

**BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS**

<b>In The Matter of the Joint Application</b>	<b>)</b>	
<b>of Great Plains Energy Incorporated,</b>	<b>)</b>	
<b>Kansas City Power &amp; Light Company,</b>	<b>)</b>	<b>Docket No. 16-KCPE-593-ACQ</b>
<b>and Westar Energy, Inc. for Approval</b>	<b>)</b>	
<b>of the Acquisition of Westar Energy, Inc.</b>	<b>)</b>	
<b>by Great Plains Energy Incorporated</b>	<b>)</b>	

**DIRECT TESTIMONY AND EXHIBITS OF  
DR. LAURENCE D. KIRSCH  
ON BEHALF OF  
KANSAS ELECTRIC POWER COOPERATIVE INC.**

**\*\*REDACTIONS REMOVED\*\***

**December 13, 2016**

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1    ***1. QUALIFICATIONS***

2    **Q.    PLEASE STATE YOUR NAME, AFFILIATION, AND BUSINESS ADDRESS.**

3    A.    My name is Laurence D. Kirsch. I am a Senior Consultant with Christensen Associates  
4           Energy Consulting, LLC, 800 University Bay Drive, Suite 400, Madison, Wisconsin.

5    **Q.    PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**  
6           **PROFESSIONAL EXPERIENCE.**

7    A.    I hold a Ph.D. in economics from the University of Wisconsin and an A.B. in  
8           economics from the University of California. I have spent the past three decades  
9           specializing in economic analyses of the electric power industry, with a focus on the  
10          efficient pricing of electricity services at both the wholesale and retail levels. My work  
11          has included studies of wholesale market design, bulk power markets, power pool  
12          operations, electric power system cost structures, reliability costs, unbundled service  
13          pricing, market power, and estimation of power system marginal costs and avoided  
14          costs. My clients have included numerous large utilities, small utilities, power industry  
15          coalitions, regulatory agencies, and power system operators. Although most of my  
16          work has been in the United States, I have also had projects in other countries.

17   **Q.    PLEASE DESCRIBE INSTANCES IN WHICH YOU HAVE PREVIOUSLY**  
18          **PROVIDED TESTIMONY.**

1     A.     I have testified before state legislative bodies and state and federal regulatory agencies  
2           on a wide range of electric industry restructuring issues. These issues have included  
3           quantification of marginal costs, wholesale electricity market design, capacity markets,  
4           transmission congestion pricing, market power, retail electric service costing and  
5           pricing, distribution standby rates, and revenue decoupling.

6           I have testified before the Federal Energy Regulatory Commission (FERC) in its  
7           generic proceedings on market power, on wholesale competition in regions with  
8           organized electric markets, and on accounting and financial reporting for new electric  
9           storage technologies; and on its Delivered Price Test for market power. I have also  
10          testified before the FERC on the Reliability Pricing Model, offer caps, and criteria for  
11          eligibility of aggregators of retail customers of the PJM Interconnection; on the market  
12          power tests, ancillary services markets, congestion management policies, and redispatch  
13          cost allocation policies of the Midcontinent Independent System Operator; and on the  
14          grid management charge of the California Independent System Operator.

15          I have also testified before the Regulatory Commission of Alaska (on retail rates  
16          for standby, buyback, and interruptible services), the Arkansas Public Service  
17          Commission (on the relative benefits and costs of the Entergy Operating Companies'  
18          Regional Transmission Organization membership options), the California Public  
19          Utilities Commission (on the market power implications of hydro power divestiture),  
20          the Public Service Commission of the Commonwealth of Kentucky (on revenue  
21          decoupling), the New York Public Service Commission (on the pricing of buyback  
22          power), the North Carolina Utilities Commission (on the pricing of power purchased by

1 utilities from certain non-utility generators), and the Corporation Commission of the  
2 State of Oklahoma (on retail electricity marginal costs).

