THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Joint Application of Great Plains Energy Incorporated, Kansas City Power & Light Company and Westar Energy, Inc. for approval of the Acquisition of Westar Energy, Inc. by Great Plains Energy Incorporated.	))))))	Docket No. 16-KCPE-593-ACQ

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

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

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

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

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

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

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

Respectfully Submitted,

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STATE OF KANSAS)
) ss.
COUNTY OF SHAWNEE)

VERIFICATION

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

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

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

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

Notary Public

My Appointment Expires: June 30, 2018

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

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<u>PUBLIC</u>

DIRECT TESTIMONY

PREPARED BY

ANN DIGGS

UTILITIES DIVISION

KANSAS CORPORATION COMMISSION

December 16, 2016

Resubmitted January 27, 2017

****<u>*Denotes information that was considered confidential in the December 16, 2016 filing*</u>****

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

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I. INTRODUCTION

Q: Please state your name, occupation and business address.

A: My name is Ann Diggs. I am the owner of a certified public accounting firm, Ann Diggs, CPA. My business address is 321 South 3rd Street, Wilmington, NC 28401.

Q: Please discuss your professional background and regulatory experience.

A: I received a B.B.A. Degree with a Major in Accounting in 1982 from Washburn University in Topeka, Kansas. I am a CPA with over twenty years of regulatory utility accounting experience, including nine years as a member of Staff of the Kansas Corporation Commission progressing from Senior Utility Auditor to Chief of Accounting & Financial Analysis, and 11 years as a regulatory utility consultant. My regulatory experience with the KCC Staff began as a member of a team of accountants and engineers working on-site at the Wolf Creek Nuclear Generating Station auditing construction cost overruns. When I left my position as Chief of Accounting & Financial Analysis at the Commission in 1998 to move to North Carolina, I had gained experience working with a variety of electric, gas and telecommunications regulatory issues, including cost of service, affiliate transaction and allocation issues, mergers and acquisitions. Over the past 11 years, I have continued my regulatory utility work, providing consulting services on behalf of Commission Staff including numerous Kansas Universal Service Fund (KUSF) audits. A summary of my work and utility regulatory experience is included in Attachment AD-1.

Q: Have you previously testified before the Commission?

A: Yes, I have presented written and oral expert witness testimony before the Commission in numerous electric, gas, and telecommunications dockets relating to cost of service, acquisition premium recovery, allocation of jurisdictional overhead costs, affiliate transactions, fuel cost re-pricing, corporate cost allocation studies, merger savings analysis, and KUSF audits.

Q: Please state on whose behalf you are appearing.

A: I am appearing on behalf of Commission Staff (Staff).

Q: Please describe your responsibilities in this docket.

A: My responsibilities were to review and analyze the Joint Applicants' application for approval of the acquisition of Westar Energy, Inc. by Great Plains Energy Incorporated (Application), and sponsor Staff's findings and recommendations to the Commission in the following five areas:

1. Demonstration of Transaction Savings. My testimony addresses the process and methodology Joint Applicants used to demonstrate transaction-related savings, including operating synergies, and related costs to achieve. Demonstrated transaction savings are central to the following criteria set out in section (a) of the Commission's August 9, 2016 Order on Merger Standards (Merger Standards)[1] to evaluate the effect of the transaction on consumers, and ultimately address the Commission's central concern - whether the merger will promote the

[1] Order on Merger Standards, paragraph 5, pp. 2-3.

public interest: (a)(ii) reasonableness of the purchase price, including whether the purchase price was reasonable in light of the savings that can be demonstrated from the merger and whether the purchase price is within a reasonable range; (a)(iii) whether ratepayer benefits resulting from the transaction can be quantified; (a)(iv) whether there are operational synergies that justify payment of a premium in excess of book value.

2. Shared Service Transaction Savings. The Joint Applicants present their analysis of transaction savings in four functional areas. My testimony addresses the Joint Applicants' analysis of Non-Fuel O&M Shared Services transaction savings. Transaction savings in the functional areas of Non-Fuel O&M Generation, Transmission/Distribution and Customer Service, and Supply Chain savings, as well as transaction savings from capital expenditure reductions, are addressed in the Direct Testimony of Walt Drabinski of Vantage Energy Consulting on behalf of KCC Staff.

3. Quantification of Ratepayer Benefits. My testimony addresses issues related to the criteria set out in Merger Standard (a) the effect of the transaction on consumers, including: (iii) whether ratepayer benefits resulting from the transaction can be quantified, to evaluate if the proposed transaction will promote the public interest.

4. Preservation of KCC Jurisdiction. My testimony addresses Merger Standard (d) whether the proposed transaction will preserve the jurisdiction of the KCC and the capacity of the KCC to effectively regulate and audit public utility operations in the state.

5. Affiliate Transactions and Cost Allocations. My testimony addresses changes in the assignment and allocation of affiliate and shared costs and associated risks to Kansas jurisdictional ratepayers as a result of the proposed Transaction.

Q: Please describe how you conducted your review of the above issues.

A: My review, including my analysis, findings, and recommendations to the Commission, was coordinated with and conducted under the supervision of Staff.

I reviewed numerous documents including the following:

1. Joint Applicants' Application, including Direct Testimony and attached schedules.
2. Staff and Intervenor Data Request (DR) responses including work papers and other content provided with the responses.
3. Commission Orders, testimony, and other pleadings filed in prior dockets relevant to the issues in this proceeding.
4. Other relevant documents including proceedings related to the Transaction filed in Missouri.

I participated in regular telephone conferences with Staff and Staff's consultants, and participated by telephone in a conference with Staff and representatives of Joint Applicants and CURB. I attended an informational meeting held at the KCC offices on October 12, 2016, attended by parties representing the interests of Joint Applicants, Staff, and CURB.

Q: Please describe how your testimony is organized.

A: My testimony is presented in the following main sections:

I. Introduction
II. Executive Summary
III. Demonstration of Transaction Savings
IV. Shared Services Transaction Savings
V. Quantification of Ratepayer Benefits
VI. Preservation of KCC Jurisdiction
VII. Affiliate Transactions and Cost Allocations
VIII. Conclusion

Q: Please summarize the Merger Standards addressed in your testimony.

A: My testimony addresses the following Merger Standard criteria which were affirmed by the Commission in the Order on Merger Standards in this docket to allow the Commission to evaluate the Application to determine whether the Transaction will promote the public interest:

- Merger Standard (a) The effect of the transaction on consumers, including: (ii) reasonableness of the purchase price, including whether the purchase price was reasonable <u>in light of the savings that can be demonstrated from</u>

the merger and whether the purchase price is within a reasonable range; (Emphasis provided.)

- o Merger Standard (a) The effect of the transaction on consumers, including (iii) whether ratepayer benefits resulting from the transaction can be quantified;
- o Merger Standard (a) The effect of the transaction on consumers, including (iv) whether there are operational synergies that justify payment of a premium in excess of book value; and
- o Merger Standard (d) Whether the proposed transaction will preserve the jurisdiction of the KCC and the capacity of the KCC to effectively regulate and audit public utility operations in the state.

Q: Please identify the additional documents filed with your testimony.

A: As indicated above, Attachment AD-1 is a summary of my qualifications. Attachment AD-2 contains work papers referenced in my testimony. Attachment AD-3 contains Joint Applicants' data request (DR) responses referenced in my testimony.

II. EXECUTIVE SUMMARY

Q: Please summarize your presentation of conclusions and recommendations.

A: To present a general overview of my testimony, my conclusions and recommendations are presented in the following areas:

- Demonstration of Transaction Savings.

- Shared Services Transaction Savings.
- Quantification of Ratepayer Benefits
- Preservation of KCC Jurisdiction
- Affiliate Transactions and Cost Allocations.

Q: Please present Staff's conclusions relating to the demonstration of Transaction savings.

A: Staff concludes Joint Applicants have failed to meet their burden of demonstrating sufficient and credible transaction-related savings, instead leaving the Commission to rely solely on a preliminary, flawed, and uncertain presentation of savings to determine the effects of the Transaction on consumers and whether the Transaction promotes the public interest.

Q: Please present Staff's recommendation relating to the demonstration of Transaction savings.

A: Staff recommends that the Commission reject Joint Applicants' presentation of transaction savings to evaluate the effect of the transaction on consumers to determine whether the proposed transaction will promote the public interest under the following Merger Standard criteria: (a)(ii) reasonableness of the purchase price, including whether the purchase price was reasonable in light of the savings that can be demonstrated from the merger; and (a)(iv) whether there are operational synergies that justify payment of a premium in excess of book value.

Q: Please present Staff's conclusions relating to Shared Services Transaction savings.

A: The Joint Applicants have the burden to demonstrate Transaction savings for the Commission to evaluate the effect of the transaction on consumers and determine if the Transaction will promote the public interest. Joint Applicants failed to demonstrate a sufficient, credible estimate of Transaction-related labor savings of Shared Services.

Q: Please present Staff's recommendations relating to Transaction savings in the functional area of Shared Services.

A: Due to Joint Applicants' failure to demonstrate a sufficient, credible estimate of Transaction-related labor savings of Shared Services, Staff recommends that the Commission specifically reject Joint Applicants' presentation of Shared Services Transaction savings in its evaluation of the effect of the transaction on consumers to determine whether the proposed transaction will promote the public interest under the following Merger Standard criteria: (a)(ii) reasonableness of the purchase price, including whether the purchase price was reasonable in light of the savings that can be demonstrated from the merger; and (a)(iv) whether there are operational synergies that justify payment of a premium in excess of book value.

Q: Please present Staff's conclusions relating to the quantification of ratepayer benefits.

A: The Commission affirmed the importance of quantifying ratepayer benefits in evaluating the effect of the proposed transaction on consumers in Merger Standard (a)(iii) whether ratepayer benefits resulting from the transaction can be quantified. Staff found that Joint Applicants failed to meet their burden to provide the Commission with a sufficient and credible quantification of ratepayer benefits.

Q: Please present Staff's recommendations relating to the quantification of ratepayer benefits.

A: Staff recommends the Commission determine Joint Applicants failed to provide the Commission with sufficient and credible evidence of the quantification of ratepayer benefits described in Merger Standard (a)(iv), including whether the amount and proposed ratemaking treatment of merger savings results in an equitable sharing of savings with ratepayers and promotes the public interest.

However, if Staff were recommending approval of the Transaction, Staff would recommend Kansas jurisdictional ratepayers immediately share in transaction savings after the close of the Transaction, and Joint Applicants be required to provide annual bill credits to Westar Energy, Inc. (Westar) and Kansas City Power & Light Company (KCP&L) Kansas jurisdictional ratepayers. Staff calculates the amount of bill credits based on ** one-half of the Joint Applicants' current NFOM efficiency targets for years 2017 through 2020 presented in this case**, as follows[2]:

[2] This calculation of Bill Credits is over and above the Joint Applicants' plan to share savings with ratepayers via the current rate case schedule, as outlined in GPE's financial model provided in response to Staff Data Request No. 169 (Confidential). In the event a rate moratorium or other ratepayer relief is ordered in this case, this recommendation should be revised accordingly.

Table - Annual Bill Credits
(in millions)

	2017	2018	2019	2020	Total
Westar	$ 2.68	$ 11.6	$ 7.3	$ 13.9	$ 35.5
KCPL-KS	$ .93	$ 2.7	$ 1.9	$ 4.8	$ 10.4
Total	$ 3.61	$ 14.3	$ 9.2	$ 18.7	$ 45.9

Q: Please present Staff's conclusions related to the preservation of KCC jurisdiction.

A: Staff notes that the Application contains specific assurances to preserve the KCC's jurisdiction to regulate and audit public utility operations in the state. However, the proposed transaction will impart additional burdens and complexities to effectively regulate and audit Westar's utility operations, as well as added risks to Westar's Kansas ratepayers, given the multi-jurisdictional and multi utility allocation issues that will arise in future general rate cases that don't exist today. Properly assigning and allocating costs between additional non-regulated affiliates, utility subsidiaries, and jurisdictions adds additional complexity along with the additional element of risk of improper cost assignment.

Q: Please present Staff's recommendations related to the preservation of KCC jurisdiction.

A: If Staff were recommending approval of the Transaction, Staff would recommend that the assurances set out in the Joint Application relating to the preservation of the KCC's jurisdiction should be incorporated into the Commission's Order.

Staff's recommendations regarding the additional complexities of the Transaction due to multi utility and multi-jurisdictional cost allocations are discussed in the following section on affiliate transactions and shared cost allocations.

