BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

REBUTTAL TESTIMONY OF

ROBERT B. HEVERT

ON BEHALF OF
GREAT PLAINS ENERGY INCORPORATED
AND
KANSAS CITY POWER & LIGHT COMPANY

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

TABLE OF CONTENTS

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Robert B. Hevert and my business address is ScottMadden, Inc., 1900 West Park Drive, Suite 250, Westborough, MA 01581.

Q. On whose behalf are you submitting this testimony?

A. I am submitting this rebuttal testimony ("Rebuttal Testimony") before the Kansas Corporation Commission ("Commission") on behalf of Great Plains Energy ("GPE") and Kansas City Power & Light Company ("KCP&L").

Q. Please describe your educational background.

A. I hold a Bachelor's degree in Business and Economics from the University of Delaware, and an MBA with a concentration in Finance from the University of Massachusetts. I also hold the Chartered Financial Analyst designation.

Q. Please describe your experience in the energy and utility industries.

A. I have worked in regulated industries for over twenty-five years, having served as an executive and manager with consulting firms, a financial officer of a publicly traded natural gas utility (at the time, Bay State Gas Company), and an analyst at a telecommunications utility. In my role as a consultant, I have advised numerous energy and utility clients on a wide range of financial and economic issues, including corporate and asset-based transactions, asset and enterprise valuation, transaction due diligence, and strategic matters. As an expert witness, I have provided testimony in approximately 150 proceedings regarding various financial and regulatory matters before numerous state utility regulatory agencies, the Federal Energy Regulatory Commission ("FERC") and the Province of Alberta. A summary of my professional and educational background,

including a list of my testimony in prior proceedings, is set forth in Schedule RBH-1 to this Rebuttal Testimony.

II. PURPOSE AND OVERVIEW OF TESTIMONY

Q. What is the purpose of your Rebuttal Testimony?

A. This docket concerns the Joint Application of GPE and Westar Energy, Inc.("Westar") for approval of their Agreement and Plan of Merger (the "Agreement") dated May 29, 2016 (the "Transaction"). The purpose of my Rebuttal Testimony is to respond to the Direct Testimony of Staff witnesses McClanahan, Gatewood and Grady regarding their testimony that going forward, the ratemaking capital structure to be used for both KCP&L and Westar should be that of the consolidated parent company, if the consolidated capital structure contains higher proportions of debt (that is, it is more financially leveraged) than the subsidiary capital structures.[1] I also discuss Mr. Grady's selective use of the financial advisors' fairness opinions, and his position that those opinions unreasonably support the Transaction value. My findings and conclusions are supported by Exhibits RBH-1 through RBH-5, which have been prepared by me, or under my direct supervision.

III. EXECUTIVE SUMMARY

Q. Please provide an Executive Summary of the observations, conclusions, and recommendations contained in your Rebuttal Testimony.

A. As to Staff's position regarding the use of the consolidated capital structure for ratemaking purposes, my principal observations and conclusions are as follows:

[1] Although CURB Witness Crane also discusses financial leverage and using the consolidated capital structure for the purpose of setting rates at the operating company level, those issues are addressed in my response to Staff. As such, I have not included a specific response to Ms. Crane. That I have not included a specific response to Ms. Crane should not be interpreted as my agreement with her positions.

- Staff's proposed $401 million "double leverage" adjustment would have the practical effect of terminating the Transaction, even though the adjustment has no meaningful support in theory or in practice. Staff's suggestion that the Joint Applicants have structured the Transaction to gain a windfall for investors through "financial engineering" is incorrect, and its proposed remedy – to set rates on the consolidated capital structure when it contains proportionately more debt than the utility subsidiary capital structure – is misguided.
- Long-standing practice among utility commissions is to establish rates based on operating company capital structures, not consolidated capital structures. They do so for the fundamental reason often expressed by this Commission: The ratemaking capital structure should be based on the capital used to fund the assets enabling the provision of utility service. Consequently, "double leverage" adjustments such as those recommended by Staff rarely are accepted by regulatory commissions, and should not be adopted here.
- Staff's definition of the "least cost" capital structure is greatly oversimplified, and ignores important factors that are crucial to the prudent, day-to-day management of utility balance sheets.
- If the Commission were to adopt Staff's position, it effectively would terminate the Transaction. It would do so for the simple reason that capital cannot be used for two different purposes, at two different companies, at the same time. The acquisition debt is being issued in connection with the acquisition premium at the parent company level. Because the premium is not an asset in rate base at the utility, the acquisition debt should not be used to reduce utility rates (even beyond the benefits of the merger savings) through the higher debt leverage. Regulatory

and financial practice call for the ratemaking capital structure to match the assets being financed. Either both the capital and the premium should be excluded from the utility for ratemaking purposes - as GPE proposes - or, if the acquisition debt is to be used for ratemaking at the utility, the cost of the premium should be borne by the utility, which GPE does not propose. The attempted mismatch of these items simply will prevent the Transaction from occurring.

Turning now Staff's selective use of the financial advisors' fairness opinions:

- Fairness opinions, including those provided by the financial advisors in this Transaction, warn against "partial analysis", "summary description", and the selection of portions of analyses without considering the analyses as a whole.[2] As in this case, fairness opinions do not rely on a single approach,[3] nor do they put specific weight on any one approach or assumption. Staff's proposed $1.094 million "lower ROR" adjustment, however, is based on a single method, and a single assumption embedded within one of the two advisors' opinions.
- Staff's conclusions that the Transaction value, and the fairness opinions supporting the Transaction are "unreasonable" are based on partial and incomplete analyses of those opinions. When viewed in a more complete fashion, the analyses and discussions contained in the fairness opinions fully support the Transaction.
- Staff's assessment of Goldman Sach's Discounted Cash Flow ("DCF") analysis incorporates one aspect of the analysis, but ignores another crucial element, the

[2] *See*, for example, *Great Plains Energy Incorporated, Form S-4 Registration Statement* as filed on July 13, 2016, at 75.

[3] Steven M. Davidoff, *Fairness Opinions*, American University Law Review, Value 55, Issue 6, at 1565.

timing of those cash flows. That one difference alone has a significant effect on Staff's DCF results.

- There is no base rate case decision by any utility regulator in the U.S. that has established an ROE in the range of those cited by Staff in connection with the fairness opinions. Putting aside its improper, selective use of those opinions, Staff's recommendation to use the assumed discount rate as the Return on Equity ("ROE") to set rates falls far short of the *Hope* and *Bluefield* "end result" doctrine[4], under which it is the reasonableness of the result, rather than the method employed that controls in setting just and reasonable rates, and fails to meet the *Hope* and *Bluefield* comparable risk, capital attraction, and financial integrity standards.
- There is little question that if the Commission were to set rates based on the cost of equity that Mr. Grady selectively draws from the fairness options, the operating utilities' financial integrity would be diminished, and their ability to attract capital would be greatly impaired. Aside from the fundamental concern that Staff's recommendation falls far short of the *Hope* and *Bluefield* standards – standards that Staff and the Commission consistently have endorsed and adhered to – the probable consequence of such a decision is the flow of capital out of Kansas, forcing the utilities to increasingly finance their operations with significantly reduced operating cash flows. Although we reasonably can assume that the financial community would react strongly to such a decision, we do not know

[4] *Bluefield Water Works and Improvement Co. v. Public Service Comm'n of West Virginia*, 262 U.S. 679 (1923) *("Bluefield")*; and (2) *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591 (1944) *("Hope")*..

how strongly. But that is only because it has not seen a decision anywhere across the country akin to Mr. Grady's proposal.[5]

IV. STAFF'S PROPOSED DOUBLE LEVERAGE ADJUSTMENT

A. Overview

Q. Please summarize Staff's recommendation as it relates to the operating utilities' ratemaking capital structures.

A. Staff's recommendation, which is summarized by Mr. Gatewood, incorrectly characterizes the holding company acquisition debt financing as "recapitalizing" the utilities.[6] Mr. Gatewood then argues, incorrectly, that a lower cost of capital associated with this debt financing ought to be used to reduce revenue requirement at the utilities. Staff refers to that lower cost of capital as the "double leverage" adjustment.

Q. Why is Staff's position incorrect?

A. "Double leverage" adjustments have been expressly rejected by other regulatory commissions, often for reasons acknowledged by Staff and recognized by the Commission in prior proceedings. Moreover, Staff's definition of the "least cost" capital structure is greatly oversimplified and far removed from the prudent, day-to-day utility financing practices that the Commission has recognized in prior orders.

B. "Double Leverage" Adjustments Across Regulatory Jurisdictions

Q. Are "double leverage" adjustments common among regulatory jurisdictions?

A. No, they are not. In fact, rather than accepting such adjustments, several jurisdictions expressly have rejected them. For example, the Maryland Public Service Commission specifically rejected the use of double leverage in a 2007 rate proceeding, stating:

---

[5] Source: Regulatory Research Associates which provides returns authorized for electric and natural gas utilities across the country.

[6] Direct Testimony of Adam H. Gatewood, at 38 – 41.

> We reject People's Counsel's proposed capital structure [reflecting a double leverage adjustment] because it suffers from numerous flaws. First, it assumes that the rate of return depends on the source of capital rather than the risks faced by the capital.[7]

The Washington Utilities and Transportation Commission ("WUTC") rejected the application of a double leverage adjustment for PacifiCorp, stating:

> The ring fencing provisions required by our final order in Docket UE-051090 insulate PacifiCorp and its customers from risks and financial distress at the MEHC level….Nonetheless, after having insulated PacifiCorp and its customers from the risks of leveraged financing at the parent, Staff and Public Counsel seek to secure for customers the cost and tax benefits of that financing. The Company's expert witness argues this may violate the familiar principle in utility law that financial benefits should follow burden of risks. We agree. If the risks and costs of activities at the parent- level are born exclusively by shareholders—because customers are insulated from them by the ring fence—then it is fair and appropriate for the shareholders, and not the customers, to receive the benefits that result from those activities.[8]

In support of its decision, the WUTC cited the FERC's position regarding the use of double leverage:

> The FERC does not embrace the concept of double leverage. For purposes of calculating rate of return for wholly owned subsidiaries, FERC uses the stand- alone capital structure and return on equity of the subsidiary so long as the subsidiary issues its own debt, maintains its own credit ratings and meets other standards related to equity ratio. The courts have upheld this policy. *See Missouri Pub. Serv. Comm'n v. Federal Energy Reg Comm'n, 215 F.3d 1, 342 U. S. App. D.C. 1 (D.C. Cir. June 27, 2000).*[9]

As discussed by the Joint Applicants' rebuttal witness John J. Reed, it is common in recent utility transactions for the buyer to rely on parent-company level debt for a portion of the acquisition capital, just as GPE has in this transaction. Mr. Reed further notes that other merger approval cases have not required the use of a consolidated capital

---

[7] Maryland Public Service Commission, Order No. 81517, Case No. 9092, In the Matter of the Application of Potomac Electric Power Company for Authority to Revise its Rate and Charges for Electric Service and for Certain Rate Design Changes, July 19, 2007. [clarification added].

[8] Washington Utilities Transportation Commission, Docket No. UE 050684, Order No. 4, at 103-104.

[9] Washington Utilities Transportation Commission, Docket No. UE 050684, Order No. 4, at 105.

structure for ratemaking. In contrast, as shown in the WUTC order and as Mr. Reed discusses, that position has been rejected in other states; the industry norm is to rely on ringfencing measures to protect customers in approving the merger, and to view the operating utility capital structure in the context of industry practice.

The use of the operating subsidiary's actual capital structure - the capital funding the utility plant and equipment that enables utility service - also is consistent with FERC's precedent, under which the commission prefers to use the applicant's capital structure, where possible.[10] In particular, FERC will use the utility operating company's capital structure if it meets three criteria: (1) it issues its own debt without guarantees; (2) it has its own bond rating; and (3) it has a capital structure within the range of capital structures approved by the Commission.[11] FERC noted that if those conditions are not met, it may apply the consolidated capital structure. In those cases, "[u]se of the parent's market driven capital structure when the operating company's own capital structure is outside the range of reasonable capital structures ensures that the operating company receives a reasonable return, while also protecting ratepayers against higher rates resulting from equity ratios outside the reasonable range."[12]

FERC also noted that it does not apply a specific cap to the equity ratio. Rather, the commission stated that:

> [we] recognize that a utility may consider a range of factors beyond simple capital cost minimization in developing their capital structures. Such considerations include, but are not limited to, managing risk and cash flow.

FERC therefore has recognized that the capital structure is tied to the assets being financed, and to the nature of utility operations.

---

[10] *See Transcontinental Gas Pipe Line Corp*, 80 FERC ¶ 61,157, 61,657 (1997) ("Opinion No. 414").

[11] 148 FERC ¶ 61,049 Docket No. EL14-12-000, at 190

Q. Is it your understanding that KCP&L and Westar meet FERC's three standards?

A. Yes, it is. I understand that they issue their own, non-guaranteed long-term debt; carry their own credit ratings; and have maintained capital structures that are highly consistent with those of their peers.

Q. What is your understanding of this Commission's practice regarding the use of consolidated or subsidiary capital structures for ratemaking purposes?

A. My understanding is that the Commission has used consolidated capital structures when those capital structures reflect how the subject utility's assets and operations are financed. That is, if there is no meaningful difference between the operating utility and parent capital structures, and those capital structures reflect the nature of utility operations, it makes no difference. In cases in which there were meaningful differences, the Commission selected a capital structure to protect ratepayers from higher debt costs associated with unregulated operations, or from increased revenue requirements if it determined that the subsidiary utility's equity ratio was unreasonably high relative to industry practice.

For example, in Docket No. 01-WSRE-436-RTS ("01-436 Docket"), Westar's actual consolidated equity ratio included 23.00 percent common equity, but the company requested a hypothetical capital structure including 50.00 percent equity. The Commission generally agreed, and authorized an equity ratio of 45.00 percent based on Staff's recommendation. In its findings, the Commission noted that "Staff's capital structure is directly related to the actual condition and operations of the utility".[13] That

---

[12] 148 FERC ¶ 61,049 Docket No. EL14-12-000, at 191.

[13] In other words, the Commission related the ratemaking capital structure to the provision of utility service. Docket No. 01-WSRE-436-RTS, In the Matter of the Application of Western Resources, Inc. For Approval to Make Certain Changes in its Charges for Electric Service and In the Matter of the Application of Kansas

decision, and Staff's position in that docket, reflect Mr. Gatewood's position in Docket No. 10-EPDE-314-RTS ("10-314 Docket"), in which he testified "[o]f most importance is that Staff's rate of return reflects *the blend of capital actually in place to finance Empire's plant and equipment* as opposed to a forecasted amount."[14]

The principle that the nature of the operations and assets being financed should match the capital used to finance those operations was stated again in Docket No. 12-KGSG-835-RTS ("12-835 Docket"). There, Kansas Gas Service ("KGS") requested a 59.00 percent equity ratio based on the capital structure of its Kansas division. Because KGS was not a separate entity, the parent company, ONEOK, allocated equity and debt to its Kansas operation (that is, KGS). Staff objected and recommended ONEOK's consolidated capital structure, which included 46.00 percent common equity. In Staff's view, the company's requested 59.00 percent equity ratio was inconsistent with its peers. As Mr. Gatewood testified:

> Putting aside the fact that KGS' proposed capital structure has a much thicker equity ratio than its consolidated capitalization, KGS' rate of return in this docket is based on an equity ratio of 59% *while ONEOK's presentations to the investment community assert a target capital structure of 50% debt and 50% equity; this has been ONEOK's stated position for at least two years*. This fact alone is sufficient to question the use of KGS' proposed equity ratio of 59% for setting a revenue requirement.[15]

In Docket No. 14-BHCG-502-RTS ("14-502 Docket"), Black Hills requested the use of a separate legal subsidiary capital structure. Staff agreed with the equity component but looked to the consolidated capital structure to confirm its agreement.

Gas and Electric Company for Approval to Make Certain Changes in its Charges for Electric Service, *Order on Rate Applications* issued July 25, 2001.

[14] Docket No.10-EPDE-314-RTS, In the Matter of the Application of the Empire District Electric Company, a Corporation Organized and Existing Under the Laws of the State of Kansas, For Authority to File and Make Effective New Schedules of Electric Rate in Replacement of Existing Filed Schedules for Electric Service Within the State of Kansas, .Gatewood Direct filed March 31, 2010 [*emphasis added]*.