3 My resume, including a complete list of my appearances, is provided in Exhibit  
4 LDK-1.

5 **Q. HAVE YOU PREVIOUSLY TESTIFIED IN PROCEEDINGS BEFORE THE**  
6 **STATE CORPORATION COMMISSION OF THE STATE OF KANSAS?**

7 A. No.

8 **2. PURPOSE AND ORGANIZATION OF TESTIMONY**

9 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

10 A. On June 28, 2016, Great Plains Energy Incorporated (GPE), Kansas City Power & Light  
11 Company (KCP&L), and Westar Energy, Inc. and Kansas Gas and Electric Company  
12 (Westar) (collectively, "Joint Applicants"), filed with the State Corporation  
13 Commission of the State of Kansas (Commission) a Joint Application for approval of an  
14 acquisition of Westar by GPE that effectively merges the two companies. The primary  
15 purpose of this testimony is to assess whether the acquisition (the Transaction) is likely  
16 to be beneficial to customers and whether the Joint Application meets certain of the  
17 Commission's merger standards.

18 **Q. HOW IS YOUR TESTIMONY ORGANIZED?**

19 A. Section 3 provides a summary of my findings. Sections 4 and 5 provide background.  
20 Sections 6 through 12 address the deficiencies of the Joint Application and of the  
21 proposed Transaction.

1    **3. SUMMARY OF FINDINGS**

2    **Q.    PLEASE SUMMARIZE JOINT APPLICANTS' CLAIMS CONCERNING THE**  
3        **ACQUISITION PREMIUM AND BENEFITS OF THE TRANSACTION.**

4    A.    Joint Applicants propose a transaction in which, to acquire a 100% interest in Westar,  
5        GPE will pay a purchase price of \$12.2 billion, consisting of \$7.3 billion in cash, \$1.3  
6        billion in GPE common stock, and \$3.6 billion in debt assumption. Of the \$12.2 billion  
7        purchase price, \$4.9 billion will be an acquisition premium in excess of Westar's book  
8        value. Joint Applicants claim that the benefits of the Transaction will be sufficient to  
9        justify the \$4.9 billion acquisition premium, but quantify only the \$4.3 billion net  
10       present value of operational savings. GPE identifies possible sources of benefits that  
11       may account for the remaining \$0.6 billion of acquisition premium; but it does not  
12       quantify the benefits from these other sources. There is no place in the Joint  
13       Application wherein Joint Applicants quantify benefits that add up to \$4.9 billion or  
14       more.

15   **Q.    HAS GPE CORRECTLY CALCULATED THE NET PRESENT VALUE OF**  
16        **THE OPERATIONAL SAVINGS OF THE TRANSACTION?**

17   A.    No. Even accepting all of GPE's input assumptions about the future benefits of the  
18        Transaction, it turns out that GPE made mathematical errors in calculating the net  
19        present value of operational savings, and that the correct net present value is only \$3.6  
20        billion. Furthermore, GPE assumed that the operational savings would continue  
21        forever, while a more reasonable 50-year limit on these benefits would result in a net  
22        present value of only \$3.2 billion.

1   **Q.   WHAT ARE THE ADVERSE IMPLICATIONS OF GPE’S CALCULATION**  
2       **ERROR AND ITS ASSUMPTION THAT THE OPERATIONAL BENEFITS**  
3       **CONTINUE FOREVER?**

4   A.   Correcting the error and the assumption together imply that the benefits that GPE has  
5       quantified are at least \$1.1 billion farther away from justifying the acquisition premium  
6       than its Joint Application indicates, which means that the quantified benefits are \$1.7  
7       billion less than the acquisition premium. This suggests that GPE may be paying too  
8       much for Westar, that GPE may be taking on more debt than can be justified by the  
9       benefits of the Transaction, that GPE’s financial health may be impaired by the  
10      Transaction, and that the customers of KCP&L and Westar may eventually be called  
11      upon to rescue GPE from the financial consequences of the Transaction.

