could also be downgraded if a more contentious regulatory environment developed in its principal jurisdictions.

Given the significantly weakened financial position at close (e.g., 13% CFO pre-WC to debt), the rating could be downgraded to speculative grade if anticipated financial improvements are jeopardized. If the ratio of CFO to debt were between 10% and 13% for a sustainable period, ratings could be downgraded below the investment grade threshold. This could occur from any combination of circumstances, including: waning regulatory supportiveness, financially restrictive merger requirements, a stagnant or declining economic environment, inability to capture synergies from the Westar acquisition, a change in equity treatment for hybrid securities, or operating and/or regulatory challenges at the Wolf Creek nuclear generating station.

Key Indicators

Exhibit 2

KEY INDICATORS [1]

Great Plains Energy Incorporated

	3/31/2016(L)	12/31/2015	12/31/2014	12/31/2013	12/31/2012
CFO pre-WC + Interest / Interest	4.6x	4.5x	4.4x	4.2x	3.8x
CFO pre-WC / Debt	17.0%	16.5%	16.1%	17.7%	15.8%
CFO pre-WC – Dividends / Debt	13.7%	13.2%	13.0%	14.5%	12.9%
Debt / Capitalization	49.6%	49.2%	49.5%	48.7%	50.8%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Investors Service

Detailed Rating Considerations

GPE'S BELOW-AVERAGE REGULATORY SUPPORT WOULD BENEFIT FROM MERGER

GPE's Missouri jurisdiction accounts for over half of GPE's total rate base; thus we place greater weighting on Missouri in our regulatory risk and credit assessment. We view Missouri's regulatory environment as less credit supportive compared to the regulatory environment in Kansas. Electric utilities in Missouri rely more on traditional rate cases and there are a more limited number of adjustment mechanisms for cost recovery, often resulting in longer regulatory lag and the propensity to under-earn its allowed level of ROE.

In general, we view the regulatory environment in Kansas to be relatively more constructive compared to Missouri's. Kansas allows for various riders and tracking mechanisms as well as abbreviated rate case filings, shortening regulatory lag. We believe the use of abbreviated rate cases provides greater transparency in the recovery of the company's investment costs. In addition, the ability of the company to update its rate base prior to filing a general rate case is credit positive.

However, we believe the regulatory environment in Kansas might be becoming less credit supportive based on recent regulatory developments and rhetoric in the most recent electric rate cases, including low allowed ROE's compared to industry averages and KCC challenges to the FERC, which have lowerd ROE levels for transmission investment recovery.

IMPROVING UTILITY CREDIT PROFILES, INCLUDING THAT OF WESTAR

Underpinning the strength of the post-merger holding company, is an expectation for improved financial performance of each utility subsidiary. This improvement is driven by the conclusion of extensive environmental capital plans, which have been in progress for the past several years, as each utility has prepared to meet Federal emissions standards, such as Mercury Air Toxic Standards (MATS).

For example, KCPL and GMO each have multiple rate case filings scheduled for the next few years. Our expectation is that these collective investments will be fully incorporated into rate base, earning allowed returns, over the near-term. These investments, including capital expenditures for new wind generation at Westar, customer information system advancement at Great Plains, and general infrastructure improvements across all systems, will contribute significant amounts of cash flow through 2020. This, coupled with the reduction of environmental capex could result in positive free cash flow at the consolidated level – a rarity for utility holding companies and a significant credit positive.

That said, in any acquisition scenario, there is a potential for regulatory intervention to result in customer credits, rate freezes and/ or a more contentious regulatory relationship post-transaction. Should any of these circumstances arise for KCPL, GMO or Westar, the future cash flow production of GPE would be harmed and the financial improvements that we are currently anticipating could be jeopardized – a significant credit negative.

ACQUISITION DEBT OUTWEIGHS SIZE AND DEVERSIFICATION BENEFIT

The acquisition of Westar will enhance the business profile of Great Plains in many ways, including: increased size, scale and scope; operating cost synergies due to a contiguous service territory; core competency in managing Missouri and Kansas regulatory and political environments; and the addition of $1.2 billion of FERC regulated transmission rate base.

That said, the general business mix of the company remains unchanged. That is, GPE will still be a vertically integrated electric utility based in the states of Kansas and Missouri, with a smaller portion of FERC transmission investments. Therefore, we regard the transaction as positive and scale-enhancing, but not transformative and de-risking in the respect that it can offset a material degradation to financial metrics.

Therefore, the 13% CFO pre-WC to debt that we expect to be generated from the consolidated company positions GPE as a weak Baa3 holding company. Furthermore, we are incorporating continual, year-over-year, cash flow improvement into our current view of the company, due to ongoing rate cases and significantly reduced capex; therefore, any unforeseen headwinds for this trend could result in further deterioration to the credit profile and rating of the company.

Liquidity Analysis

GPE's current liquidity position is strong due to the declining capex profile and improving cash flow from operations. For example, through LTM 1Q16, the company produced $824 million of cash flow from operations, compared to $609 million of capex and $158 million in dividends, resulting in $57 million of free cash flow. We expect similar results over the next twelve months excluding any merger financing.

GPE's revolving credit facility of $200 million expires in October 2019. As of March 31, 2016 there was $15 million outstanding under the facility, leaving $185 million available for borrowing. The terms of this credit facility permit transfers of unused commitments between GPE's facility and the facilities of GPE's major subsidiaries with the total amount not exceeding $400 million at any one time. A default by GPE or its subsidiaries on any other indebtedness higher than $50 million is considered a default under this facility. The terms of this facility also require that GPE maintain maximum total debt to capitalization not exceed 65%. At March 2016, GPE was in compliance with this covenant.

KCPL has a $600 million revolving credit facility, expiring in October 2019. At March 31, 2016, KCPL had $85.8 million of commercial paper outstanding and $2.8 million of letters of credit issued. It did not have any cash borrowings under this facility. The terms of this credit facility permit GPE and KCPL to transfer up to $200 million of unused facilities between GPE and GPE's subsidiaries. Also, a default by KCPL on any other indebtedness higher than $50 million is considered a default under this facility. KCPL was in compliance with the covenant at March 31, 2016.

GMO has a $450 million revolving credit facility, expiring in October 2019. At March 31, 2016, GMO had $202.5 million of commercial paper outstanding and $2.2 million of letters of credit issued. It did not have any cash borrowings under this facility. GMO's credit facility has the same covenants as KCPL's credit facility and GMO was in compliance with the covenant at March 31, 2016.

Profile

Great Plains Energy Inc. (GPE; Baa2, ratings under review down) is a utility holding company with operations in Kansas and Missouri through Kansas City Power & Light Company (KCPL, Baa1 stable, P-2) and KCP&L Greater Missouri Operations Company (GMO, Baa2 stable, P-2).

Together, KCPL and GMO serve 838,400 customers located in western Missouri and eastern Kansas. KCPL is the larger utility and the primary source of earnings and cash flow for GPE. KCPL contributed approximately 70% of consolidated net income and cash flow over the past three years.

Transource Energy LLC (Transource) is a joint-venture transmission company that GPE owns 13.5% of through GPE Transmission Holding Company.

Rating Methodology and Scorecard Factors

Exhibit 3

Rating Factors				
Great Plains Energy Incorporated				
Regulated Electric and Gas Utilities Industry Grid [1][2]	Current LTM 3/31/2016		Moody's 12-18 Month Forward View As of Date Published [3]	
Factor 1 : Regulatory Framework (25%)	Measure	Score	Measure	Score
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	A	A
b) Sufficiency of Rates and Returns	Ba	Ba	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	Ba	Ba	Ba	Ba
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.5x	Baa	3x - 4x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	16.7%	Baa	13% - 15%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	13.5%	Baa	10% - 12%	Baa
d) Debt / Capitalization (3 Year Avg)	49.7%	Baa	60% - 64%	Ba
Rating:				
Grid-Indicated Rating Before Notching Adjustment		Baa2		Baa1
HoldCo Structural Subordination Notching	-1	-1	-2	-2
a) Indicated Rating from Grid		Baa3		Baa3
b) Actual Rating Assigned				Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 3/31/2016(L)
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Investors Service

REPORT NUMBER 1029643

MOODY'S
INVESTORS SERVICE

KCPL KS
Case Name: 2016 Westar Acquisition
Case Number: 16-KCPE-593-ACQ

Response to Zakoura James Interrogatories - Industrial_20160928
Date of Response: 10/07/2016

Question:18

Q18_2016-07_Moodys Issuer In-Depth_FAQ Great Plains Acquisition of Westar.pdf

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ISSUER IN-DEPTH
7 July 2016

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KEY METRICS:

Great Plains Energy, Inc

	LTM 1Q16	12/31/2015	12/31/2014
CFO pre-WC/ Debt	17.0%	16.5%	16.1%
CFO pre-WC - Dividends / Debt	13.7%	13.2%	13.0%

Westar Energy, Inc

	LTM 1Q16	12/31/2015	12/31/2014
CFO pre-WC/ Debt	22.6%	21.6%	20.6%
CFO pre-WC - Dividends/ Debt	17.9%	17.0%	16.5%

Source: Moody's Investors Service

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Great Plains Energy Incorporated

FAQ: Great Plains' Acquisition of Westar

Great Plains Energy Inc.'s (Baa2 ratings under review down) proposed $12.2 billion acquisition of Westar Energy Inc. (Baa1 stable) will triple Great Plains' debt. We think the use of leverage is indicative of management's higher tolerance for financial risk. For these reasons, among others, we placed Great Plains' rating on review for downgrade. In this report, we answer questions about the impact of the announced deal on Great Plains' credit profile.

» **What is the main risk to Great Plains' investment-grade credit profile?** Regulatory contentiousness that results in stagnant financial performance is the biggest risk for the investment-grade credit profile. Great Plains will need to secure regulatory approvals and maintain sufficient regulatory support for its three utility subsidiaries.

» **Why do you think regulators will approve the transaction?** We believe that regulators will approve the deal because the rationale behind regulated utility consolidation - that is, spreading fixed costs across a larger asset base - makes sense. We believe regulators will approve the deal based on precedent transactions, but not before requiring committed customer benefits upfront.

» **How is the creditworthiness of the operating companies affected?** At this time, the transaction does not affect the credit of Kansas City Power & Light Co. (KCPL, Baa1 stable), KCP&L Greater Missouri Operations Co. (GMO, Baa2 stable), or Westar. However, the deal constrains their chances for a rating upgrade because the holding company leverage affects the consolidated corporate family.

» **How does the financing compare with other large utility deals?** The deal is highly leveraged, to be sure, with the ratio of holding-company debt to consolidated debt rising to 35% from 2%. By other measures, such as debt to rate base, however, the deal appears to be more in-line with recent transactions.

» **Why is Wolf Creek a big risk factor?** Wolf Creek provides an element of asset concentration risk, as a single-reactor nuclear plant that represents a large component of rate base. A significant operating problem at Wolf Creek could trigger large, unexpected demands on liquidity.

Frequently Asked Questions

Great Plains Energy Inc.'s proposed $12.2 billion acquisition of Westar Energy Inc. will double Great Plains' assets, but it will also triple Great Plains' reported debt from $4.2 billion today to over $13.2 billion at transaction close.

Under the terms of the proposed deal, Great Plains will assume about $4 billion of Westar debt and expects to finance the remainder with additional debt and a mix of common and preferred stock. We see roughly $4.4 billion in new acquisition debt as a significant credit negative. Great Plains' ratio of holding-company debt to consolidated debt will jump to 35% from 2%.

We placed Great Plains' debt rating of Baa2 on review for downgrade on 31 May. In this report, we will answer questions about the impact of the announced deal on the holding company's investment-grade credit profile.

What is the main risk to Great Plains investment-grade credit profile?

The biggest risk to Great Plains' investment grade profile is regulatory contentiousness. Great Plains needs healthy relationships with its regulators in order to achieve the cash flow improvements necessary to keep its investment-grade rating.

On a combined basis, Great Plains and Westar's CFO-to-debt ratio was about 18% for the 12 months ended March (see table). Following the proposed merger, the ratio would fall to just under 12%. Great Plains could fall into the speculative-grade rating category if consolidated cash flow from operations (CFO) to debt remains between 10% and 13% in the years following the closing of the deal.

With more than $13 billion of pro forma debt after the merger, $500 million to $600 million of additional annual cash flow would be needed in order for the CFO-to-debt ratio to rise back into the mid-teens range by 2020. We think this financial metric threshold is achievable, and is a principal factor supporting an investment-grade credit profile.

We think Great Plains will achieve this increase in cash flow through a mix of cost savings and tax relief, including bonus depreciation (at least through 2020), as well as net operating loss carry-forwards. Regulatory support is just as important, through revenue increases by way of rate cases and other timely cost recoveries. Great Plains' management has highlighted a series of upcoming rate cases for each utility (including those already filed by GMO and KCPL), which lends a high degree of visibility into the prospects for improving the ratio of cash flow to debt above 12%.

Exhibit 1

Cash flow to Debt Ratios, Before and After the Acquisition

LTM 1Q 2016	Column1
Great Plains CFO	$824
Westar CFO	$770
Total CFO	**$1,594**
Before Acquisition (as of March 31, 2016)	
Great Plains Debt	$4,778
Westar Debt	$4,071
Total Debt	**$8,849**
Total CFO / Total Debt	**18%**
After Acquisition (Illustrative)	
Acquisition Debt	$4,400
Great Plains + Westar Debt	$8,849
Pro Forma Debt	**$13,249**
Total CFO / Pro Forma Debt	**12%**

Source: Great Plains Energy, Westar Energy, Moody's Investors Service

Why do you think regulators will approve the transaction?

We believe regulators will approve the combination because the reasoning behind spreading fixed costs across a larger asset base makes sense for all stakeholders. We also believe that regulators will approve the transaction based on prior approvals, such as when Kansas allowed Great Plains and Black Hills Corp. (Baa1 negative) to divide the assets of Aquila Inc. within the state.

Several regulatory approvals are needed to close the merger, including from the Kansas Corporation Commission (KCC), the Federal Energy Regulatory Commission and the Nuclear Regulatory Commission, among others. Although not immediately cited by management as a key regulatory approval, the Missouri Public Service Commission (MPSC) has taken steps to review the transaction, which could lengthen the approval process and introduce additional upfront costs.

To-date, the MPSC has granted its staff's request to investigate the transaction's impact to Missouri customers, as well as opened a more general proceeding on revising electric utility regulation within the state. We see these developments as added regulatory intervention that could complicate the acquisition process for Great Plains. The staff investigation, in particular, underscores our view that the relationship between Great Plains and Missouri regulators is more challenging than the average utility-regulator relationship.

We also believe that regulators will require upfront customer benefits (e.g., customer rate relief and/or investments in the system) as part of its approval stipulations.

Merger approval requirements have come in many forms, including customer rebates, rate freezes and deferred cost recovery on certain items. The implementation of ring-fence-type provisions, a continued corporate presence in the state and mandatory investments in environmentally friendly programs or in infrastructure upgrades are also possible.

Also, Kansas is a "net benefit state," which means that evidence must be shown that Westar's customers will benefit from the utility becoming part of Great Plains. This is a higher hurdle for regulatory approval than a "no harm" standard, where the burden for approval is that the target utility customers will not be worse off.

For these reasons, we think the merger will probably close in about 12 to 18 months, a little later than the company's expectation for the second quarter of 2017.

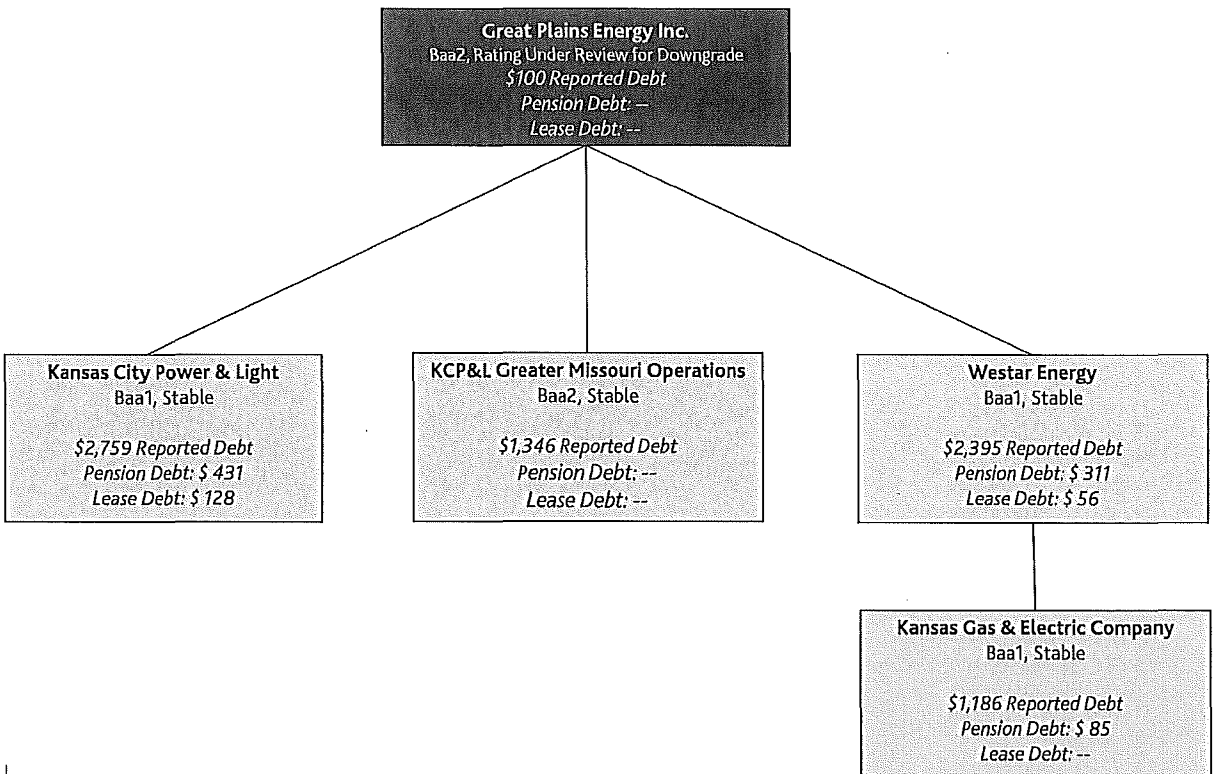
Does the transaction affect the credit of the utility operating companies?

No. For now, the transaction does not affect the credit of Great Plains' two subsidiaries, KCPL (Baa1 stable) and GMO (Baa2 stable), or Westar (Baa1 stable). We expect the stand-alone credit profiles for each of the utility subsidiaries to improve over the next two to three years.

The utilities' stand-alone credit improvement will be driven, in part, by the conclusion of extensive environmental capital plans, as each utility prepares to meet federal emissions standards. The reduced capital spending will lower debt-financing needs at the same time the collective investments will be fully incorporated into the rate base, boosting revenue.

Exhibit 2

Great Plains' pro forma organizational structure with reported debt figures as of March 2016



Source: Great Plains Energy, Westar Energy, Moody's Investors Service

That said, Great Plains' two current subsidiaries, along with Westar, will have a more highly leveraged parent after the transaction, which will remove the positive overhang of expected financial improvement associated with upcoming rate cases. Because of the added holding company leverage, we expect that the utilities will have to pay higher dividends than would otherwise be necessary to service Great Plains' debt and shareholder dividends.

Exhibit 3 shows what we expect in terms of dividend obligations under a business-as-usual scenario (assuming 6% annual dividend growth). Currently, we expect that utility dividends are enough to cover Great Plains' debt service and dividend policy.

Exhibit 3

Right now, utility dividends fund about 96% of Great Plains' financial obligations

	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	Projection Comments
KCPL Dividends	$ 100	$ 96	$ 92	$ 72	$ -	$ 110	$ 117	$ 124	$ 131	$ 139	2/3 of Great Plains HoldCo Dividends starting in 2016
GMO Dividends	$ 48	$ 48	$ 48	$ 72	$ 157	$ 55	$ 58	$ 62	$ 66	$ 70	1/3 of Great Plains HoldCo Dividends starting in 2016
KCPL + GMO Dividends (Utility Dividends)	**$ 148**	**$ 144**	**$ 140**	**$ 144**	**$ 157**	**$ 165**	**$ 175**	**$ 186**	**$ 197**	**$ 209**	
Great Plains HoldCo Dividends	$ 115	$ 126	$ 137	$ 146	$ 156	$ 165	$ 175	$ 186	$ 197	$ 209	6% annual growth
Great Plains HoldCo Debt Interest Expense	$ 7	$ 7	$ 7	$ 7	$ 7	$ 7	$ 6	$ 5	$ 5	$ 5	Assumes $100 million debt is re-financed @ 4.5% in September 2017
HoldCo Cash Demands (Dividends + Interest)	**$ 122**	**$ 133**	**$ 144**	**$ 153**	**$ 163**	**$ 172**	**$ 181**	**$ 190**	**$ 201**	**$ 213**	
Utility Dividends as a % of HoldCo Cash Demands	121%	108%	97%	94%	96%	96%	97%	98%	98%	98%	

Source: Great Plains Energy Inc. and Moody's Investors Service

Exhibit 4 includes Westar's annual dividend contribution and debt-service pro forma for the acquisition (i.e., new common stock dividends, hybrid debt "dividends" and interest expense on the $4.4 billion of added holding-company debt).

The additional debt-service burden results in utility dividends supporting around 70% of Great Plains' dividends and parent interest expense. This gap could be filled with higher dividends paid by the utilities, cost-sharing arrangements or a combination of the two. If Great Plains opts to finance its dividends on its own, it would be credit negative for the entire family.

Exhibit 4

After the acquisition, utility dividends will fund about 70% of Great Plains' financial obligations

	2011	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E	Projection Comments
KCPL Dividends	$ 100	$ 96	$ 92	$ 72	$ -	$ 110	$ 117	$ 124	$ 131	$ 139	
GMO Dividends	$ 48	$ 48	$ 48	$ 72	$ 157	$ 55	$ 58	$ 62	$ 66	$ 70	
Westar Dividends	$ 140	$ 161	$ 165	$ 173	$ 187	$ 198	$ 210	$ 223	$ 236	$ 250	6% annual growth
KCPL + GMO + Westar (Utility Dividends)	**$ 288**	**$ 305**	**$ 305**	**$ 317**	**$ 344**	**$ 364**	**$ 385**	**$ 409**	**$ 433**	**$ 459**	
Great Plains Pro-Forma HoldCo Dividends	$ 115	$ 126	$ 137	$ 146	$ 156	$ 165	$ 175	$ 400	$ 424	$ 449	6% annual growth; 2018-2020 includes dividends on: hybrids, acquisition equity and stock consideration
Great Plains HoldCo Debt Interest Exp.	$ 7	$ 7	$ 7	$ 7	$ 7	$ 7	$ 4	$ 198	$ 198	$ 198	2017: $100 million is retired in September 2018: $4.4 billion HoldCo debt issued at 4.5% coupon
HoldCo Cash Demands (Dividends + Interest)	**$ 122**	**$ 133**	**$ 144**	**$ 153**	**$ 163**	**$ 172**	**$ 179**	**$ 598**	**$ 622**	**$ 647**	
Utility Dividends a % of HoldCo Cash Demands								**68%**	**70%**	**71%**	

Note: We assume that the public hybrid offering is the same size and cost as the private issuance (i.e., $750 million at 7.25%).