Q: Please present Staff's conclusions related to affiliate transactions and cost allocations.

A: The proposed Transaction will increase risks to ratepayers of the subsidization of regulated utility operations to additional utility and non-regulated affiliates as well as additional risks to Westar ratepayers associated with jurisdictional allocations to GPE's Missouri utility operations that do not exist today.

Q: Please present Staff's recommendation related to affiliate transactions and cost allocations.

A: Staff recommends that if the Commission approves the Transaction, the Commission should require Westar and KCP&L to file updated Cost Allocation Manuals reflecting any changes necessitated by the Transaction for approval with Commission within 60 days from the date of the Transaction.

III. DEMONSTRATED TRANSACTION SAVINGS

Q: Please begin by identifying the Commission's Merger Standards applicable to Staff's discussion of demonstrated transaction savings.

A: The following Merger Standard criteria relate to Staff's discussion of the demonstration of transaction-related savings: (a)(ii) reasonableness of the purchase price, including whether the purchase price was reasonable in light of the savings that can be demonstrated from the merger; and (a)(iv) whether there are operational synergies that justify payment of a premium in excess of book value. Demonstrated transaction savings also impact Staff's discussion of Shared Services Transaction Savings in Section IV, and Quantification of Ratepayer Benefits in Section V.

Q: How did Joint Applicants present demonstrated transaction savings in the Application?

A: The Joint Applicants' witness William J. Kemp sponsors the results of the estimated transaction savings analysis, summarized in an attachment to Mr. Kemp's Direct Testimony, Schedule WJK-3, titled "Estimated Transaction Savings (based on analyses performed in support of GPE's bid)."

Q: When was the estimated Transaction savings analysis performed?

A: Mr. Kemp began to work with GPE to analyze transaction-related savings and associated costs to achieve beginning on April 20, 2016.[3] The savings analysis results were completed **and the results were provided to GPE for input into its financial model** just three weeks later on May 10, 2016.[4] The savings analysis results were also** presented to GPE's Board of Directors on May 18, 2016,[5] ** less than a month after the savings estimation work began.

Q: What was the purpose of the estimated transaction savings analysis?

[3] Kemp Direct, p. 10, ln 14.

[4] DR KCC-254(1).

[5] DR KCC-23A Presentation materials, Operational Benefits Assessment, Board of Directors Special Meeting – May 18, 2016.

A: It is relevant to consider the purpose of the savings analysis results to determine if there may be factors influencing the outcome. Mr. Kemp stated that the goal of the savings estimation team, consisting of himself, other Enovation staff, and GPE executives, along with GPE's deal team, was to answer the following over-riding question: "Are the reasonably achievable savings sufficient to meet the targets for making a competitive bid while maintaining GPE's financial and operational health and producing significant long-term benefits for customers and shareholders?"[6] (Emphasis added.) Minimum annual targets for aggregate net savings in the 2017-2020 period were communicated to the savings estimation team to use in performing their analysis. It would be reasonable to expect the savings estimation team was motivated to find sufficient savings to meet the minimum annual targets.

Q: What were the minimum targets communicated to the savings estimation team and were the targets met?

A: The initial net savings estimate targets communicated to the savings estimation team were $50 million, $100 million and $150 million, respectively, for calendar years 2018-2020.[7] The savings estimation team did indeed meet the minimum targets. The net savings estimated by the team were **$63 million, $149 million and $198 million, ** respectively, for calendar years 2018-2020.

[6] Kemp Direct, p. 15, lines 7-12

[7] DR's KCC 254(4) and 389.

Q: Were there risks associated with communicating minimum annual target savings to the savings estimation team?

A: Joint Applicants argue that since the savings estimation team was not privy to bid prices, they would not have been influenced to pursue higher risk areas of savings, and noted GPE's senior management emphasized conservatism in the estimates.[8] However, even assuming the team was not motivated to pursue higher risk areas of savings in order to meet minimum targets, Joint Applicants could also be advantaged by estimated transaction savings that are purposefully too conservative. For example, if the Commission ordered a sharing of estimated transaction savings with ratepayers outside of the general rate case process, such as requiring bill credits to ratepayers, Joint Applicants would be advantaged by being ordered to share a smaller amount of estimated transaction-related savings with ratepayers. Staff posed this quandary to Joint Applicants in DR KCC 405(b):

> Please state if Mr. Kemp agrees with the following statements relating to merger savings and ratepayer benefits, and if not, please explain:
>
> (b) Announced merger synergies and savings expectations should be high enough to win investor support but low enough to keep substantial benefits out of regulatory gain-sharing[9].
>
> Mr. Kemp responded:

[8] DR KCC 254(5) and (6).

[9] This statement was included in a presentation entitled "Economies of Scale and Scope in Electric Utility Mergers" made by Mr. Kemp to the International Association for Energy Economics on October 10, 2011.

Agree in part. This whole statement would be true in the circumstances of the typical regulatory treatment of merger savings up through approximately 2008, which was to allocate merger-related savings explicitly between investors and customers. In cases of regulatory treatment such as that proposed by GPE for the current case, i.e., where all savings will be passed through to customers through the normal workings and timing of the ratemaking process, the second part of the statement would not be true. There would be no mechanism or reason to keep substantial benefits out of regulatory gain-sharing.

Staff finds Mr. Kemp's above argument to be invalid in the current case since the Joint Applicants' proposed implicit ratemaking treatment obviously does not preclude the Commission from determining that it would promote the public interest for ratepayers to explicitly share in savings outside the normal ratemaking process. Additionally, Mr. Kemp's response inaccurately surmises that GPE's proposed regulatory treatment in the current case passes all savings through to customers through the normal workings and timing of the ratemaking process. Joint Applicants have clearly stated that their proposed ratemaking treatment allows them to retain approximately **<u>$324 million</u>** of savings, due to regulatory lag, "which will be used to help pay for various transaction and transaction related costs incurred in 2016 and 2017."[10]

Staff cannot discern any reason for GPE management to communicate minimum target estimates to the savings analysis team other than to influence the identification and range of estimated savings results either from being too risky in order to support a potential bid price, or keeping savings conservative in order to limit the potential sharing of savings with ratepayers. Staff questions why the

[10] DR KCC387(b).

savings estimation team was provided with minimum annual targets at all and not instead tasked with identifying and estimating a reasonable level of transaction-related savings and costs independently. At a minimum, the influence of the minimum targeted savings on the savings estimation team's identification and estimation of possible transaction savings erodes the credibility of the preliminary savings estimate results which the Commission must rely on to determine if the proposed transaction is in the public interest.

Q: What were the results of the preliminary savings analysis?

A: The Joint Applicants' preliminary savings analysis is comprised of Non-Fuel O&M (NFOM) Expense Savings, broken out by functional area, as well as the revenue requirement impact of Capital Expenditure reductions, as presented in Schedule WJK-3. For ease of reference, Staff provides the following summary of Joint Applicant's demonstrated savings for the first three full years after the projected Transaction date. Also included is a summary of estimated full time equivalent (FTE) headcount reductions in each area[11]

<u>Table contains confidential information</u>

Table III.1 - Estimated Transaction Savings
($ in millions)

NFOM + Cap Exp Svgs	2017 Jul-Dec	2018 Yr 1	2019 Yr 2	2020 Yr 3	Total	% of Tot Svgs
Generation						
Gross Savings	$ 1	$ 6	$ 61	$ 79	$ 147	
Costs to Achieve	$ 1	$ 0	$ 28	$ 9	$ 38	

[11] Headcount reductions per DR KCC 169. Summary Tab.

Net Savings	$ 0	$ 6	$ 33	$ 70	$ 109	25.6%
*FTE Reductions ***	*39.0*	*39.0*	*325.6*	*392.3*		**
T&D / Cust Svc						
Gross Savings	$ 6	$ 5	$ 5	$ 5	$ 21	
Costs to Achieve	$ 1	$ 0	$ 0	$ 0	$ 1	
Net Savings	$ 5	$ 5	$ 5	$ 5	$ 20	4.7%
*FTE Reductions ***	*35.8*	*35.8*	*35.8*	*35.8*		**
Shared Services						
Gross Savings	$ 10	$ 23	$ 24	$ 24	$ 81	
Costs to Achieve	$ 6	$ 2	$ 2	$ 1	$ 11	
Net Savings	$ 4	$ 21	$ 22	$ 23	$ 70	16.5%
*FTE Reductions ***	*154.8*	*171.8*	*177.8*	*181.8*		**
Supply Chain						
Gross Savings	$ 11	$ 22	$ 66	$ 66	$ 165	
Costs to Achieve	$ 8	$ 2	$ 2	$ 2	$ 14	
Net Savings	$ 3	$ 20	$ 64	$ 64	$ 151	35.5%
*FTE Reductions ***	*28.0*	*28.0*	*28.0*	*28.0*		**
Total NFOM Exp						
Gross Savings	$ 28	$ 56	$ 156	$ 174	$ 414	
Costs to Achieve	$ 16	$ 4	$ 32	$ 12	$ 64	
Net Savings	$ 12	$ 52	$ 124	$ 162	$ 350	82.4%
*FTE Reductions ***	*257.5*	*274.5*	*567.1*	*637.8*		**
Cap Exp (Rev Req)						
Gross Savings	$ 3	$ 11	$ 25	$ 36	$ 75	
Costs to Achieve	$ 0	$ 0	$ 0	$ 0	$ 0	
Net Savings	$ 3	$ 11	$ 25	$ 36	$ 75	17.6%
NFOM + Cap Exp						
Gross Savings	$ 31	$ 67	$ 181	$ 210	$ 489	
Costs to Achieve	$ 16	$ 4	$ 32	$ 12	$ 64	
Net Savings	$ 15	$ 63	$ 149	$ 198	$ 425	100.0%

Q: Did Mr. Kemp offer ancillary information in an attempt to corroborate the reasonableness of the results of the preliminary transaction savings analysis?

A: Yes, Mr. Kemp presented a comparison of the preliminary savings results with savings achieved in past mergers of 36 utility companies occurring from 1997 to

2012.[12] Mr. Kemp also referenced the GPE acquisition of Aquila in 2008, claiming that they used a very similar analytical approach,[13] and cited the Aquila acquisition as support that GPE can "deliver substantial transaction-related savings."[14]

Q: Did the information provided in Mr. Kemp's testimony regarding comparable mergers spanning the past 19 years and the comparison of GPE's savings analysis process and results with the Aquila acquisition bolster Staff's confidence in the results of the preliminary transaction savings analysis?

A: No, in fact, it cast further doubt on the reliability of the preliminary transaction savings process and results in this case.

Q: Please explain.

A: Although Mr. Kemp expended considerable effort to present cost data on 36 utilities going back to 1997, the results of his analysis do not lend additional support or credibility to the specific savings identified and quantified in this case. Mr. Kemp's conclusion from all of the industry comparison data presented is simply this: "GPE's estimated savings are greater than the median for total NFOM and for three of five the (sic) FERC account functions, generally placing

[12] The results of the comparison are presented graphically in Kemp Direct, Schedule WJK-5.

[13] Kemp Direct, p. 19, ln 16.

[14] Kemp Direct, p. 39, ln 1-2.

GPE's estimated savings performance in the second quartile."[15] Since it is somewhat difficult to decipher details of the information as presented in the graph in Schedule WJK-5, the underlying data is presented below to show the percentage changes between year 1 and year 3 after the merger date for all mergers[16] compared to the estimated savings in the current case[17]:

Table III.2 - Utility M&A Comparison
Percentage Inc / (Dec) In NFOM Cost

	NFOM	Generation	Trans	Dist	Cust Svc	A&G
All Mergers QRT 2 (Median)	-0.1%	0.0%	+10.1%	+0.3%	- 0.5%	- 8.0%
GPE/Westar - Estimated	-9.1%	-19.5%	- 3.5%	-4.9%	- 2.5%	- 6.5%

As shown, the median Total Non-Fuel O&M savings from year 1 to year 3 after the merger date for all 36 mergers in Mr. Kemp's analysis is a mere 0.1%, while the median Distribution and Transmission costs actually increased. The median savings from Generation is 0.0% and Customer Service showed a meager decrease of 0.5%. Only A&G showed a significant level of savings at 8.0%. These results in combination hardly lend additional weight to the estimated transaction savings in the current case. Although Mr. Kemp attempted to explain

[15] Kemp Direct, p. 35, ln 6-8.

[16] CURB DR 50-1.