12   **Q.   HAVE JOINT APPLICANTS MET ALL OF THE COMMISSION’S MERGER**  
13      **STANDARDS?**

14   A.   No. They have not provided sufficient evidence to justify the acquisition premium and  
15      the purchase price, particularly in light of \$0.7 billion of their justification turning out to  
16      be a mathematical error and another \$0.4 billion of the justification turning out to  
17      depend upon operational savings continuing beyond 50 years. They have thus failed to  
18      provide sufficient evidence to meet merger standard (a)(i) concerning the “effect of the  
19      proposed transaction on the financial condition of the newly created entity,” nor to meet  
20      merger standard (a)(ii) concerning the “reasonableness of the purchase price,” nor to  
21      meet merger standard (a)(iv) concerning whether “there are operational synergies that  
22      justify payment of a premium in excess of book value.” The Commission needs more  
23      complete evidence than Joint Applicants have provided.

1   **Q.    ARE THERE REASONS TO BE CONCERNED ABOUT THE ACCURACY OF**  
2       **JOINT APPLICANTS' INPUT ASSUMPTIONS ABOUT THE FUTURE**  
3       **BENEFITS OF THE TRANSACTION?**

4    A.   Yes.  Most importantly, the input forecasts were developed by GPE management  
5       through a process that cannot be independently replicated, confirmed, or refuted without  
6       the considerable time and cost it would take to interview the GPE managers and  
7       executives who provided the input that formed the bases much of the input forecasts.  
8       Another concern arises from the track record of other utilities' past forecasts of merger  
9       benefits: roughly half of mergers fail to achieve their announced goals, and almost as  
10      many fail to achieve any savings at all.

11   **Q.    DO CUSTOMERS NEED PROTECTION FROM THE TRANSACTION'S**  
12      **RISKS?**

13   A.   Yes.  Although Joint Applicants claim that customers will bear no part of the risk of any  
14      misforecast of future benefits, customers may be at risk for bearing some of the  
15      financial fallout.  If the Transaction adversely affects utility investors, customers may  
16      end up bearing part of the cost through higher financing costs (e.g., higher interest  
17      rates), and possibly by bailing out investors for part of the latters' losses.  A particular  
18      concern is that GPE might request that customers pay part of the acquisition premium if  
19      that premium is impaired under certain conditions.

20               Consequently, if the Commission does approve the Transaction, it should do so  
21      under conditions that protect customers from the Transaction's risks.  KEPCo witness  
22      Dr. Dismukes recommends merger conditions that would provide such protections.

1    **4. STANDARDS FOR JUDGING THE TRANSACTION**

2    **Q.    HAS THERE BEEN ANY CONTROVERSY IN THIS DOCKET CONCERNING**  
3    **THE STANDARDS FOR JUDGING THE TRANSACTION.**

4    A.    Yes.    The standards for judging the Transaction were first established by the  
5    Commission in 1991, and have been recently restated by the Commission in the present  
6    case.<sup>1</sup>    Although Joint Applicants claim to have fully adopted these standards,<sup>2</sup>  
7    Commission Staff find that “the revisions that the Joint Applicants made to the merger  
8    standards dramatically change the meaning of the standards in a way that would ease  
9    the burden on the Joint Applicants.”<sup>3</sup>

10   **Q.    WITH WHICH STANDARDS IS YOUR TESTIMONY PARTICULARLY**  
11   **CONCERNED?**

12   A.    Adhering to the Commission’s language, my testimony is particularly concerned with  
13   those standards pertaining to how the Transaction affects customers:

14            (a)(i)    The effect of the proposed transaction on the financial condition of the  
15                      newly created entity as compared to the financial condition of the stand-  
16                      alone entities if the transaction did not occur;

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<sup>1</sup> 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*, Order on Merger Standards, Docket No. 16-KCPE-593-ACQ, August 9, 2016.