Staff used the consolidated capital structure over the most recent four years to conclude that the capital structure proposed by Black Hills was reasonable. Mr. Gatewood testified that:

> Black Hills proposed a capital structure of 50.34% equity and 49.66% debt. Staff believes this capital structure is reasonable, as it accurately reflects Black Hills Corporation's actual capital structure. *Furthermore, it is consistent with the capital structure of other public utilities*.[16]

Similarly, in Docket No. 14-ATMG-320-RTS ("14-230 Docket"), Atmos requested the use of its consolidated capital structure because the Kansas operation is a division of Atmos, rather than a distinct legal entity. Mr. Gatewood agreed, noting that the proposed capital structure reflected Atmos' actual capital structure, and was consistent with those in place in the natural gas industry.[17]

In Docket No. 10-KCPE-415-RTS ("10-415 Docket") KCP&L proposed a projected capital structure of its parent company (that is, GPE), which included a cost component attributable to hybrid equity units. Staff used GPE's actual capital structure and removed all costs of the hybrid equity units. In his testimony, Mr. Gatewood explained how GPE's acquisition of GMO in Missouri placed additional financial stress on GPE and that as such, those additional risks were strictly those of GPE, not risks KCP&L customers should bear through higher capital costs. Mr. Gatewood noted that:

> Because KCP&L is less risky than its affiliates, Staff and the Commission must carefully evaluate KCP&L's rate of return to insure the rate of return granted to KCP&L does not reflect the risks of GMO and GPE.

---

15 Docket No. 12-KGSG-835-RTS, In the Matter of the Application of Kansas Gas Service, A Division of ONEOK, Inc. for Adjustment of its Natural Gas Rates in the State of Kansas, Gatewood Direct filed September 24, 2012 *[emphasis added]*

16 Docket No. 14-BHCG-502-RTS, In the Matter of the Application of Black Hills/Kansas Gas Utility Company, LLC, d/b/a Black Hills Energy, for Approval of the Commission to Make Certain Changes in its Rate for Natural Gas Service, Gatewood Direct filed September 12, 2014 *[emphasis added]*

17 Docket No. 14-ATMG-320-RTS, In the Matter of the Application of Atmos Energy Corporation for Review and Adjustment of Its Natural Gas Rates, Gatewood Direct filed May 20, 2014.

Mr. Gatewood explained the two capital structure issues in the docket were (1) the use of a forecasted versus an actual capital structure, and (2) the inclusion of GPE's Equity Linked Convertible Securities. He concluded that the equity units should not be included in KCP&L's capital structure, and that the full cost of the securities should not be borne by KCP&L's customers:

> Staff is committed to setting KCPL's cost of capital using KCPL's cost of debt and equity. Staff set this policy to isolate KCPL's capital costs from that GPE's other investments that may have different risk profiles from KCPL.[18]

Mr. Gatewood further explained that his "adjustment to remove GPE's Equity Units from KCP&L's capital structure carries out Staff's intent to protect KCP&L customers." The Commission accepted Staff's position, stating that:

> …the Commission finds that these equity units are an obligation of GPE, not KCPL. This fact alone drives our decision. To protect Kansas ratepayers, isolating KPCL's capital costs from that of GPE's other investments that may have different risk profiles is sound policy. The funds raised through these equity units are not used strictly for KCPL financing needs; some of the funds were used to finance plant and equipment or repay debt associated with the Aquila acquisition which occurred during the course of the 1025 Regulatory Plan.
>
> ***
>
> These concerns seek to keep the holding company risks associated with Aquila separate from the Kansas operations.[19]

Lastly, in the 15-116 Docket, KCP&L requested the consolidated capital structure and Staff agreed, noting that KCP&L's capital structure was "similar to that of its parent, GPE."[20]

---

[18] Docket No. 10-KCPE-415-RTS, In the Matter of Kansas City Power & Light Company to Modify its Tariffs to Continue the Implementation of its Regulatory Plan, Gatewood Direct filed June 15, 2010.

[19] 10-415 Docket, November 22, 2010 Order: 1) Addressing Prude2) Approving Application, in Part; & 3) Ruling on Pending Requests.

[20] Docket No. 16-KCPE-115-RTS, In the Matter of the Application Kansas City Power & Light Company to Make Certain Changes in Its Charges for Electric Service, Order issued September 10, 2015.

Q. Please summarize the principles that are common across those dockets.

A. The common principles are twofold. First, the consolidated capital structure is appropriate if it matches the assets used to provide utility service. That principle reflects the Commission's findings that the nature of utility operations and assets are important factors in arriving at capital structure determinations. As noted earlier, when there is no meaningful difference between the consolidated and operating company capital structures, and both reflect the assets used to provide utility operations, there is no issue. Where there is a meaningful difference between the two, and the operating utility capital structure best reflects utility operations, a departure from the consolidated capital structure is appropriate. Second, the reasonableness of a given capital structure is assessed by reference to industry practice.

Q. How will GPE's utility operating companies be financed post-closing?

A. As Mr. Bryant explained, the operating utilities will continue to be financed with a balanced mix of long-term debt and common equity.[21] That financing strategy is consistent with the practice of other vertically integrated electric utilities, which likewise have established capital structures including roughly equal parts of long term debt and common equity.

Q. Why is the use of a balanced mix of long-term debt and common equity a consistent practice among vertically integrated electric utilities?

A. Although debt generally is less costly than equity, a higher debt ratio (that is, higher debt leverage) is more risky because interest and principal payments on debt are mandatory, no matter what the financial condition of the entity at the time such payments come due. In contrast, dividend payments to equity holders may be suspended or cut, depending on

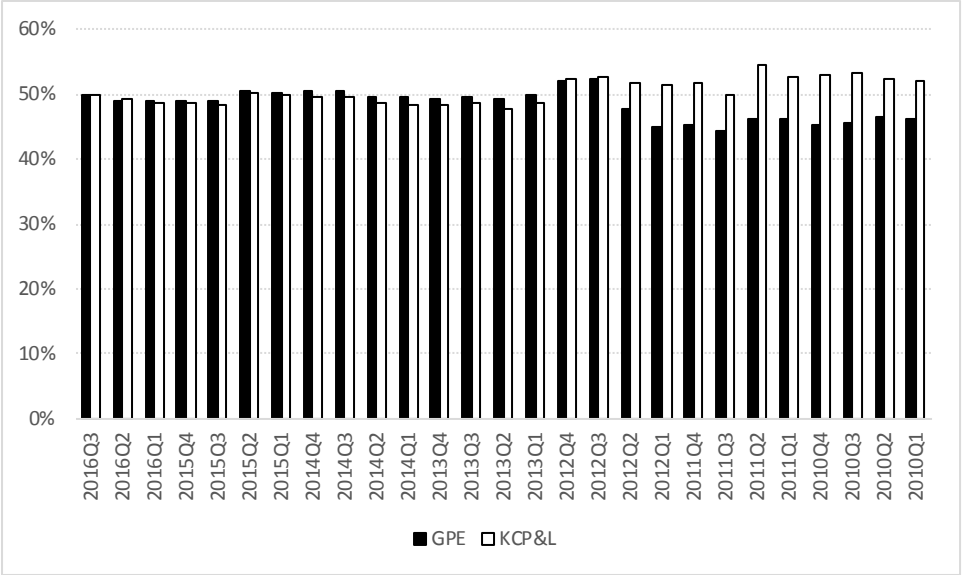
capital and/or liquidity needs. Further, debt has a senior position in that it must be paid before dividends to equity holders. Moreover, whereas debt has a finite life, equity is perpetual. Because utility assets are long-lived, and knowing that it is important to match the tenor of capital with the lives of the assets being financed, appropriate levels of equity are an important part of utility financing practice. Given the capital-intensive nature of their operations, their need to continually access both debt and equity capital, and the reliability and service mandates they must satisfy, utilities generally prefer a prudent and balanced mix of debt and equity.

Q. Have GPE and KCP&L maintained balanced capital structures over time?

A. Yes, they have. As shown in Chart 1 (below) over the 27 fiscal quarters ended September 2016, GPE's and KCP&L's equity ratios consistently have been in the range of 50.00 percent. During that period, the operating company's average equity ratio (50.42 percent) was somewhat higher than the parent company's equity ratio (48.45 percent).

[21] Direct Testimony of Kevin E. Bryant, at 19.

Chart 1: GPE, KCP&L Equity Ratios Over Time[22]



To understand whether that generally balanced capital structure is consistent with industry practice, I reviewed the actual capital in place at both the consolidated and operating company levels for the electric utilities included in the Value Line Electric Utility industry.[23] There, I found that the median equity ratios for parent and operating companies have been 52.24 percent and 52.53 percent, respectively.[24] Those findings support the position that industry practice includes a more balanced mix of debt and common equity.

Q. Did you consider any other measures of industry practice?

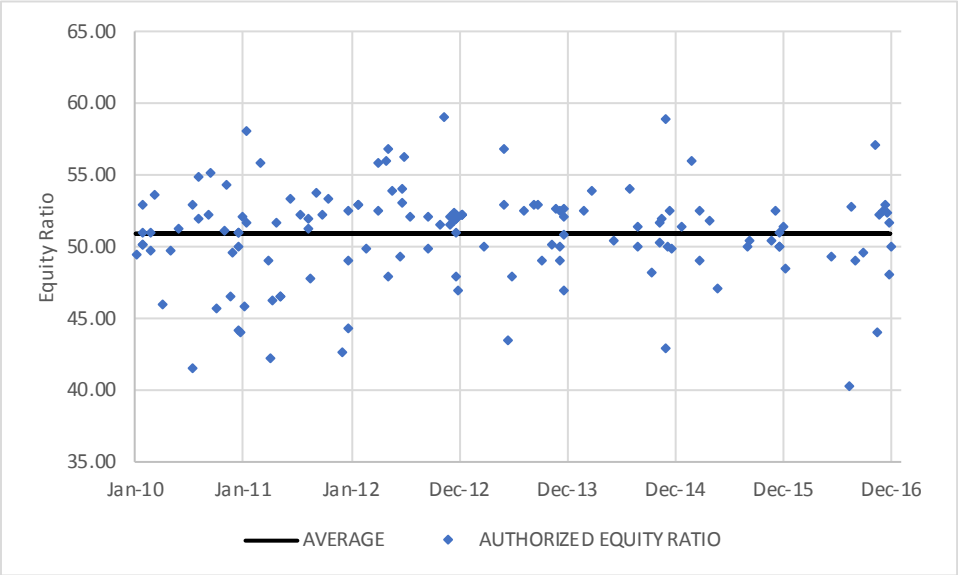
A. Yes, I also reviewed authorized equity ratios for vertically integrated electric utilities since 2010. Looking at vertically integrated electric utilities, and excluding jurisdictions that include non-investor supplied capital in the capital structure, the average equity ratio was 50.89 percent (*see* Chart 2, below). That average is highly consistent with KCP&L's

[22] Source: SNL Financial. Total Capitalization includes Common Equity, Preferred Stock, and Long-Term Debt (including current maturities).

[23] Including the East, West and Central segments. The analysis included those companies for which Common Equity, Preferred Stock, and Long-Term debt were reported.

average equity ratio (since 2010), the industry average (also since 2010), and Mr. Bryant's statement that the operating utility subsidiaries will be financed with a balanced mix of debt and equity.

Chart 2: Authorized Equity Ratios 2010- 2016[25]



C. Staff's Assertion Regarding GPE's Use of "Financial Engineering" is Based on Assumptions It Has Not Proven to be True

Q. What is the basis of Staff's assertion that GPE will effectively recapitalize the subsidiaries' balance sheets through "financial engineering"?

A. Staff asserts that GPE will "use low-cost debt to fund the higher-cost operating company capital structure.[26]

Q. Is the acquisition debt being used for that purpose?

A. No, it is supporting the acquisition of Westar. Neither Westar's nor KCP&L's capital structure will change as a result of the debt issuance. In essence, Staff argues that when

---

[24] Calculated over the 27 calendar quarters ended September 2016. Total Capitalization includes Common Equity, Preferred Stock, and Long-Term Debt (including current maturities).

[25] Source: Regulatory Research Associates.

[26] Direct Testimony of Jeffrey D. McClanahan, at 23.

the parent company's capital structure contains more debt than its subsidiaries, it should be assumed to have used debt to directly fund equity investments in the subsidiaries. Although its position in this regard relates to the proposed Transaction, Mr. Gatewood states that in the past, 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." Mr. Gatewood goes on to argue those instances produce a "windfall" for equity investors "because the stockholders of the parent company collect an equity level return on what is actually debt capital."[27]

Q. Is the term "financial engineering" synonymous with the terms "double leverage" or "recapitalization"?

A. No, it is not. Mason, Merton, Perold, and Tufano, for example, see "financial engineering" as "the means of implementing financial innovation." They note that financial innovation "is the dynamic force propelling the financial system toward its function of providing more efficient resource allocation in the economy," and that such innovation "benefits society by lowering transaction costs, completing markets, and making prices more informative."[28] Although there is no firm definition of "financial engineering", it is seen as a means of advancing financial innovation and improving the efficient allocation of resources. It therefore should not be assumed to be a negative or harmful activity.

[27] Direct Testimony of Adam H. Gatewood, at 37.

[28] Mason, Merton, Perold, Tufano, Cases in Financial Engineering; Applied Studies of Financial Innovation, Prentice-Hall, Inc., 1995, at *xiii*.

Q. Please explain why Staff's "double leverage" adjustment runs counter to basic financial principles.

A. As noted earlier, Staff believes the acquisition debt specifically will be used to fund equity investments in the utility subsidiaries and as such, the return on those investments should reflect the cost of debt. That position – that the return on an investment should reflect the source of funds – is inconsistent with basic financial principles and theory. Because investors tend to be risk averse, the return they require depends on the risk of the investment; the greater the risk, the higher the required return. Under Staff's proposal, the return (the WACC) depends on the source of financing, not on the risks of the underlying utility operations. Two utilities identical in all respects but for their form of ownership should have the same cost rates. Yet, that would not be the case under Staff's adjustment. The notion that a company would have a different value depending on how investors fund their equity investments violates the widely acknowledged economic "law of one price", which states that in an efficient market identical assets would have the same value.

Staff's proposed adjustment also is contrary to the fundamental principle of "opportunity costs", which forms the basis of cost of capital estimation. Opportunity costs represent the return forgone by investing in one asset (or company), rather than another of comparable risk. If, for example, the Return on Equity was 9.35 percent[29] and the utility's capital structure included equal proportions of debt and equity, the overall Rate of Return would be 6.68 percent.[30] Assuming Staff's approach of adjusting the capital structure to 60.00 percent debt and 40.00 percent common equity, the Rate of

[29] *See*, Direct Testimony of Justin T. Grady, at 18.
[30] Assuming a 4.00 percent cost of debt.

Return would fall to 6.14 percent. The Return on Equity required to produce the same 6.14 percent Rate of Return with the 50.00 percent equity ratio falls from 9.35 percent to 8.28 percent. Consequently (and holding all else equal), the return available to equity investors is more than 100 basis points below the return that would be available to comparable-risk utilities.

Now consider two operating subsidiaries, identical in all respects. There, the cost of equity likewise should be identical between the two. Assuming (for the sake of discussion) that the two had separate outside investors, there is no reason to believe that they would require different returns based on the source of their capital.

That discussion suggests a second point: If the common equity of a subsidiary were held by both the parent and an external investor, the equity held by the parent would have one required return, and the equity held by outside investors would have another. To the extent required returns differed, so would the value of the equity. But in an efficient market, identical assets must have the same price (value).[31] If not, the difference quickly would be arbitraged away. Here again, Staff's "double leverage" adjustment is inconsistent with basic financial theory.

Lastly, imposing the parent company's capital structure on the subsidiary assumes that all of the subsidiary's equity was provided by the parent. That clearly is not the case; retained earnings are derived from the subsidiary's operations. In the case of KCP&L, as of 2015 approximately $879.6 million of its $2.4 billion of 2015 Common shareholder's equity (or 36.15 percent) was derived from retained earnings.[32]

[31] That condition refers to the "law of one price" noted earlier.

[32] Great Plains Energy Incorporated, Kansas City Power & Light Company SEC Form 10-K For the fiscal year ended December 31, 2015, at 57.

Q. Are you concerned by the implication in Staff's argument that once Westar is wholly owned by GPE, GPE can manipulate Westar's capital structure to the detriment of ratepayers, something Westar's present investors cannot do?

A. No, I am not. The Commission's past practice of setting ratemaking capital structures by reference to industry practice would address that concern. To the extent the operating companies' capital structures take on equity ratios that are far removed from those in place elsewhere, the Commission can exercise its discretion (and in the past has done so) in setting rates based on what it may deem to be a more appropriate mix of debt and equity.