Source: Great Plains Energy Inc., Westar Energy Inc. and Moody's Investors Service

A sustained increase in utility dividend payout will hurt the utilities' financial ratios, such as the ratio of CFO minus dividends to debt. Ratios below 13% for KCPL and Westar, and below 10% for GMO, could pressure their credit profiles. On average, over the last five years, KCPL and Westar have adjusted CFO minus dividends to debt of around 14%, while GMO has about 12%.

Moreover, we believe that if Great Plains requires higher dividends from its utilities, it will concern regulators in Kansas and Missouri and could result in some form of ring-fence-type provisions between Great Plains and its regulated subsidiaries, or heightened contentiousness in the regulatory relationship. The former could be a credit positive for the utilities - but negative for Great Plains - while the latter would be a significant negative for the utilities and Great Plains, alike.

Other risks for the utilities include the following:

If holding-company leverage increases or interest rates on the holding-company debt are higher than expected. Great Plains' pro forma holding-company debt as a percentage of consolidated debt will be around 35% after the acquisition, so any increase would be a clear credit negative. In other cases, this level of holding-company debt has resulted in ratings differentials, whereby the parent's rating is multiple notches below the ratings of its principal operating subsidiaries.

Any additional holding-company debt would result in declining credit quality across the entire family, since the utilities would shoulder the burden of paying even more debt service.

If regulators require large rebates, or if rate relief is lower than expected. Significant cash outflows to customers or limits to future utility rate relief would be materially credit negative, because the expected financial improvement might not materialize.

Therefore, if Kansas regulators extract sufficient customer benefits that limit Westar's ability to produce a cash-flow-to-debt ratio in the high-teens, or below 13% (excluding dividends), on a sustainable basis, it would be a negative development for Westar's credit profile. The same would apply to KCPL and GMO if Missouri regulators were to limit their expected cash flow improvement.

How does the financing compare with other large utility deals?

The deal is highly leveraged and concentrated in a single geographic region. The ratio of holding-company debt to consolidated debt is rising to 35% from 2%. But measured by debt as a percentage of the rate base, the deal is less aggressive than other recent mergers.

Exhibit 5 compares the Great Plains-Westar deal with five large deals in the past two years and their respective leverage ratios. In terms of holding-company debt to consolidated debt, the Great Plains-Westar deal is about average. But looking at the ratio of debt to the rate base, other deals are much more aggressive.

Exhibit 5

Great Plains' deal to buy Westar is highly leveraged, but less so than other recent deals

	Acquisition Debt / Target Rate Base	Acquirer's CFO / Debt pre-acquisition	CFO / Debt post-acquisition	Acquirer's Debt / Equity pre-acquisition	Debt / Equity post-acquisition	Acquirer's HoldCo Debt / Consol.Debt pre-acquisition	HoldCo Debt / Consol.Debt post-acquisition
Duke / Piedmont	185%	17%	15%	107%	113%	30%	36%
Southern / AGL	179%	21%	15%	131%	156%	12%	25%
Dominion / Questar	110%	16%	16%	229%	235%	47%	48%
Great Plains / Westar	70%	18%	12%	114%	166%	2%	35%
Emera / TECO	70%	16%	12%	96%	220%	19%	>45%
Black Hills / SourceGas	61%	21%	14%	128%	144%	4%	28%

Notes: See Appendix A for a listing of company ratings and outlooks; EBITDA is as-reported, based on the twelve months prior to announcement; Target Rate Base is the latest reported figure, prior to announcement; CFO to Debt is Moody's adjusted; Debt to Equity and HoldCo Debt to Consolidated Debt figures are as-reported
Source: Moody's Investors Service

Why is Wolf Creek a big risk factor for Great Plains' credit profile?

Wolf Creek is very expensive to operate and the plant has had some problems in the past. The plant is a 1,200 megawatt single-reactor nuclear facility and represents a large component of the rate base, which translates into some asset concentration risk. Therefore, a big operating problem at Wolf Creek could trigger large, unexpected demands on liquidity.

In 2012, Wolf Creek had an unplanned outage due to equipment failure, which resulted in additional costs paid collectively by the Wolf Creek owners (47% Great Plains; 47% Westar and 6% Kansas Electric Power Cooperative (unrated)). A similar, or more material, event in the future could weaken Great Plains credit profile, both from a qualitative risk perspective (i.e., safety and regulatory concerns) and from a financial perspective, since it would reduce available liquidity and likely require long-term debt to finance at least a portion of the remediation costs.

Even beyond one-time outage-related costs, unplanned nuclear outages typically result in additional ongoing expenses related to improvements for the plant. This could also have lasting impacts on the company's financial profile and require additional cost recovery from regulators.

Following the Nuclear Regulatory Commission's review of Wolf Creek's operations in 2012 and 2013, plant performance has improved (see Exhibit 6, below). However, the plant's capacity factor remains below industry averages, which makes it a more costly facility per unit of output.

By way of comparison, the Omaha Public Power District of Nebraska's (Aa2/Aa3, stable) board of directors recently approved management's proposal to permanently shut down and decommission its Fort Calhoun nuclear facility 17 years ahead of schedule. The decision, based on the long-term value of the nuclear plant, draws into question comparable economics for Wolf Creek, since both plants operate in the Southwest Power Pool (SPP) market, where power prices have declined significantly in recent years amid competition from wind power. Around-the-clock prices for SPP North and SPP South dropped from about $28 per megawatt-hour (MWh) and $37 per MWh in 2014, respectively, to $16 per MWh and $20 per MWh in 2016[1].

Exhibit 6

Wolf Creek's production is improving, but its capacity factor is below the industry norm of 90%

	2011	2012	2013	2014	2015
Operational Statistics					
Summer Peak Capacity (MW)	1,175.00	1,175.00	1,175.00	1,175.00	1,175.00
Winter Peak Capacity (MW)	1,205.00	1,205.00	1,205.00	1,205.00	1,205.00
Net Generation (MWh)	7,318,888	8,284,924	7,168,301	8,558,384	8,630,178
Capacity Factor (%)	69%	78%	68%	81%	82%
Production Costs and Ratios					
Total Production Costs ($MM)	$230	$252	$255	$268	$242
Total Production ($/MWh)	$31.46	$30.47	$35.61	$31.35	$28.02

Source: S&P Global Market Intelligence and Nuclear Energy Institute

Appendix A - Ratings and Outlooks for Companies Involved in Recent M&A Activity

Listed in order of appearance in Exhibit 5

- Duke Energy Corporation (Baa1 negative)
- Piedmont Natural Gas Company, Inc. (A2 stable)
- Dominion Resources Inc. (Baa2 stable)
- Questar Corp. (P-1 Possible Downgrade)
- The Southern Company (Baa2 stable)
- AGL Resources' (unrated) financing subsidiary, AGL Capital Corp., is rated Baa1 stable
- Emera Inc. (Baa3 stable)
- TECO Energy Inc. (Baa2 stable)
- Black Hills Corp. (Baa1 negative)
- SourceGas LLC (Baa1 stable)

Moody's Related Research

Sector Outlook:

Credit-Supportive Regulatory Environment Drives Stable Outlook (1008271)

Sector In-Depths:

Electric and Gas Utility Deals Bring Benefits, But Higher Leverage Mitigates Impact (1016760)

M&A Funded by Parent Debt Has Negative Credit Implications (1013580)

Low Gas Prices and Weak Demand are Masking US Nuclear Plant Reliability Issues (146663)

Issuer In-Depth:

Great Plains Energy and Westar Energy: Peer Comparison (1000180)

Issuer Comment:

Omaha Public Power District, NE (1028286)

Credit Opinions:

Great Plains Energy Incorporated: A Midwest Utility Holding Company (1029643)

KCP&L Greater Missouri Operations Company: A Regulated Electric Subsidiary of Great Plains Energy Inc. (1029840)

Kansas City Power & Light Company: A Regulated Electric Subsidiary of Great Plains Energy Inc. (1029844)

WESTAR ENERGY, INC.: Vertically Integrated Regulated Electric Utility (1029911)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Endnotes

1 According to S&P Global Market Intelligence data

REPORT NUMBER 1030221

MOODY'S
INVESTORS SERVICE

Verification of Response

Kansas City Power & Light Company

Docket No. 16-KCPE-593-ACQ

The response to Industrial Data Request# 18, submitted by KCP&L, is covered by this Verification of Response:

I have read the foregoing Information Request(s) and answer(s) thereto and find answer(s) to be true, accurate, full and complete, and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request(s).

Signed: James P. Gilligan

Title: ASSISTANT TREASURER

Date: 10-6-16

KCPL KS
Case Name: 2016 Westar Acquisition
Case Number: 16-KCPE-593-ACQ

Response to Bond Ashley Interrogatories - BPU_20161107
Date of Response: 11/18/2016

Question:3-39

Please provide copies of all:

1. Equity research pertaining to the proposed acquisition of Westar by GPE.

2. Rating agency reports pertaining to the proposed acquisition of Westar by GPE.

3. Rating agency reports pertaining to utility mergers in general.

4. Security analyst reports pertaining to the proposed acquisition of Westar by GPE.

5. Security analyst reports pertaining to utility mergers in general.

Number of Attachments:

Response:

1. Please see the attachments listed below.
2. Please refer to the response to Industrial Data Request No. 18 for rating agency reports pertaining to the proposed acquisition of Westar by GPE.
3. The attached file, Q3-39_Utility Consolidations 1-11-11.pdf, is the only rating agency report pertaining to utility mergers in general that GPE has in its possession.
4. Please see the attachments listed below.
5. GPE does not have any security analyst reports pertaining to utility mergers in general.

Attachments:
Q3-39_Utility Consolidations 1-11-11.pdf
Q3-39_Verification form.pdf

The analysts' reports have been designated as **CONFIDENTIAL** because they contain reports produced by financial analysts. The reports pertain to the proposed acquisition of Westar by Great Plains Energy (GXP):

Q 3-39_Barclays GXP Working on Merger Approvals 11.04.16 HC.pdf
Q 3-39_Barclays Lowering GXP to Underweight 06.02.16 HC.pdf
Q 3-39_Barclays Potential WR Merger Delays 10.20.16 HC.pdf

Q 3-39_Barclays Risks Declining Raise to Equal Weight 09.29.16 HC.pdf
Q 3-39_BofA Merrill Lynch All Eyes On WR Acquisition Completion 08.08.16 HC.pdf
Q 3-39_BofA Merrill Lynch Pricey Midwest Deal Promises Longer Term 05.31.16 HC.pdf
Q 3-39_BofA Merrill Lynch Settlement Reached with Missouri Regulators 10.13.16 HC.pdf
Q 3-39_BofA Merrill Lynch Valuation Gap to Close Following Equity Issuance 10.03.16 HC.pdf
Q 3-39_Gabelli GXP More Merger Details; Target 2020 Hold 06.14.16 HC.pdf
Q 3-39_Gabelli GXP to Buy WR for $12.2 Billion Hold 06.01.16 HC.pdf
Q 3-39_Gabelli GXP Raised Estimates on Strong Results 11.07.16 HC.pdf
Q 3-39_Goldman Sachs GPE announces acquisition of Westar Energy 05.31.16 HC.pdf
Q 3-39_JPMorgan GXP WR Deal Announced Growth Target Appears Achievable 05.31.16 HC.pdf
Q 3-39_KeyBanc Capital GXP ALERT 2Q16 Earnings Show Strong Improvement 08.05.16 HC.pdf
Q 3-39_KeyBanc Capital GXP ALERT 3Q16 Earnings Results; Beat and Raise 11.04.16 HC.pdf
Q 3-39_KeyBanc Capital GXP ALERT GXP to Acquire Westar 05.31.16 HC.pdf
Q 3-39_KeyBanc Capital GXP ALERT Missouri Staff Files Investigation Report 07.26.16 HC.pdf
Q 3-39_Ladenburg Thalmann 2Q16 Results 2016 Guidance Reaffirmed and Merger Update 08.08.16 HC.pdf
Q 3-39_Ladenburg Thalmann 3Q16 Results, 2016 Guidance Increased and Merger Update 11.07.16 HC.pdf
Q 3-39_Ladenburg Thalmann MPSC Staff Investigation Report and Merger Update 07.26.16 HC.pdf
Q 3-39_Ladenburg Thalmann BUY from NEUTRAL Based on Outlook and Valuation 10.26.16 HC.pdf
Q 3-39_Morningstar Great Plains Pays a Premium Price for Westar Energy 06.02.16 HC.pdf
Q 3-39_Morningstar Great Plains Posts Strong 2Q Regulator Leave Door Open 08.05.16 HC.pdf
Q 3-39_Morningstar Great Plains Reports Strong Results Westar Merger Appears on Track 11.04.16 HC.pdf
Q 3-39_Morningstar Low Gas Prices, Stalled Environmental Policy 11.09.16 HC.pdf
Q 3-39_Morningstar Missouri Legislation Key to Achieving Post-Merger EPS Growth 11.08.16 HC.pdf
Q 3-39_Morningstar Surf's Up for Westar as Utilities Merger Wave Rolls On 05.31.16 HC.pdf
Q 3-39_SunTrust Robinson Humphrey Acquisition Of WR Looks Expensive 05.31.16 HC.pdf
Q 3-39_SunTrust Robinson Humphrey Equity Offerings Remove Overhang 09.29.16 HC.pdf
Q 3-39_SunTrust Robinson Humphrey Key To Making The WR Acquisition Work 05.31.16 HC.pdf

Q 3-39_SunTrust Robinson Humphrey Trimming 2018 Estimate 08.08.16 HC.pdf
Q 3-39_SunTrust Robinson Raising 2016 Estimate 11.07.16 HC.pdf
Q 3-39_Wells Fargo Securities Attractive Combination But Stretches The Balance Sheet 05.31.16 HC.pdf
Q 3-39_Wells Fargo Securities GXP To Acquire WR In 85 15 Cash Stock Deal 05.31.16 HC.pdf
Q 3-39_Wells Fargo Securities MO DOJ In Focus In WR Meetings 08.25.16 HC.pdf
Q 3-39_Wells Fargo Securities GXP WR Solid Stand Alone Execution YTD 11.04.16 HC.pdf
Q 3-39_Wolfe Research Utilities GXP Update Since the Merger 06.08.16 HC.pdf
*Q 3-39_Wolfe Research Utilities GXP Discount Difficult to Ignore 10.02.16 HC.pdf
Q 3-39_Wolfe Research Utilities GXP Make Missouri Great . . for the First Time 11.04.16 HC.pdf
Q 3-39_Wolfe Research Utilities GXP Many Hurdles to Clear Just in Time for the Olympics 08.07.16 HC.pdf
*Q 3-39_Wolfe Research Utilities GXP Plainly Not so Great 05.31.16 HC.pdf
Q 3-39_Wolfe Research Utilities GXP Show Me the Settlement 10.12.16 HC.pdf

Docket: [16-KCPE-593-ACQ] Merger - Great Plains
Requestor: [Kansas City Board of PUblic Utilities] [Angela Lawson]
Data Request: KCBPU-3.39 :: Utility mergers and acquisition
Date: 0000-00-00

Question 1 (Prepared by John Grace)
Please provide copies of all: 1. Equity research pertaining to the proposed acquisition of Westar by GPE. 2. Rating agency reports pertaining to the proposed acquisition of Westar by GPE. 3. Rating agency reports pertaining to utility mergers in general. 4. Security analyst reports pertaining to the proposed acquisition of Westar by GPE. 5. Security analyst reports pertaining to utility mergers in general.

Response:
Rating agency reports and analysts' reports are copyright protected. Please schedule a time to review the reports pertaining to Westar Energy at the Topeka general office. See KCP&L response.

No Digital Attachments Found.

Docket: [16-KCPE-593-ACQ] Merger - Great Plains
Requestor: [Kansas City Board of PUblic Utilities] [Angela Lawson]
Data Request: KCBPU-3.39 :: Utility mergers and acquisition
Date: 0000-00-00

Question 1 (Prepared by John Grace)
Please provide copies of all: 1. Equity research pertaining to the proposed acquisition of Westar by GPE. 2. Rating agency reports pertaining to the proposed acquisition of Westar by GPE. 3. Rating agency reports pertaining to utility mergers in general. 4. Security analyst reports pertaining to the proposed acquisition of Westar by GPE. 5. Security analyst reports pertaining to utility mergers in general.

Response:
Rating agency reports and analysts' reports are copyright protected. Do not copy, redistribute, or publish.

Attachment File Name	Attachment Note
GXP Research Reports 11-07-16 0746.zip	
Moody's WR Credit Opinion Published 6.2.16.pdf	
Moodys Rating Action for GXP & WR 5.31.16.pdf	
S&P RatingsDirect Research Update 1646612 Jun-01-2016 09 54.pdf	
WR Research Reports 11-07-16 0741.zip	

Verification of Response

Kansas City Power & Light Company

Docket No. 16-KCPE-593-ACQ

The response to BPU Data Request# 3-39, submitted by KCP&L, is covered by this Verification of Response:

I have read the foregoing Information Request(s) and answer(s) thereto and find answer(s) to be true, accurate, full and complete, and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request(s).

Signed: James P. Gilligan

Title: ASSISTANT TREASURER

Date: 11-14-16

WOLFE RESEARCH

UTILITIES & POWER

Regulateds – Market Weight
Integrateds – Market Weight
IPPs – Market Weight
Gas/Power Infrastructure – Market Overweight

May 31, 2016

GREAT PLAINS ENERGY

(GXP US Equity – $29.18 – Peer Perform)

Plainly not so Great

- **GXP to acquire WR in highly levered cash/stock deal worth $60/sh**
Before the open on Tuesday, GXP announced that it would acquire WR for $60.00/sh ($12.2B) – $51 (85%) in cash and $9 (15%) in GXP stock. GXP management believes the deal to be EPS neutral in 2018 and "significantly accretive thereafter" – citing a long-term EPS growth rate of 6-8% (off 2016 GXP standalone guidance). GXP anticipates permanent financing of approximately 50% debt and 50% equity – a mix of new debt, new equity, equity to WR, and $750M of funding via a convertible preferred.

- **Puzzling decision by GXP given approval and leverage risks**
It's rare to see a small company buy a larger one. GXP expects to maintain its "solid" investment grade credit rating, but we see substantial issues with the leverage in the deal. We believe Missouri may not be supportive of high leverage at the parent, with GXP being 65% levered on a consolidated-basis prior to the conversion of the preferred. The $2.35B public equity issuance is also very risky given the current market environment. We would not rule out some unexpected outcomes such as GXP shareholders voting against the deal or another company looking to acquire GXP.

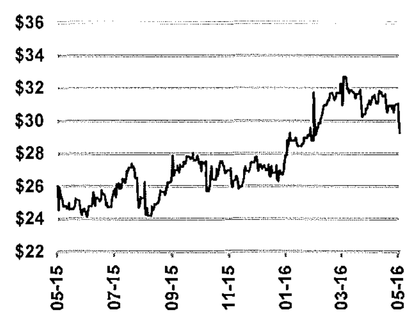
- **We see modest accretion – O&M synergies and cheap debt key drivers**
Our merger math (see Exhibit 7) sees the deal as modestly accretive ($0.05/sh) in 2019E with the assumption that 8% synergies are achieved on combined company O&M and 4% interest rate debt is used for financing. We assume merger savings are shared 50/50 with customers through either the merger approval process or via future rate cases.

- **Deal overhang reflected by today's underperformance**
We have a lot of issues with the WR deal, as it introduces a multitude of risks. We believe GXP's underperformance in excess of 600bps on Tuesday was deserved given the questionable move from a strategic perspective. That said, the stock now trades at the lowest multiple in the group and there is some risk that another buyer comes in to acquire GXP on its own. We remain Peer Perform.

Estimates / Valuation				
(US$)	2016E	2017E	2018E	2019E
EPS	$1.75	$1.83	$1.92	$2.00
Consensus	$1.74	$1.82	$1.92	$2.03
P/E	16.7x	15.9x	15.2x	14.6x
Dividend Per Share	$1.11	$1.18	$1.25	$1.32
Dividend Yield	3.8%	4.0%	4.3%	4.5%

Trading and Fundamental Data	
Price Target	**$31**
Current Price	$29.18
52-Week Range	$24-$33
Market Cap. (MM)	$4,510
Shares Out. (MM)	154.7
Dividend Yield	3.6%
Dividend Payout Ratio	60.4%
ROE	5.8%
Debt to Cap	52.9%
Avg. Daily Vol. (000)	1,641

Price Performance	YTD	LTM
GXP US Equity	7%	12%
Utility Index	12%	9%
S&P 500	3%	-1%



Source: FactSet/Wolfe Research

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Michael P. Sullivan, CFA
(646) 582-9245
MSullivan@WolfeResearch.com

Great Plains Energy Snapshot

Exhibit 1: Financial Summary

Financial Summary	2016E	2017E	2018E	2019E
EPS (ongoing)	$1.75	$1.83	$1.92	$2.00
Diluted Shares Outstanding	155	155	155	155
Dividends Per Share	$1.11	$1.18	$1.25	$1.32
Dividend Yield	3.8%	4.0%	4.3%	4.5%
Dividend Payout Ratio	63%	64%	65%	66%
Equity ratio	48%	48%	50%	49%
FFO/Net Debt	18%	19%	20%	20%
Valuation Metrics				
P/E	16.7x	15.9x	15.2x	14.6x
P/B (ex goodwill)	1.3x	1.2x	1.2x	1.2x
Subsidiary EPS				
Kansas City Power & Light	$1.27	$1.23	$1.33	$1.42
GMO	0.53	0.65	0.66	0.67
Transource	0.01	0.01	0.01	0.01
Parent/Other	(0.06)	(0.06)	(0.08)	(0.10)
Total EPS	$1.75	$1.83	$1.92	$2.00
Utilities				
Earned ROE (includes AFUDC)	8.1%	8.1%	8.4%	8.6%
Average Estimated Rate Base ($M)	$6,851	$7,118	$7,309	$7,490
ROE on Company Rate Base Estimate	8.4%			
Company Rate Base Estimate ($M)	$6,600			

Source: Wolfe Utilities & Power Research

Exhibit 2: Modeling Assumptions

	2016E	2017E	2018E	2019E
Capital Spending by Segment ($M)				
Kansas City Power & Light	$493	$417	$376	$423
GMO	187	163	165	150
Transource	13	13	0	0
Total Capital Spending	$693	$593	$541	$573
Financings ($M)				
Total Equity Issued/(Repurchased)	$6	$6	$6	$6
Total Debt Issued/(Repurchased)	170	75	(125)	275
Sales Forecast				
Kansas City Power & Light	0.7%	0.7%	1.1%	1.0%
GMO	0.7%	0.7%	0.7%	0.7%

Source: Wolfe Utilities & Power Research

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Company description

Great Plains Energy, based in Kansas City, MO, operates two vertically integrated utilities in portions of KS and MO, serving over 840,000 customers. The largest—Kansas City Power & Light (KCP&L)—serves mostly the KC metro area, and the other—KCP&L Greater Missouri Operations (GMO)—serves much of western MO. GXP also pursues competitive transmission projects via a JV with AEP – Transource; though it has had a negligible impact on the company's earnings profile. We see the earnings contribution split as just over two-thirds at KCP&L and the remainder at GMO.