<sup>2</sup> Joint Applicants, *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*, Joint Applicants’ Verified Response to Commission’s Order on Merger Standards, before the State Corporation Commission of the State of Kansas, Docket No. 16-KCPE-593-ACQ, August 30, 2016, p. 3 *et seq.*

<sup>3</sup> Staff of 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*, Staff’s Reply to Joint Applicants’ Verified Response to Commission’s Order on Merger Standards, before the State Corporation Commission of the State of Kansas, Docket No. 16-KCPE-593-ACQ, September 9, 2016, p. 2.



1 (a)(ii) the reasonableness of the purchase price, including whether the purchase  
2 price was reasonable in light of the savings that can be demonstrated from  
3 the merger and whether the purchase price is within a reasonable range; and  
4 (a)(iv) whether there are operational synergies that justify payment of a premium in  
5 excess of book value.

6 **5. OVERVIEW OF THE TRANSACTION**

7 **Q. WHAT ARE THE GENERAL TERMS OF THE TRANSACTION?**

8 A. GPE will acquire 100% of the stock of Westar in a transaction valued at approximately  
9 \$12.2 billion. GPE will pay approximately \$8.6 billion for 100% of the shares of  
10 Westar stock, and will assume the \$3.6 billion Westar debt existing as of the date the  
11 Transaction was announced.

12 The \$8.6 billion cash payment is backed by an \$8.0 billion bridge financing  
13 facility from Goldman Sachs and a commitment by an affiliate of the Ontario Municipal  
14 Employees Retirement System to purchase \$750 million of GPE's Mandatory  
15 Convertible Preferred Stock. GPE expects permanent financing of the \$8.6 billion to be  
16 about half equity and half debt.<sup>4</sup>

17 **Q. ACCORDING TO GPE, HOW WILL THE TRANSACTION'S FINANCING**  
18 **IMPACT GPE AND ITS SUBSIDIARIES?**

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<sup>4</sup> Kevin E. Bryant, *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*, Direct Testimony on Behalf of Great Plains Energy Incorporated and Kansas City Power & Light Company, before the State Corporation Commission of the State of Kansas, Docket No. 16-KCPE-593-ACQ, June 28, 2016, p. 9.

1 A. GPE says that all financing in connection with the Transaction will occur at the holding  
2 company level and none will occur at, be guaranteed by, nor have recourse to, any  
3 utility subsidiary. No debt of any GPE utility subsidiary (existing or to be acquired)  
4 will be used to finance the Transaction.

5 GPE's capital structure will become more leveraged, moving from today's 50%  
6 equity ratio to a 41% equity ratio after completion of permanent financing.<sup>5</sup> "The  
7 Transaction will have little, if any, effect on the utility operating companies' respective  
8 capital structures. Following the Transaction, KCP&L and Westar will each maintain a  
9 capital structure consistent with past experience, targeted to be in the range of 49%-54%  
10 equity."<sup>6</sup>

11 **Q. HOW DOES GPE EXPLAIN THE REASONABLENESS OF THE**  
12 **TRANSACTION'S PURCHASE PRICE?**

13 A. Mr. Bryant, the Chief Financial Officer of GPE, offers the following explanations:<sup>7</sup>

- 14 • "[T]he consideration to be paid by GPE for Westar was determined through a  
15 competitive market auction process."
- 16 • "[T]he savings to be realized from the Transaction... justify the level of  
17 consideration being paid by GPE in connection with the Transaction."
- 18 • "[T]he consideration being paid is comparable with recent market transactions  
19 of this nature."
- 20 • "[T]he reasonableness of the transaction is also supported by the investment  
21 grade credit quality of each utility after the transaction."

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<sup>5</sup> Bryant Direct Testimony, p. 18.

<sup>6</sup> Bryant Direct Testimony, p. 19.

<sup>7</sup> Bryant Direct Testimony, pp. 7-8.