D. Staff's Definition of the "Least Cost" Capital Structure is Oversimplified and Inconsistent with Prudent Industry Practice

Q. How does Staff define the "least cost" capital structure?

A. Staff argues that the capital structure containing the greatest proportion of debt is the "least cost" capital: "…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."[33] Staff's position, therefore, is that as the capital structure containing the higher amount of financial leverage (that is, debt) necessarily produces the lowest Weighted Average Cost of Capital (the "WACC").

Q. Do you agree with Staff's definition of "least cost"?

A. No, I do not. Staff's approach incorrectly assumes that the "least cost" capital structure may be determined independently of the assets and operations it must finance. In fulfilling their obligation to serve, utilities make large, essentially irreversible investments that are recovered over decades at a compensatory cost of capital. Unlike

unregulated entities, utilities generally do not have the option to delay, defer, or reject many large capital investments Because their operations are capital-intensive and meeting their service obligations is not discretionary, utilities generally do not have the option to avoid raising external funds during periods of capital market distress. Those conditions make capital structure optimization both dynamic and complex. Staff's approach, however, incorrectly assumes that minimizing the WACC is a substitute for optimizing the capital structure.

Q. Please explain the difference between "minimizing" and "optimizing" financing costs.

A. The optimal capital structure recognizes that there are numerous constraints associated with financing decisions, and minimizes financing costs subject to those constraints. In practice, financing constraints are dynamic in nature, in that they continually change in response to market conditions. In my practical experience, the factors that must be considered in making both day-to-day, and long-term financing decisions include the availability and cost of different forms of financing at a particular time, existing and expected capital market conditions (including the availability of capital, the terms at which capital may be acquired, and the ability to subsequently "roll over" maturing financings), the level of existing and proposed debt relative to rating agency criteria, cash flow contingencies, planned and existing capital spending plans, and lead times associated with changing from short-term to long-term financing. Only by considering all such factors can the issuing company establish an optimal financing plan and implement an optimal capital structure.

[33] Direct Testimony of Adam H. Gatewood, at 41.

Q. In your experience, is there a common practice typically used in financing utility rate base assets?

A. Yes. A common financing practice, sometimes referred to as "maturity matching", involves matching the lives of the assets being financed with the maturity of the securities issued to finance those assets, such that the exposure to changes in the cost of capital is minimized. Under maturity matching[34], the overall term structure of the subject company's long-term liabilities – including both debt and equity – should correspond to the life of its permanent assets. As noted by Brigham and Houston, "[t]his strategy minimizes the risk that the firm will be unable to pay off its maturing obligations."[35]

Taken in isolation, maturity matching would involve extending the maturity of all debt to the furthest possible point (because the average useful life of utility assets often is in the range of 30 years, based on a composite depreciation rate of approximately 3.00 percent). Doing so, however, would concentrate maturities within a relatively compressed period. Even if that period is well in the future, the concentration of maturities increases refinancing risk. It therefore is important to maintain the financial flexibility needed to issue securities of varying maturities. Staff's proposal gives no consideration to such practical, yet important concerns.

[34] A more complex process matches the duration of assets to the "duration" of the capital structure. In finance, "duration" (whether for bonds or equity) typically refers to the present value weighted time to receive the security's cash flows. A common optimization strategy includes matching the duration of investments with the term of the underlying asset in which the funds are being invested, or the term of a liability being funded.

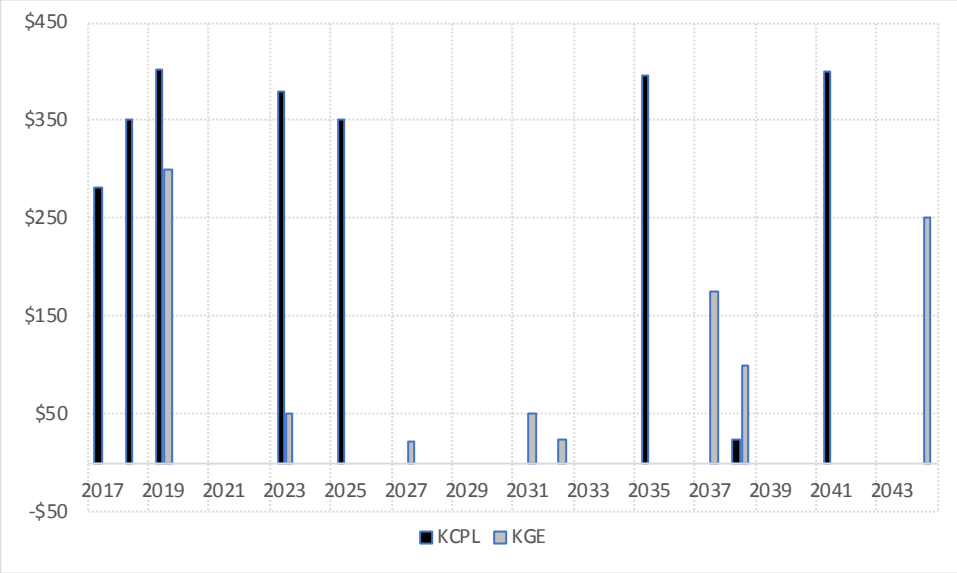
[35] Brigham, Eugene F. and Houston, Joel F., Fundamentals of Financial Management, Concise 4th Ed., Thomson South-Western, 2004, at 574. Maturity matching was also noted by the Commission in Decision 2191-D01-2015, pp. 437, at 88.

Q. Are there observable data to determine whether utilities consider issues such as the term structure of securities in arriving at their financing decisions?

A. Yes. A useful means of assessing the term structure of debt is to view its maturities over time. Doing so provides a useful perspective on two points. First, we are able to quickly assess whether there is a "maturity cliff" that requires a significant portion of existing indebtedness to be refinanced within a relatively compressed period. Second, we can develop an understanding of the extent to which the term structure of the existing debt portfolio corresponds to the lives of the assets being financed.

Chart 3 below, which summarizes KCP&L's and KGE's existing indebtedness by maturity date, indicates that debt is well-staggered; in no single year are maturities greater than about 20.00 percent of total outstanding indebtedness.

Chart 3: KCP&L, KGE Combined Debt Maturity Profile ($ millions)[36]



[36] Source: SNL Financial

Q. How does addition of common equity to the capital structure affect financing strategies?

A. Because it is perpetual in nature, common equity extends the weighted average life of long-term capital, and mitigates incremental refinancing risk. Conversely, relying more heavily on debt as the means of financing long-lived assets shortens the weighted average life, and increases the risk of refinancing maturing obligations during less accommodating market environments.

Q. How does the fact that KCP&L and Westar have focused on managing their debt structure relate to Staff's recommendation to apply the consolidated capital structure in future rate proceedings?

A. It is clear evidence that consistent with the Commission's past findings, operating utilities manage their capital structures in a manner that reflects the nature of utility operations. [37] The implications of that finding are twofold. First, the observation that the operating companies manage their debt structure to reflect the long-lived nature of utility assets indicates that, consistent with prior Commission findings, the capital structure is directly related to actual utility conditions and operations[38]. Second, it recognizes that capital structure management and optimization is complex and includes far more considerations than Staff's simple "least cost" approach.

[37] 01-436 Order, ¶39

[39] Direct Testimony of Adam H. Gatewood, at 27.

Q. Turning to Staff's argument that the new, incremental debt incurred by GPE for the Transaction will become "permanent"[39], does that observation affect your analysis of the appropriate capital structure for the utility company?

A. No, it does not. Staff's position that the debt will become permanent is speculative, gives no consideration to the financing requirements at the operating utility level, and ignores the effect of ringfencing provisions designed to insulate the subsidiaries from parent-level activities.

Q. Mr. Gatewood states that in his view, the term "regulatory support", as used by rating agencies such as Moody's, refers to "regulatory agencies' willingness to set revenue requirements in a manner than is more than fair to the utility."[40] Do you agree with Mr. Gatewood's assessment?

A. No, I do not. Mr. Gatewood states that in the name of "regulatory support", commissions may feel "compelled to adopt practices they might not otherwise adopt."[41] He suggests that in this case, the Commission might be "hesitant" to use a ratemaking principle – the use of parent company capital structures – if doing so may result in a ratings downgrade. I have two concerns with Mr. Gatewood's supposition. First, he presumes that the only ratemaking principle the Commission has applied is that the parent company capital structure should be used when it produces the "least cost" WACC. As discussed above, however, that is not the case. The Commission rightly has recognized the importance of ensuring that the ratemaking capital structure reflects the nature of utility operations. The Commission need not feel compelled to take a position that is contrary to its practice; adopting a balanced operating utility capital structure is in keeping with its principles.

[39] Direct Testimony of Adam H. Gatewood, at 27.
[40] Direct Testimony of Adam H. Gatewood, at 44.
[41] Direct Testimony of Adam H. Gatewood, at 44

Second, if Mr. Gatewood's position was correct, it would follow that because certain jurisdictions are viewed as supportive, their regulatory commissions do not, and have not properly balanced the interests of rate payers and investors. I strongly disagree with that notion. Although I am not an attorney, I understand that in *Hope*, the Court found that "[t]he fixing of just and reasonable rates … involves a balancing of the investor and the consumer interests."[42] Regulatory Research Associates rates the Kansas Commission as Average/2, which roughly is in the middle one-third of the jurisdictions that it ranks based on the "constructiveness" of regulation. I have no reason to believe that because it is seen as "constructive" the Commission has not endeavored to balance the interests of investors and ratepayers in setting just and reasonable rates.

E. Summary

Q. Please now summarize your conclusions regarding Staff's proposed "double leverage adjustment.

A. Staff's proposed $401 million adjustment is entirely inappropriate. The risks associated with the higher levels of debt at the parent company are isolated at the parent company through the proposed ringfencing provisions sponsored by Mr. Ives and discussed by Mr. Reed in their respective rebuttal testimonies. Consequently, Staff's proposal would confer the benefit of higher proportions of debt on ratepayers without imposing the costs flowing from the more risky capital structure.

Moreover, Staff's proposal assumes that the acquisition debt will be used specifically to fund GPE's investment in Westar's equity, even though Staff cannot show that to be the case. Further, the consolidated capital structure, which is the basis of Staff's "least cost" capital structure is far from the targeted, balanced capital structure

[42] *Hope Natural Gas* at 603 .

that KCP&L and other utilities long have used, and which Mr. Bryant states will be used to finance the utilities' operations going forward.

V. STAFF'S SELECTIVE USE OF THE FINANCIAL ADVISORS' FAIRNESS OPINIONS

A. Overview

Q. Please briefly summarize how Staff has used the financial advisors' fairness opinions in developing its proposed $1.495 billion adjustment.

A. Staff has selected certain elements of the financial advisors' fairness opinions and, based on its review of those elements, has determined that the Transaction value, and the fairness opinions supporting the Transaction, are unreasonable. Staff then looks to a single assumption underlying one of the methods used by the financial advisors to conclude a $1.094 billion adjustment is appropriate. In short, much of Staff's conclusion regarding the Transactions' reasonableness, and a large portion of its proposed adjustment depends directly on its use of selected portions of the fairness opinions.

Q. What are the principal issues with Staff's selective use of the financial advisors' fairness opinions in this proceeding.

A. First, Staff believes that the premium to be paid by GPE in this Transaction is "unreasonable".[43] That view reflects Staff's assessment of certain analyses discussed in the financial advisors' fairness opinions. Second, Staff has concluded that the great majority of the "control premium" ($1.77 billion of the $2.30 billion premium) should be returned to ratepayers.[44] In Staff's view, certain factors "contributed" to GPE's decision to pay the control premium and those factors, to varying degrees, "were primarily the

[43] Direct Testimony of Justin T. Grady, at 24.
[44] Direct Testimony of Justin T. Grady, at 81-82.

result of the rate support of Westar's ratepayers."[45] Staff's conclusions and Mr. Grady's attribution of specific factors to the control premium is based on selected data contained in the fairness opinions.

In particular, Mr. Grady asserts that approximately $1.094 billion of the $2.30 billion control premium is related to a "Reduced ROR", which he describes as the difference in the cost of equity assumed in Goldman Sach's Discounted Cash Flow analyses, and the returns authorized (and expected to be authorized) by the Commission.

Q. Please generally describe fairness opinions, and their role in corporate transactions.

A. A fairness opinion is provided by an external advisor, expressing its opinion that, from a financial point of view, the subject transaction meets a threshold level of fairness. As in this Transaction, fairness opinions are delivered to the parties' respective Boards of Directors, who review the opinions in arriving at their decisions whether or not to proceed. Opinions typically are delivered orally at Board of Directors meetings, and confirmed in writing by a letter addressed to the Boards.

Although they speak to the fairness of the subject transaction "from a financial point of view", fairness opinions do not "reflect the prices at which any securities may trade at the present time or at any time in the future."[46] Nor are fairness opinions appraisals, specifying a set value. Rather, they express the opinion of the advisor that the transaction value is "within a range of values encompassing financial fairness."[47]

Both Guggenheim and Goldman make clear that their opinions depend on the context of the Transaction, and the circumstances prevailing at the time of the Transaction. Guggenheim notes that those factors may include "economic, capital

[45] Direct Testimony of Justin T. Grady, at 80.
[46] Great Plains Energy, Inc., SEC Form S-4, filed July 13, 2016, at 84.

markets and other conditions" as of the date the opinion was rendered.[48] Because "fairness" depends on the context of the transaction, "[t]he preparation of a fairness opinion is a complex process and involves various judgments and determinations as to the most appropriate and relevant valuation and financial analyses and the application of those methods to the particular circumstances involved."[49]

The complexity of the analysis, and the unavoidable application of judgment generally call for a process that includes the advisors presenting the opinion to an internal "opinion committee" of the financial advisory firm before it is delivered to the subject company's Board of Directors. FINRA, the Financial Industry Regulatory Authority, has established certain procedures to be followed in preparing fairness opinions, including

- The process for selecting personnel to be on the fairness committee;
- The necessary qualifications of persons serving on the fairness committee;
- The process to promote a balanced review by the fairness committee, which shall include the review and approval by persons who do not serve on the deal team to the Transaction; and
- The process to determine whether the valuation analyses used in the fairness opinion are appropriate. [50]

Q. Do you have any reason to believe that in this case, either Guggenheim or Goldman failed to follow procedures such as those outlined by FINRA?

A. No, I do not.

---

[47] Steven M. Davidoff, Fairness Opinions, American University Law Review, 2006, Volume 55, Issue 6, at 1565.

[48] Great Plains Energy, Inc., SEC Form S-4, filed July 13, 2016, at 81.

[49] Great Plains Energy, Inc., SEC Form S-4, filed July 13, 2016, at 83.

[50] http://finra.complinet.com/en/display/display_main.html?rbid=2403&element_id=6832

Q. Are there analytical approaches that typically are applied to assess the fairness of a given transaction?

A. Yes, there are. As explained by both Guggenheim and Goldman, the three approaches often used include (1) Discounted Cash Flow ("DCF"); (2) Precedent Transaction; and (3) Peer Group Trading analyses.

Q. Do the fairness opinions typically rely on, or give specific weight to any of those approaches?

A. No, they do not. Rather, the opinions consider all three approaches, along with other factors, without giving particular weight to any of them. In the case of Guggenheim's opinion, it:

- Based its valuation and financial analyses on assumptions that it deemed reasonable, including assumptions concerning general business and economic conditions, capital markets considerations and industry-specific and company-specific factors, all of which are beyond the control of Westar, Great Plains Energy and Guggenheim Securities;

- Did not form a view or opinion as to whether any individual analysis or factor, whether positive or negative, considered in isolation, supported or failed to support its opinion;

- Considered the results of all of its valuation and financial analyses and did not attribute any particular weight to any one analysis or factor; and

- Ultimately arrived at its opinion based on the results of all of its valuation and financial analyses assessed as a whole and believes that the totality of the factors considered and the various valuation and financial analyses performed by Guggenheim Securities in connection with its opinion operated collectively to support its determination as to the fairness, from a financial point of view, to holders of Westar common stock (excluding shares owned by Westar as treasury stock, shares owned by a wholly-owned subsidiary of Westar or shares owned directly or indirectly by Great Plains Energy or Merger Sub) of the merger consideration.[51]

[51] Great Plains Energy, Inc., SEC Form S-4, filed July 13, 2016, at 84.