[17] Kemp Direct, Schedule WJK-4, Estimated Transaction Savings by FERC Account Function

why this transaction would result in greater savings than the median of his selected group of comparable mergers, he failed to offer any evidence to support the premise of his broad assertions and then simply provided reasons a significant percentage of the selected mergers were not actually comparable to this transaction.[18] If examined in detail, there are surely countless differences and similarities in each of these mergers over the years, but the fact remains that Mr. Kemp selected these utilities to support his estimated transaction savings results. Instead of supporting his results, his analysis of comparable mergers, if relevant at all, is only successful in demonstrating that typical comparable mergers result in a nearly immaterial 0.1% of NFOM savings.

Staff also considered Mr. Kemp's reference to savings achieved in GPE's acquisition of Aquila in 2008,[19] and prepared the following chart comparing GPE's estimated savings presented in the Aquila acquisition with actual savings reported by Mr. Kemp in the work papers supporting WJK-5.

Table III.3 – GPE/Aquila Savings
Comparison of Estimated & Actual Savings – GPE/Aquila 2008 Acquisition
Percentage Inc / (Dec) In NFOM Cost

	NFOM	Generation	Trans	Dist	Cust Svc	A&G

[18] Kemp Direct, p. 36, ln 1-15.

[19] Supplemental Direct Testimony of William J. Kemp, Docket No. 07-KCPE-1064-ACQ, p. 16, lines 7-8.

GPE/Aquila-Estimated[20]	-10.1%	- 3.6%	-14.1%	-8.6%	-24.2%	-18.5%
GPE/Aquila - Actual	- 9.3%	+13.0%	-18.1%	-7.0%	+39.4%	-14.3%

This comparison starkly contradicts Mr. Kemp's claim that "the finally realized savings in the Aquila transaction, as is typical of most utility transactions, were significantly higher than were initially estimated."[21] Total achieved non-fuel O&M savings three years after the acquisition were lower than estimated. In fact, actual savings exceeded estimated savings in only one functional area – Transmission – and then only by a modest 4%, and in two areas – Generation and Customer Service –costs actually increased significantly subsequent to the acquisition.

Q: Mr. Kemp stated that the savings estimation team used a very similar analytical approach to GPE's acquisition of Aquila in 2008. Do you agree?

A: Mr. Kemp's statement was made in the context of explaining how the savings estimation teams were able to complete their analysis in a quick turnaround period of one month.[22] However, Staff found GPE's analytical approach to estimating savings in the 07-1064 Aquila acquisition docket was significantly more detailed and comprehensive than the current case.

[20] DR KCC 37.

[21] Kemp Direct, p. 39, ln 3-5.

[22] Kemp Direct, p. 19, ln 10-18

Q: Can you identify the differences in GPE's savings analysis approaches between this case and the 2008 KCP&L/Aquila acquisition?

A: In the current case, the estimated transaction savings analysis was conducted within a short turn-around deadline of three weeks in the due diligence phase prior to GPE's final bid by a team of GPE employees and consultants, with limited Westar data.[23]

Conversely, the analysis of savings presented in the GPE/Aquila acquisition was conducted subsequent to, and in addition to, the pre-bid due diligence process, and took place over a significantly longer time frame between the date of the acquisition announcement on February 7, 2007, and the date of the regulatory filing six months later on August 8, 2007. The process included launching teams and developing a common understanding from both KCP&L and Aquila management and employees.[24] The process was described in that docket as follows, "Senior resources were committed by <u>KCP&L and Aquila</u> to ensure an appropriate level of understanding and buy-in."[25] (Emphasis added.) With reference to major differences in the savings estimation process and the due diligence process, it was further stated, "The major differences consisted in the number and <u>level of involvement of people across the organizations</u> and <u>the</u>

[23] KCC DR 345(b) GPE agrees that data which would have enabled the cross-mapping of KCP&L and Westar positions by department was not available at the time of Mr. Kemp's analysis, and was not utilized in Mr. Kemp's sponsored labor-related savings estimates.

[24] KCPL/Aquila Acquisition Docket 07-KCPE-1064-ACQ, Zabors Supp Direct Testimony, Schedule RTZ-4: Project Approach.

[25] KCPL/Aquila Acquisition Docket 07-KCPE-1064-ACQ, Zabors Supp Direct Testimony, p. 4, ln 7-8.

ability to share and discuss information across the larger team and with members of Aquila."[26] (Emphasis added.) It was further emphasized, "there has been extensive involvement from both Aquila and KCPL management and employees in integration planning." The only noted restrictions to data in the Aquila acquisition were due to guidelines established by the legal departments in areas such as Generation and Power Marketing.[27]

Q: What is the significance of these differences in the savings estimation process when compared to the due diligence process?

A: Exposing these important differences not only counters Mr. Kemp's claim that the savings estimation approaches in the two cases "were very similar," but also reveals the importance GPE has placed in the savings estimation process in involving management and employees of both companies to develop an appropriate and extensive level of understanding and buy-in.

Due to the self-imposed time restrictions in this case, this important element of management and employee involvement from both GPE and Westar into the savings estimation process was not possible. Timing restrictions further prohibited the savings estimation team from using relevant Westar data, such as cross-mapping KCP&L and Westar employee positions by department, which could have increased the credibility of the savings estimation results. Joint

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[26] KCPL/Aquila Acquisition Docket 07-KCPE-1064-ACQ, Zabors Supp Direct Testimony, p. 4, ln 10-12.

[27] KCPL/Aquila Acquisition Docket 07-KCPE-1064-ACQ, Zabors Supp Direct Testimony, p. 4, ln 12-15.

Applicants are essentially relying on GPE's preliminary due diligence analysis, and did not perform a more thorough and reliable savings estimation analysis.

Q: Why does Staff refer to the quick turn-around timing restrictions on the savings estimation team as self-imposed?

A: Although GPE may have needed to perform a preliminary savings estimate within limited time constraints as part of its due diligence, after the transaction announcement the Joint Applicants were in control of the timing of the regulatory filing requesting Commission approval. Joint Applicants knew or should have known that demonstrated merger savings were an essential element in the Commission's prior Merger Standard criteria for determining the effect of the transaction on consumers and ultimately deciding if the transaction was in the public interest. Yet, instead of developing a sufficient and credible demonstration of transaction savings including the involvement of both GPE and Westar management and employees to ensure an appropriate level of understanding and buy-in, Joint Applicants chose to use transaction savings estimates developed in the due diligence phase, described in a presentation to the GPE Board of Directors as **"<u>Preliminary developed on top-down basis."</u> ** It was entirely Joint Applicants' decision to file for Commission approval of the transaction only one month after the announcement of the acquisition, using the same preliminary analysis as its demonstration to the Commission of transition related savings.

Q: Please summarize Staff's findings regarding the consequences of the timing of the savings estimation process.

A: The pre-bid nature of GPE's transaction savings analysis, as well as the quick one-month turnaround imposed by GPE limited the ability of the transaction savings analysis team to fully integrate Westar specific data and involve Westar's management and employees in a mutual, objective, fact-based decision-making process.

Q: Please describe the concerns Staff expressed to the Commission earlier in this docket related to noted deficiencies in Joint Applicants' demonstration of transaction-related savings.

A: Early in its review, Staff was concerned that Joint Applicants had not adequately demonstrated transaction-related savings in the filing noting that their filing changed the wording in the Commission's Merger Standard (a)(ii) which referenced "savings that can be demonstrated from the merger" to "potential savings caused by the merger." Staff provided examples to show that discovery responses only further confirmed that savings are speculative, containing statements such as "[i]t has not yet been determined what specific departments or functions will remain or be relocated to the Topeka office or which, if any, departments will be eliminated or relocated to Kansas City as a result of the Transaction,"[28] and "[w]hile GPE has committed to having its Kansas headquarters located in Topeka after the Transaction, it has not determined a period of time for that commitment."[29] Further, in response to a Staff discovery

[28] DR KCC-6.

[29] DR KCC-6.

request seeking specific details on overhead cost allocation savings, Joint Applicants' response, in part, stated: "Information at the specific level of detail requested in this data request is not currently available as the integration process has only recently started."[30]

Q: Did Joint Applicants subsequently provide additional information supporting or supplementing their preliminary transaction savings results?

A: No. Although several witnesses filed Supplemental Testimony, and Joint Applicants confirmed they would accept the Commission's Merger Standards as stated, Joint Applicants offered no revisions to their originally-filed Application and Testimony and provided no additional or supplemental information to support, update, or revise the preliminary savings analysis.

Q: Joint Applicants have offered these preliminary savings estimates for the Commission to rely on to determine the effect of the Transaction on consumers and ultimately to determine if the Transaction is in the public interest. Have the Joint Applicants committed to the actions and efficiencies identified in the preliminary savings estimates?

A: No. The preliminary savings estimates are currently being used by Joint Applicants as "preliminary efficiency targets" in the on-going integration planning process.[31] After the acquisition announcement, Joint Applicants formed

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[30] DR KCC-4.

[31] DR KCC 19(a).

an integration team to perform various transaction-related functions including the following[32]:

Phase 1 – Starting July 2016 with final reports out 9-28-16:

Identify processes and steps

Identify similarities and differences

Finalize baselines

Identify preliminary efficiencies

Phase 2 – Starting October 2016 with final reports out 12-13-16:

Identify key requirements and interdependencies

Organization structures

Establish staffing requirement plans

Refine and develop efficiency opportunities

Joint Applicants reported that "[t]he functional integration teams are working to develop plans to achieve the levels of projected savings. It is expected that this work will be completed in the January 2017 timeframe."[33] The integration team was tasked with adjusting and refining savings opportunities with feedback from leadership teams, identifying estimates of opportunity size, costs to achieve, and net benefits, and developing executable plans to achieve the identified opportunities. Further, Staff's review and discovery conducted on the

[32] Information provided in presentation slides from KCC/CURB Integration Update Discussion Document, October 12, 2016.

[33] DR KCC 30.

Phase 1 reports provided little additional insight into savings opportunities that would ultimately be adopted or achieved by the integration team. It appears Joint Applicants have doubled-down on the results of their preliminary transaction estimation analysis, in effect ensuring the identification of savings and efficiencies identified in the current integration process would not be available for Commission consideration.[34] It should also be noted that since the final results of the integration team's savings analysis were not available in time for Staff and other intervenors to review, conduct appropriate and thorough discovery, and incorporate into testimony, it would be highly unfair to permit Joint Applicants to supplement the record with this information in rebuttal or at a later time in this proceeding, as such would place extreme procedural prejudice on Staff and intervenors in this docket.

Q: Please identify and discuss Staff's additional findings regarding the transaction savings analysis process.

A: Joint Applicants support their transaction savings analysis in testimony as a comprehensive, conservative and bottom-up process, with buy-in from the GPE executives who would be accountable for achieving the savings.[35] However, Staff found information contradictory to these claims.

Q: Please begin by addressing Joint Applicants' first claim that the transaction savings analysis is comprehensive.

[34] DR KCC 344 - KCC / CURB Integration Update Discussion Document, Dated October 12, 2016 indicates Design Phase 2 Final Report-Outs are scheduled to be completed 12/12 – 12/13, 2016.
[35] Kemp Direct, p. 11, ln 18-19, and Ives Supplemental, p. 6, ln 12-14.

A: Staff found that the Joint Applicants' Transaction savings analysis is not comprehensive. The preliminary and pre-bid nature of GPE's transaction savings analysis, as well as the quick three-week turnaround imposed by GPE, limited the ability of the transaction savings analysis team to fully integrate significant Westar-specific data and to involve Westar's management and employees in a mutual, objective, fact-based decision-making process. Examples of Westar-specific data that were not considered in Joint Applicants' Transaction savings analysis include differences in Westar and KCP&L employees' salary and benefit levels and differences in job organization and function within the utilities' various departments. These considerations are discussed further in Section IV of my testimony regarding Shared Services Transaction Savings.

Q: Please address Joint Applicants' claim that the transaction savings analysis is conservative.

A: The Transaction savings results cannot be considered conservative since the Joint Applicants have offered no evidence or commitment that the savings identified in the preliminary analysis will be implemented or are even currently being considered. In fact, the results of the preliminary transaction savings analysis are being currently used merely as "efficiency targets" as KCP&L and Westar explore and identify transaction-related savings in their on-going integration process. With the timing of the current integration process entirely controlled by the Joint Applicants, the results will not be available in time for the Commission to consider in determining the effect of the proposed Transaction on consumers.