1   **Q.   WHAT DOES MR. BRYANT CLAIM ARE THE BENEFITS OF THE**  
2       **TRANSACTION?**

3   A.   He provides the following list of the “significant and compelling benefits for all  
4       stakeholders” of the Transaction:<sup>8</sup>

- 5           •   “operating and cost efficiencies based on the strong geographic fit and shared  
6               ownership in power plants”;
- 7           •   faster and more predictable earnings growth;
- 8           •   lower customer rates relative to what they would have been absent the  
9               Transaction;
- 10          •   “increased scale”;
- 11          •   “greater resources”; and
- 12          •   “better position[ing]... to serve customers and pursue investment opportunities  
13               that were not available to either company [GPE or Westar] stand-alone”.

14   **Q.   DOES GPE QUANTIFY THE FOREGOING “SIGNIFICANT AND**  
15       **COMPELLING BENEFITS”?**

16   A.   Yes, but only to the extent that they are measured by operational savings. GPE does not  
17       quantify any of the foregoing benefits that are not captured by its estimate of  
18       operational savings.

19   **Q.   DOES MR. BRYANT OFFER FURTHER JUSTIFICATION FOR THE**  
20       **PURCHASE PRICE?**

21   A.   Yes. He says that the purchase price is justified by its premium, of 36% over the  
22       undisturbed Westar stock price, being in line with the premiums paid in other utility

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<sup>8</sup> Bryant Direct Testimony, pp. 11-12.

1           mergers. “In the eleven corporate utility transactions announced in the past two years,  
2           premiums paid relative to the target’s stock price one day prior to announcement have  
3           ranged from 14% to 42%, with the average being 24%.”<sup>9</sup>

4   **Q.   WHAT ARE THE SOURCES OF THE BENEFITS THAT WILL ARISE FROM**  
5   **THE TRANSACTION?**

6   A.   GPE finds merger benefits that arise from two basic sources of operational savings: the  
7           consolidation of duplicative services; and the sharing of best practices.

8   **Q.   HOW DOES GPE ESTIMATE OPERATIONAL SAVINGS?**

9   A.   To estimate these savings:

10                   Managers from across GPE developed detailed estimates... of the  
11                   resources, expenses and capital that GPE would require to operate its  
12                   utility operating companies under the post-transaction operating model.  
13                   Participants represented the full scope of functions that would be required  
14                   in a post-Transaction environment. In aggregate, they constructed a  
15                   comprehensive high level view of how the organization would run after  
16                   the Transaction was complete. That viewpoint was the basis for  
17                   estimation of potential savings and benefits.<sup>10</sup>

18           To ensure consistency and comparability among managers’ estimates, managers were  
19           guided by savings estimates templates and interview questionnaires by Mr. Kemp, the  
20           consultant who collaborated with GPE in developing its savings estimates. GPE then  
21           developed initial savings estimates and transition cost estimates by functional area for  
22           the years 2017 through 2020, focusing on the major pools of potential savings.  
23           Estimates were then subject to review and modification, partly in light of the merger

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<sup>9</sup> Bryant Direct Testimony, p. 11.

<sup>10</sup> William J. Kemp, *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*, Direct Testimony on Behalf of Great Plains Energy Incorporated and Kansas City Power & Light Company, before the State Corporation Commission of the State of Kansas, Docket No. 16-KCPE-593-ACQ, June 28, 2016, p. 12.

1 savings experiences of other utilities. GPE ran the savings estimates through its  
2 financial model to estimate revenue requirement impacts and credit impacts of the  
3 Transaction.<sup>11</sup>

4 According to Mr. Kemp, the estimating methodology was comprehensive  
5 (covering all significant areas of costs and revenue), current, detailed, attributable  
6 (excluding savings, costs, and benefits not directly related to the Transaction), quality-  
7 assured, and conservative (excluding unrealistically optimistic estimates).<sup>12</sup>

8 **Q. WHAT ARE GPE'S ESTIMATES OF OPERATIONAL SAVINGS?**

9 A. According to Mr. Kemp:

10 GPE estimated that the Transaction would produce total savings of  
11 approximately \$426 million over a 3.5-year period from mid-2017 to the  
12 end of 2020. Ongoing savings beyond 2020 would be close to \$200  
13 million per year. This includes both O&M [operating and maintenance]  
14 expense savings and the revenue requirement impact of capital  
15 expenditure reductions.<sup>13</sup>