Similarly, in discussing its presentation of results, Goldman stated that its summary:

> …does not purport to be a complete description of the financial analyses performed by Goldman Sachs, nor does the order of analyses described represent relative importance or weight given to those analyses by Goldman Sachs. Some of the summaries of the financial analyses include information presented in tabular format. The tables must be read together with the full text of each summary and are alone not a complete description of Goldman Sachs' financial analyses.[52]

Q. Given the analytical complexity and judgment required in preparing fairness opinions, do the opinion letters contain language explaining the importance of considering the underlying analyses as a whole?

A. Yes, they do. Goldman stated that:

> The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Selecting portions of the analyses or of the summary set forth above, without considering the analyses as a whole, could create an incomplete view of the processes underlying Goldman Sachs' opinion. In arriving at its fairness determination, Goldman Sachs considered the results of all of its analyses and did not attribute any particular weight to any factor or analysis considered by it. Rather, Goldman Sachs made its determination as to fairness on the basis of its experience and professional judgment after considering the results of all of its analyses. No company or Transaction used in the above analyses as a comparison is directly comparable to Great Plains Energy or Westar or the contemplated merger.[53]

Similarly, Guggenheim stated the following:

> The preparation of a fairness opinion is a complex process and involves various judgments and determinations as to the most appropriate and relevant valuation and financial analyses and the application of those methods to the particular circumstances involved. A fairness opinion therefore is not readily susceptible to partial analysis or summary description, and taking portions of the valuation and financial analyses set forth below, without considering such analyses as a whole, would in Guggenheim Securities' view create an incomplete and misleading picture of the processes underlying the valuation and financial analyses considered in rendering Guggenheim Securities' opinion.[54]

---

[52] Great Plains Energy, Inc., SEC Form S-4, filed July 13, 2016, at 72.
[53] Great Plains Energy, Inc., SEC Form S-4, filed July 13, 2016, at 75.
[54] Great Plains Energy, Inc., SEC Form S-4, filed July 13, 2016, at 83.

Q. Given the points discussed above, what are your conclusions regarding Staff's selective use of the financial advisors' fairness opinions?

A. First, Staff's approach clearly contradicts the financial advisors' statements that such selective and partial analyses would "create an incomplete and misleading picture" of the approaches and processes supporting the opinions.

I also cannot reconcile Staff's conclusion that the analyses and considerations contained in the fairness opinions do not reasonably support the Transaction value with the experience, expertise, and procedures that both Goldman and Guggenheim bring to the Transaction. It is unclear, for example, why or how either of the financial advisors would render an unreasonably supported opinion, given the vetting process required by the opinion committees, and the procedures prescribed by FINRA in connection with those committees.

It also is unclear how Staff can take the position that a competitive auction, which included multiple, sophisticated parties and advisors, led to an unreasonable result. There is no question that the auction result is market-based, or that the result has been endorsed by the stockholders of both the buyer and the seller. Nor is there any question that the stockholders of both companies are principally composed of many, sophisticated financial institutions; Great Plains' and Westar's degrees of institutional ownership are 93.45 percent and 71.88 percent, respectively. In both cases, the largest institutional owner holds approximately 8.00 percent of common stock, and the ten largest institutions combined own less than 40.00 percent of common stock.[55] Staff's conclusion that the

[55] Source: SNL Financial. I also note that GPE's September 2016 common stock offering of 60.49 million shares, include the over-allotment, was fully subscribed.

auction result is unreasonable plainly contradicts the decisions of experienced and sophisticated investors.

B. Staff's View of Westar's "Unaffected Price"

Q. Please summarize the term "unaffected price", and how it relates to Staff's testimony.

A. The "unaffected price" is meant to represent the price at which the subject company's stock trades before it is affected by any news regarding a potential Transaction. As Mr. Grady discusses at pages 22 through 24 of his testimony, the "unaffected price" may be used as the basis for calculating the premium to be paid in the Transaction. That is, the acquisition price less the "unaffected" price is one measure of the control premium.

In its opinion, Guggenheim presents two dates as measures of the "unaffected" price: November 3, 2015; and March 9, 2016. Guggenheim notes that the premium associated with the earlier date (November 2015) is 51.90 percent, whereas it is 36.10 percent when measured by reference to the March 2016 date.[56] Mr. Grady argues that the "best" unaffected price to use to measure the control premium is November 3, 2015. He asserts what when that price is used, it underscores "just how unreasonable GPE's agreed-upon purchase price of Westar is."[57]

Q. Do you agree with Mr. Grady's assessment and conclusions?

A. No, I do not. Mr. Grady believes that November 3, 2015 is the proper date to measure Westar's unaffected price because subsequent to the company's 2015 third quarter conference call, there may have been market speculation regarding a potential sale of the

[56] Great Plains Energy, Inc., SEC Form S-4, filed July 13, 2016, at 85.
[57] Direct Testimony of Justin T. Grady at 24.

company.[58] The other date, March 9, 2016 reflects the release of an article by Bloomberg, indicating that Westar was considering strategic options.[59]

Q. Did Mr. Grady review Westar's stock price activity around the two dates that Guggenheim presented as measures of the unaffected price in coming to his conclusion that November 2015 is the "best" unaffected price date?

A. No, he did not.

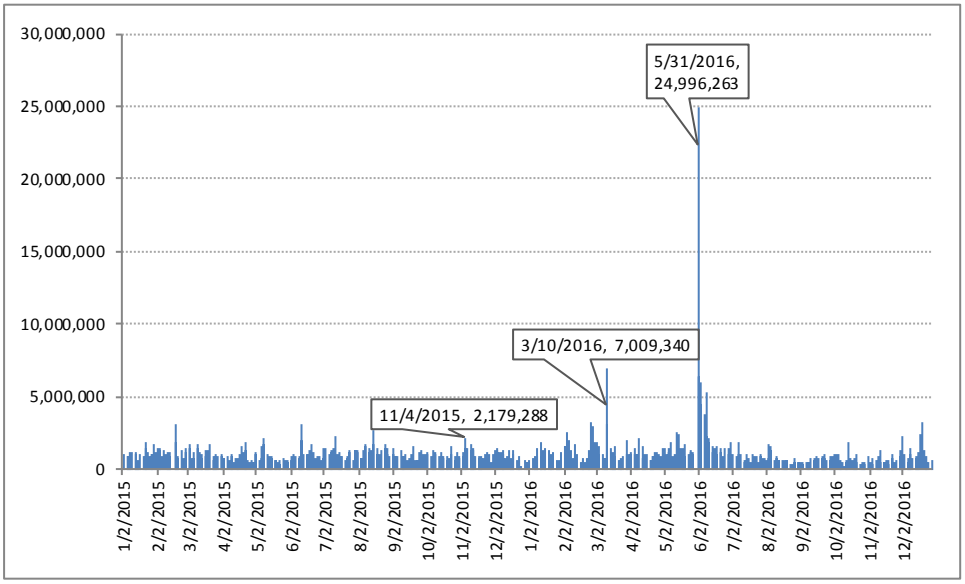
Q. Have you done so?

A. Yes, I have. I first reviewed the trading volume on November 4, 2015 and March 10, 2016, the days immediately subsequent to the alternative "unaffected" price days. From January through November 3, 2015 Westar's average daily volume was approximately 1.039 million shares. As Chart 4 (below) indicates, on November 4, 2015 the volume was approximately 2.18 million shares. To put that volume in perspective, between January 2010 and November 4, 2015 there were 456 trading days on which the volume exceeded the 1.039 million share average, and 34 days on which volume exceeded the 2.18 million shares traded on November 4, 2015. On March 10, 2016, however, the volume was much higher at 7.01 million shares (approximately 14 standard deviations from the average). Only two days had a higher volume, one of which was the May 31, 2016 announcement date. On that basis alone, I question Mr. Grady's view that the November 2015 date reflects the "best" unaffected stock price.

[58] *See* Direct Testimony of Justin T. Grady, Exhibit JTG-1, at 4.

[59] https://www.bloomberg.com/news/articles/2016-03-10/kansas-utility-westar-energy-said-to-mull-options-including-sale

Chart 4: Westar Daily Trading Volume (2015 – 2016)[60]



I then reviewed Westar's daily price activity to determine whether November 2015 reflects the "best" unaffected stock price. To do so, I first reviewed Westar's performance relative to the Philadelphia Stock Exchange Utility Sector Index ("UTY") and the XLU, an exchange-traded fund of utility stocks. I found that from January through November 4, 2015 Westar's price performance was very much in line with the two indices, although it appreciated at a modestly higher rate. From November 4, 2015 through March 9, 2016 Westar again traded in line with the indices, but at a somewhat slower pace. Subsequent to March 9, 2016, Westar meaningfully outperformed the indices, which declined in value.

[60] Source: Bloomberg Professional.

Table 1: Westar Relative Performance[61]

Period	Westar	XLU	UTY	30-Yr Treasury Yield
1/2/15 – 11/3/15	0.960	.0907	0.926	1.113 (+30 bps)
11/4/15 – 3/9/16	1.082	1.095	1.088	0.890 (- 33 bps)
3/9/16 – 11/30/16	1.292	0.970	0.973	1.140 (+37 bps)

Q. What do you conclude from that data?

A. It is clear that Westar traded in line with its peers from January 2015 through early March 2016. As would be expected, the periods of price declines coincided with increasing interest rates, and the periods of price increases were concurrent with decreasing interest rates. It was not until March 2016, with the release of the Bloomberg article, that Westar outperformed its peers.[62] Consequently, there is no reason to believe that November 2015 reflects the "best" measure of the unaffected price.

It also is important to keep in mind that the Transaction premium, however calculated, is the result of an auction process. Nowhere in his testimony has Mr. Grady suggested, much less demonstrated, that the auction was anything but fair and open. The Transaction value therefore is a reliable measure of the "fair" value. Mr. Grady's position that the Transaction value is unreasonable because, in his view, the premium is

61 Source: Bloomberg Professional

62 To gain a further perspective on the extent to which either date (that is, November 3, 2015 or March 9, 2016) represents the better measure of Westar's unaffected price, I performed a series of regression analyses in which Westar's returns (measured on a five-day basis) were the dependent variable, and return on the UTY, Treasury yields, and a binary variable indicating the post-event period were the explanatory variables. The regression analyses were structured to determine whether we can say with certainty that November 2015 reflects the "best" unaffected date. For example, to test the March date the binary variable would be 1.00 for all trading days subsequent to March 9, 2016; a similar process is run for the November 2015 date If the binary variable is statistically significant, we could conclude that the trading pattern differed in the post-announcement period. An empirical concern is that the November 2015 event period, which extends through the data set (to December 2016) overlaps with the March 2016 event period. Consequently, it is difficult to disentangle the two. That is the case for several reasons. First, the UTY and the binary variable explain about 63.00 percent of the variation in Westar's price performance. That finding holds whether the binary variable reflects the November 2015 or the March 2016 period. Second, as noted above, the November 2015 period includes the March 2016 period and as such, it may be that it is the latter that confers significance on the November period. Third, interest rates remain a significant determinant of performance, regardless of the event period chosen. *See*, Exhibit RBH-2

unreasonable does not alter the fundamental point that a fair and open auction process best reveals the fair value.

C. Staff's Review of Guggenheim's Precedent Transaction Analysis

Q. Please now summarize Mr. Grady's review of Guggenheim's Precedent Transaction Analysis.

A. Mr. Grady first argues that on the basis of Price/EPS ("P/E"), the Transaction is the highest of any of those reviewed by Guggenheim. Second, he argues that on the basis of EV/EBITDA, the Transaction value is higher than all but for the acquisition of ITC by Fortis, Inc.[63]

Q. What is your response to Mr. Grady on those points?

A. Mr. Grady's comparison of transaction multiples fails to include the market context that Guggenheim stated is important in reviewing its opinion. That is, Mr. Grady compares transactions to each other, without considering whether the market conditions that supported the transaction multiples changed over time. For example, when the GPE/Westar Transaction was announced, the reported transaction P/E multiple was 23.9x.[64] At the same time, the median P/E multiple for a group of comparable companies was 19.56x, suggesting a Transaction premium of 22.21 percent.[65] The 30-year Treasury yield then was 2.65 percent, approaching the low observed on July 8, 2016.[66]

Chart 5 (below) provides a summary of the transaction P/E multiples relative to market multiples and Treasury yields. As Chart 5 indicates, the GPE/Westar Transaction is not far from the group when measured relative to prevailing market multiples.

---

63 Direct Testimony of Justin T. Grady, at 15 – 16.

64 Source: Exhibit JTG-16, at 88.

65 Equals [(23.90/19.56)-1 Please note that the comparison group includes the nine companies listed on Exhibit JTG-16, at 89.

66 Source: Federal Reserve Schedule H.15.

Chart 5: Transaction and Comparison Company P/E Multiples Over Time[67]

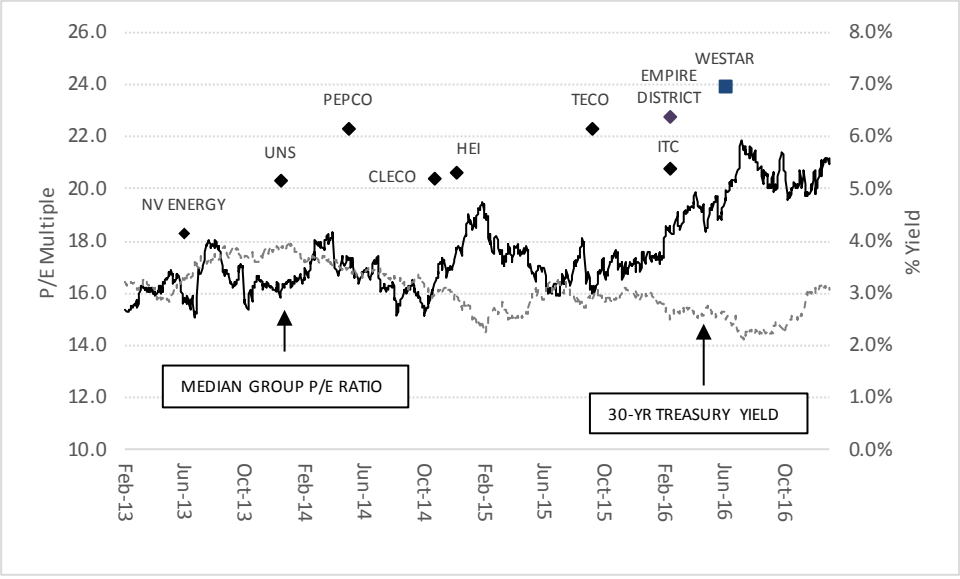


Table 2 (below) summarizes the transaction premiums for those cases. As that Table demonstrates, the GPE/Westar premium falls below both the mean and median premium for the transactions included in Mr. Grady's review.

Chart 5 also indicates that the P/E ratios are negatively related to the prevailing level of interest rates (that is, as interest rates fall, the P/E ratios increase). Based on the comparison group median, the correlation between interest rates and P/E ratios is -64.22 percent. Even if we control for trends, the relationship between interest rates and P/E ratios is negative, and statistically significant (*see* Exhibit RBH-3).

[67] Source: Bloomberg Professional; Exhibit JTG-1 (confidential) at 12. P-E ratios based on Trailing Twelve Months of earnings.

Table 2: Transaction and Market Multiples[68]

Transaction Date	Target	Acquirer	Transaction P/E	Peer Group Median P/E	Premium To Market
5/31/2016	**Westar**	**Great Plains**	**23.9**	**19.56**	**22.21%**
2/9/2016	Empire District	Algonquin	22.8	18.55	22.89%
2/9/2016	ITC Holdings	Fortis	20.8	18.55	12.11%
9/4/2015	TECO	Emera	22.3	15.98	39.55%
12/3/2014	Hawaiian Electric Industries	NextEra	20.6	17.67	16.55%
10/20/2014	Cleco	Macquarie	20.4	16.33	24.91%
4/30/2014	Pepco	Exelon	22.3	17.35	28.54%
12/11/2013	UNS Energy	Fortis	20.3	15.83	28.21%
5/29/2013	NV Energy	MidAmerican Energy	18.3	15.62	17.13%
		High	22.8	18.6	39.55%
		Average	21.0	17.0	23.74%
		Median	20.7	16.8	23.90%
		Low	18.3	15.6	12.11%

When considered in the context of prevailing market conditions and contemporaneous trading multiples, there is no reason to conclude that the multiple in this case is "higher than every other relevant electric utility transaction in the country", as Mr. Grady asserts.[69] To the contrary, it is consistent with, if not somewhat below those included in Mr. Grady's assessment.

Q. Are there transactions included in Table 2 that share the characteristics of adjacency, common plant ownership, and common regulatory jurisdictions similar to the Joint Applicants?