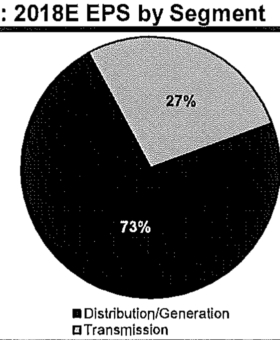
Investment Thesis

GXP is trading at a discount to the regulated group on our 2018 EPS, which still reflects material under-earnings and an overhang tied to the pending WR deal. GXP is working on mitigating that lag, but improved ratemaking mechanisms are necessary as Missouri utility legislation once again failed to pass in 2016. The WR deal is puzzling and presents several risks from both an execution and financing standpoint. Pro forma EPS growth of 6-8% and dividend growth of 5-7% is nice on paper, but involves significant leverage and equity issuances.

Valuation

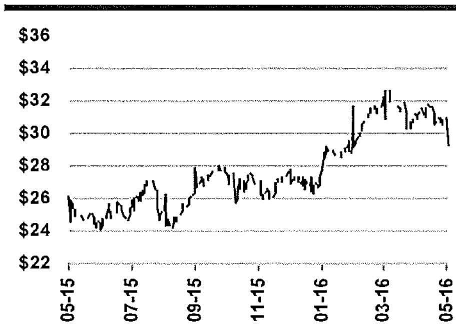
Our $31 PT is based on a half-turn turn discount to our average regulated multiple on 2018E. Downside risks are WR deal execution and financing, and continued regulatory lag in MO/KS. GXP maintains the deal is accretive long-term and remains hopeful that Missouri will eventually consider potential constructive ratemaking legislation that could help alleviate regulatory lag issues that have plagued the company.

Exhibit 3: 2018E EPS by Segment



Source: Wolfe Utilities & Power Research

Exhibit 4: Performance Chart



Source: FactSet

Merger Announcement Highlights

- **$12.2B acquisition.** GXP announced its plans this morning (5/31/16) to acquire WR for $60/sh in a transaction that mixed cash (85%) and stock (15%). The $12.2B deal includes the assumption of $3.6B in debt. WR shareholders will receive $51/sh in cash and $9/sh in GXP stock via an exchange ratio that is capped by a +/- 7.5% collar between 0.2709x ($33.23 GXP price) and 0.3148x ($28.59 GXP price).

- **50% / 50% mix of debt / equity financing.** The plan is to permanently finance the deal with a roughly even mix of debt and equity. This includes $4.4B of new GXP debt, $2.35B of common/convertible equity to the public, with the Ontario Municipal Employees Retirement System (OMERS) providing $750M of funding via a convertible preferred, and $1.3B of equity to WR.

- **According to companies earning neutral in first full-year, accretive thereafter.** GXP sees the deal as being EPS neutral in the first full calendar year after close (2018) and "significantly accretive thereafter". Under our merger math (see Exhibit 7 below) we struggle to find this level of accretion.

- **Raises pro forma long-term EPS growth rate to 6-8%.** Management alluded to the longer-term growth prospects of the combined entity as a key driver in the merger – seeing 6-8% long-term EPS growth (through 2020 off a base of 2016 standalone guidance) and 5-7% dividend growth (with a 60-70% payout target). The long-term growth rate is superior to both GXP (4-5%) and WR (4-6%) as standalone entities. Rate base growth of 3-4%, meaningful merger synergies/savings, and improving regulatory lag are expected to support this growth. GXP also plans to maintain a "solid" investment grade credit rating as a post-merger entity.

- **Subject to KCC approval, as well as GXP / WR shareholders.** The merger is subject to Kansas Corporation Commission (KCC) approval, GXP and WR shareholder sign-off, as well as other customary merger approvals. The Missouri Public Service Commission (MO PSC) is not required to provide merger approval, though it's possible the higher parent leverage created by the deal causes an issue in future rate cases. GXP noted on the call that Kansas has a "no detriment" merger standard and our understanding is that the KCC is required to consider whether the transaction "promotes the public interest." There is a 300-day statutory deadline that will kick-off when WR files for approval this summer. The Algonquin/EDE and Fortis/ITC deals currently require KCC approval, which could be a leading indicator at how the WR sale is treated. GXP/WR expect to close the transaction in the Spring of 2017.

- **Break-up fees.** There is a $380M reverse break-up fee should the deal fail to close. If GXP breaks the merger agreement, the fee is $180M to WR and if WR breaks the agreement, the fee is $280M to GXP. If GXP shareholders vote against the deal (a possibility) – the fee is $80M to WR.

M&A trend continues downward spiral

We view the merger announcement as generally concerning for a variety of reasons. It's rare that a smaller company (GXP has a market cap under $5B) buys a larger one (WR is $8.6B) unless the buyer has executed much better over time, which is not the case here. GXP will lever up their balance sheet to make this accretive in states that have not supported high leverage and GXP is taking on significant equity issuance risk in an uncertain market environment. We believe investors are likely to question why GXP has gone the route of a buyer in M&A, rather than a seller given the huge premiums that Midwestern small/mid-caps like EDE, ITC, and WR have gotten.

Overall, we think this deal signals an increase in M&A riskiness by acquirers, which we believe could devalue the sector over time. We saw this trend in the late 1990s and the end result was not pretty. In addition, we believe the market has spoken – despite promises of earnings accretion and value creation, none of the recent buyers involved in utility M&A transaction have performed well. As seen in Exhibit 5 below, nearly every buyer's stock has underperformed the UTY since their respective deal announcement, with underperformance averaging 5%. We hope management teams start to pay attention and heed this signal as a warning.

Exhibit 5: Relative Performance of Acquirers in Recent Utility Deals

Announcement Date	Seller	Buyer	Buyer Performance	UTY Performance	Relative
2/9/2016	Empire District	Algonquin Power	1%	4%	-3%
2/9/2016	ITC Holdings	Fortis Inc	-1%	5%	-5%
2/1/2016	Questar	Dominion Resources	0%	7%	-7%
10/26/2015	Piedmont Natural Gas	Duke Energy	6%	9%	-3%
9/4/2015	TECO Energy	Emera Inc.	5%	19%	-14%
8/24/2015	AGL Resources	Southern Company	8%	7%	1%
			3%	**8%**	**-5%**

Source: Wolfe Utilities & Power Research, FactSet

Another common theme amongst the recent utility deals has been the degradation of company balance sheets and thus credit agency actions. In response to the transaction, Moody's placed GXP on review for downgrade from its current Baa2 rating, as it sees a likely one-notch downgrade to Baa3 – citing diminished financial flexibility and GXP's higher tolerance for financial risk. Similarly, S&P affirmed its BBB+ credit rating for GXP and revised its outlook to negative from stable for much of the same reasons. To the positive, both Moody's and S&P noted that the merger diversified GXP into a more constructive jurisdiction and added exposure to transmission.

Just when we thought the M&A trend was getting long in the tooth and the deals with big premiums were coming to an end, the metrics of the WR acquisition were even better for the seller than some of the prior deals. The $60/sh price is a 13% premium to Friday's close, but a 36% premium to WR's unaffected stock price prior to a *Bloomberg* story alleged that the company had begun to explore strategic options including a sale back in early March. The two-year forward P/E of 24.0x (on our below consensus 2018E of $2.50) is the highest announcement in the last two years with the exception of PNY (a pure gas utility).

Exhibit 6: Recent Utility Deal Valuations

Announcement Date	Seller	Buyer	States	P/B	P/E FY2*	Premium**
5/31/2016	Westar Energy	Great Plains Energy	KS, MO	2.1x	24.0x	13%
2/9/2016	Empire District	Algonquin Power	AR, KS, MO, OK	1.9x	20.6x	21%
2/9/2016	ITC Holdings	Fortis Inc	FERC, IL, KS, MO, OK, WI	4.2x	18.2x	14%
2/1/2016	Questar	Dominion Resources	ID, UT, WY	3.4x	19.2x	23%
10/26/2015	Piedmont Natural Gas	Duke Energy	NC	3.8x	27.0x	42%
9/4/2015	TECO Energy	Emera Inc.	FL, NM	2.4x	21.7x	31%
8/24/2015	AGL Resources	Southern Company	GA, IL, NJ, MD, VA, TN, FL	2.0x	20.9x	38%
2/25/2015	UIL Holdings	Iberdrola USA	CT, MA	2.1x	19.7x	25%
12/3/2014	Hawaiian Electric	NextEra Energy	HI	1.9x	19.7x	19%
4/30/2014	Pepco Holdings	Exelon Corp.	DE, MD, DC, NJ	1.6x	19.2x	20%
Electrics Average				**2.3x**	**20.4x**	**20%**
LDCs Average				**3.1x**	**22.4x**	**34%**

Source: Wolfe Utilities & Power Research, company reports
*FY2 P/E = 2 years forward from deal announcement date
**Premium to close price the day prior to merger announcement
***HE multiples exclude Bank

Given the obvious concerns of the merger and the initial stock reaction, we wonder if GXP shareholders will vote in favor of the deal. Additionally, given GXP's now depressed stock price, we wonder if another company attempts to acquire GXP as a standalone entity and leaves WR stranded. Finally, we see the 6.5% gross unadjusted arbitrage spread as largely unreflective of the risk associated with the deal, particularly with regards to approvals and leverage.

Merger Math – Accretion tough to come by

We provide our detailed merger model in Exhibit 7 on the following page. Using our own EPS estimates for both GXP and WR – we see the deal as only modestly accretive by 2019 – implying only 6% EPS growth off the midpoint of GXP's 2016 guidance range ($1.65-1.80) and at the low-end of the 6-8% long-term CAGR management gave. Furthermore, the earnings accretion is almost entirely due to leverage and we question the limited amount of valuation creation embedded in this deal. Our key assumptions are as follows:

- 8% synergies/savings on combined company O&M with 50% being shared with customers either via the merger approval process or in future rate cases.
- Issuance of $4.4B of new GXP debt at 4% interest. Contribution of $750M in convertible preferred stock at a 7.25% coupon. GXP stock issuance at $29/sh.
- Entire $2.35B of expected public market equity issuance is common equity.

Key sensitivities:

- Every 5% of additional O&M synergies/savings = $0.07-0.08/sh accretion
- Every $1 increase/decrease in GXP stock price = $0.03/sh accretion/dilution
- $750M OMERS conversion = $0.20/sh equity dilution entirely offset by 7.25% interest savings
- $750M OMERS conversion = 3.5% of lower leverage (expected in 2020).

Exhibit 7: Accretion/Dilution Merger Analysis

Pro Forma Merger Model ($MM, Except per Share Data)	2016E	2017E	2018E	2019E		
GXP Net Income*	$270	$284	$298	$310		
GXP EPS*	$1.75	$1.83	$1.92	$2.00		
WR Net Income*	$342	$346	$352	$380		
WR EPS*	$2.44	$2.46	$2.50	$2.70		
Total Net Income	**$613**	**$630**	**$649**	**$691**		
					Total O&M	
Synergies (8% O&M / 50% shared)	$34	$34	$34	$34	1,305	
Total Earnings w/ Synergies	**$647**	**$664**	**$683**	**$724**		
Premium to Close Price		$52.92	$60.00	$60.00	13.38%	
WR Shares Outstanding			142	142		
Total Purchase Price			**$8,501**	**$8,501**		
Equity for Deal ($1.3B to seller + $2.35B GXP issue)			$3,351	$3,351	39%	
Debt for Deal ($4.4B + $750M convertible preferreds)			$5,150	$5,150	61%	
Equity Issuance			**$3,351**	**$3,351**		
GXP Price			$29.00	$29.00		
Shares Issued			**116**	**116**		
					Interest	Tax Rate
New GXP Debt Interest Cost			($114)	($114)	4%	35%
OMERS Convertible Preferred Interest Cost			($54)	($54)	7.25%	
Total Interest Cost			**($169)**	**($169)**		
Pro-Forma						
Net Income			*$514*	*$556*	GXP Shares	
Shares Outstanding			271	271	155	
EPS			**$1.90**	**$2.05**		
GXP Standalone EPS			**$1.92**	**$2.00**		
Implied Accretion / (Dilution)			**($0.02)**	**$0.05**		
Balance Sheet						
Standalone Net Debt, Preferreds						
GXP*	$4,279	$4,354	$4,169	$4,384	51.70%	
WR*	$4,064	$4,389	$4,539	$4,689		
Standalone Equity						
GXP*	$3,763	$3,871	$3,983	$4,096	48.30%	
WR*	$3,814	$3,936	$4,055	$4,192		
Pro-Forma						
Net Debt, Preferreds			$13,858	$14,223	64.50%	
Equity			$7,686	$7,827	35.50%	

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*Wolfe Estimate

Source: Wolfe Utilities & Power Research, company reports

Investment Conclusion

GXP now trades at the lowest multiple in the group, after the stock sold-off sharply in reaction to the WR acquisition. Even before the merger announcement, the stock deserved a modest discount given sluggish long-term earnings growth (off minimal rate base growth) and regulatory jurisdictions that have historically been less constructive. Furthermore, regulatory lag at GXP standalone is likely to persist due to the lack of trackers on transmission and property taxes, though the company is seeking to partially offset this via frequent rate case filings after constructive Missouri legislation once again failed to pass. Now the announced WR acquisition adds a meaningful overhang due to the obvious risks – regulatory, financing, and execution. Post-merger EPS growth of 6-8% and dividend growth of 5-7% is above-average, but involves significant leverage and tapping of uncertain equity markets.

Exhibit 8: Regulated Comparables

Company		Current	Current	Mkt Cap	P/E				Div	Div	Payout	Price/	Equity
Name	Ticker	Price	Shares	($M)	2016E	2017E	2018E	2019E	Yield	Growth (E)	Ratio	Book	Ratio
Alliant Energy	LNT	$37.05	227	$8,415	19.6x	18.4x	17.3x	16.5x	3.2%	6.0%	62%	2.2x	49%
Ameren	AEE	49.55	243	12,023	20.0x	17.8x	16.4x	15.4x	3.4%	3.5%	68%	1.8x	47%
American Electric	AEP	64.73	491	31,803	18.3x	17.5x	16.2x	15.4x	3.5%	5.0%	63%	1.8x	46%
Avangrid	AGR	42.02	309	12,988	20.6x	18.9x	17.3x	15.7x	4.1%	2.5%	85%	1.0x	73%
CMS Energy	CMS	41.82	280	11,708	20.7x	19.2x	17.9x	16.8x	3.0%	7.0%	62%	2.8x	31%
Con Edison	ED	73.26	303	22,186	18.6x	17.4x	16.6x	16.1x	3.7%	3.0%	68%	1.6x	48%
DTE Energy	DTE	90.68	179	16,271	18.4x	17.3x	16.3x	15.4x	3.2%	5.5%	59%	1.8x	48%
Duke Energy	DUK	78.23	689	53,893	17.4x	16.9x	16.0x	N/A	4.2%	5.0%	73%	1.4x	48%
Edison International	EIX	71.63	326	23,338	18.3x	17.2x	16.6x	15.6x	2.7%	11.0%	49%	2.0x	49%
Eversource Energy	ES	55.24	317	17,523	18.4x	17.3x	16.5x	15.4x	3.2%	6.8%	59%	1.7x	50%
Great Plains Energy	GXP	29.18	155	4,515	16.7x	15.9x	15.2x	14.6x	3.6%	6.8%	60%	1.2x	47%
NiSource	NI	23.86	317	7,564	22.0x	20.9x	19.7x	18.6x	2.6%	5.0%	57%	1.9x	40%
PG&E	PCG	60.08	496	29,802	15.9x	16.3x	15.5x	14.7x	3.0%	0.0%	48%	1.8x	49%
Pinnacle West	PNW	73.59	111	8,179	18.4x	17.4x	16.7x	16.1x	3.4%	4.7%	62%	1.8x	53%
Portland General	POR	41.18	89	3,661	19.6x	17.1x	16.7x	16.3x	3.1%	7.0%	61%	1.6x	51%
PPL Corp.	PPL	38.54	677	26,089	16.4x	15.8x	15.3x	14.8x	3.9%	4.7%	63%	2.7x	33%
SCANA	SCG	69.91	143	9,991	17.8x	16.6x	15.7x	15.1x	3.3%	3.3%	58%	1.8x	44%
Southern Company	SO	49.44	939	46,402	17.5x	16.6x	16.0x	15.7x	4.5%	3.6%	79%	2.2x	42%
Westar Energy	WR	56.33	142	7,981	23.1x	22.9x	22.5x	20.8x	2.7%	5.0%	62%	2.2x	50%
WEC Energy Group	WEC	60.14	316	18,983	20.5x	19.3x	18.2x	17.2x	3.3%	6.0%	68%	2.2x	47%
Xcel Energy	XEL	41.37	508	21,014	18.6x	17.6x	16.8x	16.1x	3.3%	6.0%	61%	2.0x	43%
Average					18.9x	17.8x	16.9x	16.1x	3.4%	5.0%	63%	1.9x	47%

Source: Wolfe Utilities & Power Research, FactSet

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Price Chart with Ratings and Target Price History

Note: OP = Outperform; PP = Peer Perform; UP = Underperform

Wolfe Research, LLC Fundamental Valuation Methodology:

Company:	Fundamental Valuation Methodology:
GXP US Equity	Forward P/E

Wolfe Research, LLC Fundamental Recommendation, Rating and Target Price Risks:

Company:	Risks That May Impede Achievement of the Recommendation, Rating or Target Price:
GXP US Equity	Economy, regulatory outcomes, costs

Wolfe Research, LLC Research Disclosures:

Company:	Research Disclosures:
GXP US Equity	None

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J.P.Morgan

North America Equity Research
29 September 2016

GXP/WR

GXP Shares Continue Discounting Regulatory Hurdles; Updating Pro-forma Estimates

GXP, GXP US
Neutral
Price: $27.75

Price Target: $30.00

WR, WR US
Neutral
Price: $56.73

Price Target: $60.00

Utilities and Power

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We are adjusting our standalone WR and GXP forecasts as well as our pro-forma model following the $2.2Bn common and preferred equity offerings and GMO rate case settlement earlier this week. We have analyzed the impact of various debt costs and synergy levels on earnings, and continue to see dilutive 2017-18 results. Guided 2020 EPS does look achievable, but the need to navigate potential MO regulatory pushback is especially important given the role of synergies and future major rate cases in deal accretion. We continue to see these risks as adequately priced into shares and are maintaining our N rating on GXP.

- **Expect near-term dilution even following locking up of low-cost financing:** This week's equity deals together with the early June issuance of interest rate swaps lock in capital costs and take nearly all deal financing risk off the table in one of the biggest utility deals in recent years. In our base case we expect the deal to be 13c dilutive in 2018 based on our pro-forma model, even assuming a low 3.2% average debt cost weighted towards shorter term 5- and 10-year durations (see table 3 for our pro-forma estimates).

- **Post-deal regulatory landscape still key:** Rate cases in all MO and KS jurisdictions are expected to be filed throughout 2018 with historic test years, delaying the benefit of needed rate relief and synergy realization until ~2019. These factors are of particular importance to the story given a lack of rider recovery and elevated leverage following the close. Importantly, we do not see any deal accretion being created without synergies in the period through 2019.

- **2020 targets achievable, but stock pricing in appropriate risk:** The bottom end of 2020 management guidance implies GXP shares trade at a 14% discount to peers (see table 1). But given what looks to be an aggressive underlying $200MM synergy target, regulatory hurdles and a historical stock discount to peers we see less upside on a risk-adjusted basis. We see any constructive agreement coming out of MO regarding the merger, future rate relief and the sanctity of op-co capital structure as a positive. However, the story will otherwise require patience to play out given the back-weighted nature of growth, in our opinion.

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Equity Ratings and Price Targets

Company	Ticker	Mkt Cap ($ mn)	Price ($)	Rating Cur	Rating Prev	Price Target Cur	Price Target Prev
Great Plains Energy	GXP US	4,285.01	27.75	N	n/c	30.00	31.00
Westar Energy Inc	WR US	8,055.25	56.73	N	n/c	60.00	n/c

Source: Company data, Bloomberg, J.P. Morgan estimates. n/c = no change. All prices as of 29 Sep 16.

See page 11 for analyst certification and important disclosures.

2020 targets achievable, but stock pricing in appropriate risk

We see long-term management pro-forma guidance of $2.08-2.45 by 2020 as achievable, and note GXP shares are trading at a sizeable discount to peers even at the low end of this range. However, given a large synergy target, regulatory risk, and a historical stock trading discount to peers we see less risk-adjusted upside potential.

Our estimated 2020 EPS base case (derived in Table 2) is within the guidance range even assuming no organic investment growth. We do include ~$125M in total synergies and a roll off of interest expense associated with the mandatory convertible preferred shares offset by an increase in share count.

Table 1: Implied Discount to Peers off 2020 EPS Guidance

	Low	High
2020 Guidance	2.08	2.45
Regulated Electric P/E Multiple, 2017	17.9	17.9
Implied Value (late 2019)	37.27	43.90
Discounted Value (to Today)	31.74	37.38
Current Stock Price (as of 9/29/16)	27.75	27.75
Implied Discount to Peers	*14%*	*35%*

Source: Company reports, Bloomberg. (Priced as of 9/29/16)

Table 2: JPM 2020e Earnings Walk (Base Case)

2019e Net Income	**548**
Add: Incremental Synergies	32
Add: Preferred Interest Expense, Tranche 2[1]	45
Add: Preferred Interest Expense, OMERS[2]	27
2020e Net Income	**652**
2020e Share Count, Avg	300
2020e EPS, (excluding organic investment)	**2.17**
Implied 2019-20 EPS Growth	**4.5%**

Source: J.P. Morgan estimates.
[1]Tranche 2 of the mandatory convertible preferred shares will convert at the end of Q3'19, this is the incremental benefit for the reduction of 9 months of associated interest
[2]OMERS's mandatory convertible preferred shares will convert at the end of 1H'19, this is the incremental benefit for the reduction of 6 months of associated interest
All amounts in $MM except for per share amounts and implied growth.