Further, in response to a question asking if the KCC and GPE's Kansas customers can be reasonably assured that at least the targeted total annual savings will be achieved, Joint Applicants did not point to any commitments by Joint Applicants to implement the identified savings, but sought instead to assure the Commission and customers by deferring to a former GPE acquisition: "Yes. GPE has proven that it can deliver substantial transaction-related savings, based on its performance in the Aquila transaction. Tapping the identified savings pools can rely on well-proven processes and capabilities. Also, the finally realized savings in the Aquila transaction, as is typical of most utility transactions, were significantly higher than were initially estimated." (Kemp. Direct, p 38 ln 21 – p 39, ln 5.) Staff has already shown that was not the case. The KCC and Kansas customers deserve more than vague inferences that savings will be achieved. They deserve a commitment by Joint Applicants that actions will be taken to implement identified savings and efficiencies.

Q: **Please address Joint Applicants' claim that the savings estimation analysis was conducted as a bottom-up process, with buy-in from the GPE executives who would be accountable for achieving the savings.**

A: Staff found the following contradictory evidence to the claim that the transaction savings analysis was conducted as a bottom-up process, with buy-in from the GPE executives who would be accountable for achieving the savings:

1. GPE refers to the savings analysis in its presentation to the Board of Directors on May 18, 2016, as ** "Preliminary developed on top-down basis."[36] ** (Emphasis added.)
2. Staff's review of the transaction savings work papers for Shared Services shows that **broadly-applied percentages were applied to staffing levels to calculate headcount reductions, **further challenging Joint Applicants' claims that **headcount reductions were derived on a bottom-up basis from interviews with GPE executives.** Staff presents and discusses the use of **broadly-applied percentages to calculate headcount reductions** in Section IV – Shared Services Transaction Savings.
3. **The top-down nature of the preliminary savings analysis** is further demonstrated by the fact that the savings estimation team was provided with annual minimum targets for aggregate net savings in the 2017 to 2020 period, and asked to determine if the reasonably achievable savings were sufficient to meet the targets.[37]
4. Joint Applicants claim that GPE executives taking ownership for achieving the targeted benefits is "the acid test" for quality assurance of the merger savings analysis.[38] The following

[36] KCC DR Operational Benefits Assessment, GPE's Board of Directors Meeting, May 18, 2016.

[37] DR KCC 389.

[38] Kemp Direct, p. 18, lines 18-20

discoveries, however, seriously call into question the level of quality assurance, if any, arising from GPE executives taking ownership for achieving savings:

- There have been no decisions regarding possible consequences to hold GPE executives accountable for achieving the savings.[39]
- There are no explicit career consequences, in terms of compensation or promotion, associated with "taking ownership" of the estimates.[40]
- Instead of individual executives taking ownership for achieving savings in their department or area as one might expect, 13 GPE executives collectively "took ownership" as a team for the specific savings estimates included in Schedule WJK-3 to Bill Kemp's testimony, the preliminary savings analysis.[41]
- The team of executives were described as having taken ownership of the estimates by: assisting with development of the estimates, being aware of the estimates, agreeing that the estimates appeared realistic and achievable, and by

[39] DR KCC 213, 257(3)

[40] DR KCC 257(3)

[41] DR KCC 257(2).

setting the expectation that his/her respective organizations could achieve such estimates.[42]

The above disclaimers to "taking ownership" of the savings from the GPE executives who would be "accountable for achieving the savings" calls into question the validity of Joint Applicants' claims of providing the "acid test" for quality assurance in the savings estimation process.

Q: Does Staff have additional findings regarding the Joint Applicants' transaction savings analysis?

A: Yes. In addition to the above, Staff has further findings that Joint Applicants' transaction savings analysis contains errors and used significant invalid or unsupported assumptions in identifying and quantifying transaction-related savings and related costs to achieve, which further undermine the credibility of the transaction savings results. Staff identifies and discusses the effects of the errors and invalid assumptions in Section IV - Shared Services Transaction Savings. Staff's findings regarding the identification and quantification of transaction savings in other functional areas are addressed in the Direct Testimony of Walt Drabinski of Vantage Energy Consulting on behalf of KCC Staff.

Q: Please present Staff's conclusions in the demonstration of Transaction savings.

[42] DR KCC 257(1).

A: Staff concludes Joint Applicants have failed to demonstrate sufficient and credible transaction-related savings to allow the Commission to determine the effects of the Transaction on consumers and whether the Transaction is in the public interest.

Q: Please present Staff's recommendation in the demonstration of Transaction savings.

Staff recommends that the Commission reject Joint Applicants' presentation of transaction savings to evaluate the effect of the transaction on consumers to determine whether the proposed transaction will promote the public interest under the following Merger Standard criteria: (a)(ii) reasonableness of the purchase price, including whether the purchase price was reasonable in light of the savings that can be demonstrated from the merger; and (a)(iv) whether there are operational synergies that justify payment of a premium in excess of book value.

IV. SHARED SERVICES TRANSACTION SAVINGS

Q: Please begin by describing the Shared Services transaction savings you are addressing in this section.

A: As shown in the Summary of Joint Applicants' Estimated Transaction Savings table on page 17 of my testimony, the Joint Applicants' preliminary savings analysis is comprised of NFOM Expense Savings, broken out into four functional areas, as well as the revenue requirement impact of Capital Expenditure reductions. This section of my testimony addresses the Joint Applicants' identification and calculation of transaction savings and transition costs related to the functional area of Shared Services. KCC Consultant, Walt Drabinski of Vantage Energy Consulting, addresses the transaction-related savings and costs to achieve related to the other NFOM functional areas as well as Capital Expenditure reductions in Joint Applicants' transaction savings analysis. For reference, a summary of Joint Applicants' transaction-related savings in the Shared Services area is presented below:

Table IV.1 - Estimated Transaction Savings – Shared Services
(in millions)

NFOM	2017 Jul-Dec	2018 Yr 1	2019 Yr 2	2020 Yr 3	Total
Shared Services					
Gross Savings	$ 10	$ 23	$ 24	$ 24	$ 81
Costs to Achieve	$ 6	$ 2	$ 2	$ 1	$ 11
Net Savings	$ 4	$ 21	$ 22	$ 23	$ 70

Q: Please describe the types of costs included in the functional area of Shared Services.

A: **<u>The majority of the transaction-related savings are labor-related (salary and benefit loading) headcount reductions in divisions that provide general support services, including the Chairman, CFO, COO, Treasury, Investor Relations, Controller and Risk Management, Human Resources, Regulatory Affairs, Legal Services, Information Technology, Marketing & Public Affairs, Safety &</u>

Corporate Services, Corporate Compliance & Environmental. There are also non-labor cost savings related to scale buying of various leases and rentals and audit services. **

Q: Please describe how Joint Applicants identified and quantified Shared Services transaction savings and associated costs to achieve.

A: **A $ per FTE by year for each Shared Services department was calculated using KCP&L's budgeted headcount and salary. Although Joint Applicants reported that "estimated FTE reductions… were all hard inputs from interviews with sponsoring GPE executives, based on their assessment of reasonable and achievable savings,"[43] a review of the transaction savings work papers shows headcount reductions were estimated by year by applying Savings percentages to budgeted headcount. Estimated headcount reductions were then multiplied by the $ per FTE, and the result was increased by KCP&L's benefit loading rate to arrive at total loaded labor cost savings. 2017 reflects one-half year of savings since the transaction was assumed to occur in the second quarter of 2017.** **

Q: Why does Staff indicate **headcount reductions were estimated by applying savings percentages to budgeted headcount when Joint Applicants stated GPE managers provided the number of headcount reductions they believed were appropriate?**

[43] DR KCC 346(c)(1).

A: Staff's review of the work papers showing Joint Applicants' transaction savings calculations[44] shows that **headcount reductions were calculated from broadly-applied Savings %'s. An excerpt of relevant columns from the work papers is attached as Exhibit AD-2.1. Selecting Department #855 HRIS & Payroll from the work paper as an example, the headcount reduction for 2017 is estimated to be **3.13567839** positions. This is the exact number carried out eight decimal places that would result by multiplying the 2017 budgeted headcount by ** 40% ** shown in the Savings % column, using the method described by Staff. It is difficult to imagine that a KCP&L manager would estimate such a precise headcount reduction as proffered by Joint Applicants. A review of the Savings %'s and the estimated headcount reductions for all departments shows the majority of the headcount reductions are **40%** of budgeted headcounts with a few reductions at **25%**, and one unusual estimated reduction of ** .06%**, equating to a **.4527972** FTE position. This is another indication to Staff that it is unlikely KCP&L managers would overwhelmingly estimate an exact **40%** headcount reduction in most Shared Services departments. It is also notable that Joint Applicants did not provide any support for using either the **40%** or ** 25%** Savings %'s in calculating headcount reductions, but stated that those percentages were only used for check purposes on the work paper.[45]**

[44] DR KCC 134 (Confidential).

[45] DR KCC 346(c)(i)

Q: Does Staff have additional information relevant to Joint Applicants' statement that **GPE managers provided the number of headcount reductions they believed were appropriate?**

A: **Yes. Joint Applicants provided no corroborating evidence that GPE managers provided the number of headcount reductions. DR KCC 346(c) stated, "The estimated FTE reductions…were all hard inputs from interviews with sponsoring GPE executives, based on their assessment of reasonable and achievable savings," and referenced interview notes provided in response to DR KCC 115. Staff is attaching the response to DR KCC 115 and the accompanying interview notes and guides referenced. These interview notes, which the Joint Applicants claim to be the source data for headcount reductions, are severely lacking in any detail that would support the headcount reductions contained in the transaction savings analysis work papers.**

Q: How did Joint Applicants calculate **reductions in employee benefits associated with the headcount reductions?**

A: **Joint applicants calculated the percentage of total annual employee benefit costs to total annual compensation costs. This percentage, referred to as a benefit loading rate, was then applied to the savings from estimated headcount reductions to arrive at loaded or burdened labor-related savings.**

Q: Does Staff have concerns related to the benefit loading rate assumptions used to calculate labor-related savings?

A: Yes. **Joint Applicants applied GPE's benefit loading rate, which was calculated at approximately 55.1% of salary cost. Although the savings work papers included a calculation of Westar's benefit loading rate of 47%, Westar's lower benefit loading rate was not used in calculating labor-related savings resulting from headcount reductions of both KCP&L and Westar employees. If a blended benefit loading rate of 51% was used instead of KCP&L's rate, Joint Applicants' estimated gross savings from 2017 to 2020 would be reduced by approximately $2.2 million in the Shared Services area,[46] or by approximately $6.3 million if the adjustment is applied to all functional areas.[47]**

Q: Please describe how Joint Applicants calculated the associated costs to achieve the estimated labor reductions.

A: **Joint Applicants estimated one-time severance costs based on 50% of the estimated annual labor reduction.**

Q: Please discuss Staff's concerns related to Joint Applicants' calculation of costs to achieve headcount reduction savings.

A: Staff has three primary concerns

1. **No specific evidence was provided in support of the 50% severance cost percentage other than stating, "[t]hese were general assumptions defined by GPE

[46] **Shared Services: $80.4 total labor costs / 1.55 KCP&L benefit loading rate = salary costs of $51.8 X blended benefit loading rate of 1.51 = $78.3M. $80.4M savings KCPL Rate - $78.3M Avg KCPL/Westar Rate = $2.1M reduction in savings.**

[47] **All Functional Areas: $245.1M total labor costs / 1.55 KCP&L benefit loading rate = salary costs of $158.1M X blended benefit loading rate of 1.51 = $238.8M. $245.1M savings KCPL Rate - $238.8M Avg KCPL/Westar Rate = $6.3M reduction in savings.**

management, based on their experience with severance programs."[48] Considering the majority of estimated transaction savings are labor-related[49], any changes in assumptions could have significant consequences to the transaction savings results.**

2. **It is reasonable to assume there would be additional labor-related costs associated with the transaction, such as relocation costs and retraining costs. If these additional labor-related costs were quantified, Joint Applicants' estimated transaction savings would be further reduced.**

3. Joint Applicants' transaction savings work papers contain an error calculating **2017 severance costs. Joint Applicants confirmed in DR KCC 346(a)(i) that severance costs are intended to be a percentage (50%) of annual burdened labor costs. This should represent 50% of an employees' annual salary as a severance cost in the year the employee terminated employment, and was calculated correctly in years 2018, 2019, and 2020. However, in 2017, only half of employees' annual salary is reflected in the column to which the 50% was applied since the transaction is expected to occur in the 2nd quarter of 2017. Therefore, only one-half of the correct severance costs were calculated for 2017.** A correction of this error results in an increase in costs to achieve and a reduction in net transaction savings in 2017 of $5.4 million in the Shared Services area, and $7.9 million if the correction is applied to all functional areas.