A. No, there are not. Unlike this Transaction, the parties to the transactions provided in Table 2 are geographically dispersed. That observation is consistent with Goldman's

[68] Source: Bloomberg Professional; Exhibit JTG-1 (confidential), at 12. Transaction P/E ratios based on Current Calendar Year P-E (see, Great Plains Energy, Inc., SEC Form S-4, filed July 13, 2016, at 87); Peer Group Median P/E based on Trailing Twelve Months of earnings.

[69] Direct Testimony of Justin T. Grady, at 16. [emphasis omitted]

statement that "[n]o company or transaction used in the above analyses as a comparison is directly comparable to Great Plains Energy or Westar or the contemplated merger.[70]

D. Goldman Sach's Precedent Transaction and Market Multiple Analyses

Q. Please summarize Mr. Grady's position regarding Goldman's Precedent Transaction Analysis.

A. Mr. Grady argues that certain of the transactions used in Goldman's analysis are not comparable to GPE's purchase of Westar, because they include natural gas operations. Those transactions include Emera/TECO; Duke/Piedmont; Southern Co./AGL; and Dominion/Questar. Mr. Grady also objects to the Fortis/ITC Transaction, due to the nature of ITC's regulation.[71] Mr. Grady concludes that when those four transactions are removed, the remaining transactions "underscore" what he views as the unreasonable price to be paid in this Transaction.

Q. What is your response to Mr. Grady's position regarding the Emera/TECO Transaction?

A. Although Mr. Grady focused on the 35.00 percent of TECO's 2015 net income that was related to natural gas operations, he did not point out that in 2014, Integrys Energy derived 36.00 percent of its consolidated net income from natural gas operations.[72] Nor did he note that 44.00 percent of UIL's 2014 net income was related to its natural gas operations.[73] Despite the fact that Integrys and UIL have higher levels of natural gas operations than TECO, their transaction multiples fall at the lower end of range.

---

70 Great Plains Energy, Inc., SEC Form S-4, filed July 13, 2016, at 75.
71 Direct Testimony of Justin T. Grady, at 24 – 25.
72 Integrys Energy Group, Inc. SEC Form 10-K for the fiscal year ended December 31, 2014, at 99.
73 UIL Holdings Corp, SEC Form 10-K for the period ending December 31, 2014, at 100.

Consequently, Mr. Grady's definitive statement that Goldman's analysis "underscores" an "unreasonable" purchase price is questionable.

Q. What is your response to Mr. Grady's assertion that Goldman's EPS multiples do not support the Transaction price?

A. Again, Mr. Grady focuses on only one aspect of the data, and fails to consider the broader market context. Considering the Transaction P/E ratio relative to those prevailing at the time of the Transactions, the GPE/Westar Transaction falls near the mean or median result (*see* Table 3, below). As Table 3 indicates, using the UTY as the benchmark, the GPE/Westar Transaction represents a premium to the industry P/E of about 35.40 percent, whereas the mean and median premiums are 38.40 percent and 30.20 percent, respectively. Given that the Transaction multiple falls well within those two measures of central tendency, I do not see it as "standing above the crowd", as Mr. Grady suggests.

Table 3: Goldman Transaction Multiples Analysis[74]

TRANSACTION	DATE	TRANSACTION P/E	UTY P/E	FULL GROUP	ELECTRIC	REVISED ELECTRIC
WESTAR/GREAT PLAINS	May-16	23.90	17.65	35.4%	35.4%	35.4%
Algonquin/Empire	Feb-16	23.00	16.36	40.6%	40.6%	40.6%
Emera/TECO	Sep-15	25.00	14.95	67.2%	67.2%	
Duke/Piedmont	Oct-15	32.10	16.02	100.3%		
Southern Co./AGL	Aug-15	22.10	16.46	34.3%		
Fortis/ITC	Feb-16	21.30	16.36	30.2%	30.2%	30.2%
Pepco/Exelon	Apr-14	22.50	16.20	38.9%	38.9%	38.9%
Iberdrola/UIL	Feb-15	21.70	16.75	29.6%	29.6%	
Dominion/Questar	Feb-16	19.10	16.36	16.8%		
Nextera/HECO	Dec-14	19.70	17.00	15.9%	15.9%	15.9%
WEC/Integrys	Jun-14	20.10	16.67	20.6%	20.6%	
Macquarie/Cleco	Oct-14	20.60	16.13	27.7%	27.7%	27.7%
Maximum				100.3%	67.2%	40.6%
Mean				38.4%	33.8%	30.7%
Median				30.2%	29.9%	30.2%
Minimum				15.9%	15.9%	15.9%

Even if we exclude the three natural gas transactions, the 35.40 percent premium is only somewhat above the mean premium of 33.80 percent. If we exclude the three additional transactions that include what Mr. Grady considers to include "substantial" gas operations (the "Revised Electric" column in Table 3), the premium in this case is somewhat above the mean and median results, but well within the range.

Q. Do you have any further observations regarding Mr. Grady's conclusions?

A. Yes. If we exclude the three natural gas transactions, there would be eight remaining. Of those eight, four occurred in 2014. The three natural gas transactions, on the other hand, took place from September 2015 to February 2016. Because values depend on market conditions, Mr. Grady's approach would be to abandon more recent utility transactions in

favor of those that he finds to be more operationally comparable. That is, he is trading one measure of comparability for another. And, if we were to exclude the three electric transactions that include "substantial" natural gas operations (TECO, Integrys, and UIL), we would be left with a sample of only five transactions, of which three occurred in 2014. In that case, we would trade both timing and sample size for operational comparability. Even in that case the premium does not fall far from the median.

E. Goldman Sach's Discounted Cash Flow Analysis

Q. Do you have any observations regarding Mr. Grady's "recreation" of Goldman's DCF analysis?

A. Yes, I do. At pages 70 to 72 of his testimony, Mr. Grady argues that he was able to recreate Goldman's DCF analysis, and to use that recreation to assess the effect of differing discount rates on the estimated Transaction value per share. Mr. Grady assumed that the Free Cash Flow projections provided by Guggenheim would be the same as those calculated by Goldman.[75] There are however, certain differences between Guggenheim's DCF analysis, on which Mr. Grady relies, and his "recreation" of the Goldman analysis.

First, whereas Mr. Grady adjusted the first partial year cash flow on *pro rata* basis to equal a full year, Guggenheim did not. Rather it assumed the Transaction announcement date (May 31, 2016) and cash flows **<u>over the remaining seven months</u>**. As a result, the first period's negative cash flow is less than Mr. Grady assumes.

---

[74] Sources: Table JTG-1 EPS Multiples Confidential; Bloomberg Professional. Summary statistics exclude GPE/WR.

[75] Direct Testimony of Justin T. Grady, at 70.

Second, Mr. Grady's analysis assumes a year-end discounting convention. That is, although cash flows are received throughout the course of a given year, Mr. Grady's model assumes that they are received at the end of the year. Guggenheim's analysis, on the other hand, assumes a mid-period discounting convention such that on average, cash flows are received one-half of the way through a given period. In 2016, for example, the discounting convention assumes that cash flows are received one-half of the way through the remaining seven months. **Looking forward, Mr. Grady's analysis assumes that the year 2020 should be discounted as the fifth year, whereas Guggenheim's analysis assumes that 2020 is about the fourth year.**[76]

Q. Why is that difference meaningful?

A. Simply because of the time value of money. A longer discounting period produces a lower present value - cash flows received *five* years in the future are worth less than cash flows received *four* years in the future. By discounting cash flows at year-end, Mr. Grady's analysis extends the discounting periods and reduces the present value of the cash flows relative to Guggenheim's approach.

Assuming Guggenheim's discounting convention, the Value/Share included in Mr. Grady's Confidential Staff Computation JTG-9 increases from $46.45 to $51.01, a difference of $4.56 per share. At 142.6 million shares, that difference equates to $651 million in total equity value. To put that value in perspective, Mr. Grady's proposed adjustment based on his assessment of a "lower ROR" is about $1.094 billion. In that scenario, the difference in discounting convention alone represents about 60.00 percent of that proposed adjustment. (*See*, Confidential Exhibit RBH-4, page 2 of 2)

[76] **The year 2020 is discounted to the period 4.0822; the terminal value is discounted at the period 4.5822.** *See*, Confidential Exhibit RBH-4.

The effect of the change in discounting convention depends on the discount rate and terminal value assumptions. But even the least difference among the 25 scenarios included in Table JTG-6 and the corresponding result using Guggenheim's discounting convention is about **$361 million** (*see* Confidential Exhibit RBH-5).

Q. What conclusion do you draw from that analysis?

A. My principal conclusion is that although Mr. Grady claims to have successfully replicated Goldman's analysis, we do not know that to be the case. As with other aspects of his analysis, Mr. Grady selected only a portion of the analyses considered by the financial advisors. In this case, he assumed one portion of Guggenheim's DCF analysis, the Free Cash Flows, but not the discounting convention that Guggenheim applied to those cash flows. He then assumed that Goldman adopted his convention, not Guggenheim's.

That one difference represents a significant portion of Mr. Grady's "lower ROR" adjustment, which itself is predicated on Goldman's DCF analysis. Consequently, Mr. Grady's suppositions regarding Goldman's DCF analyses, and his conclusions regarding their implications for the reasonableness of the Transaction value are highly questionable.

F. Staff's Assessment of a "Lower ROR"

Q. Please summarize Mr. Grady's position regarding the "lower ROR" and its implications for this proceeding.

A. Mr. Grady argues that because Goldman has assumed a different (lower) cost of equity than that which generally has been used to set rates in Kansas, and throughout the U.S., GPE "has determined that its real required return on equity (cost of equity) is dramatically

lower than the Commission-authorized required return on equity that is included in Westar's rates."[77]

Q. What is your general response to Mr. Grady's conclusion?

A. Mr. Grady's conclusion is misplaced in several respects. First, the premise of Mr. Grady's position is entirely unsupported. Nowhere has he shown that GPE "has determined" that its cost of equity is anywhere near that level. Utilities, and their regulators, do not determine the cost of equity to be used in ratemaking through an investment advisor's fairness opinion on a transaction. As discussed earlier, fairness opinions are prepared based on multiple analyses and factors, all of which the advisors considered but did not individually weight to arrive at what is ultimately an informed, subjective opinion as to whether the transaction is "fair" from a financial point of view. Mr. Grady, however, selected one assumption from one analysis and made the leap that it represents a "determination" on the part of GPE.

Second, Mr. Grady's position rests on the notion that the only analysis supporting GPE's proposed acquisition price is Goldman's "Illustrative" DCF analysis.

Third, if Mr. Grady is going to suggest that the discount rate used in the DCF analyses is a reasonable estimate of the ratemaking Return on Equity, he should recognize that the approach would fall far short of the *Hope* and *Bluefield* standards applied by this and other regulatory commissions throughout the United States.

Lastly, Mr. Grady's approach fails Staff's own standards for estimating the cost of equity in prior rate case proceedings.

[77] Direct Testimony of Justin T. Grady, at 77.

Q. Turning to your first point, why do you say that the premise of Mr. Grady's position is unsupported?

A. Because nowhere has he shown that GPE believes its cost of equity to be in the range of **5.00** percent. Mr. Grady's position relies on the notion that if a different discount rate had been used in Goldman's DCF analyses, GPE would not have entered into the merger agreement. Putting aside the questions surrounding Mr. Grady's DCF analyses (discussed above), his position fails to recognize that the DCF approach is only one of several methods used by Goldman in the preparation of its opinion. Going back to the point that the auction process revealed the fair value, Mr. Grady has not demonstrated how the auction result would have changed if different assumptions were used in the DCF analyses.

It also is important to note that whereas Mr. Grady selected one aspect of Goldman's opinion, he failed to recognize Goldman's cautionary statement that "[t]he preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description." Nor did he recognize Goldman's clear warning that "[s]electing portions of the analyses or of the summary set forth above, without considering the analyses as a whole, could create an incomplete view of the processes underlying Goldman Sachs' opinion."[78]

Q. Aside from the selective use of Goldman's opinion, is the cost of equity included in the DCF analysis consistent with positions taken by Staff in prior rate cases?

A. No, there are several discrepancies. First, as Mr. Gatewood noted in Appendix A of his testimony in KCP&L's 10-415 Docket, the United States Supreme Court has put forth

[78] Great Plains Energy, Inc., SEC Form S-4, filed July 13, 2016, at 75.

certain concepts (often referred to as the *Hope* and *Bluefield* standards) as to what constitutes a reasonable rate of return. As Mr. Gatewood pointed out:

> Financial analysts use these decisions as guide in estimating the appropriate cost of capital for public utilities. In the broadest terms, a just and reasonable rate of return enables the utility to pay interest on debt it has employed to finance its plant and equipment while earning a net income sufficient to compensate equity investors. The decisions issued by the Court do not say how to estimate or model a reasonable cost of capital, the decisions provide critical questions for policy makers to consider in reaching their decision.[79]

Mr. Gatewood made several important observations. First, the authorized return should be sufficient to pay interest on its debt. Mr. Grady's approach fails to consider that important point. Second, although the Court provided guidance for regulators to consider in setting the authorized return, it did not prescribe a given method. To that point, in the 10-415 Docket, Mr. Gatewood applied two models. Mr. Grady's approach, however, assumes that Goldman's discount rate is the sole means by which the Return on Equity should be set. Moreover, whereas Mr. Gatewood sees the Capital Asset Pricing Model (the method used in the Goldman analyses) as addressing the *Hope* and *Bluefield* "comparable return" standard, Mr. Grady's method would provide for a return **<u>several hundred</u>** basis points below those available to other utilities.

Q. Turning to your last point, please explain how Mr. Grady's approach fails to meet the *Hope* and *Bluefield* standards.

A. As Mr. Gatewood notes in his testimony in the 10-415 Docket, the *Hope* and *Bluefield* standards are threefold:

> The Court's decisions conclude that returns granted to regulated public utilities should: 1) be commensurate with returns on investments of similar risk; 2) be sufficient to assure the financial integrity of the company under economic management; and 3) change over time with changes in the

[79] Docket No. 10-KCPE-415-RTS, Direct Testimony of Adam H. Gatewood, Appendix A – 1.

money market and business conditions.[80]

Mr. Gatewood similarly summarized those standards in his testimony in KCP&L's 15-116 Docket.[81] As Mr. Gatewood noted in that docket, the Capital Asset Pricing Model is "appealing because it meets the legal standards [he] discussed as it incorporates current data from the financial markets and the unique risks of the utility in question."[82]

In that case, Mr. Gatewood assumed a Beta coefficient, which measures the systematic, or non-diversifiable risk, for electric utilities to be .74. Mr. Grady's analysis, on the other hand assumes a Beta coefficient of **.41.** In essence, Mr. Grady's approach represents a significant reduction of the systematic risk that Mr. Gatewood found reasonable as recently as May 2015.

Similarly, in the 15-116 Docket, Mr. Gatewood found that a premium of 525 basis points above the cost of debt would be a reasonable measure of the additional return required by equity holders to compensate them for the risks associated with equity ownership. Mr. Grady's approach, however, assumes a cost of equity less than **5.25** percent, suggesting a negative cost of debt.

Q. Isn't it the case, though, that the cost of equity estimates relied on by Mr. Grady were developed by Goldman?

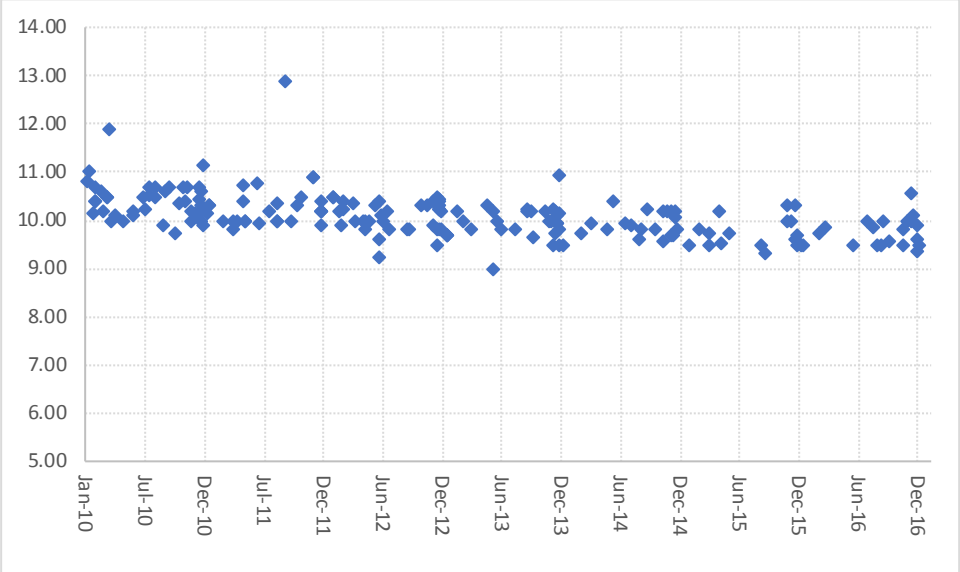
A. Yes, it is. But as discussed elsewhere in my testimony, that does not mean Goldman's opinion relies solely on that estimate. Rather, Goldman makes clear that its opinion does not attribute particular weight to any given factor or analysis, which includes its CAPM estimates.