Our published EPS forecasts remain applicable to the standalone operations, we have refreshed our full proforma model and provide these estimates in Table 3. These estimates are based off of our standalone operating assumptions and the full impact of incremental transaction financing and synergies.

Our base case scenario is dilutive in 2018 and slightly accretive in 2019 and relies on a weighted average cost of transaction related debt of 3.2% and $75MM in pre-tax synergies by 2019. Our scenario analysis shows that without any synergies, our base case is reduced by $0.06 in 2018 and $0.19 in 2019. Alternatively, we calculated that in an extreme scenario of MO utility capital structure look-thru to the consolidated GXP company, earnings could be materially impacted. Assuming an allowed equity layer of 40% for MO Operations versus current authorized equity layers of 50-52%, we see a reduction of $0.15 in both 2018 and 2019.

Table 3: Accretion/Dilution Scenario Analysis

EPS Estimates	2018	2019
Standalone GXP	1.75	2.04
Standalone WR	2.48	2.73
Pro-forma Scenarios		
Bull	**1.75**	**2.28**
Accretion (Dilution)	-	*0.24*
Base	**1.62**	**2.08**
Accretion (Dilution)	*(0.13)*	*0.04*
Bear	**1.49**	**1.87**
Accretion (Dilution)	*(0.26)*	*(0.17)*
Alternative Scenarios		
Base, no synergies	1.56	1.89
Base, equity layer cut[1]	1.47	1.93
Guidance	**EPS CAGR**	**Implied 2019 EPS[2]**
GXP Standalone	4-5% off 2015 Base	1.86-2.08
GXP-WR Pro-forma	6-8% off 2015 Base	1.97-2.27

Source: J.P. Morgan estimates.
[1]Scenario assumes a full look through to the Holding Company at 40% equity for the MO operations vs 50-52% current authorized; [2]Guidance has not been provided for 2019, this number uses the management provided 2015-2020 EPS CAGR to calculate an estimate for 2019 guidance.

Table 4: Bull, Base, and Bear Case Assumptions

Scenario	Debt Rate	2018 Synergies[1]	2019 Synergies[1]
Bull	2.7%	$50	$125
Base	3.2%	$25	$75
Bear	3.7%	-	$25

Source: J.P. Morgan estimates.
For Cost of Debt Detail, See Table 5. [1]Synergies are Pre-Tax

With equity done, key financing costs locked in

Table 5: Assumed Debt Financing Cost Set in June 2016 via Interest Rate Swaps

Tenure	Risk-Free Rate[1]	Assumed GXP Rate[2]	Assumed Debt Amount ($M)	Incremental Interest ($M)
30 Year	2.6%	4.1%	900	36.5
10 Year	1.7%	3.2%	1,500	48.6
5 Year	1.3%	2.8%	2,000	55.0
Total/Average	**1.7%**	**3.2%**	**4,400**	**140.1**

Source: Bloomberg, J.P. Morgan estimates.
[1]Risk-Free Rates are the respective treasury yields as of June 6, 2016; [2]Assumed GXP Rate adds 150bps to the risk-free rate for all tenures.

With the issuance of approximately $2.14B ($2.08B net of issuance costs) of both common shares and mandatory convertible preferred stock earlier this week, the non-debt deal financing has been completed. We see the planned issuance of $4.4B in new GXP debt as likely to occur in 1H'17, once the deal's regulatory approval process has largely completed and deal completion is largely certain.

With management commentary guiding towards shorter duration debt, we assume that ~20% of the issued debt would be long-term, 30 year debt; ~34% would be shorter-term, 10 year debt; with the remaining 45% being 5 year debt. The incremental debt interest is the last undetermined financing cost, but we see debt issued by BBB+ issuers like GXP as likely to be priced 150bps above the risk free rate of early June (when GXP entered into four interest rate swaps), locking in an approximate blended rate of 3.2%.

Awaiting next step in MO, KS targeting Q2'17 final decision

As of September 27, GXP had filed for deal approval from all relevant regulatory agencies, with the exception of the FCC; however, Missouri PUC Staff has claimed that the PUC also has jurisdiction over the merger—a claim GXP disputes. GXP is currently in negotiations with MO PUC Staff to prevent a formal merger proceeding which may potentially last 200+ days based on the precedents set by the Algonquin-Edison Electric and Laclede (Now Spire)-Missouri Gas Energy transactions.

Additionally in August, the KCC reaffirmed standards for mergers in order to "promote the public interest" in the state vs. a "no detriment" standard as seen in Missouri. In addition to evaluating the effect of the transaction on consumers, the commission will also look to evaluate the effect on the environment and the overall community. Kansas has a statutory 300-day expiration clause which grants automatic approval after expiration, so we expect a decision to be reached in this case before April 24, 2017.

NRC Approval

Due to the transfer of ownership of a nuclear asset, approval will also have to be received from the Nuclear Regulatory Commission (NRC). While this approval is not normally viewed as contentious, it is time intensive, with previous approvals requiring ~300 days, which would imply it may be one of the later approvals at around April-May 2017 (vs. the company's expectation of Q1'17).

Minor conditions could eliminate future MO capital structure risk

The amount of pro-forma leverage raises natural concerns over the sanctity of the utility operating company capital structure in both jurisdictions and it is crucial that holding company/operating company dividing line remain intact. Despite the potential for challenges in both states, we feel the risk is relatively low given a lack of specific capital structure challenges to numerous similar recent deals completed or pending in MO. Relatively simple ring-fencing provisions at the utility level may be enough to satisfy intervenor concerns, for example.

We note the only example of a look through to the holding company of which we are aware was GXP's 2008 purchase of Aquila's MO assets. In this instance regulators used the Holdco capital structure for ratemaking purposes, but we note the hold-co was in a better financial position and actually supported the utility. In KS, recently outlined merger approval standards indicated the "financial condition" of the pro-forma entity versus standalone company is one factor considered in the approval process.

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General rate case test years, timing key to deal value

After this week's approval of GMO's rate case settlement, GXP's regulatory plan is progressing, with only KCP&L MO's $62.9M rate case, filed in July, left outstanding. However, GXP plans to file an abbreviated rate case by November 2016 for KCP&L KS to true-up the cost for the La Cygne project that went into service last year. WR also intends to file an abbreviated rate case in October to reflect $120M of new investment (with new rates going into effect mid-2017).

Given WR's significant new wind investments and loss of ~$20M in tax credits on legacy assets, WR will need to file for a rate case in late spring of 2018 with a test year of 2017 for rates to go into effect early 2019. While GXP has not disclosed detail into its next round of rate cases, August's amended proxy shows that it too intends to file in all three jurisdictions (GMO, KCP&L MO, and KCP&L KS) in 2018, presumably with a 2017 test year, in order to continue addressing regulatory lag. These rates would go into effect in approximately 2019 after a typical regulatory time frame of 10-11 months in Kansas and 8-9 months in Missouri.

Synergy estimates appear large, even for adjacent utilities

Table 6: Announced Projected Synergies for Comparable M&A Transactions

Close Date	Buyer	Target	Target O&M	Annual Savings	O&M Savings as % of Target O&M
9/1/2013	Laclede Group	Missouri Gas Energy	117	31	26%
9/4/2014	Teco	New Mexico Gas Company	80	20	25%
3/31/2016	Exelon Corp	Pepco Holdings	924	130	14%
	Average				22%
TBD	**Great Plains**	**Westar**	**599**	**200**	**33%**

Source: Company reports.
Savings may include CapEx spending and may not be directly comparable.

While we do believe that this deal will be able to harvest sizeable synergies, using previously announced savings from M&A transactions, we view the ~34% of savings of WR's 2016e O&M expense implied by the announced $200M in targeted savings as above any other announced level of synergies. This elevated level may stem from the fact that GXP and WR have adjacent footprints, co-own a number of generating stations (22% of GXP's 2016e capacity is co-owned with WR), and some of the savings may be in reduced capital expenditures. In our base pro-forma model, we assume cost savings of ~$25M in 2018 and ~$100M by 2019 (only 4% and 12.5% of 2016e O&M levels), the timing of which is largely influenced by the intended rate case proceedings throughout 2018.

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Table 7: Electric and Gas Merger Transactions 2010 - Present

Acquirer Name	Seller Name	Announcement Date	Completion Date	Enterprise Value ($mn)	Consideration	EV/ EBITDA	NTM Forward P/E	Announced Premium	Day Before Premium
Nextera Energy, Inc	Oncor Electric Delivery Company	7/29/2016	Pending	18,700	Cash/ Stock				
Great Plains Energy Inc.	Westar Energy, Inc.	5/31/2016	Pending	12,200	Cash/ Stock	13.8	24.7		13%
Algonquin Power	Empire District Electric Company	2/9/2016	Pending	2,400	Cash	10.5	22.8	21% (prior trading day)	21%
Fortis Inc	ITC Holdings Corp.	2/9/2016	Pending	11,300	Cash/ Stock	13.9	21.3	37% (30 day vol weighted avg)	14%
Emera Incorporated	TECO Energy, Inc.	9/4/2015	7/1/2016	10,400	Cash	11.5	24.2		31%
Iberdrola USA	UIL Holdings	2/26/2015	12/16/2015	4,760	Cash/ Stock	11.4	20.4	25% (prior trading day)	
Nextera Energy, Inc	Hawaiian Electric Industries	12/3/2014	Rejected	4,300	Stock	8.2	17.5	21% (20 day vol weighted avg)	19%
Macquarie Infrastructure, BC Investment, Manulife Financial	Cleco Corporation	10/20/2014	4/13/2016	4,700	Cash	10.0	21.8	15% (20 day vol weighted avg)	15%
Wisconsin Energy Corporation	Integrys Energy Group, Inc.	6/23/2014	6/29/2015	9,073	Cash/ Stock	11.3	20.1	23% (20 day vol weighted avg)	17%
Exelon Corporation	Pepco Holdings, Inc.	4/30/2014	3/23/2016	12,348	Cash	10.2	22.2	28% (20 day vol weighted avg)	20%
Fortis Inc.	UNS Energy Corporation	12/11/2013	8/15/2014	4,310	Cash	9.4	18.3		30%
MidAmerican Energy Holdings	NV Energy, Inc.	5/29/2013	12/19/2013	10,453	Cash	7.8	17.6		23%
Electric Average						10.7	21.0		
Spire Inc	Energy South, Inc	4/26/2016	9/12/2016	344	Cash	11.3			
Dominion Resources, Inc.	Questar Corporation	2/1/2016	Pending	6,089	Cash	9.7	19.0		23%
Duke Energy Corporation	Piedmont Natural Gas Company, Inc.	10/26/2015	10/1/2016	6,700	Cash	14.2	30.5		42%
Southern Company	AGL Resources	8/24/2015	7/1/2016	12,000	Cash	9.8	21.7	36% (20 day vol weighted avg)	
Black Hills Corp.	SourceGas Holdings LLC	7/12/2015	2/12/2016	1,130	Cash	9.5*			
Spire Inc (Laclede Group, Inc.)	Alabama Gas Corporation	4/7/2014	8/13/2014	1,600	Cash	9.6**			
UIL Holdings Corporation	Philadelphia Gas Works operations	3/3/2014	Cancelled	1,860	Cash	11.6			
TECO Energy, Inc.	Continental Energy Systems, LLC	5/28/2013	9/2/2014	950	Cash	11.0			
Spire Inc (Laclede Group, Inc.)	Missouri Gas Energy	12/17/2012	9/1/2013	1,035	Cash	13.8***			
AGL Resources Inc.	Nicor Inc.	12/7/2010	12/9/2011	3,099	Cash/ Stock	6.7	20.5	17% (20 day vol-weighted avg)	12%
Gas Average						10.7	22.9		

Source: Company Documents, JP Morgan
All EBITDA calculations are based on Last Twelve Months prior to deal announcement except
*BlackHills/SourceGas uses 2014A EBITDA, **Spire/Alabama uses 2013A EBITDA; *** Spire/Missouri Gas Energy uses 2012A EBITDA

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Neutral

Company Data	
Price ($)	27.75
Date Of Price	29 Sep 16
52-week Range ($)	32.74-25.44
Market Cap ($ mn)	4,285.01
Fiscal Year End	Dec
Shares O/S (mn)	154
Price Target ($)	30.00
Price Target End Date	31-Dec-17

Great Plains Energy, Inc. (GXP;GXP US)

FYE Dec	2015A	2016E *(Prev)*	2016E *(Curr)*	2017E *(Prev)*	2017E *(Curr)*	2018E *(Prev)*	2018E *(Curr)*	2019E
EPS ($)								
Q1 (Mar)	0.12	0.17A	0.17A	-	-	-	-	-
Q2 (Jun)	0.28	0.55A	0.55A	-	-	-	-	-
Q3 (Sep)	0.82	0.93	0.93	-	-	-	-	-
Q4 (Dec)	0.15	-	-	-	-	-	-	-
FY	1.37	1.78	1.77	1.76	1.74	1.90	1.75	2.04
Bloomberg EPS FY ($)	1.40	-	1.74	-	1.79	-	1.87	-

Source: Company data, Bloomberg, J.P. Morgan estimates. Note: 'Bloomberg' above denotes Bloomberg consensus estimates.

Investment Thesis, Valuation and Risks

Great Plains Energy *(Neutral; Price Target: $30.00)*

Investment Thesis

We appreciate the aggressive balance sheet use by GXP management for the WR deal in a low cost of capital environment, lower regulatory approval risk path and the logical cost and growth synergies. Guided 2020 EPS does look achievable, but the need to navigate potential MO regulatory pushback is especially important given the role of synergies and future major rate cases in deal accretion. We continue to see these risks as adequately priced into shares and are maintaining our N rating on GXP.

Valuation

We are establishing our December 2017 GXP standalone price target of $30/share (vs. our previous December 2016 PT of $31/share), based on a P/E multiple of 15.2x applied to our 2019 EPS estimate. The multiple is based on a discount to the pure regulated peer group, resulting from integrated utility operating risk, and limited jurisdictional and geographic diversity, as well as ongoing general rate case risk in Missouri. Our price target goes from $31/share to $30/share due to a higher earnings estimate offset by a lower peer multiple relative to our prior update. Our published estimates represent GXP standalone operations.

Risks to Rating and Price Target

- Regulated electric transmission and distribution earnings are vulnerable to mild weather as regulated revenues are calculated based on energy volumes sold. Extreme or mild temperatures may cause future earnings to differ materially from our current forecasts, to the upside or downside.
- Regulated electric utilities are subject to federal and state regulations, including determinations of allowed revenues. Changes to the regulatory environments may cause future earnings potentially to differ materially from current expectations, to the upside or downside.
- The company operates a nuclear power plant, exposing it to strict regulatory requirements regarding the operation and maintenance of the plant. Changes to these requirements could significantly increase costs, resulting in a change to our earnings expectations.

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Neutral

Company Data	
Price ($)	56.73
Date Of Price	29 Sep 16
52-week Range ($)	57.25-37.55
Market Cap ($ mn)	8,055.25
Fiscal Year End	Dec
Shares O/S (mn)	142
Price Target ($)	60.00
Price Target End Date	31-Dec-17

Westar Energy Inc (WR;WR US)

FYE Dec	2015A	2016E *(Prev)*	2016E *(Curr)*	2017E *(Prev)*	2017E *(Curr)*	2018E	2019E
Basic EPS ($)							
Q1 (Mar)	0.38	0.46A	0.46A				
Q2 (Jun)	0.47	0.51A	0.51A				
Q3 (Sep)	0.97	1.11	1.12				
Q4 (Dec)	0.28						
FY	2.11	2.48	2.46	2.44	2.47	2.48	2.73
Bloomberg EPS FY ($)	2.20	-	2.44	-	2.51	2.56	-

Source: Company data, Bloomberg, J.P. Morgan estimates. Note: 'Bloomberg' above denotes Bloomberg consensus estimates.

Investment Thesis, Valuation and Risks

Westar Energy Inc *(Neutral; Price Target: $60.00)*

Investment Thesis

Our price target and rating is predicated on an assumption of the transaction with Great Plains Energy closing in 1H17.

Valuation

Our December 2017 price target of $60/share is in line with the merger offer. We see WR shares trading roughly at the deal offering price of $60 through the estimated deal close in Q2'17. Our price target remains consistent with the merger offer. Our published estimates represent WR standalone operations.

Risks to Rating and Price Target

- Failure to raise merger-related debt and equity financing, obtain shareholder approval or obtain regulatory approval could result in the transaction not being consummated and cause a material decline in the share price.
- Regulated electric transmission and distribution earnings are vulnerable to mild weather as regulated revenues are calculated based on energy volumes sold. Extreme or mild temperatures may cause future earnings to differ materially from our current forecasts.
- Regulated electric utilities are subject to federal and state regulations, including determinations of allowed revenues. Positive or negative changes to the regulatory environments may cause future earnings potential to differ materially from current expectations.
- The company owns a stake in a nuclear power plant, exposing it to strict regulatory requirements regarding the operation and maintenance of the plant. Changes to these requirements could significantly increase costs, resulting in a change to our earning expectations.

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Great Plains Energy: Summary of Financials

Income Statement - Annual	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	**2,568**	**2,502**	**2,652**	**2,656**	**2,671**
COGS	(743)	(609)	(585)	(585)	(585)
Gross profit	**1,826**	**1,894**	**2,067**	**2,071**	**2,086**
SG&A	(907)	(938)	(979)	(986)	(1,006)
Adj. EBITDA	**853**	**864**	**978**	**977**	**971**
D&A	(306)	(330)	(343)	(349)	(354)
Adj. EBIT	**547**	**534**	**635**	**628**	**617**
Net Interest	(189)	(199)	(286)	(199)	(185)
Adj. PBT	**359**	**335**	**349**	**429**	**431**
Tax	(116)	(123)	(129)	(158)	(159)
Minority Interest	0	0	0	0	0
Adj. Net Income	**241**	**211**	**275**	**270**	**272**
Reported EPS	1.57	1.37	1.77	1.74	1.75
Adj. EPS	**1.57**	**1.37**	**1.77**	**1.74**	**1.75**
DPS	**0.94**	**1.00**	**1.07**	**1.14**	**1.22**
Payout ratio	59.7%	73.0%	60.3%	65.6%	69.7%
Shares outstanding	153	154	155	155	155

Income Statement - Quarterly	1Q16A	2Q16A	3Q16E	4Q16E
Revenue	**572A**	**671A**	**831**	-
COGS	(136)A	(143)A	(177)	-
Gross profit	-	-	-	-
SG&A	(236)A	(235)A	(255)	-
Adj. EBITDA	**174A**	**267A**	**370**	-
D&A	(85)A	(85)A	(86)	-
Adj. EBIT	**89A**	**181A**	**284**	-
Net Interest	(51)A	(133)A	(51)	-
Adj. PBT	**37A**	**48A**	**233**	-
Tax	(12)A	(17)A	(88)	-
Minority Interest	0A	0A	0	-
Adj. Net Income	**26A**	**86A**	**144**	-
Reported EPS	0.17A	0.55A	0.93	-
Adj. EPS	**0.17A**	**0.55A**	**0.93**	-
DPS	**0.26A**	**0.26A**	**0.26**	-
Payout ratio	156.5%A	47.5%A	28.2%	-
Shares outstanding	155A	155A	155	-

Balance Sheet & Cash flow statement	FY14A	FY15A	FY16E	FY17E	FY18E
Cash and cash equivalents	13	11	0	0	0
Accounts receivable	331	323	386	386	386
Other current assets	375	330	366	395	422
Current assets	**719**	**664**	**752**	**781**	**808**
PP&E	8,280	8,662	8,967	9,197	9,384
Other non current assets	1,477	1,412	1,429	1,343	1,258
Total assets	**10,476**	**10,739**	**11,147**	**11,321**	**11,450**
Short term borrowings	134	153	274	274	274
Payables	388	353	263	263	263
Other short term liabilities	548	410	796	919	855
Current liabilities	**1,071**	**916**	**1,334**	**1,456**	**1,392**
Long-term debt	3,488	3,745	3,496	3,296	3,246
Other long term liabilities	2,292	2,382	2,553	2,712	2,871
Total liabilities	**6,851**	**7,043**	**7,383**	**7,464**	**7,510**
Shareholders' equity	3,625	3,696	3,764	3,858	3,940
Minority interests	-	-	-	-	-
Total liabilities & equity	**10,476**	**10,739**	**11,147**	**11,321**	**11,450**
BVPS	-	-	-	-	-
y/y Growth	-	-	-	-	-
Net debt/(cash)	3,609	3,887	3,770	3,570	3,520
Cash flow from operating activities	**698**	**753**	**756**	**834**	**844**
o/w Depreciation & amortization	306	330	343	349	354
o/w Changes in working capital	(47)	13	(96)	(29)	(27)
Cash flow from investing activities	**(780)**	**(734)**	**(682)**	**(580)**	**(541)**
o/w Capital expenditure	(774)	(677)	(642)	(580)	(541)
as % of sales	*30.1%*	*27.1%*	*24.2%*	*21.8%*	*20.3%*
Cash flow from financing activities	**84**	**(20)**	**(43)**	**(277)**	**(189)**
o/w Dividends paid	(146)	(156)	(166)	(177)	(189)
o/w Net debt issued/(repaid)	(13)	262	(1)	(100)	0
Net change in cash	**2**	**(2)**	**31**	**(23)**	**114**
Free cashflow to firm	**52**	**202**	**294**	**380**	**420**
y/y Growth	*(75.0%)*	*287.6%*	*45.3%*	*29.3%*	*10.5%*

Ratio Analysis	FY14A	FY15A	FY16E	FY17E	FY18E
Gross margin	71.1%	75.7%	77.9%	78.0%	78.1%
EBITDA margin	33.2%	34.5%	36.9%	36.8%	36.3%
EBIT margin	21.3%	21.3%	24.0%	23.6%	23.1%
Net profit margin	9.4%	8.4%	10.4%	10.2%	10.2%
ROE	6.8%	5.8%	7.4%	7.1%	7.0%
ROA	2.4%	2.0%	2.5%	2.4%	2.4%
ROCE	5.1%	4.6%	5.3%	5.3%	5.2%
SG&A/Sales	35.3%	37.5%	36.9%	37.1%	37.6%
Net debt/equity	99.6%	105.2%	100.2%	92.6%	89.3%
P/E (x)	17.7	20.3	15.7	15.9	15.8
P/BV (x)	-	-	-	-	-
EV/EBITDA (x)	9.9	10.3	9.1	9.0	9.1
Dividend Yield	3.4%	3.6%	3.9%	4.1%	4.4%
Sales/Assets (x)	0.3	0.2	0.2	0.2	0.2
Interest cover (x)	4.5	4.3	3.4	4.9	5.2
Operating leverage	(235.7%)	93.9%	318.6%	(680.2%)	(312.0%)
Revenue y/y Growth	5.0%	(2.6%)	6.0%	0.2%	0.6%
EBITDA y/y Growth	(6.2%)	1.3%	13.2%	(0.1%)	(0.6%)
Tax rate	32.3%	36.7%	36.9%	37.0%	37.0%
Adj. Net Income y/y Growth	(16.9%)	(12.4%)	29.9%	(1.6%)	0.6%
EPS y/y Growth	(17.2%)	(12.8%)	29.8%	(1.6%)	0.6%
DPS y/y Growth	5.9%	6.7%	7.1%	7.0%	7.0%