[48] DR KCC 346(a)(i)

[49]** DR KCC 36 reports that labor-related savings are ** 62.2% **of total transaction savings (**$92.2M** labor out of **$148.2M** total estimated NFOM savings).**

Q: Please summarize Staff's remaining findings regarding the omission of relevant significant data in the calculation of Shared Services Transaction savings.

A: Data that is relevant and significant to the development of credible transaction savings was not used to develop Shared Services labor-related savings, including the following:

- **Savings were calculated using KCPL salary and benefit rates and did not account for differences in Westar's salary and benefit rates.**
- **Transaction-related savings were calculated without regard for increases in executive salaries expected due to expanded responsibilities of a larger post-transaction company.**

Q: Please present Staff's findings relating to increases **in executive salaries expected due to expanded responsibilities.**

A: **In DR KCC-137, Joint Applicants responded on October 3, 2016 as follows, "To date, KCP&L/GPE has not performed any analysis as to what the impact of the proposed transaction would be on the market competitiveness of the existing compensation of GPE/KCP&L executive and management team given that the proposed transaction would substantially increase the customer numbers, rate base, enterprise value, etc. of the new entity. At the August 1, 2016 Compensation and Development ("C&D") Committee of the Board of Directors, Mercer, the C&D Committee's compensation consultant, provided general information regarding the implications of a potential Westar acquisition." Staff would note that the Mercer presentation of August 1, 2016 was conducted after the completion of the estimated transaction savings analysis, so any information contained in that presentation was not considered in the results of the savings analysis. **

Q: Please summarize **the Mercer presentation to GPE's Board of Directors as it relates to impacts to compensation, and explain how the information affects the Transaction.**

A: The presentation discusses **the need to identify larger peers for post-transaction compensation decisions, and advises that following mergers of similar size, market levels of compensation for many officers increases in the range of 15% and 20%**.

Q: Did Staff prepare an analysis to determine potential implications of **the increased size and complexity of the combined company on executive level salaries?**

A: Yes, Staff prepared an analysis which is presented in Attachment AD-2.2. Staff's analysis presents **a high-level comparison the current average KCP&L and Westar executive salaries to average executive salaries of other utility companies with similar enterprise value, number of customers, and rate base.[50]**

Q: What does Staff's analysis show?

A: **The analysis shows that the average of executive salaries for utility companies comparable in size, customers, and rate base to Westar and KCP&L is

[50] Companies were selected based on an investor presentation to GPE, which is included with Attachment AD-2.2.

approximately 46% higher than the average combined executive salaries of Westar and KCP&L. The implications of this discrepancy could have a significant impact on Joint Applicant's transaction savings analysis, as higher transaction-related executive costs would serve to offset any achieved transaction savings or efficiencies going forward.**

Q: Does Staff have other findings relating to labor-related transaction savings that were omitted from consideration in Joint Applicants' preliminary savings estimation analysis?

A: Yes, and it involves one of Staff's primary concerns with Joint Applicants' preliminary transaction savings analysis. Joint Applicants preliminary transaction savings analysis used **KCP&L's wage, salary, and benefit information, and did not consider any wage, salary, or benefit differentials that exist today between Westar and KCP&L. Since the majority of Joint Applicants' transaction savings are labor-related, it seems appropriate to underscore the significance of this omission with an illustration of Joint Applicants' responses:**

- "…operational savings estimates discussed in the Joint Applicants' testimony did not account for any wage or salary differentials that exist today between Westar and KCP&L." KCP&L's response to DR KCC-120, October 4, 2016.
- "We do not have any information currently on the Westar pay scales." KCP&L's response to DR CURB-80, August 19, 2016.

- "There has been no analysis performed comparing Westar vs. KCP&L pay scale." Westar's response to DR CURB-26, October 25, 2016.
- "A comparison of Westar vs. KCP&L benefits has not been performed." Westar's response to DR CURB-27, October 25, 2016.
- "We do not have any information currently comparing KCP&L and Westar benefits." KCP&L's response to DR CURB-81, August 15, 2016.

Q: **<u>What impact does the omission of salary and benefit differentials have on estimating transaction-related savings?</u>**

A: **<u>The omission could have a significant impact. The full extent of the impact is not known due to the failure of Joint Applicants to consider the salary and benefit differentials in their savings analysis, and their continued failure to analyze the impact over six months after the Transaction was announced</u>. **

Q: Please explain why Staff believes the impact could be significant.

A: It's important to keep in mind that Joint Applicants have the burden to prove the preliminary savings estimation analysis is sufficient and credible. **<u>However, due to Joint Applicants' failure to consider the effects of salary and benefit differentials between the two companies, Staff prepared a high-level comparison of Westar and KCP&L salaries to show if salary and benefit differentials between the two companies could reasonably be expected to affect the results. Staff's</u>

analysis is included as Attachment AD-2.3. It includes a sample of five areas within the Shared Services functional area, as well as a sample of eight job descriptions in other functional areas of the transaction savings analysis. The results of this comparative analysis are presented below:**

Table IV.2 - Salary Comparison – Shared Services
** Table is Confidential **

KCP&L Dept	Description	Westar Avg Salary	KCPL Avg Salary	% Inc/(Dec) Over Westar
699	Controller	$67,623	$ 81,386	20%
510	Communications	$68,814	$ 81,677	19%
390	Environmental Svcs	$87,800	$107,619	23%
661	Regulatory Affairs	$98,757	$105,472	7%
871	IT	$81,497	$ 92,426	13%

Table IV.3 - Salary Comparison – Other Functional Areas
** Table is Confidential **

KCP&L Dept	Description	Westar Avg Salary	KCPL Avg Salary	% Inc/(Dec) Over Westar
	Cust Svc Rep	$45,858	$ 58,086	27%
	Exec. Assistant	$61,628	$ 66,568	8%
	Safety Specialist	$86,819	$97,055	12%
	Sr. Engineer	$130,271	$118,900	(9%)
	Line Foreman	$89,565	$ 96,200	7%
	Lineman Journeyman	$81,162	$86,154	6%

	Electrician Journeyman	$77,522	$89,877	16%
	Storekeeper	$67,870	$93,808	38%

The results summarized in the above charts show **consistently higher KCP&L salaries across these job descriptions, with only one instance of Westar salaries being higher than KCP&L.** This illustrates Staff's concern that **failing to consider salary and wage differentials may have resulted in inflated savings since headcount reduction savings were calculated using higher KCP&L salaries.**

Q: Does Staff have similar concerns regarding **employee benefit differentials between the two companies?**

A: Yes. As previously discussed in my testimony, Joint Applicants used **KCP&L's higher benefit loading rate and failed to consider Westar's benefit loading rate in the preliminary savings analysis.** Staff estimated **Joint Applicants' use of the higher KCP&L benefit costs resulted in an overstatement of transaction savings by $2.2 million in the Shared Services area, and by $6.3 million in all functional areas.**

Q: Please present Staff's conclusions relating to Shared Services Transaction savings.

A: The Joint Applicants have the burden to demonstrate Transaction savings for the Commission to evaluate the effect of the transaction on consumers and determine if the Transaction will promote the public interest. Joint Applicants failed to demonstrate a sufficient, credible estimate of Transaction-related labor savings of

Shared Services. Further, Staff identified errors in Joint Applicants' calculation of estimated transaction savings which, if adjusted, would reduce net transaction savings by $7.6 million in the Shared Services area, and by $14.2 million if the adjustment is applied to all functional areas.

Q: Please present Staff's recommendations relating to Transaction savings in the functional area of Shared Services.

A: Due to Joint Applicants' failure to demonstrate a sufficient, credible estimate of Transaction-related labor savings of Shared Services, Staff recommends that the Commission reject as not credible Joint Applicants' presentation of Shared Services Transaction savings in its evaluation of the effect of the transaction on consumers to determine whether the proposed transaction will promote the public interest under the following Merger Standard criteria: (a)(ii) reasonableness of the purchase price, including whether the purchase price was reasonable in light of the savings that can be demonstrated from the merger; and (a)(iv) whether there are operational synergies that justify payment of a premium in excess of book value.

V. QUANTIFICATION OF RATEPAYER BENEFITS

Q: Please begin by identifying the Commission's Merger Standard criteria related to quantified ratepayer benefits.

A: The Commission recently affirmed in this docket the importance of Merger Standard (a)(iii) whether ratepayer benefits resulting from the transaction can be quantified.

Q: Please describe how your testimony addresses the quantification of ratepayer benefits under Merger Standard (a)(iii).

A: My testimony will discuss Staff's recommendation to enable Kansas jurisdictional ratepayers to immediately receive benefits after the Transaction, if Staff were recommending approval of the Transaction.

Staff witnesses Justin Grady and Scott Hempling also address issues related to the quantification of ratepayer benefits under Merger Standard (a)(iii).

Q: Please clarify why Staff's recommendation is dependent upon approval of the Transaction.

A: As summarized in Section V. of Mr. Grady's testimony, and also discussed and supported by other Staff witnesses in this proceeding, Staff recommends the Commission deny the Transaction as proposed. If the Commission determines that the Transaction does not meet the public interest standard and does not approve the Transaction, Staff's recommendation in this area is of course moot. However, in the event this Transaction can be restructured to promote the public interest, and is therefore approved by the Commission, Staff's recommendation will enable Kansas jurisdictional ratepayers to receive immediate benefits.

Q: Briefly explain how Joint Applicants' ratemaking plan proposes to share benefits with Kansas jurisdictional ratepayers.

A: As Mr. Ives explains in his Supplemental Direct Testimony, "When GPE's utility subsidiaries undergo general rate cases post-closing, these savings (net of transaction costs incurred to achieve them for which the Commission grants rate recovery) will flow to the benefit of customers in the form of rates for electric service lower than they would have been absent the Transaction."[51] Mr. Ives further states that because Joint Applicants are not explicitly requesting recovery of the acquisition premium through inclusion in revenue requirement and rates, "any savings realized from the Transaction that are reflected in revenue requirement and rates through the ratemaking process represent benefits for customers in the form of rates that are lower than they would have been absent the Transaction."[52]

Q: How have Joint Applicants quantified ratepayer benefits in their proposed ratemaking plan?

A: Joint Applicants used results from GPE's estimated transaction analysis as inputs into a financial model to estimate annual savings or efficiencies achieved, retained, and shared with ratepayers in 2017, 2018, 2019, and 2020. The results, along with Joint Applicants' financial model assumptions, are presented in Attachment AD-2.4, with the results summarized below:

[51] Ives, Supplemental Testimony, p. 5, ll. 3-7.

[52] Ives, Supplemental Testimony, p. 10, ll. 14-19.

Table V.1 - Gross Efficiencies Achieved
Years 2017 to 2020
(in $ millions)
** Table is Confidential**

Total Gross Efficiencies Achieved	$399.4	100%
Shared in GRC – Westar	$42.7	10.7%
Shared in GRC – KCPL-KS	$ 16.8	4.2%
Shared in GRC – KS Ratepayers	$ 59.5	14.9%
Shared in GRC – MO Ratepayers	$43.3	10.8%
Shared in GRC – All Ratepayers	$102.8	25.7%
Retained by Joint Applicants	$296.6	74.3%

Q: Does Staff have concerns with the financial modeling methodology, assumptions, and outcome?

A: Yes. Staff's concerns identified below severely reduce the credibility of the results of the financial model. However, this model and the results were used by Joint Applicants to structure its proposed ratemaking plan.