[80] Docket No. 10-KCPE-415-RTS Direct Testimony of Adam H. Gatewood, at Appendix A-1, lns. 14-18.
[81] Docket No. 15-KCPE-116-RTS, Direct Testimony of Adam H. Gatewood, at 14 -15.
[82] Docket No. 15-KCPE-116-RTS, Direct Testimony of Adam H. Gatewood, at 34. [clarification added]

Q. Turning back to the *Hope* and *Bluefield* standards, do you believe that Mr. Grady's recommendation would enable GPE and the operating utility subsidiaries to maintain their financial integrity and to attract capital at reasonable rates?

A. No, I do not. There is little question that if the ratemaking cost of equity was set at **5.04** percent, the operating utilities' cash flows would become severely diluted, greatly diminishing the cash flow-based metrics on which rating agencies focus. Further, the significant departure from regulatory practice reflected in a ratemaking return **400 to 500** basis points (and more; *see* Chart 6, below) below those authorize elsewhere clearly would increase the rating agencies' views of regulatory risk.

Chart 6: Authorized ROEs (2010 – 2017)[83]



The unavoidable consequence would be a negative ratings action. We don't know the extent of that action, but only because we have never seen an ROE nearly as low as Mr.

[83] Source: Regulatory Research Associates

Grady's proposal. We can say, though, that because rating agencies put considerable weight on the nature of regulation,[84] a negative ratings action is virtually certain.

VI. SUMMARY AND CONCLUSIONS

Q. Please now summarize the conclusions discussed throughout your Rebuttal Testimony.

A. For the reasons discussed throughout my Rebuttal Testimony, Staff's proposed "double leverage adjustment should be rejected. If adopted, Staff's proposal would cause the Transaction to be terminated, and the benefits to all stakeholders to be lost.[85] Not only is Staff's proposal detrimental to multiple constituencies, it is inconsistent with the decisions of other jurisdictions and conflicts with a principle long-held by the Commission, that the ratemaking capital structure should reflect the nature of utility operations. Quite simply, there is no reason to believe that the utility subsidiaries would finance themselves with the degree of debt leverage assumed in Staff's adjustment.

Staff's "double leverage" adjustment also is contrary to the long-held regulatory principle that benefits should follow burdens; it would confer the benefit of higher debt leverage on ratepayers without exposing them to the risks associated with that leverage. That is the case even though GPE's proposed ringfencing provisions are intended to isolate the utility operating companies from risks at the parent company level. In summary, there is no reason to effectively terminate the Transaction by applying Staff's proposed adjustment.

I also find that Staff's partial and incomplete use of the financial advisors' fairness opinions casts considerable doubt on its conclusion that the Transaction value,

---

[84] *See*, Moody's Investors Service, *Rating Methodology, Regulated Electric and Gas*, December 23, 2013, at 6

[85] *See* Rebuttal Testimony of Darrin R. Ives in this Docket.

and that the financial advisors' fairness opinions unreasonably support that value. Fairness opinions, included those provided in this case, are very clear that selecting portions of the analysis, or considering one piece without considering the whole can lead to incomplete conclusions. Contrary to Staff's position, there is no reason to believe that Goldman and Guggenheim, with their collective experience and expertise, and with the benefit of FINRA-prescribed processes surrounding opinion committee review, would render an opinion based on unreasonable analyses or considerations. Nor is there reason to believe that the auction process was anything but fair and open, or that it produced anything but a fair, market-based measure of the Transaction's value.

Just as there is no reason to conclude that the financial advisors' analyses are unreasonable, there is no reason to conclude that they developed their opinions based on a single method – the Discounted Cash Flow approach. Consequently, we cannot say, as Staff suggests, that by virtue of those analyses GPE has "determined" that its cost of equity is so far below the returns authorized for comparable-risk, vertically integrated electric utilities. Consequently, the fundamental premise of Staff's "lower ROR" adjustment is misplaced, and its proposal should be given no weight.

Q. Does this conclude your Rebuttal Testimony?

A. Yes, it does.

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the 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**

AFFIDAVIT OF ROBERT B. HEVERT

COMMONWEALTH OF MASSACHUSETTS)
) **ss**
COUNTY OF WORCESTER)

Robert B. Hevert, being first duly sworn on his oath, states:

1. My name is Robert B. Hevert and my business address is ScottMadden, Inc., 1900 W. Park Drive, Suite 250, Westborough, MA 01581. I have been retained to serve as an expert witness to provide testimony on behalf of Kansas City Power & Light Company.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Kansas City Power & Light Company consisting of fifty-three (53) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

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

Robert B. Hevert

Subscribed and sworn before me this 9th day of January 2017.

Notary Public

My commission expires: March 11, 2022

Resume of:
Robert B. Hevert
Partner

Summary

Bob Hevert is a financial and economic consultant with more than 30 years of broad experience in the energy and utility industries. He has an extensive background in the areas of corporate finance, mergers and acquisitions, project finance, asset and business unit valuation, rate and regulatory matters, energy market assessment, and corporate strategic planning. He has provided expert testimony on a wide range of financial, strategic, and economic matters on more than 100 occasions at the state, provincial, and federal levels.

Prior to joining ScottMadden, Bob served as managing partner at Sussex Economic Advisors, LLC. Throughout the course of his career, he has worked with numerous leading energy companies and financial institutions throughout North America. He has provided expert testimony and support of litigation in various regulatory proceedings on a variety of energy and economic issues. Bob earned a B.S. in business and economics from the University of Delaware and an M.B.A. with a concentration in finance from the University of Massachusetts at Amherst. Bob also holds the Chartered Financial Analyst designation.

Areas of Specialization

- Regulation and rates
- Utilities
- Fossil/hydro generation
- Markets and RTOs
- Nuclear generation
- Mergers and acquisitions
- Regulatory strategy and rate case support
- Capital project planning
- Strategic and business planning

Recent Expert Testimony Submission/Appearance

- Federal Energy Regulatory Commission – Return on Equity
- New Jersey Board of Public Utilities – Merger Approval
- New Mexico Public Regulation Commission – Cost of Capital and Financial Integrity
- United States District Court – PURPA and FERC Regulations
- Alberta Utilities Commission – Return on Equity and Capital Structure

Recent Assignments

- Provided expert testimony on the cost of capital for ratemaking purposes before numerous state utility regulatory agencies, the Alberta Utilities Commission, and the Federal Energy Regulatory Commission
- For an independent electric transmission provider in Texas, prepared an expert report on the economic damages with respect to failure to meet guaranteed completion dates. The report was filed as part of an arbitration proceeding and included a review of the ratemaking implications of economic damages
- Advised the board of directors of a publicly traded electric and natural gas combination utility on dividend policy issues, earnings payout trends and related capital market considerations
- Assisted a publicly traded utility with a strategic buy-side evaluation of a gas utility with more than $1 billion in assets. The assignment included operational performance benchmarking, calculation of merger synergies, risk analysis, and review of the regulatory implications of the transaction
- Provided testimony before the Arkansas Public Service Commission in support of the acquisition of SourceGas LLC by Black Hills Corporation. The testimony addressed certain balance sheet capitalization and credit rating issues
- For the State of Maine Public Utility Commission, prepared a report that summarized the Northeast and Atlantic Canada natural gas power markets and analyzed the potential benefits and costs associated with natural gas pipeline expansions. The independent report was filed at the Maine Public Utility Commission

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Regulatory Commission of Alaska				
ENSTAR Natural Gas Company	06/16	ENSTAR Natural Gas Company	Matter No. TA 285-4	Return on Equity
ENSTAR Natural Gas Company	08/14	ENSTAR Natural Gas Company	Matter No. TA 262-4	Return on Equity
Alberta Utilities Commission				
Altalink, L.P., and EPCOR Distribution & Transmission, Inc.	02/16	Altalink, L.P., and EPCOR Distribution & Transmission, Inc.	2016 General Cost of Capital, Proceeding ID. 20622	Rate of Return
Arizona Corporation Commission				
Southwest Gas Corporation	05/16	Southwest Gas Corporation	Docket No. G-01551A-16-017	Return on Equity
Southwest Gas Corporation	11/10	Southwest Gas Corporation	Docket No. G-01551A-10-0458	Return on Equity
Arkansas Public Service Commission				
Oklahoma Gas and Electric Company	08/16	Oklahoma Gas and Electric Company	Docket No. 16-052-U	Return on Equity
CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Arkansas Gas	11/15	CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Arkansas Gas	Docket No. 15-098-U	Return on Equity
SourceGas Arkansas, Inc.	03/15	SourceGas Arkansas, Inc.	Docket No. 15-011-U	Return on Equity
CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Arkansas Gas	01/07	CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Arkansas Gas	Docket No. 06-161-U	Return on Equity
California Public Utilities Commission				
Southwest Gas Corporation	12/12	Southwest Gas Corporation	Docket No. A-12-12-024	Return on Equity
Colorado Public Utilities Commission				
Xcel Energy, Inc.	03/15	Public Service Company of Colorado	Docket No. 15AL-0135G	Return on Equity (gas)
Xcel Energy, Inc.	06/14	Public Service Company of Colorado	Docket No. 14AL-0660E	Return on Equity (electric)
Xcel Energy, Inc.	12/12	Public Service Company of Colorado	Docket No. 12AL-1268G	Return on Equity (gas)
Xcel Energy, Inc.	11/11	Public Service Company of Colorado	Docket No. 11AL-947E	Return on Equity (electric)
Xcel Energy, Inc.	12/10	Public Service Company of Colorado	Docket No. 10AL-963G	Return on Equity (electric)
Atmos Energy Corporation	07/09	Atmos Energy Colorado-Kansas Division	Docket No. 09AL-507G	Return on Equity (gas)

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Xcel Energy, Inc.	12/06	Public Service Company of Colorado	Docket No. 06S-656G	Return on Equity (gas)
Xcel Energy, Inc.	04/06	Public Service Company of Colorado	Docket No. 06S-234EG	Return on Equity (electric)
Xcel Energy, Inc.	08/05	Public Service Company of Colorado	Docket No. 05S-369ST	Return on Equity (steam)
Xcel Energy, Inc.	05/05	Public Service Company of Colorado	Docket No. 05S-246G	Return on Equity (gas)
Connecticut Public Utilities Regulatory Authority				
Connecticut Light and Power Company	06/14	Connecticut Light and Power Company	Docket No. 14-05-06	Return on Equity
Southern Connecticut Gas Company	09/08	Southern Connecticut Gas Company	Docket No. 08-08-17	Return on Equity
Southern Connecticut Gas Company	12/07	Southern Connecticut Gas Company	Docket No. 05-03-17PH02	Return on Equity
Connecticut Natural Gas Corporation	12/07	Connecticut Natural Gas Corporation	Docket No. 06-03-04PH02	Return on Equity
Delaware Public Service Commission				
Delmarva Power & Light Company	05/16	Delmarva Power & Light Company	Case No. 16-649 (Electric)	Return on Equity
Delmarva Power & Light Company	05/16	Delmarva Power & Light Company	Case No. 16-650 (Gas)	Return on Equity
Delmarva Power & Light Company	03/13	Delmarva Power & Light Company	Case No. 13-115	Return on Equity
Delmarva Power & Light Company	12/12	Delmarva Power & Light Company	Case No. 12-546	Return on Equity
Delmarva Power & Light Company	03/12	Delmarva Power & Light Company	Case No. 11-528	Return on Equity
District of Columbia Public Service Commission				
Potomac Electric Power Company	07/16	Potomac Electric Power Company	Formal Case No. FC1139	Return on Equity
Washington Gas Light Company	02/16	Washington Gas Light Company	Formal Case No. FC1137	Return on Equity
Potomac Electric Power Company	03/13	Potomac Electric Power Company	Formal Case No. FC1103-2013-E	Return on Equity
Potomac Electric Power Company	07/11	Potomac Electric Power Company	Formal Case No. FC1087	Return on Equity
Federal Energy Regulatory Commission				
Sabine Pipeline, LLC	09/15	Sabine Pipeline, LLC	Docket No. RP15-1322-000	Return on Equity
Nextera Energy Transmission West, LLC	07/15	Nextera Energy Transmission West, LLC	Docket No. ER15-2239-000	Return on Equity
Maritimes & Northeast Pipeline, LLC	05/15	Maritimes & Northeast Pipeline, LLC	Docket No. RP15-1026-000	Return on Equity
Public Service Company of New Mexico	12/12	Public Service Company of New Mexico	Docket No. ER13-685-000	Return on Equity
Public Service Company of New Mexico	10/10	Public Service Company of New Mexico	Docket No. ER11-1915-000	Return on Equity

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Portland Natural Gas Transmission System	05/10	Portland Natural Gas Transmission System	Docket No. RP10-729-000	Return on Equity
Florida Gas Transmission Company, LLC	10/09	Florida Gas Transmission Company, LLC	Docket No. RP10-21-000	Return on Equity
Maritimes and Northeast Pipeline, LLC	07/09	Maritimes and Northeast Pipeline, LLC	Docket No. RP09-809-000	Return on Equity
Spectra Energy	02/08	Saltville Gas Storage	Docket No. RP08-257-000	Return on Equity
Panhandle Energy Pipelines	08/07	Panhandle Energy Pipelines	Docket No. PL07-2-000	Response to draft policy statement regarding inclusion of MLPs in proxy groups for determination of gas pipeline ROEs
Southwest Gas Storage Company	08/07	Southwest Gas Storage Company	Docket No. RP07-541-000	Return on Equity
Southwest Gas Storage Company	06/07	Southwest Gas Storage Company	Docket No. RP07-34-000	Return on Equity
Sea Robin Pipeline LLC	06/07	Sea Robin Pipeline LLC	Docket No. RP07-513-000	Return on Equity
Transwestern Pipeline Company	09/06	Transwestern Pipeline Company	Docket No. RP06-614-000	Return on Equity
GPU International and Aquila	11/00	GPU International	Docket No. EC01-24-000	Market Power Study
Florida Public Service Commission				
Florida Power & Light Company	03/16	Florida Power & Light Company	Docket No. 160021-EI	Return on Equity
Tampa Electric Company	04/13	Tampa Electric Company	Docket No. 130040-EI	Return on Equity
Georgia Public Service Commission				
Atlanta Gas Light Company	05/10	Atlanta Gas Light Company	Docket No. 31647-U	Return on Equity
Hawaii Public Utilities Commission				
Hawai'i Electric Light Company, Inc.	09/16	Hawai'i Electric Light Company, Inc.	Docket No. 2015-0170	Return on Equity
Maui Electric Company, Limited	12/14	Maui Electric Company, Limited	Docket No. 2014-0318	Return on Equity
Hawaiian Electric Company, Inc.	06/14	Hawaiian Electric Company, Inc.	Docket No. 2013-0373	Return on Equity
Hawai'i Electric Light Company, Inc.	08/12	Hawai'i Electric Light Company, Inc.	Docket No. 2012-0099	Return on Equity
Illinois Commerce Commission				
Ameren Illinois Company d/b/a Ameren Illinois	01/15	Ameren Illinois Company d/b/a Ameren Illinois	Docket No. 15-0142	Return on Equity
Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities	03/14	Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities	Docket No. 14-0371	Return on Equity