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data).Fiscal year ends Dec

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Westar Energy Inc: Summary of Financials

Income Statement - Annual	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	**2,602**	**2,459**	**2,538**	**2,573**	**2,620**
COGS	(924)	(790)	(718)	(723)	(727)
Gross profit	**379**	**1,680**			
SG&A	(618)	(581)	**(599)**	**(601)**	**(622)**
Adj. EBITDA	**943**	**941**	**1,056**	**1,080**	**1,102**
D&A	(286)	(311)	(340)	(354)	(364)
Adj. EBIT	**657**	**631**	**716**	**727**	**738**
Net Interest	(183)	(177)	(160)	(167)	(174)
Adj. PBT	**474**	**454**	**557**	**559**	**564**
Tax	(151)	(152)	(192)	(193)	(195)
Minority Interest	(9)	(10)	(15)	(15)	(15)
Adj. Net Income	**312**	**291**	**349**	**351**	**354**
Reported EPS	2.40	2.11	2.46	2.47	2.48
Adj. EPS	**2.40**	**2.11**	**2.46**	**2.47**	**2.48**
DPS	**1.40**	**1.44**	**1.52**	**1.58**	**1.64**
Payout ratio	58.3%	68.2%	61.8%	64.0%	66.2%
Shares outstanding					-

Income Statement - Quarterly	1Q16A	2Q16A	3Q16E	4Q16E
Revenue	**569A**	**621A**	**777**	
COGS	(161)A	(174)A	(223)	
Gross profit	**1,680A**	**1,680A**	**1,680**	
SG&A	(134)A	(161)A	(146)	
Adj. EBITDA	**231A**	**241A**	**372**	**213**
D&A	(84)A	(84)A	(85)	-
Adj. EBIT	**148A**	**156A**	**286**	**213**
Net Interest	(40)A	(40)A	(39)	-
Adj. PBT	**107A**	**117A**	**247**	**213**
Tax	(39)A	(41)A	(84)	
Minority Interest	(3)A	(4)A	(4)	
Adj. Net Income	**65A**	**72A**	**159**	**213**
Reported EPS	0.46A	0.51A	1.12	-
Adj. EPS	**0.46A**	**0.51A**	**1.12**	**-**
DPS	**0.38A**	**0.38A**	**0.38**	
Payout ratio	82.4%A	74.8%A	33.9%	-
Shares outstanding	-	-	-	-

Balance Sheet & Cash flow statement	FY14A	FY15A	FY16E	FY17E	FY18E
Cash and cash equivalents	5	3	0	0	0
Accounts receivable	-	-	-	-	-
Other current assets	696	714	750	767	784
Current assets	**701**	**717**	**750**	**767**	**784**
PP&E	8,441	8,793	9,540	10,059	10,526
Other non current assets	1,205	1,195	1,165	1,165	1,165
Total assets	**10,347**	**10,706**	**11,454**	**11,992**	**12,475**
Short term borrowings	258	250	426	734	867
Payables	-	-	-	-	-
Other short term liabilities	592	587	520	520	520
Current liabilities	**850**	**837**	**945**	**1,253**	**1,387**
Long-term debt	3,382	3,302	3,624	3,499	3,499
Other long term liabilities	2,814	2,895	3,049	3,242	3,436
Total liabilities	**7,046**	**7,034**	**7,618**	**7,994**	**8,322**
Shareholders' equity	3,295	3,657	3,817	3,978	4,133
Minority interests	6	15	20	20	20
Total liabilities & equity	**10,347**	**10,706**	**11,454**	**11,992**	**12,475**
BVPS					-
y/y Growth	-	-	-	-	-
Net debt/(cash)	3,635	3,549	4,050	4,232	4,366
Cash flow from operating activities	**824**	**715**	**820**	**896**	**911**
o/w Depreciation & amortization	286	311	340	354	364
o/w Changes in working capital	27	(109)	(111)	(17)	(17)
Cash flow from investing activities	**(839)**	**(650)**	**(1,144)**	**(874)**	**(831)**
o/w Capital expenditure	(852)	(700)	(1,152)	(874)	(831)
as % of sales	*32.7%*	*28.5%*	*45.4%*	*34.0%*	*31.7%*
Cash flow from financing activities	**14**	**(66)**	**71**	**(330)**	**(215)**
o/w Dividends paid	(172)	(186)	(209)	(225)	(235)
o/w Net debt issued/(repaid)	113	(99)	435	(125)	0
Net change in cash	**0**	**(1)**	**(252)**	**(308)**	**(134)**
Free cashflow to firm	**97**	**132**	**(227)**	**132**	**194**
y/y Growth	-	*36.1%*	*(271.8%)*	*(158.1%)*	*47.9%*

Ratio Analysis	FY14A	FY15A	FY16E	FY17E	FY18E
Gross margin	14.5%	68.3%	-	-	-
EBITDA margin	36.3%	38.3%	41.6%	42.0%	42.0%
EBIT margin	25.2%	25.6%	28.2%	28.2%	28.1%
Net profit margin	12.0%	11.8%	13.8%	13.6%	13.5%
ROE	19.0%	8.4%	9.3%	9.0%	8.7%
ROA	6.0%	2.8%	3.2%	3.0%	2.9%
ROCE	12.9%	5.9%	6.2%	5.9%	5.8%
SG&A/Sales	23.7%	23.6%	23.6%	23.4%	23.7%
Net debt/equity	110.1%	96.7%	105.6%	105.9%	105.1%
P/E (x)	23.6	26.9	23.1	23.0	22.9
P/BV (x)	-	-	-	-	-
EV/EBITDA (x)	9.7	9.4	8.8	8.8	8.8
Dividend Yield	2.5%	2.5%	2.7%	2.8%	2.9%
Sales/Assets (x)	0.5	0.2	0.2	0.2	0.2
Interest cover (x)	5.2	5.3	6.6	6.5	6.3
Operating leverage	-	72.6%	422.4%	103.4%	83.1%
Revenue y/y Growth	-	(5.5%)	3.2%	1.4%	1.8%
EBITDA y/y Growth	-	(0.2%)	12.2%	2.3%	2.0%
Tax rate	31.9%	33.5%	34.5%	34.5%	34.5%
Adj. Net Income y/y Growth	-	(6.8%)	19.9%	0.6%	0.9%
EPS y/y Growth	-	(12.1%)	16.5%	0.4%	0.5%
DPS y/y Growth	2.9%	2.9%	5.6%	4.0%	4.0%

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data).Fiscal year ends Dec

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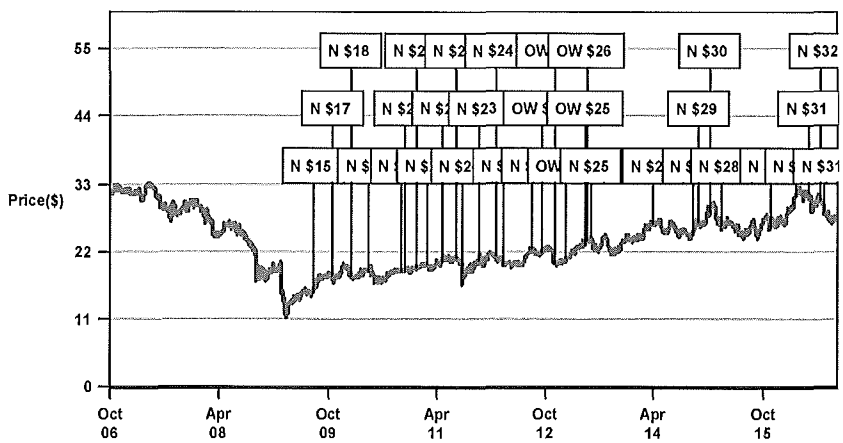
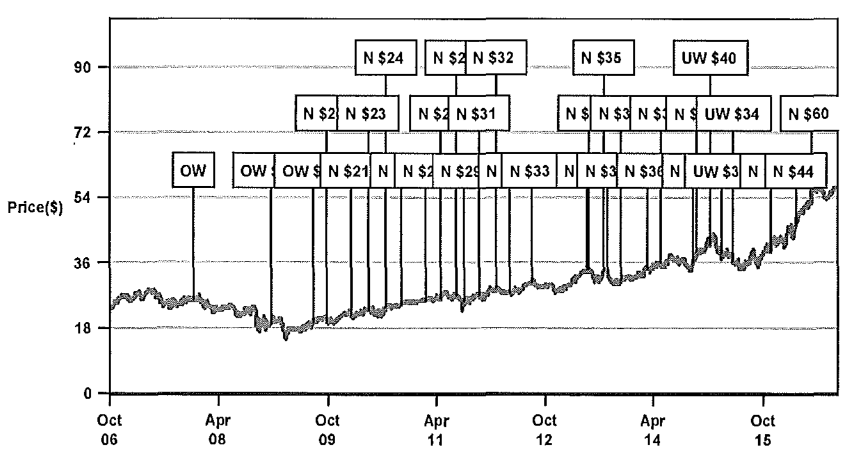
Great Plains Energy (GXP, GXP US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jul 22, 2009.

Date	Rating	Share Price ($)	Price Target ($)
22-Jul-09	N	15.44	15.00
22-Oct-09	N	18.14	17.00
26-Jan-10	N	18.25	18.00
20-Apr-10	N	18.76	19.00
29-Sep-10	N	18.80	23.00
22-Oct-10	N	18.74	24.00
14-Dec-10	N	19.37	21.00
09-Feb-11	N	19.89	22.00
28-Apr-11	N	20.47	23.00
06-Jul-11	N	21.07	24.00
05-Aug-11	N	18.32	20.00
25-Oct-11	N	20.52	23.00
27-Jan-12	N	21.40	24.00
01-Mar-12	N	19.78	20.00
19-Jul-12	N	22.38	23.00
12-Sep-12	OW	22.01	26.00
19-Nov-12	OW	20.05	23.00
10-Jan-13	OW	20.83	24.00
17-Apr-13	OW	23.19	25.00
26-Apr-13	OW	23.74	26.00
16-May-13	N	24.41	25.00
24-Mar-14	N	26.69	26.00
16-Oct-14	N	24.84	27.00
10-Nov-14	N	27.00	29.00
12-Jan-15	N	28.47	30.00
02-Mar-15	N	26.39	28.00
06-Nov-15	N	25.74	27.00
10-Mar-16	N	30.96	30.00
16-May-16	N	31.62	31.00
15-Jul-16	N	30.21	32.00
05-Aug-16	N	28.57	31.00

Westar Energy Inc (WR, WR US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Nov 27, 2007.

Date	Rating	Share Price ($)	Price Target ($)
27-Nov-07	OW	25.75	-
23-Dec-08	OW	18.94	24.00
22-Jul-09	OW	19.34	26.00
24-Sep-09	N	19.48	20.00
26-Jan-10	N	21.59	21.00
20-Apr-10	N	22.64	23.00
22-Jul-10	N	23.51	24.00
04-Oct-10	N	24.42	25.00
31-Jan-11	N	25.50	26.00
26-Apr-11	N	26.30	27.00
06-Jul-11	N	27.19	28.00
17-Aug-11	N	25.53	29.00
25-Oct-11	N	27.05	31.00
27-Jan-12	N	29.02	32.00
29-Mar-12	N	27.72	31.00
19-Jul-12	N	30.75	33.00
26-Apr-13	N	34.40	35.00
09-May-13	N	34.39	34.00
23-Jul-13	N	33.81	35.00
08-Aug-13	N	33.51	36.00
17-Oct-13	N	31.35	34.00

28-Feb-14	N	34.22	36.00
08-May-14	N	35.90	37.00
16-Oct-14	N	35.78	38.00
06-Nov-14	N	39.09	39.00
12-Jan-15	UW	41.17	40.00
02-Mar-15	UW	38.31	37.00
07-May-15	UW	36.20	34.00
06-Nov-15	N	38.88	40.00
11-Mar-16	N	46.43	44.00
01-Jun-16	N	56.33	60.00

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"Other Disclosures" last revised July 9, 2016.

WOLFE RESEARCH

October 2, 2016

GREAT PLAINS ENERGY

(GXP US Equity – $27.29 – Outperform)

Discount difficult to ignore; Upgrade to Outperform

- **Moving past overhangs while continuing to trade at a deep discount**
We are making a valuation call on GXP in the face of diminishing risks to the pending WR merger – upgrading to Outperform from Peer Perform. The stock trades at over a two-turn discount to the group average on standalone fundamentals and we view the deal as EPS-neutral at worst. Last week's equity issuance removed a key overhang, as did the GMO settlement. The environment in Missouri also appears to be improving, as GXP remains in discussions with parties on the merger itself and momentum seems to be building for next year's legislative push to enhance utility regulation.

- **Refining our estimates and lowering PT to reflect lower group multiple**
We're decreasing our estimates in 2016-2018 (see table on right) to reflect a lower than expected rate increase in the GMO settlement. On our unchanged standalone 2019E, we lower our Price Target to $30 from $31 – implying 10% upside. We see the deal as EPS neutral in 2019 – on a lower equity issuance price and lower synergies than GXP assumes (see Exhibit 7). To the extent the deal is accretive in 2019 or our standalone estimates are too low (below consensus and GXP forecast), this only bolsters our valuation call (see Exhibit 8).

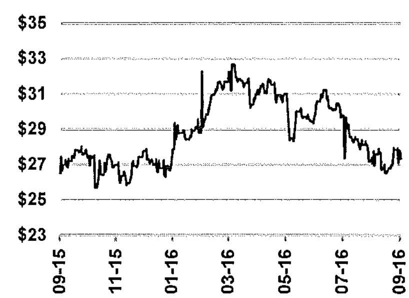
- **Pro forma debt metrics tough to swallow, but stock swoon overdone**
There's no denying the deal features considerable leverage (60% debt-to-capital) that weaken credit metrics (13% FFO/Debt). This is bothersome and has drawn the attention of the ratings agencies. However, we think a full-turn discount to the group is fair for valuation purposes. The stock is also the worst performing regulated in 2016, providing an attractive entry point.

- **Missouri legislation potential is a free upside option**
After a filibuster stymied last spring's legislative push, GXP/AEE are in stakeholder discussions via a MO PSC docket focused on improving utility regulation. In the event that legislation is successful, Missouri stocks could see a re-rating given the traditional view of Missouri as a below average regulatory state, to go along with incremental rate base opportunities. Right now, GXP shareholders are getting this potential positive scenario for free.

Estimates / Valuation				
(US$)	**2016E**	**2017E**	**2018E**	**2019E**
EPS	$1.74	$1.76	$1.80	$2.00
Consensus	$1.73	$1.76	$1.80	$2.05
P/E	15.7x	15.5x	15.2x	13.7x
Dividend Per Share	$1.11	$1.18	$1.25	$1.32
Dividend Yield	4.1%	4.3%	4.6%	4.8%

Trading and Fundamental Data	
Price Target	**$30**
Current Price	$27.29
52-Week Range	$25-$33
Market Cap. (MM)	$4,220
Shares Out. (MM)	154.8
Dividend Yield	3.85%
Dividend Payout Ratio	60.7%
ROE	5.8%
Debt to Cap	52.9%
Avg. Daily Vol. (000)	13,962

Price Performance	YTD	LTM
GXP US Equity	0%	3%
Utility Index	14%	15%
S&P 500	6%	15%



Source: FactSet/Wolfe Research

Key Changes		
(US$)	**Current**	**Previous**
Price Target	$30	$31
2016E EPS	$1.74	$1.75
2017E EPS	$1.76	$1.78
2018E EPS	$1.80	$1.82

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Great Plains Energy Snapshot

Exhibit 1: Financial Summary

Financial Summary	2016E	2017E	2018E	2019E
EPS (ongoing)	$1.74	$1.76	$1.80	$2.00
Diluted Shares Outstanding	155	155	155	155
Dividends Per Share	$1.11	$1.18	$1.25	$1.32
Dividend Yield	4.1%	4.3%	4.6%	4.8%
Dividend Payout Ratio	64%	67%	69%	66%
Equity ratio	48%	48%	49%	49%
FFO/Net Debt	18%	18%	19%	20%
Valuation Metrics				
P/E	15.7x	15.5x	15.2x	13.7x
P/B (ex goodwill)	1.2x	1.1x	1.1x	1.1x
Subsidiary EPS				
Kansas City Power & Light	$1.27	$1.24	$1.34	$1.45
GMO	0.52	0.57	0.53	0.63
Transource	0.01	0.01	0.01	0.01
Parent/Other	(0.06)	(0.06)	(0.08)	(0.10)
Total EPS	$1.74	$1.76	$1.80	$2.00
Utilities				
Earned ROE (includes AFUDC)	8.1%	7.8%	7.9%	8.6%
Average Estimated Rate Base ($M)	$6,851	$7,118	$7,309	$7,490
ROE on Company Rate Base Estimate	8.4%			
Company Rate Base Estimate ($M)	$6,600			

Source: Wolfe Utilities & Power Research

Exhibit 2: Modeling Assumptions

	2016E	2017E	2018E	2019E
Capital Spending by Segment ($M)				
Kansas City Power & Light	$493	$417	$376	$423
GMO	187	163	165	150
Transource	13	13	0	0
Total Capital Spending	$693	$593	$541	$573
Financings ($M)				
Total Equity Issued/(Repurchased)	$6	$6	$6	$6
Total Debt Issued/(Repurchased)	170	75	(25)	175
Sales Forecast				
Kansas City Power & Light	0.7%	0.5%	1.0%	1.0%
GMO	0.5%	1.0%	0.5%	0.7%

Source: Wolfe Utilities & Power Research

Company Description

Great Plains Energy, based in Kansas City, MO, operates two vertically integrated utilities in portions of KS and MO, serving over 840,000 customers. The largest—Kansas City Power & Light (KCP&L)—serves mostly the KC metro area, and the other—KCP&L Greater Missouri Operations (GMO)—serves much of western MO. GXP also pursues competitive transmission projects via a JV with AEP – Transource; though it has had a negligible impact on the company's earnings profile. We see the earnings contribution split as just over two-thirds at KCP&L and the remainder at GMO.

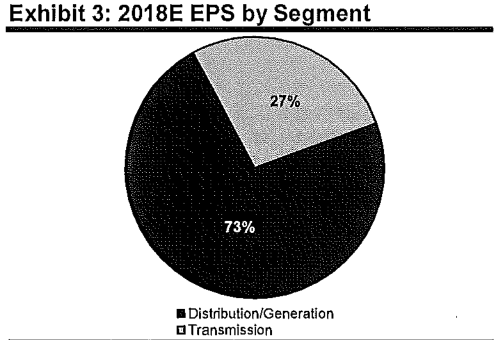
Investment Thesis

GXP is trading at a significant discount to the regulated group on our 2019 EPS, which still reflects material under-earnings and an overhang tied to the pending WR deal. GXP is working on mitigating that lag, which would be aided by improved ratemaking mechanisms in Missouri should utility legislation be successful in 2017. Pro forma EPS growth of 6-8% and dividend growth of 5-7% are quality targets, but the merger also involves significant leverage.

Valuation

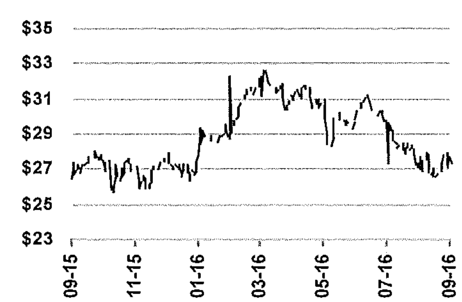
Our $30 PT is based on a full turn discount to the average regulated multiple in 2019. This reflects the pro forma lower quality balance sheet of GXP post-WR merger. Continued regulatory in lag MO will persist absent legislation, but the deal also diversifies GXP away from MO. GXP also has an above average yield and targets pro forma EPS and dividend growth that would exceed peers. That said, the deal comes with execution risk in addition to significant leverage.

Exhibit 3: 2018E EPS by Segment



Source: Wolfe Utilities & Power Research

Exhibit 4: Performance Chart



Source: FactSet

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Investment Conclusion

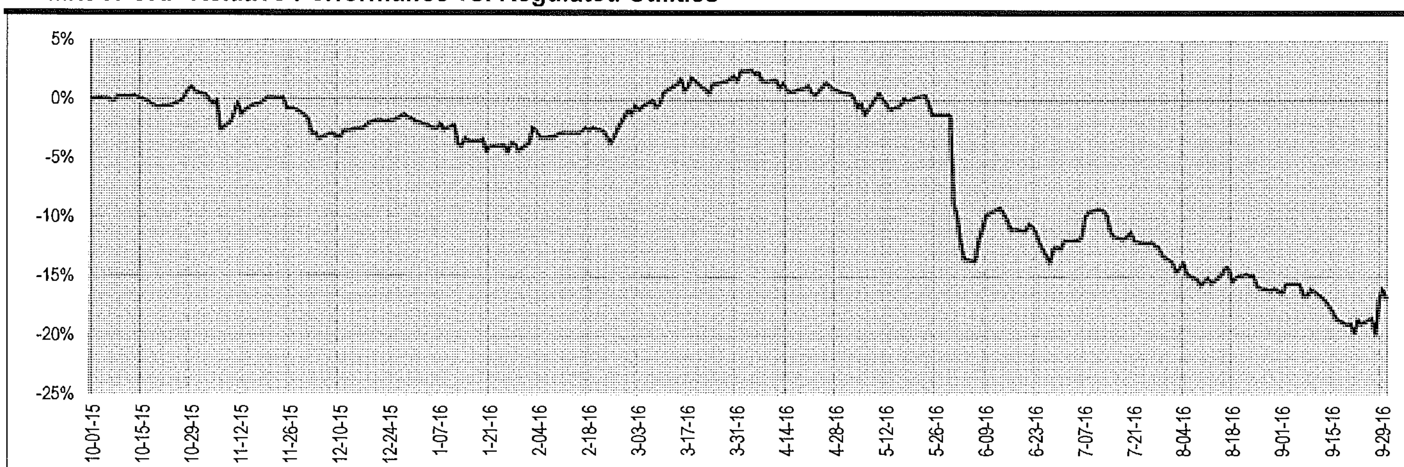
GXP has been trading at the lowest multiple in the group (see Exhibit 5), as the stock continues to be pressured by the overhang of the WR acquisition. The standalone company has sluggish near-term EPS and rate base growth in less constructive regulatory jurisdictions. The merger amplifies earnings growth potential if synergies are realized, but at the cost of a very weak balance sheet due to the significant leverage. That said, the stock has significantly underperformed (worst amongst the regulateds YTD – see Exhibit 6) and risks to the deal (regulatory, financing) have moderated considerably. Our call is primarily on valuation – the stock trades at over a two-turn discount to the group, with the potential for improving regulation in Missouri and post-merger EPS growth of 6-8% and dividend growth of 5-7%.