- **<u>Gross efficiencies shared through general rate cases (GRC) are allocated between the utility subsidiaries on the basis of customer numbers. Although this provides a simplistic manner to allocate costs and savings, and the companies have not provided</u>

information regarding allocation methodologies of the combined companies, customer numbers cannot be relied upon to give credible results in this model. **

- The actual Gross Efficiencies and costs to achieve used in the financial model were provided by GPE's preliminary savings estimation team. Staff discussed its concerns with these estimates in the preceding sections of my testimony. So I will just add here for reference that Staff found the underlying savings estimates not to be sufficient or credible, and recommended the Commission not rely on the savings estimates in making their determination of whether this transaction is in the public interest.
- **Costs to Achieve (CTA) the efficiencies are not allocated between the subsidiary utilities, so the results in the above chart are the gross efficiencies. If associated CTA which will be borne by ratepayers, thereby reducing any savings shared in a general rate case, were properly allocated and reflected, the gross efficiencies in the above chart that are shared with the utility subsidiaries in rate cases would be reduced by 47%, and the percentage of efficiencies retained by Joint Applicants during the period would increase from 74.2% to 84.4%. **
- A review of the calculations supporting the results in the above chart clearly show the advantage Joint Applicants enjoy in this

scenario. By controlling the timing of rate cases after the Transaction, they are able to effectively control the amount of achieved efficiencies they are allowed to retain through regulatory lag. For example, in the year 2020, Joint Applicants are estimating achieved efficiencies of $172 million. Including costs to achieve, Kansas ratepayers can expect to receive ** a mere $14.1 million, while Joint Applicants retain $122 million. ** And this disparity is occurring as savings from Westar's and KCP&L's post-transaction general rate cases are being fully flowed through to ratepayers. If Commission intervention is needed at some point to require an audit due to overearning, Joint Applicants can continue overearning while the regulatory process takes its course. Yet Joint Applicants continue to argue their proposed plan is fair to consumers because they are receiving benefits that they would not have received absent the transaction.

Q: What are Staff's recommendations regarding ratepayer benefits?

A: I would like to start by referencing an observation made by Mr. Kemp, the sponsor of the estimated savings analysis in this proceeding. Mr. Kemp addressed Industry Context for Proposed Rate Treatment of Synergies in his testimony in the GPE/Aquila 07-1064 acquisition docket. In response to the question, "What policy objectives do regulatory commissions typically have in mind when deciding on rate treatment of merger synergies?" Mr. Kemp responded, "Commissions commonly require a showing that the proposed rate treatment will provide an immediate and equitable share of the benefits to consumers."[53] I concur, and if Staff were recommending approval of the Transaction, Staff would recommend that the Commission require KCP&L and Westar to issue bill credits to Kansas jurisdictional customers annually beginning July 2017 through July 2020, and continuing annually in July of each year until rates from each utility's next general rate case become effective. Joint Applicants will control the timing of general rate cases subsequent to the transaction, and the above review of their financial modeling results was shown to restrict sharing of transaction savings with ratepayers. Annual bill credits will enable ratepayers to receive immediate Transaction benefits. Staff recommends the annual bill credits reflect a 50-50 sharing of **the Joint Applicants' efficiency targets, ** as identified by Joint Applicants in work papers provided with KCC DR 169. The amounts of Staff's recommended annual bill credits are supported in Attachment AD-2.5, and summarized in the following table:

Table V.2 - Annual Bill Credits
(in millions)

	2017	2018	2019	2020+	Total
Westar	$ 2.68	$ 11.6	$ 7.3	$ 13.9	$ 35.5
KCPL-KS	$ .93	$ 2.7	$ 1.9	$ 4.8	$ 10.4
Total	$ 3.61	$ 14.3	$ 9.2	$ 18.7	$ 45.9

[53] Kemp, Supplemental Direct, 07-KCPE-1064-ACQ, p. 23, ll. 6-14.

Q: Please explain Staff's recommendation of a 50/50 sharing of the Joint Applicants' efficiency targets.

A: There is Commission precedent for selecting a 50/50 sharing of merger savings. In the 1991 Order in the merger between KPL and KGE[54], the Commission found it appropriate for ratepayers and shareholders to share merger generated savings on a 50/50 basis. In the current docket, Staff witness Scott Hempling addresses principles for allocating the control premium on a 50/50 basis. A 50/50 sharing of the Joint Applicants' efficiency targets would be consistent with prior Commission policy as well as Staff's recommendations in this docket, and provides an equitable solution for sharing efficiency targets between ratepayers and shareholders.

Q: How will the bill credits affect Joint Applicants' financial modeling results?

A: Staff has prepared an analysis of the Joint Applicants' financial modeling results with the bill credits. Staff's analysis is presented in Attachment AD-2.6, and the results are summarized in the following table:

[54] Order, Consolidated Docket Nos. 172,745-U and 174-155-D, p. 83, paragraph e.

Table V.3 - Gross Efficiencies with Bill Credits
Years 2017 to 2020
(in $ millions)
** Table is Confidential**

Total Gross Efficiencies Achieved	$399.4	100%
Shared in GRC & Bill Credits – Westar	$78.2	19.6%
Shared in GRC & Bill Credits – KCPL-KS	$ 27.2	6.8%
Shared in GRC & Bill Credits– KS Ratepayers	$105.4	26.4%
Shared in GRC – MO Ratepayers	$43.3	10.8%
Retained by JA's	$250.3	62.7%

Q: Is it Staff's position that requiring the Joint Applicants to issue these annual bill credits, in addition to the Joint Applicants' proposed ratemaking treatment of other elements of the Transaction, will achieve an overall equitable sharing of savings between ratepayers and shareholders from this transaction?

A: No. It is Staff's position that the Joint Applicants have failed to provide a sufficient, credible quantification of the ratepayer benefits of the Transaction to enable the Commission to determine if the effect of the Transaction on consumers promotes the public interest. However, if Staff were recommending approval of the Transaction, Staff would recommend Kansas jurisdictional ratepayers immediately share in transaction savings after the close of the Transaction, and

Joint Applicants be required to provide annual bill credits to Westar and KCPL Kansas ratepayers.

VI. PRESERVATION OF KCC JURISDICTION

Q: Please begin by identifying the Commission's Merger Standard criteria related to the preservation of KCC jurisdiction.

A: In its Order on Merger Standards in this docket, the Commission affirmed Merger Standard (d) whether the proposed transaction will preserve the jurisdiction of the KCC and the capacity of the KCC to effectively regulate and audit public utility operations in the state.

Q: Provide a general overview of how Joint Applicants' addressed this Merger Standard in their Application.

A: The Joint Application provides the following assurances relating to the preservation of the KCC's jurisdiction as a result of the proposed Transaction:

> Paragraph 29(k): Great Plains Energy and its utility subsidiaries will maintain separate books and records. The utility assets of the companies will remain under the jurisdiction of the Commission as they were before the Transaction.
>
> Paragraph 29(l): Great Plains Energy will comply with the Standards for Affiliate Transactions set forth in K.S.A. 66-1213a, 66-1401, 66-1402, 66-1403 and any Commission order, rule or regulation addressing affiliate transactions and the recovery of costs from affiliates.

Paragraph 30: The Transaction does not affect the geographical certificated territories served by KCP&L or Westar in Kansas.

Paragraph 32: The Commission will retain jurisdiction over KCP&L and Westar after the completion of the Transaction. The Transaction will preserve the Commission's access to Great Plains Energy's books and records as is reasonably necessary to carry out the responsibilities of the Commission relating to KCP&L's and Westar's regulated operations, including the conduct of proper audits. The Transaction will preserve the Commission's ability to monitor service and reliability levels being achieved by Westar and KCP&L as the obligations imposed by Docket No. 02-GIME-365-GIE will remain in effect for both Westar and KCP&L after the Transaction. Docket No. 02-GIME-365-GIE established reliability and quality of service standards for provisioning electric utility service in Kansas.

In Direct Testimony, the Joint Applicants conclude that the proposed Transaction will not have a detrimental impact on the Commission's ability to regulate the companies and protect electric utility customers in the State. "The Commission's jurisdiction will continue to be as comprehensive over the combined company as it is presently over the companies on an individual basis."[55] They further infer that the Transaction will not only preserve but even improve the KCC's ability to effectively regulate and audit public utility operations in the state: "If anything, the convenience and simplicity of dealing

[55] Ives, Direct, p. 13, ll. 8-9.

with only one company for both operating units should make it easier, less costly, and therefore better."[56]

Q: Please identify Staff's conclusions and recommendations related to the proposed Transaction effects on the preservation of KCC jurisdiction.

A: Staff notes that with the assurances set out in the Application noted above, the KCC's jurisdiction to regulate and audit public utility operations in the state will be preserved. However, the proposed transaction will impart additional burdens and complexities to effectively regulate and audit Westar's utility operations, as well as added risks to Westar's Kansas ratepayers, given the multijurisdictional and multi utility allocation issues that will arise in future general rate cases that don't exist today. Therefore, Staff disagrees with the assertion that the Transaction will make the KCC's ability to effectively regulate and audit public utility operations in the state easier, less costly, and therefore better. Instead, the additional complexities of properly assigning and allocating costs between additional non-regulated affiliates, utility subsidiaries, and jurisdictions adds additional complexity along with the additional element of risk of improper cost assignment.

To address the above concerns, Staff recommends that, if the Commission determines the Transaction should be approved, the assurances set out in the Application relating to the preservation of the KCC's jurisdiction, referenced above, should be made part of the Commission's Order. Staff further addresses

[56] Ruelle, Direct, p. 32, ll. 20-22.

the concerns regarding the additional complexities of the Transaction due to multi utility and multi-jurisdictional cost allocations in the following section on the review of affiliate transactions and shared cost allocations.

VII. AFFILIATE TRANSACTIONS AND COST ALLOCATIONS

Q: Please provide an overview of GPE's and Westar's current corporate structures and affiliates.

A: Joint Applicants' current corporate structure, including affiliates is provided as follows:

A. GPE corporate structure and affiliates.

GPE is a registered public utility holding company with two wholly owned utility subsidiaries, KCP&L and GCP&L Greater Missouri Operations Company (GMO) and three wholly-owned non-regulated subsidiaries, Great Plains Energy Services Inc, GXP Investments Inc, and GPE Transmission Holding Company, LLC. GPE is headquartered in Kansas City, Missouri, and all employees are employed by KCP&L and these employees operate and manage the business and properties of GPE's wholly owned affiliates. Additional affiliate relationships of GPE's subsidiaries include the following:

- KCP&L. KCP&L is a regulated electric utility serving approximately 527,000 customers in western Missouri and eastern Kansas. KCP&L wholly owns KCP&L Receivables Company, who whom all its retail electric accounts receivables are sold.

KCP&L also has a 47% ownership interest in the Wolf Creek Generating Station.

- GMO. GMO consists of two Missouri-based electric jurisdictions, Missouri Public Service (MPS) and St. Joseph Light and Power (L&P). GMO also wholly owns GMO Receivables Company, MPS Merchant Services, Inc., an unregulated subsidiary with long-term natural gas contracts, and several other unregulated subsidiaries that no longer have active operations.
    - Transource Transmission Holding Company LLC. KCP&L & GMO may provide certain services to Transource for which they will be reimbursed.
    - GXP Investments. GXP Investments is an intermediate holding company that has investments in affordable housing limited partnerships, KCP&L Solar, and various wholly-owned unregulated companies that have no active operations.

B. Westar corporate structure and affiliates.

Westar is a Kansas corporation operating as an electric public utility providing electric generation, transmission and distribution services in Kansas. Westar's corporate office is in Topeka, Kansas. Westar Energy, Inc. is the parent corporation. Westar Energy, Inc. is the parent corporation with Westar Energy the operating division and Westar Energy Foundation, a Kansas non-profit charitable foundation. Westar wholly-owns the following regulated subsidiaries: Kansas Gas and Electric Company (also known as KGE, KG&E and Westar Energy), which in turn owns a 47% interest in Wolf Creek Nuclear Operating Corporation, and Westar Generating. Westar is a 50% owner of Prairie Wind Transmission LLC, a regulated subsidiary. Westar wholly-owns the following unregulated subsidiaries: Westar Transmission, LLC, and Westar Industries, Inc. Westar's regulated and unregulated subsidiaries in turn own a number of regulated and unregulated operations, subsidiaries and joint ventures.

Q: Please provide a description of the corporate structure the proposed combined company.

A: The proposed Transaction provides that upon closing, Westar will become a wholly-owned subsidiary of GPE, will cease to be a publicly-held corporation.

Q: Please describe how Joint Applicants addressed affiliate transactions and cost allocations in this proceeding.

A: Joint Applicants included the following commitment in their Application[57], which address affiliate transaction and cost allocation issues, as follows:

Parent agrees that the initial application submitted to the Kansas Corporation Commission with respect to the Merger will include specific commitments and agreements consistent with the terms set forth below: c. Allocation of costs among affiliates - Parent agrees that each of its utility subsidiaries will provide an updated cost allocation manual to the Kansas Corporation Commission explaining the basis of allocation factors used to assign costs to each utility, and will further agree that the Kansas Corporation Commission may examine accounting records of its affiliates to determine the reasonableness of such allocation factors and cost assignments.