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Ameren Illinois Company d/b/a Ameren Illinois	01/13	Ameren Illinois Company d/b/a Ameren Illinois	Docket No. 13-0192	Return on Equity
Ameren Illinois Company d/b/a Ameren Illinois	02/11	Ameren Illinois Company d/b/a Ameren Illinois	Docket No. 11-0279	Return on Equity (electric)
Ameren Illinois Company d/b/a Ameren Illinois	02/11	Ameren Illinois Company d/b/a Ameren Illinois	Docket No. 11-0282	Return on Equity (gas)
Indiana Utility Regulatory Commission				
Duke Energy Indiana, Inc.	12/15	Duke Energy Indiana, Inc.	Cause No. 44720	Return on Equity
Duke Energy Indiana, Inc.	12/14	Duke Energy Indiana, Inc.	Cause No. 44526	Return on Equity
Northern Indiana Public Service Company	05/09	Northern Indiana Public Service Company	Cause No. 43894	Assessment of Valuation Approaches
Kansas Corporation Commission				
Kansas City Power & Light Company	01/15	Kansas City Power & Light Company	Docket No. 15-KCPE-116-RTS	Return on Equity
Maine Public Utilities Commission				
Central Maine Power Company	06/11	Central Maine Power Company	Docket No. 2010-327	Response to Bench Analysis provided by Commission Staff relating to the Company's credit and collections processes
Maryland Public Service Commission				
Potomac Electric Power Company	06/16	Potomac Electric Power Company	Case No. 9418	Return on Equity
Potomac Electric Power Company	12/13	Potomac Electric Power Company	Case No. 9336	Return on Equity
Delmarva Power & Light Company	03/13	Delmarva Power & Light Company	Case No. 9317	Return on Equity
Potomac Electric Power Company	11/12	Potomac Electric Power Company	Case No. 9311	Return on Equity
Potomac Electric Power Company	12/11	Potomac Electric Power Company	Case No. 9286	Return on Equity
Delmarva Power & Light Company	12/11	Delmarva Power & Light Company	Case No. 9285	Return on Equity
Delmarva Power & Light Company	12/10	Delmarva Power & Light Company	Case No. 9249	Return on Equity

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Massachusetts Department of Public Utilities				
National Grid	11/15	Massachusetts Electric Company and Nantucket Electric Company d/b/a National Grid	DPU 15-155	Return on Equity
Fitchburg Gas and Electric Light Company d/b/a Unitil	06/15	Fitchburg Gas and Electric Light Company d/b/a Unitil	DPU 15-80	Return on Equity
NSTAR Gas Company	12/14	NSTAR Gas Company	DPU 14-150	Return on Equity
Fitchburg Gas and Electric Light Company d/b/a Unitil	07/13	Fitchburg Gas and Electric Light Company d/b/a Unitil	DPU 13-90	Return on Equity
Bay State Gas Company d/b/a Columbia Gas of Massachusetts	04/12	Bay State Gas Company d/b/a Columbia Gas of Massachusetts	DPU 12-25	Capital Cost Recovery
National Grid	08/09	Massachusetts Electric Company d/b/a National Grid	DPU 09-39	Revenue Decoupling and Return on Equity
National Grid	08/09	Massachusetts Electric Company and Nantucket Electric Company d/b/a National Grid	DPU 09-38	Return on Equity – Solar Generation
Bay State Gas Company	04/09	Bay State Gas Company	DPU 09-30	Return on Equity
NSTAR Electric	09/04	NSTAR Electric	DTE 04-85	Divestiture of Power Purchase Agreement
NSTAR Electric	08/04	NSTAR Electric	DTE 04-78	Divestiture of Power Purchase Agreement
NSTAR Electric	07/04	NSTAR Electric	DTE 04-68	Divestiture of Power Purchase Agreement
NSTAR Electric	07/04	NSTAR Electric	DTE 04-61	Divestiture of Power Purchase Agreement
NSTAR Electric	06/04	NSTAR Electric	DTE 04-60	Divestiture of Power Purchase Agreement
Unitil Corporation	01/04	Fitchburg Gas and Electric	DTE 03-52	Integrated Resource Plan; Gas Demand Forecast
Bay State Gas Company	01/93	Bay State Gas Company	DPU 93-14	Divestiture of Shelf Registration
Bay State Gas Company	01/91	Bay State Gas Company	DPU 91-25	Divestiture of Shelf Registration

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Minnesota Public Utilities Commission				
Otter Tail Power Corporation	02/16	Otter Tail Power Company	Docket No. E017/GR-15-1033	Return on Equity
Minnesota Energy Resources Corporation	09/15	Minnesota Energy Resources Corporation	Docket No. G-011/GR-15-736	Return on Equity
CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas	08/15	CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas	Docket No. G-008/GR-15-424	Return on Equity
Xcel Energy, Inc.	11/13	Northern States Power Company	Docket No. E002/GR-13-868	Return on Equity
CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas	08/13	CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas	Docket No. G-008/GR-13-316	Return on Equity
Xcel Energy, Inc.	11/12	Northern States Power Company	Docket No. E002/GR-12-961	Return on Equity
Otter Tail Power Corporation	04/10	Otter Tail Power Company	Docket No. E-017/GR-10-239	Return on Equity
Minnesota Power a division of ALLETE, Inc.	11/09	Minnesota Power	Docket No. E-015/GR-09-1151	Return on Equity
CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas	11/08	CenterPoint Energy Minnesota Gas	Docket No. G-008/GR-08-1075	Return on Equity
Otter Tail Power Corporation	10/07	Otter Tail Power Company	Docket No. E-017/GR-07-1178	Return on Equity
Xcel Energy, Inc.	11/05	Northern States Power Company -Minnesota	Docket No. E-002/GR-05-1428	Return on Equity (electric)
Xcel Energy, Inc.	09/04	Northern States Power Company - Minnesota	Docket No. G-002/GR-04-1511	Return on Equity (gas)
Mississippi Public Service Commission				
CenterPoint Energy Resources, Corp. d/b/a CenterPoint Energy Entex and CenterPoint Energy Mississippi Gas	07/09	CenterPoint Energy Mississippi Gas	Docket No. 09-UN-334	Return on Equity
Missouri Public Service Commission				
Union Electric Company d/b/a Ameren Missouri	07/16	Union Electric Company d/b/a Ameren Missouri	Case No. ER-2016-0179	Return on Equity (electric)
Kansas City Power & Light Company	07/16	Kansas City Power & Light Company	Case No. ER-2016-0285	Return on Equity (electric)
Kansas City Power & Light Company	02/16	Kansas City Power & Light Company	Case No. ER-2016-0156	Return on Equity (electric)
Kansas City Power & Light Company	10/14	Kansas City Power & Light Company	Case No. ER-2014-0370	Return on Equity (electric)

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Union Electric Company d/b/a Ameren Missouri	07/14	Union Electric Company d/b/a Ameren Missouri	Case No. ER-2014-0258	Return on Equity (electric)
Union Electric Company d/b/a Ameren Missouri	06/14	Union Electric Company d/b/a Ameren Missouri	Case No. EC-2014-0223	Return on Equity (electric)
Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities	02/14	Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities	Case No. GR-2014-0152	Return on Equity
Laclede Gas Company	12/12	Laclede Gas Company	Case No. GR-2013-0171	Return on Equity
Union Electric Company d/b/a Ameren Missouri	02/12	Union Electric Company d/b/a Ameren Missouri	Case No. ER-2012-0166	Return on Equity (electric)
Union Electric Company d/b/a AmerenUE	09/10	Union Electric Company d/b/a AmerenUE	Case No. ER-2011-0028	Return on Equity (electric)
Union Electric Company d/b/a AmerenUE	06/10	Union Electric Company d/b/a AmerenUE	Case No. GR-2010-0363	Return on Equity (gas)
Montana Public Service Commission				
Northwestern Corporation	09/12	Northwestern Corporation d/b/a Northwestern Energy	Docket No. D2012.9.94	Return on Equity (gas)
Nevada Public Utilities Commission				
Southwest Gas Corporation	04/12	Southwest Gas Corporation	Docket No. 12-04005	Return on Equity (gas)
Nevada Power Company	06/11	Nevada Power Company	Docket No. 11-06006	Return on Equity (electric)
New Hampshire Public Utilities Commission				
Unitil Energy Systems, Inc.	04/16	Unitil Energy Systems, Inc.	Docket No. DE 16-384	Return on Equity
Liberty Utilities d/b/a EnergyNorth Natural Gas	08/14	Liberty Utilities d/b/a EnergyNorth Natural Gas	Docket No. DG 14-180	Return on Equity
Liberty Utilities d/b/a Granite State Electric Company	03/13	Liberty Utilities d/b/a Granite State Electric Company	Docket No. DE 13-063	Return on Equity
EnergyNorth Natural Gas d/b/a National Grid NH	02/10	EnergyNorth Natural Gas d/b/a National Grid NH	Docket No. DG 10-017	Return on Equity
Unitil Energy Systems, Inc., EnergyNorth Natural Gas, Inc. d/b/a National Grid NH, Granite State Electric Company d/b/a National Grid, and Northern Utilities, Inc. – New Hampshire Division	08/08	Unitil Energy Systems, Inc., EnergyNorth Natural Gas, Inc. d/b/a National Grid NH, Granite State Electric Company d/b/a National Grid, and Northern Utilities, Inc. – New Hampshire Division	Docket No. DG 07-072	Carrying Charge Rate on Cash Working Capital

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
New Jersey Board of Public Utilities				
Pivotal Utility Holdings, Inc.	08/16	Elizabethtown Gas	Docket No. GR16090826	Return on Equity
The Southern Company; AGL Resources Inc.; AMS Corp. and Pivotal Holdings, Inc. d/b/a Elizabethtown Gas	04/16	The Southern Company; AGL Resources Inc.; AMS Corp. and Pivotal Holdings, Inc. d/b/a Elizabethtown Gas	BPU Docket No. GM15101196	Merger Approval
Atlantic City Electric Company	03/16	Atlantic City Electric Company	Docket No. ER16030252	Return on Equity
Pepco Holdings, Inc.	04/14	Atlantic City Electric Company	Docket No. ER14030245	Return on Equity
Orange and Rockland Utilities	11/13	Rockland Electric Company	Docket No. ER13111135	Return on Equity
Atlantic City Electric Company	12/12	Atlantic City Electric Company	Docket No. ER12121071	Return on Equity
Atlantic City Electric Company	08/11	Atlantic City Electric Company	Docket No. ER11080469	Return on Equity
Pepco Holdings, Inc.	09/06	Atlantic City Electric Company	Docket No. EM06090638	Divestiture and Valuation of Electric Generating Assets
Pepco Holdings, Inc.	12/05	Atlantic City Electric Company	Docket No. EM05121058	Market Value of Electric Generation Assets; Auction
Conectiv	06/03	Atlantic City Electric Company	Docket No. EO03020091	Market Value of Electric Generation Assets; Auction Process
New Mexico Public Regulation Commission				
Public Service Company of New Mexico	12/16	Public Service Company of New Mexico	Case No. 16-00276-UT	Return on Equity (electric)
Public Service Company of New Mexico	08/15	Public Service Company of New Mexico	Case No. 15-00261-UT	Return on Equity (electric)
Public Service Company of New Mexico	12/14	Public Service Company of New Mexico	Case No. 14-00332-UT	Return on Equity (electric)
Public Service Company of New Mexico	12/14	Public Service Company of New Mexico	Case No. 13-00390-UT	Cost of Capital and Financial Integrity
Southwestern Public Service Company	02/11	Southwestern Public Service Company	Case No. 10-00395-UT	Return on Equity (electric)
Public Service Company of New Mexico	06/10	Public Service Company of New Mexico	Case No. 10-00086-UT	Return on Equity (electric)
Public Service Company of New Mexico	09/08	Public Service Company of New Mexico	Case No. 08-00273-UT	Return on Equity (electric)
Xcel Energy, Inc.	07/07	Southwestern Public Service Company	Case No. 07-00319-UT	Return on Equity (electric)

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
New York State Public Service Commission				
Consolidated Edison Company of New York, Inc.	01/15	Consolidated Edison Company of New York, Inc.	Case No. 15-E-0050	Return on Equity (electric)
Orange and Rockland Utilities, Inc.	11/14	Orange and Rockland Utilities, Inc.	Case Nos. 14-E-0493 and 14-G-0494	Return on Equity (electric and gas)
Consolidated Edison Company of New York, Inc.	01/13	Consolidated Edison Company of New York, Inc.	Case No. 13-E-0030	Return on Equity (electric)
Niagara Mohawk Corporation d/b/a National Grid for Electric Service	04/12	Niagara Mohawk Corporation d/b/a National Grid for Electric Service	Case No. 12-E-0201	Return on Equity (electric)
Niagara Mohawk Corporation d/b/a National Grid for Gas Service	04/12	Niagara Mohawk Corporation d/b/a National Grid for Gas Service	Case No. 12-G-0202	Return on Equity (gas)
Orange and Rockland Utilities, Inc.	07/11	Orange and Rockland Utilities, Inc.	Case No. 11-E-0408	Return on Equity (electric)
Orange and Rockland Utilities, Inc.	07/10	Orange and Rockland Utilities, Inc.	Case No. 10-E-0362	Return on Equity (electric)
Consolidated Edison Company of New York, Inc.	11/09	Consolidated Edison Company of New York, Inc.	Case No. 09-G-0795	Return on Equity (gas)
Consolidated Edison Company of New York, Inc.	11/09	Consolidated Edison Company of New York, Inc.	Case No. 09-S-0794	Return on Equity (steam)
Niagara Mohawk Power Corporation	07/01	Niagara Mohawk Power Corporation	Case No. 01-E-1046	Power Purchase and Sale Agreement; Standard Offer Service Agreement
North Carolina Utilities Commission				
Public Service Company of North Carolina, Inc.	03/16	Public Service Company of North Carolina, Inc.	Docket No. G-5, Sub 565	Return on Equity
Dominion North Carolina Power	03/16	Dominion North Carolina Power	Docket No. E-22, Sub 532	Return on Equity
Duke Energy Carolinas, LLC	02/13	Duke Energy Carolinas, LLC	Docket No. E-7, Sub 1026	Return on Equity
Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc.	10/12	Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc.	Docket No. E-2, Sub 1023	Return on Equity

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Virginia Electric and Power Company d/b/a Dominion North Carolina Power	03/12	Virginia Electric and Power Company d/b/a Dominion North Carolina Power	Docket No. E-22, Sub 479	Return on Equity (electric)
Duke Energy Carolinas, LLC	07/11	Duke Energy Carolinas, LLC	Docket No. E-7, Sub 989	Return on Equity (electric)
North Dakota Public Service Commission				
Otter Tail Power Company	11/08	Otter Tail Power Company	Docket No. 08-862	Return on Equity (electric)
Oklahoma Corporation Commission				
CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Oklahoma Gas	03/16	CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Oklahoma Gas	Cause No. PUD201600094	Return on Equity
Oklahoma Gas & Electric Company	12/15	Oklahoma Gas & Electric Company	Cause No. PUD201500273	Return on Equity
Public Service Company of Oklahoma	07/15	Public Service Company of Oklahoma	Cause No. PUD201500208	Return on Equity
Oklahoma Gas & Electric Company	07/11	Oklahoma Gas & Electric Company	Cause No. PUD201100087	Return on Equity
CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Oklahoma Gas	03/09	CenterPoint Energy Oklahoma Gas	Cause No. PUD200900055	Return on Equity
Pennsylvania Public Utility Commission				
Pike County Light & Power Company	01/14	Pike County Light & Power Company	Docket No. R-2013-2397237	Return on Equity (electric & gas)
Veolia Energy Philadelphia, Inc.	12/13	Veolia Energy Philadelphia, Inc.	Docket No. R-2013-2386293	Return on Equity (steam)
Rhode Island Public Utilities Commission				
The Narragansett Electric Company d/b/a National Grid	04/12	The Narragansett Electric Company d/b/a National Grid	Docket No. 4323	Return on Equity (electric & gas)
National Grid RI – Gas	08/08	National Grid RI – Gas	Docket No. 3943	Revenue Decoupling and Return on Equity
South Carolina Public Service Commission				
Duke Energy Progress, LLC	07/16	Duke Energy Progress, LLC	Docket No. 2016-227-E	Return on Equity
Duke Energy Carolinas, LLC	03/13	Duke Energy Carolinas, LLC	Docket No. 2013-59-E	Return on Equity
South Carolina Electric & Gas	06/12	South Carolina Electric & Gas	Docket No. 2012-218-E	Return on Equity
Duke Energy Carolinas, LLC	08/11	Duke Energy Carolinas, LLC	Docket No. 2011-271-E	Return on Equity
South Carolina Electric & Gas	03/10	South Carolina Electric & Gas	Docket No. 2009-489-E	Return on Equity