Exhibit 5: Regulated Comparables

Company		Current	Current	Mkt Cap	P/E				Div	Div	Payout	Price/	Equity
Name	Ticker	Price	Shares	($M)	2016E	2017E	2018E	2019E	Yield	Growth (E)	Ratio	Book	Ratio
Alliant Energy	LNT	$38.31	227	$8,709	20.3x	19.0x	17.9x	17.1x	3.1%	6.0%	62%	2.3x	49%
Ameren	AEE	49.18	243	11,933	19.5x	17.7x	16.4x	15.5x	3.5%	3.5%	67%	1.7x	47%
American Electric	AEP	64.21	492	31,573	18.1x	17.4x	16.1x	15.3x	3.5%	5.0%	63%	1.7x	46%
Avangrid	AGR	41.78	309	12,910	20.5x	18.8x	17.2x	15.6x	4.1%	2.5%	85%	1.0x	73%
CMS Energy	CMS	42.01	280	11,756	20.8x	19.3x	18.0x	16.9x	3.0%	7.0%	62%	2.8x	30%
Con Edison	ED	75.30	304	22,922	19.3x	18.0x	17.2x	16.5x	3.6%	3.0%	69%	1.6x	48%
DTE Energy	DTE	93.67	179	16,808	17.9x	17.8x	16.6x	15.6x	3.3%	5.5%	59%	1.9x	48%
Duke Energy	DUK	80.04	689	55,148	17.3x	17.4x	16.4x	15.5x	4.3%	4.0%	74%	1.4x	47%
Edison International	EIX	72.25	326	23,539	18.5x	17.5x	16.8x	15.8x	2.7%	11.0%	49%	2.0x	48%
Eversource Energy	ES	54.18	317	17,186	18.1x	17.2x	16.6x	15.4x	3.3%	5.8%	60%	1.6x	50%
Great Plains Energy	GXP	27.29	155	4,224	15.7x	15.5x	15.2x	13.7x	3.8%	6.5%	60%	1.2x	46%
NiSource	NI	24.11	317	7,643	22.2x	21.1x	20.0x	18.8x	2.6%	5.0%	57%	1.9x	40%
PG&E	PCG	61.17	504	30,830	16.4x	16.8x	16.0x	15.2x	3.2%	7.5%	52%	1.8x	48%
Pinnacle West	PNW	75.99	111	8,448	19.0x	17.9x	17.3x	16.7x	3.3%	4.7%	62%	1.8x	52%
Portland General	POR	42.59	89	3,787	20.3x	17.7x	17.0x	16.7x	3.0%	7.0%	61%	1.6x	50%
PPL Corp.	PPL	34.57	678	23,442	14.7x	15.9x	15.1x	14.4x	4.4%	4.0%	64%	2.3x	34%
SCANA	SCG	72.37	143	10,343	18.2x	17.5x	16.2x	15.5x	3.2%	3.3%	58%	1.9x	43%
Southern Company	SO	51.30	979	50,208	18.0x	17.1x	16.2x	15.7x	4.4%	3.6%	79%	2.2x	37%
WEC Energy Group	WEC	59.88	316	18,899	20.4x	19.2x	18.1x	17.1x	3.3%	6.0%	68%	2.1x	47%
Xcel Energy	XEL	41.14	508	20,897	18.7x	17.6x	16.8x	16.0x	3.3%	6.0%	62%	2.0x	43%
Average					18.7x	17.8x	16.9x	15.9x	3.4%	5.2%	64%	1.8x	46%

Source: Wolfe Utilities & Power Research, FactSet

Exhibit 6: GXP Relative Performance vs. Regulated Utilities



Source: Wolfe Utilities & Power Research, FactSet

Reasons for the Upgrade

- **Severely discounted valuation becoming difficult to ignore.** On our standalone numbers GXP is trading at over a two-turn discount in 2019. This provides an attractive entry point into a stock with an above-average yield in a defensive sector that lacks many value opportunities right now. Since announcing the deal, the stock has underperformed its peers by over 15% (see Exhibit 6). We believe the stock should trade at closer to a one-turn discount to the regulated group average, given the damaged balance sheet resulting from leverage used to complete the WR merger. Now that financing for the deal is largely in place, we also have a better idea of pro forma merger accretion/dilution and find the deal to be about earnings-neutral in 2019. GXP believes the deal is 5% accretive in 2019 and 10% accretive in 2020 – if this is realized the stock price upside is even greater. However, we have doubts on synergy execution and the equity issuance price was lower than originally anticipated.

Exhibit 7: Accretion/Dilution Merger Analysis

Pro Forma Merger Model ($MM, Except per Share Data)	2016E	2017E	2018E	2019E		
GXP Net Income*	$269	$272	$279	$310		
GXP EPS*	$1.74	$1.76	$1.80	$2.00		
WR Net Income*	$342	$346	$352	$380		
WR EPS*	$2.44	$2.46	$2.50	$2.70		
Total Net Income	**$612**	**$618**	**$631**	**$690**		
					Total O&M	
Synergies (8% O&M / 50% shared)	$34	$34	$34	$34	1,305	
Total Earnings w/ Synergies	**$645**	**$652**	**$665**	**$724**		
Premium to Close Price		$56.73	$59.33	$59.33	5.76%	
WR Shares Outstanding			142	142		
Total Purchase Price			**$8,409**	**$8,409**		
Equity for Deal ($1.3B to seller + $1.6B GXP issue)			$2,409	$2,409	29%	
Debt for Deal ($4.4B + $1.6B convertible preferreds)			$6,000	$6,000	71%	
Equity Issuance			**$2,409**	**$2,409**		
GXP Issuance Price			$26.45	$26.45		
Shares Issued			**91**	**91**		
					Interest	Tax Rate
New GXP Debt Interest Cost			($114)	($114)	4%	35%
OMERS Convertible Preferred Interest Cost			($54)	($54)	7.25%	
Convertible Preferred Interest Cost			($53)	($53)	7.00%	
Total Interest Cost			**($221)**	**($221)**		
Pro-Forma						
Net Income			*$443*	*$493*	GXP Shares	
Shares Outstanding			246	246	155	
EPS			**$1.80**	**$2.00**		
GXP Standalone EPS			**$1.80**	**$2.00**	0%	
Implied Accretion / (Dilution)			**$0.00**	**$0.00**		

Source: Wolfe Utilities & Power Research, company reports
*Wolfe estimates

Exhibit 8: Estimates/Valuation Analysis

Forecasts	2016	2017	2018	2019	2020
Implied by GXP accretion in S-4			1.72	2.14	2.28
Wolfe GXP Pro Forma Accretion			1.80	2.00	
GXP Standalone S-4	1.72	1.72	1.72	2.04	2.08
Wolfe GXP Standalone	1.74	1.76	1.80	2.00	

Valuation	2016	2017	2018	2019	2020
Implied by GXP accretion in S-4			15.9x	12.8x	12.0x
Wolfe GXP Pro Forma Accretion			15.2x	13.6x	
GXP Standalone S-4	15.9x	15.9x	15.9x	13.4x	13.1x
Wolfe GXP Standalone	15.7x	15.5x	15.2x	13.7x	
Regulated Average	18.7x	17.8x	16.9x	15.9x	

Source: Wolfe Utilities & Power Research, company reports

Beyond execution risk, balance sheet metrics are the primary reason why the stock should still trade at a discount. We see the pro forma company at 60% debt-to-capital, which is higher than nearly all peers, and somewhat of a concern considering the size of the company. Further, the debt to fund the deal is being issued at the parent, which could present risks should regulators ever deem it necessary to "look-through" to the consolidated capital structure. That said, we now see this as less of a risk in Missouri given the recent GMO settlement and the potential for GXP to provide assurances such as ring-fencing. Similarly, the debt at the parent as a percentage of total debt (30%) would also be higher than peers and a reason why GXP has been placed on watch for a rating downgrade at the credit rating agencies. Finally, the FFO/Debt metrics of the pro forma company are simply the lowest quality – we see GXP struggling to stay above 13% initially, which is the threshold Moody's has laid out as the floor for remaining investment grade.

Exhibit 9: Balance Sheet Metrics

Balance Sheet					
Standalone Debt, Preferreds					
GXP*	$4,279	$4,354	$4,269	$4,234	51.02%
WR*	$4,064	$4,389	$4,539	$4,689	
Standalone Equity					
GXP*	$3,762	$3,859	$3,951	$4,064	48.98%
WR*	$3,814	$3,936	$4,055	$4,192	
Pro-Forma					
Debt			$13,208	$13,323	61.18%
Equity, Preferreds			$8,312	$8,453	38.82%
Pro-Forma					
Net Debt / EBITDA			6.1 x	5.9 x	
GXP Standalone					
Net Debt / EBITDA			4.3 x	4.0 x	
Pro-Forma					
FFO / Debt			11.3%	11.7%	
GXP Standalone					
FFO / Debt			19.1%	20.2%	

Source: Wolfe Utilities & Power Research, company reports
*Wolfe estimates

- **Potential for settlement with Missouri parties on merger.** GXP continues to work with parties in Missouri over merger jurisdiction and no complaint has been filed, after the MO PSC essentially left the door open for Staff and Office of Peoples Counsel to do so. Our understanding is that concerns around merger jurisdiction and utility-level credit quality will ultimately be addressed in the form on concessions that resemble the EDE merger settlement and possibly ring-fencing assurances. Importantly, the MO PSC has indicated that it does not intend to slow down the transaction approval process.

- **Equity overhang removed.** Last week's announced equity issuance was not unexpected, as management had previously indicated a desire to take capital markets risk off the table shortly after shareholder approval was garnered. The mix of common equity and convertible preferreds was also previously messaged by management. Importantly, GXP got the entire block equity issuance over with in one-shot – removing a big overhang and only pricing at a modest (2.5%) discount to the prior day's close price ($27.16).

- **Other risks mitigated (GMO rate case, shareholder vote, etc.).** Our key focus in the rate case was the potential precedential nature of the MO PSC's decision on capital structure, as usage of the utility-level capital structure would remove an overhang, and usage of the consolidated capital structure would be problematic post-WR merger. Unfortunately, the settlement doesn't provide clarity on this issue, but our sense is that GXP would not have agreed to anything that would negatively impact the deal. The shareholder vote was largely expected to go in favor of the deal, as ISS had recommended approval (Blackrock and Vanguard own 8% each of GXP) and we had not heard any GXP investors openly opposing the deal. Additionally, the Department of Justice recently gave GXP/WR the go-ahead to file for merger approval and trigger the Hart-Scott-Rodino Act, after initially opening an investigation and requesting documents/info.

- **Momentum on Missouri legislation already beginning to build.** Last spring, the MO utilities proposed legislation that would have revamped the regulatory framework, but it was ultimately filibustered. As we head into the 2017 legislative session, we believe momentum will depend on the findings from the MoPSC report on 12/1. As of now, we anticipate proposed legislation to improve utility regulation. Moreover, a new governor will be elected this fall, wiping the slate clean on utility relations with the state's executive branch. In the event that legislation is successful, AEE/GXP could see a re-rating given the traditional view of Missouri as a below average regulatory state, on top of incremental investments by the utilities.

Merger Approval Process

The remaining road to close the deal looks much shorter now that the shareholder votes are complete and GXP has settled its GMO rate case. The company still needs approval from the Kansas Corporation Commission (KCC), where the state has a "net benefit/public interest" standard. That said, Algonquin/Empire Electric were able to reach a settlement with KCC Staff in their pending merger, with the KCC expected to make a decision by year-end. Kansas has a 300-day clock, such that a final decision in the GXP/WR merger is expected before the end of April 2017. GXP also recently completed its filing with the Department of Justice and awaits the expiration of the Hart-Scott-Rodino 30-day window. Other remaining approvals include – FERC, the Nuclear Regulatory Commission (Wolf Creek), and the FCC. GXP anticipates closing the deal in 2Q17, but in the unlikely event that the deal fails, GXP would need to do a massive share buyback and potentially look even more attractive.

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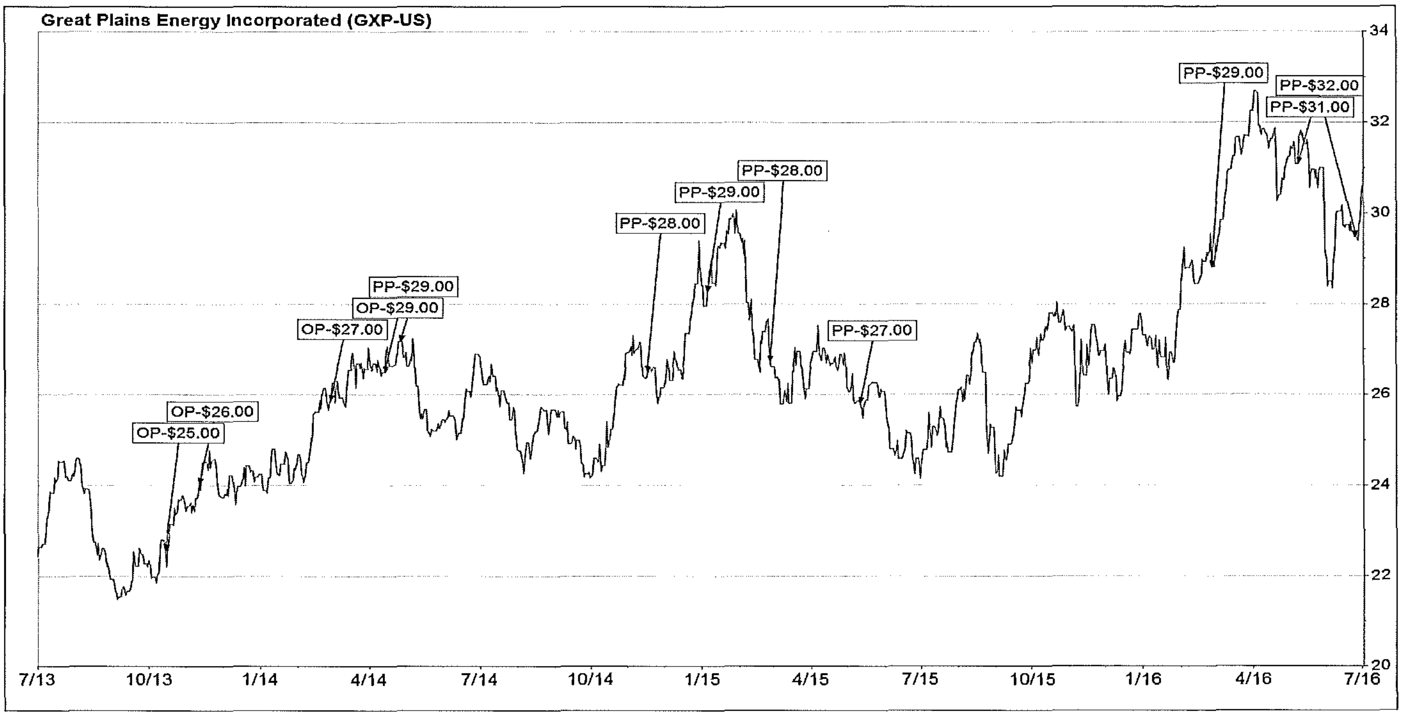
Price Chart with Ratings and Target Price History



Note: OP = Outperform; PP = Peer Perform; UP = Underperform

Wolfe Research, LLC Fundamental Valuation Methodology:

Company:	Fundamental Valuation Methodology:
GXP US Equity	Forward P/E

Wolfe Research, LLC Fundamental Recommendation, Rating and Target Price Risks:

Company:	Risks That May Impede Achievement of the Recommendation, Rating or Target Price:
GXP US Equity	Economy, regulatory outcomes, WR merger execution

Wolfe Research, LLC Research Disclosures:

Company:	Research Disclosures:
GXP US Equity	None

Other Disclosures:

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Outperform (OP):	The security is projected to outperform analyst's industry coverage universe over the next 12 months.
Peer Perform (PP):	The security is projected to perform approximately in line with analyst's industry coverage universe over the next 12 months.
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August 5, 2016

Equity Research

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WELLS FARGO SECURITIES

GXP & WR: MO Jurisdiction & Equity In Focus

Sector Rating: Regulated Electric Utilities, Market Weight

	Rating		Price	FY EPS 2016		FY EPS 2017		Valuation Range	
Ticker	Curr.	Prior	08/05/16	Curr.	Prior	Curr.	Prior	Curr	Prior
Regulated Electric Utilities									
GXP	2	NC	$28.60	$1.72	NC	$1.76	$1.80	$29-30	$30-32
WR	2	NC	53.98	2.46	NC	2.52	NC	$58-60	$59-60

Source: Company data and Wells Fargo Securities, LLC estimates 1= Outperform, 2 = Market Perform, 3 = Underperform, V = Volatile
= Company is on the Priority Stock List NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful

- **Summary.** GXP reported strong Q2 results, affirmed the full-year outlook, and updated investors on ongoing regulatory and merger matters. Key items on deck include a potential Staff complaint formally asserting jurisdiction in Missouri, shareholder votes, and deal equity. Year-to-date, shares of GXP have underperformed the S&P Utilities by 12% leaving shares at 10%+ discounts on our '16-19E EPS. While these discounts stand out in an otherwise tightly traded group, we think the current valuation amply reflects the financing risk and, more so, regulatory risk and a below-average post-deal balance sheet. We reiterate our Market Perform ratings on GXP (12-18 month valuation range $29-30/sh down from $30-32/sh on lower group multiples) and WR ($58-60/sh from $59-60/sh). Our pro-forma GXP '16-18E EPS are $1.72, $1.76 (from $1.80) & $1.84 (from $1.88). Our stand-alone GXP & WR '16-18E EPS are $1.72, $1.80 & $1.83, respectively, and $2.46, $2.52 & $2.52, respectively.
- **Pro-Forma Outlook.** We are lowering our pro-forma GXP '17E & '18E EPS to/from $1.76/$1.80 & $1.84/$1.88 reflecting a lower than expected equity ratio at KCP&L-MO and more severe regulatory lag in Missouri. Our '19E & '20E EPS remain $2.12 & $2.25. Our outlook is largely dependent on regulatory outcomes in both the pending MO cases and the 2018 round of rate cases in both MO and KS. We are particularly focused on the equity ratio piece of the cost of capital equation as KS and/or MO could look beyond the subsidiary level capital structure in light of parent leverage. For context, a 2% change in our assumed equity ratios of nearly 54% (consistent with the sub capital structures) has an approximate $0.10 EPS impact, or 4%, on our '20E EPS. That said, (1) GXP is willing to make assurances that the operating companies remain secluded from the acquisition/parent debt and (2) there could be execution upside (higher synergies) to offset some of the regulatory risk.
- **Call Takeaways.** (1) As the SEC is not reviewing the deal proxy, the companies can move faster on shareholder votes – we expect GXP's proxy to be filed in a few weeks followed by a shareholder vote in late September. (2) While we previously expected two rounds of equity, GXP is now likely wait until after the late September shareholder meeting before issuing any stock (GXP plans to issue $2.35B of equity include common stock and mandatory convertible preferred stock). (3) As the Missouri investigation into jurisdiction is now closed, the Staff or other parties could formally assert jurisdiction, which would force a Commission decision. (4) Both the legislative and regulatory bodies in Missouri are actively looking at potential reforms to utility regulation; GXP expects a Commission report by year-end ahead of next year's legislative session.

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Please see page 8 for rating definitions, important disclosures and required analyst certifications

All estimates/forecasts are as of 08/05/16 unless otherwise stated.