In addition, Joint Applicants provided the following response when asked the expected date Westar and KCP&L will provide updated cost allocation manuals to the Kansas Corporation Commission as set out in the Applicants' Agreement and Plan of Merger:[58] "KCP&L and Westar will provide an updated cost allocation manual in March 2018. We would be willing to discuss with parties updated cost allocations six months following the close of the acquisition."

Q: Staff previously expressed concerns in this proceeding that GPE had not yet sought the Missouri Public Service Commission's approval of a variance for

[57] Joint Application, Appendix C, Exhibit B, Regulatory Commitments, Section 1. Customer rates, c. Allocation of costs among affiliates, p. 99 of 135.

[58] DR KCC 41.

Missouri's affiliate transaction rule which would presently require KCP&L to provide goods and services to Westar at the greater of fair market value or fully distributed costs and compensate Westar for goods and services provided by Westar at the lesser of fair market value or fully distributed costs[59]. Have Staff's concerns been resolved?

A: On October 12, 2016, Joint Applicants filed an Agreement between the Missouri Public Service Commission (MoPSC) and GPE which includes the following language regarding this issue[60]:

> By the Commission's approval of this Stipulation, the Signatories intend that the Commission shall grant KCP&L and GMO a variance from the provisions of 4 CSR 240-20.015 allowing all transactions between KCP&L, GMO and Westar to occur at cost except for wholesale power transactions, which will be based on rates approved by the Federal Energy Regulatory Commission ("FERC"). As good cause for this variance, the Signatories agree that: the variance is limited to transactions between GPE's regulated utilities in Missouri and Kansas; the variance is necessary to enable the attainment of post-Transaction savings that will ultimately benefit customers of GPE's utility subsidiaries in

[59] Staff's Reply to Joint Applicants' Verified Response to CEE-2017-ommission's Order on Merger Standards, p. 5-6.

[60] Stipulation and Agreement, In the Matter of the Joint Application of Great Plains Energy Incorporated, Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company for a variance from 4 CSR 240-20.015, Before the Public Service Commission of the State of Missouri, Case No. EE-2017-0113.

> Missouri and Kansas; and, given all of the conditions set forth in this Stipulation, the Transaction will not be detrimental to the public interest in Missouri.

Staff's recent review of this proceeding before the MoPSC shows the approval of the Agreement is still pending, and a recent procedural schedule was filed in that docket with hearings set for March 15-17, 2017.

Q: Please present Staff's conclusions related to affiliate transactions and cost allocations.

A: Due to the numerous regulated and unregulated subsidiaries and affiliations of both GPE and Westar as noted above, the proposed Transaction will pose increased risks to ratepayers of the subsidization by regulated utility operations to additional utility and non-regulated affiliates, as well as additional risks to Westar ratepayers associated with jurisdictional allocations to GPE's Missouri utility operations that do not exist today.

Q: Please present Staff's recommendation related to affiliate transactions and cost allocations.

A: Staff recommends that if the Commission approves the Transaction, the Commission should require Westar and KCP&L to file updated Cost Allocation Manuals reflecting any changes necessitated by the Transaction for approval with Commission within 60 days from the date of the Transaction. Cost allocation and affiliate transaction procedures should be a priority of Joint Applicants, particularly in the early stages after the Transaction, when implementing procedures and allocation methodologies is particularly important to ensure proper assignment and allocation of shared costs and services for review in Joint Applicants' planned future rate cases. Staff further recommends the proceeding before the MoPSC continue to be monitored for any future actions which may impact Joint Applicants' affiliate transactions and cost allocations in Kansas.

VIII. CONCLUSION

Q: Please summarize your primary concerns with Joint Applicants' proposed transaction.

A: My primary concerns may be summarized as follows:

- Joint Applicants failed to meet their burden of demonstrating sufficient and credible transaction-related savings in this proceeding.
- Joint Applicants failed to demonstrate a sufficient, credible estimate of Transaction-related labor savings of Shared Services.
- Joint Applicants failed to meet their burden to provide the Commission with a sufficient and credible quantification of ratepayer benefits.
- The proposed transaction will impart additional burdens and complexities to effectively regulate and audit Westar's utility operations, as well as added risks to Westar's Kansas ratepayers,

given the multi-jurisdictional and multi utility allocation issues that will arise in future general rate cases that don't exist today.

- The proposed Transaction will increase risks to ratepayers of the subsidization of regulated utility operations to additional utility and non-regulated affiliates as well as additional risks to Westar ratepayers associated with jurisdictional allocations to GPE's Missouri utility operations that do not exist today

Q: Please summarize your recommendations to the Commission.

A: My recommendations to the Commission may be summarized as follows:

- Staff recommends that the Commission reject Joint Applicants' presentation of transaction savings to evaluate the effect of the transaction on consumers to determine whether the proposed transaction will promote the public interest under the following Merger Standard criteria: (a)(ii) reasonableness of the purchase price, including whether the purchase price was reasonable in light of the savings that can be demonstrated from the merger; and (a)(iv) whether there are operational synergies that justify payment of a premium in excess of book value.
- Staff recommends that the Commission specifically reject Joint Applicants' presentation of Shared Services Transaction savings in its evaluation of the effect of the transaction on consumers to determine whether the proposed transaction will promote the

public interest under the following Merger Standard criteria: (a)(ii) reasonableness of the purchase price, including whether the purchase price was reasonable in light of the savings that can be demonstrated from the merger; and (a)(iv) whether there are operational synergies that justify payment of a premium in excess of book value.

- Staff recommends the Commission determine Joint Applicants failed to provide the Commission with sufficient and credible evidence of the quantification of ratepayer benefits described in Merger Standard (a)(iv), including whether the amount and proposed ratemaking treatment of merger savings results in an equitable sharing of savings with ratepayers and promotes the public interest. However, if Staff were recommending approval of the Transaction, Staff would recommend Kansas jurisdictional ratepayers immediately share in transaction savings after the close of the Transaction, and Joint Applicants be required to provide annual bill credits to Westar and KCP&L Kansas jurisdictional ratepayers in the amounts set out in the Annual Bill Credits table presented at page 11 .
- If Staff were recommending approval of the Transaction, Staff would recommend that the assurances set out in the Joint

Application relating to the preservation of the KCC's jurisdiction should be incorporated into the Commission's Order.

- If Staff were recommending approval of the Transaction, Staff would recommend that the Commission should require Westar and KCP&L to file updated Cost Allocation Manuals reflecting any changes necessitated by the Transaction for approval with Commission within 60 days from the date of the Transaction.

Q: Does this conclude your testimony?

A: Yes.

Tab	#	Business Unit	Division	Departm	Department Name	Savings %	B HC 2017	B HC 2018	B HC 2019	B HC 2020
Support	2	0	CHAIRMAN, PRESIDENT & EXE	900	President & CEO	0.4	0.8	0.8	0.8	0.8
Support	102	KCPL SUPPORT	Finance / Strategy / CFO	893	Senior VP & CFO	0.4	1.2	1.2	1.2	1.2
Support	6	0	Chief Operating Officer	206	NERC Implementation &	0.4	1.2	1.2	1.2	1.2
Support	7	0	Chief Operating Officer	219	Chief Operating Officer	0.4	2	2	2	2
Support	188	KCPL SUPPORT	Treas / Investor Rel / Corp Plar	894	Corporate Finance	0.4	6.61016949	6.61016949	6.61016949	6.61016949
Support	180	KCPL SUPPORT	Risk Mgmt & Controller	699	Controller	0.4	29.2	29.2	29.2	29.2
Support	188	KCPL SUPPORT	Treas / Investor Rel / Corp Plar	894	Corporate Finance	0.4	6.61016949	6.61016949	6.61016949	6.61016949
Support	110	KCPL SUPPORT	Human Resources	205	Employee & Labor Relati	0.4	5.22613065	5.22613065	5.22613065	5.22613065
Support	111	KCPL SUPPORT	Human Resources	845	Organizational Developn	0.4	0.8040201	0.8040201	0.8040201	0.8040201
Support	112	KCPL SUPPORT	Human Resources	846	HR Service Center & Tecl	0.4	2.81407035	2.81407035	2.81407035	2.81407035
Support	113	KCPL SUPPORT	Human Resources	850	HR Executive	0.4	0.8040201	0.8040201	0.8040201	0.8040201
Support	114	KCPL SUPPORT	Human Resources	851	Compensation & Benefit	0.4	3.2160804	3.2160804	3.2160804	3.2160804
Support	115	KCPL SUPPORT	Human Resources	855	HRIS & Payroll	0.4	3.13567839	3.13567839	3.13567839	3.13567839
Support	192	KCPL SUPPORT	Regulatory Affairs	661	Regulatory Affairs		8	8	8	8
Support	119	KCPL SUPPORT	Legal Services	861	Law Department	0.3	3	3	3	3
Support	165	KCPL SUPPORT	Information Technology	870	IT Strategy & Manageme	0.25	3.23426573	3.23426573	3.23426573	3.23426573
Support	166	KCPL SUPPORT	Information Technology	871	IT Infrastructure/Archite	0.3	7.63286713	7.63286713	7.63286713	7.63286713
Support	167	KCPL SUPPORT	Information Technology	872	Customer Systems Support		0	8	8	8
Support	168	KCPL SUPPORT	Information Technology	873	Enterprise Systems Supp	0.25	5.39044289	5.39044289	5.39044289	5.39044289
Support	169	KCPL SUPPORT	Information Technology	874	Desktop & Client Service	0.25	6.19900932	6.19900932	6.19900932	6.19900932
Support	172	KCPL SUPPORT	Information Technology	877	IP Network Engineering (	0.25	1.34761072	1.34761072	1.34761072	1.34761072
Support	173	KCPL SUPPORT	Information Technology	878	Technical Services	0.3	2.91083916	2.91083916	2.91083916	2.91083916
Support	174	KCPL SUPPORT	Information Technology	879	Project Controls Office	0.06	0.4527972	0.4527972	0.4527972	0.4527972
Support	139	KCPL SUPPORT	Marketing & Public Affairs	171	Customer & Community	0.4	3	4	4	4
Support	140	KCPL SUPPORT	Marketing & Public Affairs	510	Corporate Communicatic	0.4	7	8	8	9
Support	141	KCPL SUPPORT	Marketing & Public Affairs	511	Government Affairs	0.4	1	2	2	2
Support	142	KCPL SUPPORT	Marketing & Public Affairs	512	Community Relations	0.4	2	3	3	3
Support	143	KCPL SUPPORT	Marketing & Public Affairs	562	Economic Development	0.4	2	2	2	2
Support	144	KCPL SUPPORT	Marketing & Public Affairs	564	External Communication	0.4	0	1	1	1
Support	145	KCPL SUPPORT	Marketing & Public Affairs	570	Customer Insight	0.4	2	2	2	2
Support	146	KCPL SUPPORT	Marketing & Public Affairs	571	eServices	0.4	1	1	1	2
Support	147	KCPL SUPPORT	Marketing & Public Affairs	572	Marketing Intelligence	0.4	3	3	3	4
Support	148	KCPL SUPPORT	Marketing & Public Affairs	574	Energy Efficiency	0.4	4	5	5	5
Support	149	KCPL SUPPORT	Marketing & Public Affairs	576	Customer Solutions	0.4	3	4	4	4
Support	150	KCPL SUPPORT	Marketing & Public Affairs	657	Business Center	0.4	1	2	2	2
Support	128	KCPL SUPPORT	Safety & Corporate Services	401	Generation Safety	0.4	5	5	6	6
Support	129	KCPL SUPPORT	Safety & Corporate Services	853	Medical	0.4	0	0	1	1
Support	130	KCPL SUPPORT	Safety & Corporate Services	854	Safety	0.4	2	2	3	3
Support	131	KCPL SUPPORT	Safety & Corporate Services	863	Security	0.4	4	4	4	4

Support	155	KCPL SUPPORT	Corp Compliance & Environme	390	Environmental Services	0.4	5	5	6	6
Support	156	KCPL SUPPORT	Corp Compliance & Environme	406	FERC Assurance	0.4	2	2	3	3
Support	157	KCPL SUPPORT	Corp Compliance & Environme	705	KCP&L Corporate Secret	0.4	1	1	2	2
Support	158	KCPL SUPPORT	Corp Compliance & Environme	820	Audit Services	0.4	5	6	6	7
Support	180	KCPL SUPPORT	Risk Mgmt & Controller	699	Controller	0.05	0	0	0	0
Support		KCPL DELIVERY	Delivery Engineering	560	560-Elec Trans Business	0.05				
Support		KCPL GENERATION	Renewable Resources	491	491-Wind Turb Generati	0.05				
Support		KCPL GENERATION	Plant Operations	450	450-Central Machine Fac	0.05				
Support			Total Headcount Reductions				154.79	171.79	177.79	181.79

Source: DR KCC 134 (Confidential) - Joint Applicants' support for estimated transaction savings per WJK-3, Tab "Sheet 1".