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
South Dakota Public Utilities Commission				
Otter Tail Power Company	08/10	Otter Tail Power Company	Docket No. EL10-011	Return on Equity (electric)
Northern States Power Company	06/09	South Dakota Division of Northern States Power	Docket No. EL09-009	Return on Equity (electric)
Otter Tail Power Company	10/08	Otter Tail Power Company	Docket No. EL08-030	Return on Equity (electric)
Texas Public Utility Commission				
Sharyland Utilities, L.P.	12/16	Sharyland Utilities, L.P.	Docket No. 45414	Return on Equity
Southwestern Public Service Company	02/16	Southwestern Public Service Company	Docket No. 44524	Return on Equity (electric)
Wind Energy Transmission Texas, LLC	05/15	Wind Energy Transmission Texas, LLC	Docket No. 44746	Return on Equity
Cross Texas Transmission	12/14	Cross Texas Transmission	Docket No. 43950	Return on Equity
Southwestern Public Service Company	12/14	Southwestern Public Service Company	Docket No. 43695	Return on Equity (electric)
Sharyland Utilities, L.P.	05/13	Sharyland Utilities, L.P.	Docket No. 41474	Return on Equity
Wind Energy Texas Transmission, LLC	08/12	Wind Energy Texas Transmission, LLC	Docket No. 40606	Return on Equity
Southwestern Electric Power Company	07/12	Southwestern Electric Power Company	Docket No. 40443	Return on Equity
Oncor Electric Delivery Company, LLC	01/11	Oncor Electric Delivery Company, LLC	Docket No. 38929	Return on Equity
Texas-New Mexico Power Company	08/10	Texas-New Mexico Power Company	Docket No. 38480	Return on Equity (electric)
CenterPoint Energy Houston Electric LLC	06/10	CenterPoint Energy Houston Electric LLC	Docket No. 38339	Return on Equity
Xcel Energy, Inc.	05/10	Southwestern Public Service Company	Docket No. 38147	Return on Equity (electric)
Texas-New Mexico Power Company	08/08	Texas-New Mexico Power Company	Docket No. 36025	Return on Equity (electric)
Xcel Energy, Inc.	05/06	Southwestern Public Service Company	Docket No. 32766	Return on Equity (electric)
Texas Railroad Commission				
Centerpoint Energy Resources Corp. d/b/a Centerpoint Energy Entex and Centerpoint Energy Texas Gas	03/15	Centerpoint Energy Resources Corp. d/b/a Centerpoint Energy Entex and Centerpoint Energy Texas Gas	GUD 10432	Return on Equity
CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Entex and CenterPoint Energy Texas Gas	07/12	CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Entex and CenterPoint Energy Texas Gas	GUD 10182	Return on Equity

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Atmos Energy Corporation – West Texas Division	06/12	Atmos Energy Corporation – West Texas Division	GUD 10175	Return on Equity
Atmos Energy Corporation – Mid-Texas Division	06/12	Atmos Energy Corporation – Mid-Texas Division	GUD 10171	Return on Equity
CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Entex and CenterPoint Energy Texas Gas	12/10	CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Entex and CenterPoint Energy Texas Gas	GUD 10038	Return on Equity
Atmos Pipeline – Texas	09/10	Atmos Pipeline - Texas	GUD 10000	Return on Equity
CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Entex and CenterPoint Energy Texas Gas	07/09	CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Entex and CenterPoint Energy Texas Gas	GUD 9902	Return on Equity
CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Texas Gas	03/08	CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Texas Gas	GUD 9791	Return on Equity
Utah Public Service Commission				
Questar Gas Company	12/07	Questar Gas Company	Docket No. 07-057-13	Return on Equity
Vermont Public Service Board				
Central Vermont Public Service Corporation; Green Mountain Power	02/12	Central Vermont Public Service Corporation; Green Mountain Power	Docket No. 7770	Merger Policy
Central Vermont Public Service Corporation	12/10	Central Vermont Public Service Corporation	Docket No. 7627	Return on Equity (electric)
Green Mountain Power	04/06	Green Mountain Power	Docket Nos. 7175 and 7176	Return on Equity (electric)
Vermont Gas Systems, Inc.	12/05	Vermont Gas Systems	Docket Nos. 7109 and 7160	Return on Equity (gas)
Virginia State Corporation Commission				
Washington Gas Light Company	07/16	Washington Gas Light Company	Case No. PUE-2016-00001	Return on Equity
Virginia Electric and Power Company	06/16	Virginia Electric and Power Company	Case Nos. PUE-2016-00063; PUE-2016-00062; PUE-2016-00061; PUE-2016-00060; PUE-2016-00059	Return on Equity

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Virginia Electric and Power Company	12/15	Virginia Electric and Power Company	Case Nos. PUE-2015-0058; PUE-2015-0059; PUE-2015-0060; PUE-2015-0061; PUE-2015-0075; PUE-2015-0089; PUE-2015-0102; PUE-2015-0104	Return on Equity
Virginia Electric and Power Company	03/15	Virginia Electric and Power Company	Case No. PUE-2015-00027	Return on Equity
Virginia Electric and Power Company	03/13	Virginia Electric and Power Company	Case No. PUE-2013-00020	Return on Equity
Virginia Natural Gas, Inc.	02/11	Virginia Natural Gas, Inc.	Case No. PUE-2010-00142	Capital Structure
Columbia Gas of Virginia, Inc.	06/06	Columbia Gas of Virginia, Inc.	Case No. PUE-2005-00098	Merger Synergies
Dominion Resources	10/01	Virginia Electric and Power Company	Case No. PUE000584	Corporate Structure and Electric Generation Strategy

Expert Report

United States District Court, Western District of Texas, Austin Division				
Southwestern Public Service Company	02/12	Southwestern Public Service Company	C.A. No. A-09-CA-917-SS	PURPA and FERC regulations

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.791984674
R Square	0.627239724
Adjusted R Square	0.626991796
Standard Error	0.016432303
Observations	3010

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	2	1.366262832	0.683131416	2529.923349	0
Residual	3007	0.811951939	0.000270021		
Total	3009	2.178214771			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.000858291	0.000299892	2.862003156	0.004238825	0.000270277	0.001446305	0.000270277	0.001446305
UTY Index	0.935314409	0.013203711	70.83723813	0	0.909425191	0.961203627	0.909425191	0.961203627
USGG30YR Index	0.024163087	0.008761526	2.757862973	0.005853226	0.006983898	0.041342277	0.006983898	0.041342277

SUMMARY OUTPUT

11/3/2015

Regression Statistics	
Multiple R	0.792575081
R Square	0.628175259
Adjusted R Square	0.627927953
Standard Error	0.01641167
Observations	3010

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	2	1.368300627	0.684150314	2540.071696	0
Residual	3007	0.809914144	0.000269343		
Total	3009	2.178214771			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.000475186	0.000314798	1.509496046	0.131277128	-0.00014205	0.001092427	-0.00014205	0.001092427
UTY Index	0.936492273	0.013170372	71.1059863	0	0.910668425	0.962316122	0.910668425	0.962316122
Dummy	0.003970129	0.001018627	3.897530765	9.9299E-05	0.001972853	0.005967404	0.001972853	0.005967404

SUMMARY OUTPUT

3/9/2016

Regression Statistics	
Multiple R	0.792948601
R Square	0.628767484
Adjusted R Square	0.628520572
Standard Error	0.016398595
Observations	3010

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	2	1.369590622	0.684795311	2546.52239	0
Residual	3007	0.808624149	0.000268914		
Total	3009	2.178214771			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.000495265	0.000309765	1.598843813	0.109960371	-0.00011211	0.001102638	-0.00011211	0.001102638
UTY Index	0.93718973	0.013158555	71.22284564	0	0.911389051	0.962990409	0.911389051	0.962990409
Dummy	0.00535626	0.001197336	4.473481274	7.98096E-06	0.00300858	0.007703941	0.00300858	0.007703941

SUMMARY OUTPUT

11/3/2015

Regression Statistics	
Multiple R	0.79313687
R Square	0.6290661
Adjusted R Square	0.62869591
Standard Error	0.01639472
Observations	3010

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	3	1.37024107	0.45674702	1699.28992	0
Residual	3006	0.8079737	0.00026879		
Total	3009	2.17821477			

	Coefficients	*tandard Erro*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.00048561	0.0003145	1.5440912	0.1226715	-0.000131	0.00110226	-0.000131	0.00110226
UTY Index	0.93464874	0.01317465	70.9429568	0	0.90881649	0.96048098	0.90881649	0.96048098
USGG30YR Index	0.02349193	0.00874323	2.68687065	0.00725219	0.00634861	0.04063525	0.00634861	0.04063525
Dummy	0.00391556	0.00101778	3.8471708	0.00012197	0.00191995	0.00591117	0.00191995	0.00591117

SUMMARY OUTPUT

3/9/2016

Regression Statistics	
Multiple R	0.79347138
R Square	0.62959684
Adjusted R Square	0.62922717
Standard Error	0.01638299
Observations	3010

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	3	1.37139713	0.45713238	1703.16048	0
Residual	3006	0.80681764	0.0002684		
Total	3009	2.17821477			

	Coefficients	*tandard Erro*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.00050837	0.00030951	1.64248193	0.10059476	-9.851E-05	0.00111524	-9.851E-05	0.00111524
UTY Index	0.93540101	0.0131641	71.0569527	0	0.90958945	0.96121257	0.90958945	0.96121257
USGG30YR Index	0.02267923	0.00874182	2.59433764	0.00952337	0.00553868	0.03981978	0.00553868	0.03981978
Dummy	0.00523573	0.0011971	4.37368232	1.2632E-05	0.00288851	0.00758294	0.00288851	0.00758294

Regression Statistics	
Multiple R	0.7814
R Square	0.6106
Adjusted R Square	0.6098
Standard Error	1.00
Observations	1,008

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	2.000	1,588.776	794.388	787.845	0.000
Residual	1,005.000	1,013.347	1.008		
Total	1,007.000	2,602.123			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	(81.750)	4.706	(17.373)	0.000	(90.985)	(72.516)	(90.985)	(72.516)
USGG30YR Index	(0.687)	0.100	(6.838)	0.000	(0.884)	(0.490)	(0.884)	(0.490)
DATE	0.002	0.000	22.616	0.000	0.002	0.003	0.002	0.003

CORRELATION: -64.22%

Recreation of Guggenheim Illustrative DCF Analysis

	7 ME Dec 2016E	2017E	2018E	2019E	2020E	Terminal Year
EBITDA	$ 709	$ 1,097	$ 1,112	$ 1,207	$ 1,242	$ 1,242
Less: D&A	(201)	(385)	(401)	(426)	(439)	(439)
EBIT	508	712	711	781	803	803
Less: Taxes	(191)	(235)	(230)	(268)	(276)	(313)
NOPAT	$ 317.00	$ 477.00	$ 481.00	$ 513.00	$ 527.00	$ 490.00
Plus: D&A	201	385	401	426	439	439
Plus: Amort of Nuclear Fuel	16	37	31	31	38	38
Changes in WC	(87)	(32)	(48)	(73)	(38)	(38)
Plus: Increases in deferred taxes	125	219	202	147	68	77
Plus/(Less): Other cash from operations	19	18	2	(6)	(8)	-
Less: Capex/Other Investing Activities	(633)	(898)	(744)	(726)	(805)	(602)
Unlevered Free Cash Flow	$ (42)	$ 206	$ 325	$ 312	$ 221	$ 404
Exit Multiple						9.50
Terminal Value (Nominal)						$ 11,799
Discount Rate	5.00%					
Deal Date	5/31/2016					
First Year Ended	12/31/2016					
First Mid-Year	6/30/2017					
Days Elapsed	214					
One-half year convention	107					
Discount Period	0.2932	1.0822	2.0822	3.0822	4.0822	4.5822
Present Value Factor	0.9858	0.9486	0.9034	0.8604	0.8194	0.7997
Cash Flow	$ (42)	$ 206	$ 325	$ 312	$ 221	$ 11,799
PV Terminal Value	$ 9,435					
PV Free Cash Flow	897					
Enterprise Value	$ 10,332					
Plus: Cash and Equivalents	3					
Less: Total Debt/Min. Int.	(3,802)					
Equity Value	$ 6,533					
Diluted Shares Outstanding	142.6					
Implied Price/Share	$ 45.82					

Source: JTG-1 Confidential, p. 11

Recreate Staff JTG-9:

Discount Period	1	2	3	4	5	Terminal Year
Year	2016	2017	2018	2019	2020	2020
EBITDA						$ 1,242.0
EBITDA Multiple						10.50
Terminal Value						$ 13,041.0
Unlevered Free Cash Flow	$ (74.0)	$ 205.0	$ 324.0	$ 312.0	$ 221.0	
Efficiencies						
Unlevered Free Cash Flow with Efficienci	$ (74.0)	$ 205.0	$ 324.0	$ 312.0	$ 221.0	$ 13,041.0
Discount Rate	6.60%					
	0.9381	0.8800	0.8255	0.7744	0.7265	0.7265
Net Present Value	$ (69.4)	$ 180.4	$ 267.5	$ 241.6	$ 160.5	$ 9,473.8
Sum of NPV	$ 10,254					
Less Net Debt	$ (3,631)					
Equity Value	$ 6,623					
Shares Outstanding	142.6					
Value/Share	$ 46.45					

Adjust Staff JTG-9:

Discount Period	0.2932	1.0822	2.0822	3.0822	4.0822	4.5822
Year	2016	2017	2018	2019	2020	2020
EBITDA						$ 1,242.0
EBITDA Multiple						10.50
Terminal Value						$ 13,041.0
Unlevered Free Cash Flow	$ (43.0)	$ 205.0	$ 324.0	$ 312.0	$ 221.0	
Efficiencies						
Unlevered Free Cash Flow with Efficienci	$ (43.0)	$ 205.0	$ 324.0	$ 312.0	$ 221.0	$ 13,041.0
Discount Rate	6.60%					
	0.9814	0.9332	0.8754	0.8212	0.7704	0.7704
Net Present Value	$ (42.2)	$ 191.3	$ 283.6	$ 256.2	$ 170.2	$ 10,046.2
Sum of NPV	$ 10,905					
Less Net Debt	$ (3,631)					
Equity Value	$ 7,274					
Shares Outstanding	142.6					
Value/Share	$ 51.01					

Table JTG-6 Recreated

Terminal LTM EV/EBITDA Multiple

Discount Rate %	9.00 x	9.38 x	9.75 x	10.13 x	10.5 x
3.50%	$ 46.64	$ 49.43	$ 52.14	$ 54.93	$ 57.64
3.75%	$ 45.80	$ 48.55	$ 51.23	$ 53.98	$ 56.66
4.00%	$ 44.96	$ 47.68	$ 50.33	$ 53.05	$ 55.70
4.25%	$ 44.14	$ 46.83	$ 49.45	$ 52.13	$ 54.75
4.50%	$ 43.33	$ 45.99	$ 48.57	$ 51.23	$ 53.81

Table JTG-6 Adjusted

Terminal LTM EV/EBITDA Multiple

Discount Rate %	9.00 x	9.38 x	9.75 x	10.13 x	10.5 x
3.50%	$ 49.17	$ 52.05	$ 54.85	$ 57.72	$ 60.52
3.75%	$ 48.46	$ 51.31	$ 54.08	$ 56.93	$ 59.70
4.00%	$ 47.76	$ 50.58	$ 53.33	$ 56.15	$ 58.89
4.25%	$ 47.07	$ 49.86	$ 52.58	$ 55.37	$ 58.09
4.50%	$ 46.38	$ 49.15	$ 51.84	$ 54.61	$ 57.30

Table JTG-6 Price/Share Difference

Terminal LTM EV/EBITDA Multiple

Discount Rate %	9.00 x	9.38 x	9.75 x	10.13 x	10.5 x
3.50%	$ 2.53	$ 2.62	$ 2.71	$ 2.79	$ 2.88
3.75%	$ 2.66	$ 2.76	$ 2.85	$ 2.95	$ 3.04
4.00%	$ 2.80	$ 2.90	$ 3.00	$ 3.10	$ 3.19
4.25%	$ 2.93	$ 3.03	$ 3.13	$ 3.24	$ 3.34
4.50%	$ 3.05	$ 3.16	$ 3.27	$ 3.38	$ 3.49

Table JTG-6 Valuation Difference (in $millions)

Terminal LTM EV/EBITDA Multiple

Discount Rate %	9.00 x	9.38 x	9.75 x	10.13 x	10.5 x
3.50%	$ 360.81	$ 373.08	$ 385.97	$ 398.24	$ 411.13
3.75%	$ 379.45	$ 393.40	$ 406.65	$ 420.61	$ 433.86
4.00%	$ 399.30	$ 413.56	$ 427.22	$ 441.48	$ 455.15
4.25%	$ 417.49	$ 432.11	$ 446.23	$ 462.28	$ 476.40
4.50%	$ 435.44	$ 450.46	$ 466.52	$ 481.54	$ 497.59