GXP Earnings Model (in millions except per share data)	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Revenues	**$2,446**	**$2,568**	**$2,502**	**$2,628**	**$2,682**	**$2,718**	**$2,782**	**$2,808**
Expenses								
Fuel & Purchased Power	719	817	698	704	705	710	714	719
Operating and Maintenance	671	702	725	734	752	770	780	784
Voluntary Separation Program	0	0	0	0	0	0	0	0
Depreciation & Amortization	290	306	330	351	365	379	393	409
Other Taxes	194	205	213	220	226	233	240	247
Other	3	4	6	6	6	6	6	7
Total Operating Expenses	**$1,877**	**$2,034**	**$1,972**	**$2,014**	**$2,055**	**$2,097**	**$2,134**	**$2,165**
Operating Income	**$569**	**$535**	**$530**	**$614**	**$627**	**$620**	**$648**	**$642**
Total Other Income	9	13	4	3	4	4	4	4
Total Interest Expense	198	189	199	198	191	177	162	161
Income Taxes	129	116	123	151	159	161	175	173
Tax Rate	*34%*	*32%*	*37%*	*36%*	*36%*	*36%*	*36%*	*36%*
Net Income	**$250**	**$243**	**$212**	**$268**	**$281**	**$286**	**$315**	**$312**
Loss from Equity Investments, net	(0)	0	1	0	0	0	0	0
Discontinued Operations, net	0	0	0	0	0	0	0	0
Non-Controlling Interest	0	0	0	0	0	0	0	0
Net Income - Adjusted	**250**	**243**	**213**	**268**	**281**	**286**	**315**	**312**
Preferred Dividend	2	2	2	2	2	2	2	2
Net Income Available to Common	**$249**	**$241**	**$211**	**$266**	**$280**	**$285**	**$313**	**$310**
Average Shares - Diluted	154	154	155	155	155	155	154	152
EPS (Diluted)	**$1.62**	**$1.57**	**$1.37**	**$1.72**	**$1.80**	**$1.83**	**$2.03**	**$2.05**
WR accretion (dilution)				$0.00	($0.05)	$0.00	$0.09	$0.20
Pro forma EPS for WR acquisition				**$1.72**	**$1.76**	**$1.84**	**$2.12**	**$2.25**
Dividend Information								
Dividends Paid Per Year	$0.88	$0.94	$1.00	$1.06	$1.12	$1.19	$1.27	$1.36
Payout Ratio	55%	60%	73%	62%	62%	65%	63%	66%
Statistics								
Book Value - Year End	$22.56	$23.25	$23.67	$24.34	$25.04	$25.71	$26.37	$26.91
Avg Book Value	$22.14	$22.90	$23.46	$24.00	$24.69	$25.37	$26.04	$26.64
ROE	**7.3%**	**6.9%**	**5.8%**	**7.2%**	**7.4%**	**7.3%**	**7.9%**	**7.8%**
EBITDA Per Share	$5.60	$5.46	$5.58	$6.25	$6.42	$6.47	$6.79	$6.97
Free CFPS	$5.06	$4.54	$4.88	$5.13	$5.36	$5.49	$5.90	$6.08
Free Cash Flow	($30)	($221)	($80)	($51)	$74	$124	$138	$45

Source: Wells Fargo Securities, LLC estimates and company filings

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GXP Cash Flow Model (in millions)	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Operating Cash Flow								
Net Income	$250	$243	$213	$268	$281	$286	$315	$312
Depreciation & Amortization	290	306	330	351	365	379	393	409
Other, net	237	149	210	174	182	184	198	196
Net Operating Cash Flow	**$777**	**$698**	**$753**	**$793**	**$828**	**$849**	**$906**	**$917**
Investing Cash Flow								
Capital Expenditures	($669)	($774)	($677)	($680)	($581)	($541)	($573)	($668)
Other, net	(37)	(6)	(57)	(9)	(5)	0	0	0
Net Investing Cash Flow	**($706)**	**($780)**	**($734)**	**($689)**	**($586)**	**($541)**	**($573)**	**($668)**
Financing Cash Flow								
Issuance of Common Stock	$5	$5	$3	$0	$0	$0	($75)	($100)
Issuance of Long-Term Debt	763	0	349	0	225	250	350	30
Issuance Fees	(9)	(1)	(3)	0	0	0	0	0
Retirement of Long-Term Debt	(265)	(13)	(87)	(1)	(382)	(351)	(401)	(1)
Changes in Short-Term Debt, net	(424)	241	(124)	55	85	(20)	0	25
Dividends on Common Stock	(137)	(146)	(156)	(163)	(173)	(184)	(195)	(205)
Other Financing Activities	(2)	(2)	(2)	0	0	0	0	0
Net Investing Cash Flow	**($70)**	**$84**	**($20)**	**($109)**	**($245)**	**($305)**	**($321)**	**($251)**
Net Change in Cash	$1	$2	($2)	($6)	($3)	$3	$11	($2)
Cash at Beginning of Period	$9	$11	$13	$11	$5	$2	$5	$17
Cash at End of Period	**$11**	**$13**	**$11**	**$5**	**$2**	**$5**	**$17**	**$15**

Capital Structure (in millions)	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Common Equity	$3,474	$3,586	$3,657	$3,761	$3,869	$3,972	$4,016	$4,023
Long-Term Debt	3,516	3,466	3,745	3,745	3,588	3,487	3,436	3,465
Short-Term Debt	293	548	410	464	549	529	529	554
Preferred	39	39	39	39	39	39	39	39
Total Capitalization	**$7,322**	**$7,639**	**$7,851**	**$8,009**	**$8,045**	**$8,027**	**$8,020**	**$8,081**
% Common Equity	47%	47%	47%	47%	48%	49%	50%	50%
% LT Debt	48%	45%	48%	47%	45%	43%	43%	43%
% ST Debt	4%	7%	5%	6%	7%	7%	7%	7%
% Preferred	1%	1%	0%	0%	0%	0%	0%	0%

Source: Wells Fargo Securities, LLC estimates and company filings

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WR Earnings Model (in millions except per share data)	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Revenues	**$2,371**	**$2,602**	**$2,459**	**$2,579**	**$2,628**	**$2,686**	**$2,770**	**$2,820**
Expenses								
Fuel and purchased power	$635	$705	$561	$566	$568	$571	$574	$577
Operating and maintenance	660	726	716	716	721	724	728	731
Depreciation and amortization	273	286	311	342	387	417	445	474
Selling, general and administrative	224	250	250	250	252	253	254	255
Total Operating Expenses	**$1,791**	**$1,969**	**$1,838**	**$1,874**	**$1,927**	**$1,965**	**$2,001**	**$2,038**
Operating Income	**$579**	**$633**	**$621**	**$705**	**$701**	**$721**	**$769**	**$782**
Total Other Income	$28	$24	$10	$24	$17	$17	$17	$17
Total Interest Expense	182	183	177	171	184	202	197	202
Income Taxes	124	151	152	200	165	166	186	189
Tax Rate	*29%*	*32%*	*33%*	*36%*	*31%*	*31%*	*31%*	*32%*
Income From Continuing Operations	**301**	**322**	**302**	**359**	**369**	**370**	**404**	**409**
Discontinued operations, net of tax	0	0	0	0	0	0	0	0
Net Income	**$301**	**$322**	**$302**	**$359**	**$369**	**$370**	**$404**	**$409**
Preferred dividends	0	0	0	0	0	0	0	0
Income attributable to Non-Controlling / alloca	8	9	10	10	10	10	10	10
Earnings for Common	**$293**	**$313**	**$292**	**$349**	**$359**	**$360**	**$394**	**$399**
Average Shares - Diluted	**128**	**133**	**139**	**142**	**142**	**143**	**143**	**144**
EPS	**$2.28**	**$2.35**	**$2.10**	**$2.46**	**$2.52**	**$2.52**	**$2.75**	**$2.78**
Other Non-Recurring Items	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EPS (Diluted)	**$2.28**	**$2.35**	**$2.10**	**$2.46**	**$2.52**	**$2.52**	**$2.75**	**$2.78**
Dividend Information								
Dividends Paid Per Year	$1.36	$1.40	$1.44	$1.52	$1.60	$1.69	$1.78	$1.88
Payout Ratio	60%	59%	69%	62%	64%	67%	65%	68%
Statistics								
Book Value - Year End	$23.88	$25.02	$25.87	$26.79	$27.69	$28.49	$29.43	$30.29
Avg Book Value	$23.39	$24.45	$25.44	$26.33	$27.24	$28.09	$28.96	$29.86
ROE (%)	**9.7**	**9.6**	**8.2**	**9.3**	**9.3**	**9.0**	**9.5**	**9.3**
EBITDA Per Share	$6.68	$7.07	$6.75	$7.40	$7.65	$7.98	$8.48	$8.75
Free CFPS	($1.88)	($1.53)	($1.25)	($3.81)	($1.05)	($0.62)	$0.03	($1.43)
Free Cash Flow	($240)	($199)	($172)	($539)	($149)	($88)	$4	($206)

Sources: Wells Fargo Securities, LLC estimates and company filings

Rating Basis Information:

GXP Thesis: We are attracted to GXP's 6-8% pro-forma annual EPS growth outlook and synergy potential with the WR deal. Our Market Perform rating reflects valuation considerations in concert with near-term financing risks and a below-average pro-forma balance sheet.

WR Thesis: We are attracted to WR's renewable-rich footprint, flexible strategy, healthy balance sheet, and shareholder-friendly management. Our Market Perform reflects valuation considerations as shares are trading near the $60/sh takeout price (deal expected to close in spring 2017).

Valuation Range Information:

GXP Basis and Risks: Our valuation range is primarily based on a P/E multiple analysis (16X our '18E EPS of $1.84). Key risks include cost pressures, lower than expected sales and negative regulatory developments.

WR Basis and Risks: Our valuation range is premised on our belief that the acquisition of WR by GXP for $60/sh ($51/sh cash, $9/sh stock) will receive the necessary regulatory approvals. In light of the pending takeout, the principal risk is failure to secure regulatory approvals for the pending acquisition.

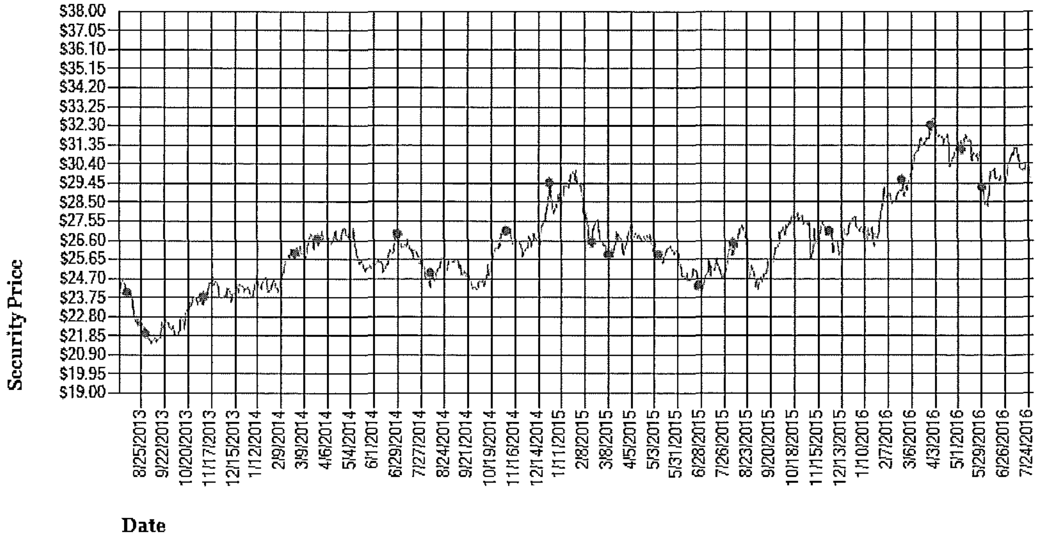
WR Cash Flow Model (in millions)	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Operating Cash Flow								
Net Income	$301	$322	$302	$359	$369	$370	$404	$409
Discontinued Operations, net	0	0	0	0	0	0	0	0
Depreciation & Amortization	305	327	352	342	387	417	445	474
Other - net	97	175	61	108	117	117	117	(9)
Net Operating Cash Flow	**$703**	**$824**	**$715**	**$809**	**$873**	**$904**	**$966**	**$874**
Investing Cash Flow								
Generation:								
Replacement and other				($185)	($182)	($210)	($188)	($251)
Western Plains Wind				(420)	(15)	0	0	0
Option Wind (100 MW)				0	0	0	0	0
Nuclear fuel				(23)	(46)	(26)	(24)	(51)
Transmission				(225)	(267)	(252)	(247)	(255)
Distribution:				(216)	(209)	(193)	(191)	(197)
Other				(64)	(75)	(72)	(57)	(56)
Total CapEx	**($780)**	**($852)**	**($700)**	**($1,133)**	**($794)**	**($751)**	**($706)**	**($810)**
Other	138	13	51	0	0	0	0	0
Net Investing Cash Flow	**($642)**	**($839)**	**($650)**	**($1,133)**	**($794)**	**($751)**	**($706)**	**($810)**
Financing Cash Flow								
Issuance of common stock, net	$33	$88	$258	$0	$0	$0	$0	$0
Proceeds from long-term debt	492	418	544	300	300	415	425	225
Retirements of long-term debt	(126)	(455)	(664)	(28)	(152)	(329)	(331)	(32)
Short-term debt, net	(205)	122	(7)	275	0	0	(85)	0
Preferred Stock Redemption	0	0	0	0	0	0	0	0
Borrowings/Repayments against COLI CV	(86)	19	(5)	0	0	0	0	0
Cash dividends paid	(163)	(172)	(186)	(215)	(228)	(241)	(255)	(270)
Other	(8)	(6)	(6)	0	0	0	0	0
Net Investing Cash Flow	**($62)**	**$14**	**($66)**	**$331**	**($80)**	**($155)**	**($247)**	**($78)**
Net cash from discontinued operations	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
Net Change in Cash	($1)	$0	($1)	$8	($1)	($2)	$13	($13)
Cash at Beginning of Period	$6	$4	$5	$3	$11	$10	$8	$21
Cash at End of Period	**$4**	**$5**	**$3**	**$11**	**$10**	**$8**	**$21**	**$8**

Capital Structure (in millions)	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Common Equity	$3,063	$3,295	$3,657	$3,801	$3,941	$4,070	$4,218	$4,357
Long-Term Debt	3,164	3,354	3,302	3,574	3,722	3,808	3,902	4,095
Short-Term Debt	412	286	279	554	554	554	469	469
Preferred	0	0	0	0	0	0	0	0
Total Capitalization	**$6,639**	**$6,934**	**$7,237**	**$7,928**	**$8,217**	**$8,432**	**$8,589**	**$8,921**
% Common Equity	46%	48%	51%	48%	48%	48%	49%	49%
Excluding ST Debt & VIE Debt	*49%*	*50%*	*53%*	*52%*	*51%*	*52%*	*52%*	*52%*
% LT Debt	48%	48%	46%	45%	45%	45%	45%	46%
% ST Debt	6%	4%	4%	7%	7%	7%	5%	5%
% Preferred	0%	0%	0%	0%	0%	0%	0%	0%

Sources: Wells Fargo Securities, LLC estimates and company filings

Required Disclosures

Great Plains Energy Incorporated (GXP) 3-yr. Price Performance



Date	Published Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
7/30/2013		Akers			
7/30/2013	NA	2	23.00	24.00	24.27
8/9/2013	23.88	2	25.00	26.00	23.93
8/30/2013	22.03	2	22.50	23.50	21.92
11/8/2013	23.63	2	24.00	25.00	23.73
2/27/2014	25.96	2	27.00	28.00	25.87
3/27/2014	26.60	2	28.00	29.00	26.60
6/30/2014	26.91	2	29.00	30.00	26.87
8/8/2014	24.71	2	26.00	27.00	24.94
11/7/2014	26.94	2	28.00	30.00	27.00
12/29/2014	28.45	2	30.00	32.00	29.38
2/17/2015	26.77	2	28.00	30.00	26.49
3/9/2015	25.80	2	27.00	29.00	25.80
5/8/2015	25.93	2	26.00	27.00	25.86
6/25/2015	24.43	2	25.00	26.00	24.27
8/7/2015	26.23	2	27.00	28.00	26.42
11/30/2015	26.99	2	28.00	29.00	26.99
2/25/2016	29.55	2	31.00	32.00	29.55
3/31/2016	32.25	2	33.00	34.00	32.25
5/6/2016	31.29	2	32.00	33.00	31.08
5/31/2016	29.18	2	30.00	32.00	29.18

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

▼ Rating Downgrade
▲ Rating Upgrade
● Valuation Range Change
◆ Initiation, Resumption, Drop or Suspend
■ Analyst Change
◻ Split Adjustment

Rating Code Key

1 Outperform/Buy
2 Market Perform/Hold
3 Underperform/Sell
SR Suspended
NR Not Rated
NE No Estimate

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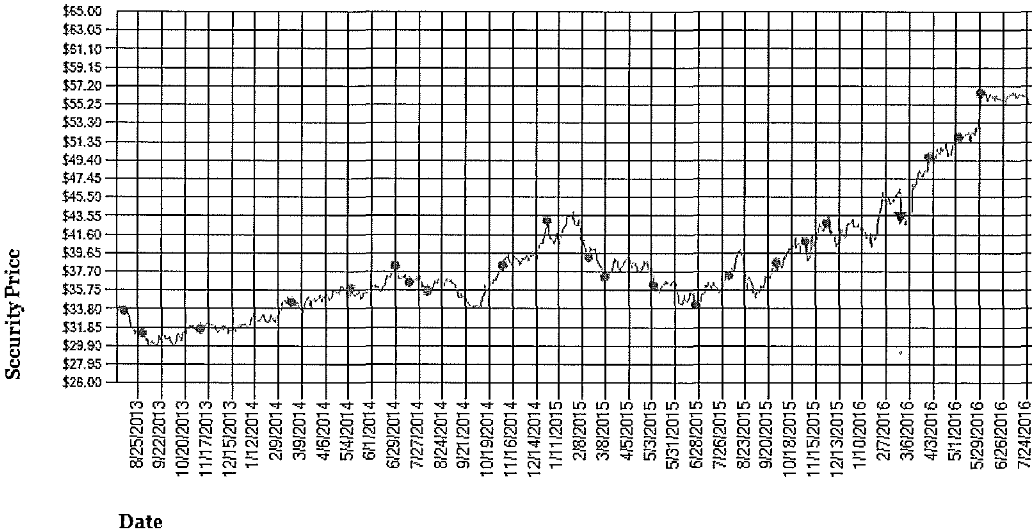
Westar Energy, Inc. (WR) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
	7/30/2013		Akers			
	7/30/2013	NA	1	33.00	34.00	33.79
•	8/8/2013	33.50	1	36.00	37.00	33.51
•	8/30/2013	31.17	1	33.50	34.50	31.11
•	11/8/2013	31.63	1	34.00	35.00	31.63
•	2/27/2014	34.32	1	37.00	38.00	34.32
•	5/8/2014	35.88	1	39.00	40.00	35.90
•	6/30/2014	38.06	1	40.00	42.00	38.19
•	7/17/2014	36.40	1	39.00	41.00	36.40
•	8/7/2014	35.16	1	37.00	39.00	35.51
•	11/6/2014	38.64	1	41.00	43.00	38.26
•	12/29/2014	41.87	1	45.00	47.00	42.93
•	2/17/2015	39.41	1	42.00	44.00	39.08
•	3/9/2015	37.00	1	40.00	42.00	37.00
•	5/6/2015	36.09	1	38.00	40.00	36.20
•	6/25/2015	34.29	1	36.00	37.00	34.11
•	8/5/2015	37.23	1	39.00	40.00	37.23
•	9/30/2015	38.04	1	39.00	41.00	38.44
•	11/4/2015	40.61	1	42.00	44.00	40.74
•	11/30/2015	42.68	1	44.00	46.00	42.68
▼•	2/26/2016	44.88	2	46.00	48.00	43.13
•	3/31/2016	49.61	2	51.00	54.00	49.61
•	5/5/2016	51.90	2	49.00	51.00	51.78
•	5/31/2016	56.32	2	59.00	60.00	56.33

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key
- ▼ Rating Downgrade
- ▲ Rating Upgrade
- • Valuation Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- ■ Analyst Change
- ⌐ Split Adjustment

Rating Code Key
- 1 Outperform/Buy
- 2 Market Perform/Hold
- 3 Underperform/Sell
- SR Suspended
- NR Not Rated
- NE No Estimate

Additional Information Available Upon Request

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WR: In light of the pending takeout, the principal risk is failure to secure regulatory approvals for the pending acquisition.

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2=Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD
3=Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

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UBS | Global Research | 31 May 2016

Westar Energy, Inc.
Connecting in Kansas

Equities

Americas
Electric Utilities

12-month rating	**Neutral**
12m price target	US$60.00
	Prior: US$47.00
Price	US$56.33

RIC: WR.N BBG: WR US

Trading data and key metrics

52-wk range	US$56.33-34.11
Market cap.	US$8.02bn
Shares o/s	142m (COM)
Free float	100%
Avg. daily volume ('000)	458
Avg. daily value (m)	US$23.3
Common s/h equity (12/16E)	US$3.80bn
P/BV (12/16E)	2.1x
Net debt / EBITDA (12/16E)	3.8x

EPS (UBS, diluted) (US$)

	12/16E	
	UBS	Cons.
Q1	0.46	0.46
Q2E	0.55	0.53
Q3E	0.99	1.01
Q4E	0.39	0.43
12/16E	2.40	2.44
12/17E	2.53	2.54
12/18E	2.65	2.62

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WR to be acquired by GXP at $60/sh, split 85% cash; accretive after year 1

Under the terms of the agreement, GXP will purchase WR shares for $51 cash plus $9 of GXP stock subject to a 7.5% collar based on GXP's price at the time of closing, with the exchange ratio ranging from 0.2709 to 0.3148 of GXP shares for each WR share. This represents 23x our 2018E estimate, a premium vs 20x-22x for the average recent utility transaction. At GXP's price this morning of $29, the exchange rate is up near the top end of the collar at 0.3145. Management expects the deal to be EPS neutral in year 1 and accretive thereafter with 6%-8% EPS growth through 2020 (vs 4%-6% standalone WR target). We see $0.15 (7%) accretion in 2019E assuming 4% synergies from reduced O&M given adjacent territories and treating all convertible equity as straight equity for simplicity. The combined company expects long-term dividend growth of 5%-7% with a targeted payout ratio of 60%-70%.

Financing with 50% debt/ 50% equity; likely a nod to regulatory approval

The deal is expected to close by the end of 2Q17 with regulatory approvals needed from Kansas, US DOJ/FTC, the Nuclear Regulatory Commission, and FERC (not Missouri). Ultimately, GXP intends to fund the acquisition with permanent financing of ~50%/50% debt/equity, including $3.1B of GXP common/pref equity, $1.3Bn of shares to WR investors, and $4.4B of GXP debt. Management says that neither MO nor KS is expected to look-through to the parent with operating company cap structure unaffected but this could be a key question in upcoming rate cases.

Lots of synergies as ratebase and EPS growth diverge:

Mgmt emphasized they co-owned three plants, offering substantial savings which drives EPS growth higher than rate base growth. Combined ratebase growth is expected to be ~3%-4% vs WR's standalone 4%-5% and GXP's 2%-3%; with EPS growth of 6-8% through the decade this implies $2.25 at midpoint.

Valuation: Raise PT to $60 for the deal; unlikely to see counteroffer at 24x

We are increasing our valuation to $60 which is based on the GXP offer price. We see a counteroffer unlikely at the 23x 2018E P/E multiple offered by GXP, a solid premium to even recent deals.

Highlights (US$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenues	2,371	2,602	2,459	2,805	2,837	2,898	2,969	3,044
EBIT (UBS)	607	657	631	710	754	782	812	850
Net earnings (UBS)	293	313	292	340	361	379	399	424
EPS (UBS, diluted) (US$)	2.27	2.41	2.12	2.40	2.53	2.65	2.79	2.95
DPS (US$)	1.36	1.40	1.44	1.52	1.58	1.64	1.71	1.78
Net (debt) / cash	(3,571)	(3,663)	(3,557)	(4,204)	(4,199)	(4,122)	(3,968)	(3,879)

Profitability/valuation	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
EBIT margin %	25.6	25.2	25.6	25.3	26.6	27.0	27.4	27.9
ROIC (EBIT) %	10.3	10.4	9.5	9.9	9.8	9.9	10.2	10.5
EV/EBITDA (core) x	9.3	9.4	10.2	11.4	10.7	10.4	9.9	9.5
P/E (UBS, diluted) x	14.0	14.9	18.3	23.5	22.2	21.2	20.2	19.1
Equity FCF (UBS) yield %	(2.1)	(0.8)	0.1	(6.3)	2.0	3.0	4.1	3.4
Net dividend yield %	4.3	3.9	3.7	2.7	2.8	2.9	3.0	3.2

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US$56.33 on 31 May 2016 16:45 EDT

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UBS Research THESIS MAP a guide to our thinking and what's where in this report

PIVOTAL QUESTIONS

Q: Will Great Plains successfully complete its acquisition of Westar?

We do not anticipate a higher bid for Westar as the 23x 2018E P/E represents a premium over other recent utility transactions. Great Plains is uniquely positioned to extract synergies from Westar given its adjacent geography and shared ownership in multiple power plants.