Comparison of Compensation of Named Executives
December 31, 2015

Company Name	Salary	Total Compensation
WEC Energy		
Gale Klappa	1,324,739	13,826,768
J. Patrick Keyes	531,002	2,927,555
Allen L. Leverett	799,155	6,782,025
Susan H. Martin	475,000	2,273,232
Robert M. Garvin	404,000	1,864,554
CMS Energy Corporation		
John G. Russell	1,200,000	8,108,383
Thomas J. Webb	695,000	2,611,782
John M. Butler	470,000	1,730,868
Daniel J. Malone	465,000	1,774,378
Patricia K. Poppe	430,000	1,734,166
Pinnacle West Capital Corporation		
Donald E. Brandt	1,277,000	9,337,570
James R. Hatfield	593,000	2,380,980
Randall K. Edington	1,050,000	4,072,106
David P. Falck	544,000	2,166,438
Mark A. Schiavoni	640,000	2,767,003
OGE Energy Corp		
S. Trauschke	699,222	2,273,830
S.E. Merrill	400,005	1,077,989
E. K. Mitchell	467,113	1,961,595
J.C. Leger, Jr.	350,293	861,667
P. Renfrow	338,000	782,253
P.B. Delaney	1,040,777	9,585,262
Ameren Corporation		
Warner J. Baxter	1,000,000	6,493,706
Martin J. Lyons, Jr.	612,000	2,535,873
Richard J. Mark	470,000	1,867,100
Michael L. Moehn	500,000	1,938,484
Gregory L. Nelson	467,500	1,748,847

Comparison of Compensation of Named Executives
December 31, 2015

Company Name	Salary	Total Compensation
Alliant Energy Corporation		
Patricia L. Kampling	903,462	5,864,635
Thomas L. Hanson	452,383	1,714,203
James H. Gallegos	400,308	1,281,168
Douglas R. Kopp	281,116	689,487
John O. Larsen	361,731	1,148,094
Average Compensation of Comparable Companies	633,607	3,425,226
Great Plains Energy		
Mr. Bassham	685,000	3,053,458
Mr. Heidbrink	503,000	1,761,918
Mr. Bryant	316,957	1,139,391
Ms. Humphrey	357,000	938,677
Mr. Deggendorf	314,000	792,749
Mr. Shay	346,853	932,504
Westar Energy		
Mark A. Ruelle	812,500	3,174,491
Greg A. Greenwood	405,833	1,246,006
Anthony D. Somma	391,667	1,237,956
Larry D. Irick	339,167	951,908
Bruce A. Akin	286,667	631,848
Average Compensation of Great Plains and Westar	432,604	1,441,901

Source: 2016 Proxy Statements filed in March 2016 for FYE December 31, 2015 and Staff DR No. 24

Attachment AD-2.2 Docket No. KCPE-593-ACQ

GPE & Westar Combined Capital Structure

	(a) Great Plains Energy 12/31/2015 (in millions) (1)	(b) Westar Energy 12/31/2015 (in millions) (2)	(c) Combined Companies 12/31/2015 (in millions) (a) + (b)	(d) Great Plains Energy (Combined) Pro-Forma 06/30/2016 (in millions) (3)
Current Maturities of Long Term Debt - Variable Interest Entities		28.3	28.3	29.9
Current Maturities of Long Term Debt	1.1	250.3	251.4	379.2
Long Term Debt - Variable Interest Entities		138.1	138.1	124.1
Long Term Debt	3,745.1	3,164.0	6,909.1	11,732.5
Total Debt	3,746.2	3,580.7	7,326.9	12,265.7
Non Controlling Interests	0.0	15.2	15.2	19.6
Preferred Stock - 3.80%	10.0		10.0	0.0
Preferred Stock - 4.50%	10.0		10.0	0.0
Preferred Stock - 4.20%	7.0		7.0	0.0
Preferred Stock - 4.35%	12.0		12.0	0.0
Mandatory Convertible Preferred Stock			0.0	1,544.5
Common Stock	2,646.7	706.8	3,353.5	5,360.7
Paid in Capital		2,004.1	2,004.1	
Retained Earnings	1,024.4	945.8	1,970.2	908.1
Treasury Stock	(2.6)		(2.6)	(3.8)
Accumulated Other Comprehensive Income	(12.0)		(12.0)	(9.0)
Total Equity	3,695.5	3,671.9	7,367.4	7,820.1

(1) Source: Great Plains 10-K, 12-31-2015

(2) Source: Westar Energy 10-K, 12-31-2015

(3) Source: Great Plains Proxy, 06-30-2016, page 143

Attachment AD-2.2 Docket No. KCPE-593-ACQ

Westar Rate Base
December 31, 2015

Utility Plant	8,800,700,000
Material and Supplies	192,100,000
Prepaid Expenses	45,300,000
Less: Deferred Income Tax	(1,655,800,000)
Less: Deferred Tax Credits	(208,300,000)
Westar Energy Rate Base	7,174,000,000

Source: Great Plains Energy Proxy, pages 142 - 143

Attachment AD-2.3 Docket No. KCPE-593-ACQ

Book Value of Westar Energy
December 31, 2015

Total Equity	3,671,963
Add: Current Maturities of Long Term Debt of Variable Entities	28,309
Add: Short Term Debt	250,300
Add: Long Term Debt	3,163,950
Add: Long Term Debt of Variable Interest Entities	138,097
Book Value of Westar Energy as of December 31, 2015	7,252,619

Note: Add back Westar's debt because Great Plains is assuming Westar's debt.

Source: 2015 Westar Energy 10-K, page 55

Attachment AD-2.3
PUBLIC
Source: DR KCC 121

Sample Salary Comparison Between KCP&L and Westar

Docket No. KCPE-593-ACQ

	Shared Services Positions					Other Positions							
	Controller	Comm	Environ	Reg Affairs	IT	Cust Svc	Exec Asst	Safety Specialist	Sr. Engin	Line Foreman	Lineman Journeyman	Elec Journeyman	Storekeeper
Westar	$ 67,623	$ 68,814	$ 87,800	$ 98,757	$ 81,497	$ 45,858	$ 61,628	$ 86,819	$ 130,271	$ 89,565	$ 81,162	$ 77,522	$ 67,870
KCPL	$ 81,386	$ 81,677	$ 107,619	$ 105,472	$ 92,426	$ 58,086	$ 66,568	$ 97,055	$ 118,900	$ 96,200	$ 86,154	$ 89,877	$ 93,808
Diff	$ 13,763	$ 12,863	$ 19,819	$ 6,715	$ 10,929	$ 12,228	$ 4,940	$ 10,236	$ (11,371)	$ 6,635	$ 4,992	$ 12,355	$ 25,938
%	20%	19%	23%	7%	13%	27%	8%	12%	-9%	7%	6%	16%	38%

Attachment AD-2.4 Gross Efficiencies Achieved 2017-2020 Docket No. KCPE-593-ACQ

PUBLIC

			2017		2018		2019		2020		Total	
(1)	Gross Efficiencies Achieved		20.0		53.6		153.8		172.0		399.4	
(2)	Gross Efficiencies Shared in Gen Rate Cases:											
(3)	Westar	44.6%	-	0.0%	-	0.0%	20.4	13.3%	22.3	13.0%	42.8	10.7%
(3)	KCPL-KS	15.5%	-	0.0%	1.3	2.4%	7.8	5.0%	7.8	4.5%	16.9	4.2%
(3)	Total KS	60.1%	-	0.0%	1.3	2.4%	28.2	18.3%	30.0	17.5%	59.7	15.0%
(3)	KCPL-MO	39.9%	-	0.0%	3.3	6.2%	20.0	13.0%	20.0	11.6%	43.4	10.9%
	Total Gross Efficiencies Shared		-	0.0%	4.6	8.6%	48.1	31.3%	50.0	29.1%	103.2	25.8%
	Less Costs to Achieve Efficiencies		(7.9)		(1.6)		(29.2)		(9.8)		(48.5)	
	Net Efficiencies Shared										54.7	
	Gross Efficiencies Retained		20.0	100.0%	49.0	91.4%	105.7	68.7%	122.0	70.9%	296.2	74.2%
				100.0%		100.0%		100.0%		100.0%		100.0%

Assumptions:

(1) Gross Efficiencies & CTA from Kemp's estimated savings analysis

(2) Annual Efficiencies in GRC = $50M

(2) KCPL GRC effective Nov 2018

(2) Westar GRC effective Feb 2019

(3) Allocate Efficiencies & CTA to RP by Cust #'s

		2017	2018	2019	2020	Total
Gross Efficiencies Achieved		20.0	53.6	153.8	172.0	399.4
Less Costs to Achieve Efficiencies		(7.9)	(1.6)	(29.2)	(9.8)	(48.5)
Net Efficiencies		12.1	52.0	124.6	162.2	350.9
Net Efficiencies x Cust #						
Westar	44.6%	5.4	23.2	55.5	72.3	156.4
KCPL-KS	15.5%	1.9	8.1	19.4	25.2	54.5
Total KS	60.1%	7.3	31.2	74.9	97.5	210.9
Sharing %		50%	50%	50%	50%	50%
Sharing in GRC						
Westar		0	0	20.4	22.3	
KCPL-KS		0	1.3	7.8	7.8	
Total KS		0	1.3	28.2	30.1	
Annual Bill Credits						
Westar	44.6%	2.7	11.6	7.3	13.8	
KCPL-KS	15.5%	0.9	2.7	1.9	4.8	
Total KS	60.1%	3.6	14.3	9.2	18.6	

Attachment AD-2.6 | Gross Efficiencies Achieved with Bill Credits | Docket No. KCPE-593-ACQ

PUBLIC | 2017 - 2020

			2017		2018		2019		2020		Total	
(1)	Gross Efficiencies Achieved		20.0		53.6		153.8		172.0		399.4	
(2)	Gross Efficiencies Shared in Gen Rate Cases:											
(3)	Westar	44.6%	-	0.0%	-	0.0%	20.4	13.3%	22.3	13.0%	42.8	10.7%
(3)	KCPL-KS	15.5%	-	0.0%	1.3	2.4%	7.8	5.0%	7.8	4.5%	16.9	4.2%
(3)	Total KS	60.1%	-	0.0%	1.3	2.4%	28.2	18.3%	30.0	17.5%	59.7	15.0%
(3)	KCPL-MO	39.9%	-	0.0%	3.3	6.2%	20.0	13.0%	20.0	11.6%	43.4	10.9%
	Total Gross Efficiencies Shared		-	0.0%	4.6	8.6%	48.1	31.3%	50.0	29.1%	103.2	25.8%
	Less Costs to Achieve Efficiencies		(7.9)		(1.6)		(29.2)		(9.8)		(48.5)	
	Net Efficiencies Shared										54.7	
	Gross Efficiencies Retained		20.0	100.0%	49.0	91.4%	105.7	68.7%	122.0	70.9%	296.2	74.2%
				100.0%		100.0%		100.0%		100.0%		100.0%

Calculate Sharing with Bill Credits:

				Westar	KCP&L	
399.4				42.7	16.8	from GRC
78.2	19.6%		45.9	35.5	10.4	from Bill Crs
27.2	6.8%		105.4	78.2	27.2	Tot Shared
105.4	26.4%		296.2			
43.3	10.8%	Retained	250.27			
250.30	62.7%					
399.00	99.9%					

Assumptions:

(1) Gross Efficiencies & CTA from Kemp's estimated savings analysis

(2) Annual Efficiencies in GRC = $50M

(2) KCPL GRC effective Nov 2018

(2) Westar GRC effective Feb 2019

(3) Allocate Efficiencies & CTA to RP by Cust #'s

CERTIFICATE OF SERVICE

16-KCPE-593-ACQ

I, the undersigned, certify that a true and correct copy of the above and foregoing Notice of Re-Filing Staff's Pre-Filed Direct Testimony Without Redactions - Direct Testimony of Ann Diggs was served via electronic service this 27th day of January, 2017, to the following:

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