16 **Q. WHAT IS GPE'S ESTIMATE OF THE NET PRESENT VALUE OF THE**  
17 **OPERATIONAL SAVINGS?**

18 A. Based upon the foregoing annual results, GPE forecast the net present value of  
19 operational savings to be approximately \$4,266 million. This consists of \$364 million  
20 of savings in the year of and first three full years after completion of the Transaction,  
21 plus \$3,902 million of savings over an infinite number of years starting in the fourth  
22 year after completion of the Transaction.<sup>14</sup>

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<sup>11</sup> Kemp Direct Testimony, pp. 14-15.

<sup>12</sup> Kemp Direct Testimony, p. 16.

<sup>13</sup> Kemp Direct Testimony, p. 6. Savings are expressed in nominal dollars.

<sup>14</sup> Kevin E. Bryant, *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*, Supplemental Direct Testimony on Behalf of Great Plains Energy Incorporated and

1   **Q.   DO JOINT APPLICANTS QUANTIFY ANY BENEFITS OTHER THAN**  
2       **OPERATIONAL SAVINGS?**

3   A.   No, such quantification does not appear in Joint Applicants' testimony nor in any of  
4       their responses to questions that I have reviewed.

5   **Q.   WHAT IS GPE'S ESTIMATE OF THE ACQUISITION PREMIUM?**

6   A.   According to Mr. Bryant, "The acquisition premium is estimated at \$4.9 billion over  
7       book value and \$2.3 billion over Westar's undisturbed stock price (the latter being the  
8       true measure of benefit to Westar shareholders)..."<sup>15</sup> The \$4.9 billion figure is to be  
9       recorded as goodwill.<sup>16</sup>

10               Although the \$4.9 billion figure appears repeatedly throughout Joint Applicants'  
11       filing, GPE's responses to data requests provides a wide range of other figures. In  
12       Response to Question CURB-43, GPE indicates that the premium relative to Westar's  
13       book equity balance is \$4,758,552,461. In Response to Question CURB-44A, GPE  
14       indicates that the premium relative to Westar's rate base is "approximately \$5.2  
15       billion." Ignoring this range of nearly half a billion dollars in the estimated acquisition  
16       premium, I will base my further discussion on the \$4.9 billion figure.

17   **Q.   HOW DOES GPE JUSTIFY THE ACQUISITION PREMIUM?**

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Kansas City Power & Light Company, before the State Corporation Commission of the State of Kansas, Docket No. 16-KCPE-593-ACQ, November 2, 2016, p. 6, Table 1, lines 6, 8, and 9.

<sup>15</sup> Bryant Supplemental Direct Testimony, p. 8.

<sup>16</sup> Steven P. Busser, *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*, Direct Testimony on Behalf of Great Plains Energy Incorporated and Kansas City Power & Light Company, before the State Corporation Commission of the State of Kansas, Docket No. 16-KCPE-593-ACQ, June 28, 2016, p. 12.

1 A. According to Mr. Bryant, “The net present value of Transaction-related savings is  
2 consistent with the acquisition premium in excess of book value...”<sup>17</sup> He explains that  
3 “The results of these calculations [of the ratio of the purchase price to earnings before  
4 interest, tax, depreciation and amortization] show that the acquisition premium offered  
5 in the Transaction is in line with those paid in the recent deals...”<sup>18</sup>

6 **Q. HOW WILL GPE ACCOUNT FOR THE ACQUISITION PREMIUM?**

7 A. According to Mr. Busser, GPE’s Vice President-Risk Management and Controller:  
8 Great Plains Energy will use the acquisition accounting method to record  
9 the Transaction. Under the acquisition method, Great Plains Energy will  
10 record the net assets acquired at fair market value. The excess of the  
11 purchase price over the fair market value of the net identifiable assets is  
12 recorded as goodwill. In the case of regulated assets and liabilities, fair  
13 value is generally considered to be book value. Goodwill to be recorded  
14 for the Transaction is currently estimated at almost \$4.9 billion. Goodwill  
15 and the related purchase accounting adjustments will be recorded at  
16 consolidated Great Plains Energy and will not be pushed down to Westar’s  
17 books.<sup>19</sup>