UBS VIEW

The combination of Westar Energy and Great Plains Energy further concentrates the electric utility industry in Kansas and presents synergy opportunities with the companies sharing a geographic footprint. We see a counteroffer unlikely at the 23x 2018E P/E offered by GXP. State regulatory approval is only required in Kansas which makes a transaction easier to execute compared with a target having multiple state jurisdictions.

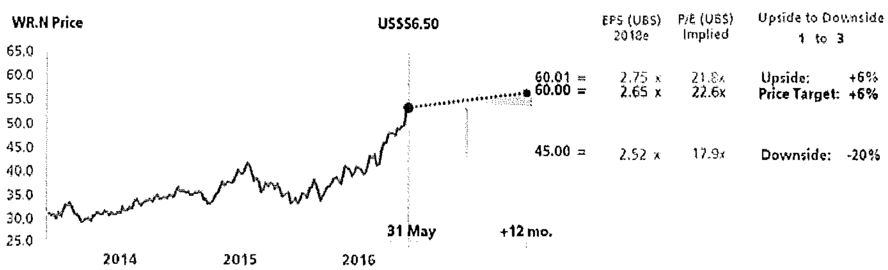
EVIDENCE

We examined recent electric utility transactions from 2014-2016 indicating an average forward P/E multiple of 20-22x. GXP-WR is the second highest premium in recent years below only DUK-PNY.

WHAT'S PRICED IN?

WR is currently trading at ~$57, a 5% discount to the $60 offer price, implying that investors are embedding a modest spread versus the disclosed takeout price but the collar mechanism and future dividends complicates the calculation.

UPSIDE / DOWNSIDE SPECTRUM



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COMPANY DESCRIPTION

Westar Energy (WR) is the largest electric utility in Kansas, providing electric generation, transmission, and distribution services to approximately 700,000 customers in most of...

more →

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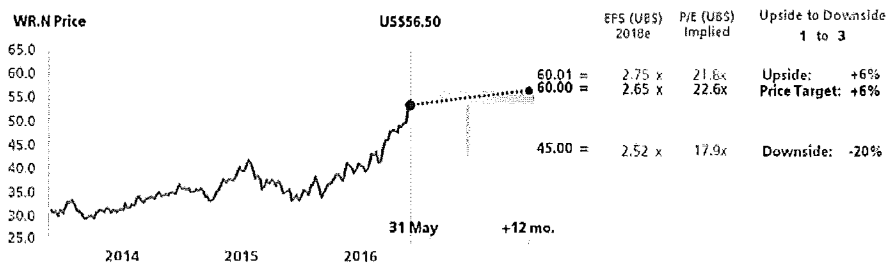
Julien Dumoulin-Smith, Analyst, julien.dumoulin-smith@ubs.com, +1-212-713 9848

UPSIDE / DOWNSIDE SPECTRUM

return ↑



WR is trading at US$56.50 (as of 31 May).

Source: UBS

Risk to the current share price is skewed (1:3) to the downside

WR is trading at **US$56.50** (as of 31 May). Although mechanically we see more downside than upside we believe it is more likely than not that the merger with GXP will be completed.

Raise PT $13 to $60 for the takeout price; maintain Neutral

Our valuation is based on the $60 purchase offer price from GXP.

Our new price target represents the purchase offer price from GXP.

Figure 1: WR Valuation: Now based on 100% probability of a deal

Base Case: GXP Offer Consideration	
Cash	$51.00
Stock	
GXP Shares	0.307
GXP Value per Share	29.33
Total Stock Value	$9.00
Total Consideration	**$60.00**

Source: Company Filings, FactSet, and UBS Estimates

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For more detail on these issues, please see our other recent reports:

3/21/16 Considering the Options
2/29/16 Bonus Blows Away Some Wind Growth
11/5/15 Fair Winds into 2016
10/8/15 A Compassionate Clean Power Plan
8/6/15 Where will the ROE Land?
5/7/15 One ROE Revision Reflected, One To Go
5/6/15 Taking A Dose of Transmission Medicine
3/2/15 Entering the Bullring
10/2014 "Koncerned about Kansas"

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Pro Forma Economics

We see the deal as modestly accretive by 2019.

Figure 2: Accretion Math for WR/GXP Deal

Initial Accretion Analysis					
Legacy Great Plains Energy (FactSet)	**2015**	**2016**	**2017**	**2018**	**2019**
Pre-Transaction Net Income ($Mn)	$211	$264	$282	$301	$314
Pre-Transaction Shares ($Mn)	153.5	153.5	154.7	154.7	154.7
Pre-Transaction EPS	**$1.37**	**$1.72**	**$1.82**	**$1.95**	**$2.03**
Pro-Forma GXP & WR	**2015**	**2016**	**2017**	**2018**	**2019**
WR Net Income (UBSe)	$292	$340	$361	$379	$399
Transaction Consideration					
Cash: $51/sh		$51.00			
Stock: $9/sh (.2709-.3148 GXP per WR Share)		$9.00	*0.2903*	*Exchange Ratio*	
Purchase Price ($Mn) at $60/sh		$8,548			
5/27/16 WR Valuation ($Mn)		$7,498			
Premium		14%			
Financing ($Mn): $12.2Bn EV; $8.6Bn Equity Value					
Debt Assumed		$3,561			
New Debt		$4,170			
Common Stock to Westar Shareholders		$1,278			
Private Mandatory Preferred Convertible		$750			
Common Equity and Mandatory Convertible		$2,350			
Increase in Shares Outstanding (Mn)		141.2	Assuming $31 GXP Price		
Combo Net Income *(2015-2016 Illustrative)*	$503	$604	$643	$680	$713
Incremental After Tax Interest Expense at ~4.5%			(122)	(122)	(122)
Synergies: 4% Run-Rate in 2019			-	26	52
Revised Combo Earnings			$521	$584	$644
New Shares Outstanding			296	296	296
Revised Combo EPS			**$1.76**	**$1.97**	**$2.18**
Guidance: Neutral to EPS in 2018; "significantly accretive thereafter". 6-8% Pro-Forma EPS Growth Rate					
Change in EPS: (Dilution)/Accretion			***-$0.06***	***$0.03***	***$0.15***
% Change in EPS			*-3.4%*	*1.5%*	*7.1%*
EPS CAGR ('16-'19)					*8.1%*
** Deal expected to close in Spring 2017*					
P/E Multiples		**2016**	**2017**	**2018**	**2019**
GXP		17.9x	17.0x	16.1x	15.3x
WR		22.1x	20.9x	19.9x	19.0x
Pro-Forma			17.6x	15.7x	14.3x
Regulated Average		*18.7x*	*17.5x*	*16.6x*	*15.8x*
WR Takeout Implied P/E		*25.1x*	*23.7x*	*22.5x*	*21.4x*

Source: Company Filings, FactSet, and UBS Estimates. * Convertible equity is treated as straight common equity for simplicity.

Other Key Considerations

- **We don't expect another bidder to come forth.** At 24x 2017 earnings, this was meaningfully ahead of Street expectations (following EDE at ~20x 2017). WR commented on the call it saw a "very competitive" process.

- **Converts:** Mgmt notes the $750 Mn issued to OMERS will be mandatory convertible in three-years. We treat it as *all* equity above (Day 1), but don't reduce Net Income for Dividend/Interest (the 7.25% * $750 Mn = $54 Mn) is *not* taxable. We emphasize management has left the door open to a further mandatory convert component of its equity financing plan.

- **Don't see a Missouri look-through either:** Mgmt remains adamant that there is no legal precedent for a look through at the holding company in Missouri to impute it down its operating companies. We suspect this will feature as a key question in the future round of rate cases.

- **What kind of credit metrics? Levering up the Balance Sheet:** Mgmt was confident the pro-forma deal would arrive at 13-14% FFO/debt equity, at the lower end of the investment grade utility sector. Mgmt was confident it would hold onto Investment Grade credit metrics at both the OpCo's and HoldCos. We see the total convert financing as a moderating factor on the immediate impact to the consolidated credit profile of the deal. We note the mandatory Moody's notching to the HoldCo is a key consideration for mgmt.

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- **Dividend Policy:** Mgmt promises 5-7%, below that of EPS growth given it is already at the higher end of the stated 60-70% payout range.

- **What does this mean for other deals? Small-cap acquirers here we come:** We see the acquisition of WR by GXP as opening up a potential *new* avenue in M&A in the sector, with smaller companies now open to acquire larger companies to open up growth. We emphasize despite GXP's size, the bulk of the compensation for WR will come in cash consideration rather than share for share.

- **Deal adds wind exposure to GXP:** The combined entity will be 60% Kansas jurisdiction and 40% Missouri, with FERC transmission exposure dropping to 12% from WR's standalone 19%. The combined power supply mix will be only 5% renewable vs WR's standalone 9% (although WR's had been projected to grow to 22% in 2017 with recent wind deals).

- **Rate case timing? The regulatory dynamics:** GXP commented it would hold intact the rate cycle for *both* companies right now (despite the potential for meaningful synergies). This is notable as WR had seen a 2019 case to recover wind capex as crucial to maintaining its ROE. Abbreviated cases are contemplated for both utilities in KS later this year, although a broader rate settlement for deal approval could yet impact these cases. The WR case is specifically on prudency of spend rather than ROE. Mgmt explicitly stated it would be open to a settlement to gain KCC approval; no Missouri PSC approval is required.

Preference is not to do a bill credit or rate freeze (any explicit of sharing of synergies in the interim), with usual cadence of rate cases to extract the uplift. Overall, mgmt appears to suggest it will be able to earn its ROEs across its jurisdictions as a function of this deal.

- **Ameren: Winner here too.** Following weeks in which the company was seen as the key acquirer of WR in the media, we suspect the potential for a multi-day rally as the overhang dissipates. We look towards nuance of July Missouri rate case filing for next datapoints to bolster shares further. The rate design impact from the closure of Noranda's smelter is a key uncertainty in the case.

Comparing recent transactions

Please see our recent 2/23/16 note "Searching for Clues in Utility M&A" for further discussion of these transactions.

Figure 3: Recent Utility M&A Transactions

Deal	Deal Announcement	Stated Deal Equity Value ($mn)	Implied 2016 P/E	Implied 2017 P/E	Target Regions
DUK-PNY	10/26/2015	4,795	30.0x	26.9x	**North Carolina**, Tenessee, South Carolina
GXP-WR	5/31/2016	8,600	29.5x	25.3x	**Kansas**
EMA - TE	9/4/2015	6,506	23.7x	21.7x	Florida
SO - AGL	8/24/2015	7,943	22.0x	21.4x	Illinois, **Georgia**, Virginia, New Jersey, Florida, Tennessee, Maryland
AQN-EDE	2/9/2016	1,492	22.6x	21.0x	**Missouri**, Kansas, Oklahoma, Arkansas
IBE - UIL	2/26/2015	2,983	21.6x	20.4x	**Connecticut** / Western Massachusetts
FTS-ITC	2/9/2016	6,961	22.0x	20.1x	Iowa, Illinois, Kansas, Missouri, Oklahoma, Wisconsin
Macq - CNL	10/20/2014	3,342	22.1x	20.1x	Louisiana
D-STR	2/1/2016	4,404	18.7x	18.3x	**Utah**, Idaho, Wyoming
NEE-HE	12/3/2014	3,643	19.2x	17.3x	Hawaii
EXC-POM	4/30/2014	6,840	19.1x	16.9x	Washington DC, **Maryland**, New Jersey
WEC-TEG	6/23/2014	5,852	17.8x	16.2x	City of **Chicago**, Michigan's U.P, Lower Michigan, Minnesota
Average Implied Deal P/E Multiple		**5,280**	**22.4x**	**20.5x**	
Average Implied Deal P/E Multiple (Ex DUK-PNY)			**21.7x**	**19.9x**	
US Utilities Average P/E			**18.7x**	**17.5x**	

Source: Company Filings, FactSet, SNL Energy, and UBS Estimates; Note: forward multiples as of deal announcement dates

We note for deals inked in 2014 compare best to 2016E P/E multiples, whereas deals penned in 2015/2016 (and first month of 2016) compare best to 2017E. We note the time series does lend itself towards a bias for earlier deals to have cheaper implied values on near years.

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Upside (US$60): Our upside case is the same as our base case – that Westar is acquired by Great Plains at the $60/sh announced transaction price.

Base (US$60): Our base case is premised on the announced Great Plains transaction closing as originally structured with Westar shareholders receiving $51 in cash and $9 in GXP stock at the completion of the transaction as long as GXP's average price is between $28.59-$33.23 due to the collar mechanics. If GXP's average stock price is outside the range, the exchange ratio will be fixed and the total stock value can fluctuate.

Downside (US$44): Our downside case is based upon a stand-alone valuation for Westar assuming that the GXP transaction is unsuccessful. In this scenario we value GXP using a sum-of-the-parts methodology with P/E multiples applied to core utility operations. We believe this scenario is less likely than if Westar is acquired by Great Plains in accordance with the announced terms.

COMPANY DESCRIPTION

return ↑

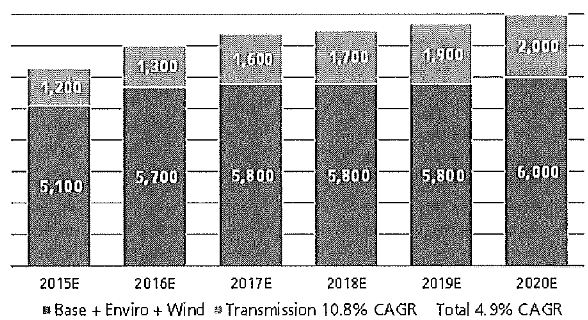
Market Cap	US$7.5bn
Shares Outstanding	142m (COM)
Industry	Utilities, Regulated
Region	Americas
Website	www.westarenergy.com

Westar Energy (WR) is the largest electric utility in Kansas, providing electric generation, transmission, and distribution services to approximately 700,000 customers in most of east and east-central Kansas. In south-central and south-eastern Kansas, it provides regulated services under its wholly owned subsidiary, Kansas Gas and Electric (KGE). Westar has approximately 6,200 MW of generation and 35,000 miles of transmission and distribution lines. In May 2016 Great Plains Energy (GXP) announced it would be acquiring Westar for $60/sh.

Industry outlook

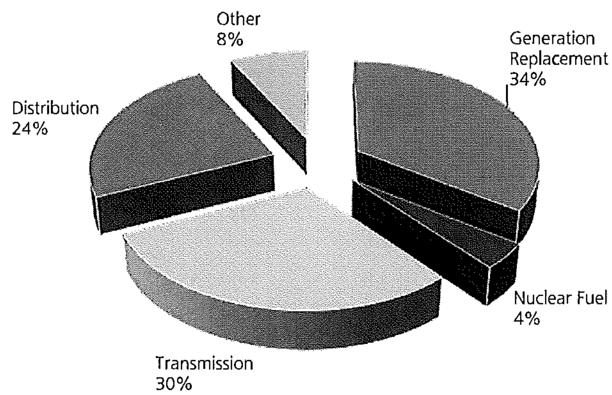
The electric utility industry is projected to experience weak or negative electric demand growth in coming years as a tepid economy and energy efficiency dampen demand. In the unregulated merchant power space, we see limited potential for a meaningful recovery from currently low power prices due to limited projected demand growth, growth of subsidized renewables, and potential for only modest further retirements. At regulated utilities, we believe rising interest rates and robust valuations are a challenge to the sector, particularly as earnings growth stalls once EPA-mandated growth capex slow mid-decade. We expect cost-cutting and strategic planning to be a key theme across both regulated and competitive companies, with M&A at modest (at best) premiums designed to extract cost synergies. We believe utilities with high parent leverage will disproportionately suffer, as they are unable to recoup from rising interest rates.

Current Ratebase Projection (Feb 2016) 2015A-2020E



Source: Company reports, UBS

Current Capex Forecast, 2015A-2020E



Source: Company reports, UBS

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Forecast returns

Forecast price appreciation	+6.5%
Forecast dividend yield	2.8%
Forecast stock return	+9.3%
Market return assumption	5.9%
Forecast excess return	+3.4%

Valuation Method and Risk Statement

Risks for Westar Energy (WR) include but are not limited to: (1) potential inability to deliver on its regulated capital expenditure program; (2) adverse political/legal/regulatory actions; (3) unfavorable weather and natural resources yield [wind generation]; (4) operational and construction risk; (5) inability to access the capital markets on attractive terms; (6) declines in customer demand and population; (7) failure to close pending M&A transactions; (8) natural disasters or nuclear accidents; (9) change in macroeconomics; and (10) other unforeseen changes. Valuation is based on the announced purchase price from Great Plains Energy.

Risks to Ameren (AEE) include but are not limited to: 1) decreases in economic activity and sales volume; 2) unfavourable weather; 3) natural disaster or nuclear accidents; 4) inability to access the capital markets on attractive terms; 5) unfavorable regulatory/legal/legislative developments; 6) failure to close pending or prospective M&A transactions; 7) change in macroeconomics and interest rates;, 8) inability to meet debt obligations as due; 9) financial challenges at its regulated customers such as Noranda; 10) changes in the dividend policy; 11) inability to execute on its regulated capital expenditures plan; 12) inability to have its nuclear licenses extended; and 13) other unforeseen risks. Valuation is based on a 2018E sum-of-the-parts analysis.

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12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	49%	32%
Neutral	FSR is between -6% and 6% of the MRA.	38%	26%
Sell	FSR is > 6% below the MRA.	14%	19%
Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 March 2016.
1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
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UBS Securities LLC: Julien Dumoulin-Smith; Michael Weinstein; Paul Zimbardo.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Ameren Corp.[16]	AEE.N	Neutral	N/A	US$48.11	27 May 2016
Great Plains Energy Inc.[16]	GXP.N	Not Rated	N/A	US$31.00	27 May 2016
Westar Energy, Inc.[6, 16]	WR.N	Neutral	N/A	US$52.92	27 May 2016

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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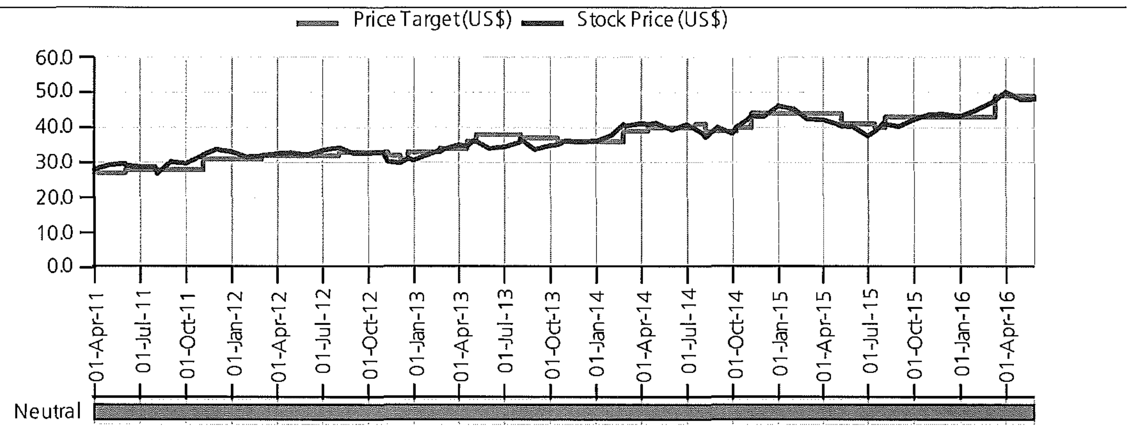
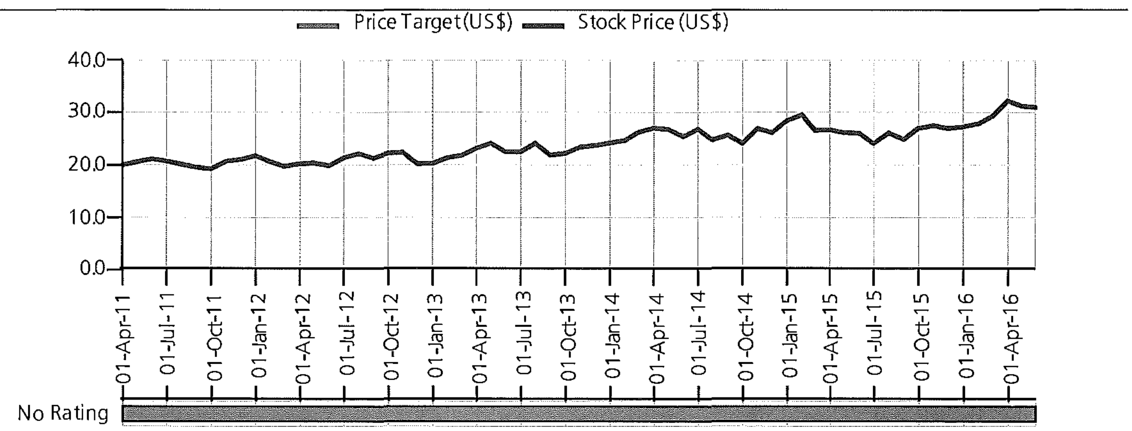
Ameren Corp. (US$)



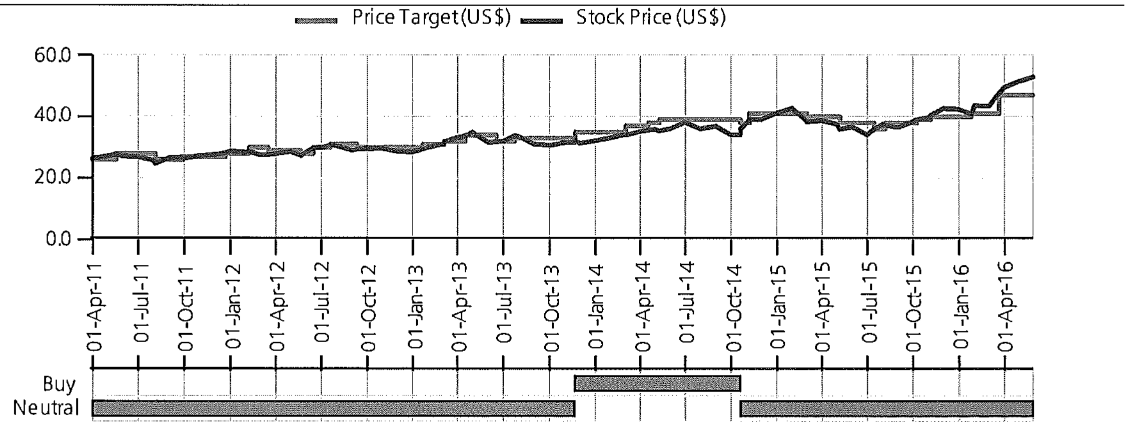
Source: UBS; as of 27 May 2016

Great Plains Energy Inc. (US$)



Source: UBS; as of 27 May 2016

Westar Energy, Inc. (US$)



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