18 **Q. HOW DOES GPE PLAN TO RECOVER THE ACQUISITION PREMIUM?**

19 A. GPE appears to say that its shareholders are giving \$4.9 billion to its customers almost  
20 for free. Shareholders take on substantial debt for the purpose of paying the acquisition  
21 premium; but customers will be liable neither for the debt nor its financing.

22 GPE agreed that its subsidiary utilities’ capital costs used to set rates will  
23 not increase as a result of the Transaction, and that its utility subsidiaries’  
24 customers will not bear any financing costs associated with the  
25 Transaction such as interest expense associated with any debt issued to  
26 finance the Transaction. GPE agreed to maintain separate capital  
27 structures to finance the activities and operations of each entity and  
28 maintain separate debt, which is separately rated by national credit rating

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<sup>17</sup> Bryant Supplemental Direct Testimony, p. 4.

<sup>18</sup> Bryant Supplemental Direct Testimony, p. 3.

<sup>19</sup> Busser Direct Testimony, pp. 11-12.

1 agencies, unless otherwise approved by the Commission, and to maintain  
2 investment grade ratings for both GPE and its utility subsidiaries.<sup>20</sup>

3 ...the debt used by GPE to finance the Transaction will be dedicated to  
4 paying for the acquisition premium in excess of book value as well as  
5 transaction costs and none of the proceeds of that debt will be available to  
6 support the regulated operations of GPE's utility subsidiaries.<sup>21</sup>

7 **Q. DOES GPE FORSWEAR ANY RIGHT TO RECOVERY OF THE**  
8 **ACQUISITION PREMIUM?**

9 A. Apparently so. GPE makes the following statements:

10 Joint Applicants do not request authorization to recover any acquisition  
11 premium or transaction costs associated with the Transaction through  
12 inclusion of such costs in electric service rates.<sup>22</sup>

13 GPE commits that it will not request inclusion of goodwill for this  
14 Transaction, inclusive of the acquisition premium and transaction costs, in  
15 the revenue requirements of either KCP&L or Westar at any time.<sup>23</sup>

16 KCP&L is not requesting inclusion of acquisition premium, or goodwill,  
17 in KCP&L's or Westar's revenue requirements.<sup>24</sup>

18 **Q. DOES GPE SAY THAT SUBSTANTIALLY ALL OF THE OPERATIONAL**  
19 **SAVINGS FOSTERED BY THE TRANSACTION WILL GO TO CUSTOMERS?**

20 A. This seems to be GPE's position. It makes the following statements:

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<sup>20</sup> Darrin R. Ives, *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*, Direct Testimony on Behalf of Great Plains Energy Incorporated and Kansas City Power & Light Company, before the State Corporation Commission of the State of Kansas, Docket No. 16-KCPE-593-ACQ, June 28, 2016, p. 23.

<sup>21</sup> Darrin R. Ives, *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*, Supplemental Direct Testimony on Behalf of Great Plains Energy Incorporated and Kansas City Power & Light Company, before The State Corporation Commission of the State of Kansas, Docket No. 16-KCPE-593-ACQ, November 2, 2016, p. 12.

<sup>22</sup> Joint Application, ¶25.

<sup>23</sup> Ives Direct Testimony, p. 11.

<sup>24</sup> Ives Direct Testimony, p. 21.



1 We are not seeking to include in KCP&L's or Westar's revenue  
2 requirement any transaction costs or acquisition premiums in connection  
3 with the Transaction. Savings and efficiencies, after considering the  
4 necessary costs to achieve those savings and efficiencies (i.e., transition  
5 costs), will be given back to customers through the standard rate case  
6 process.<sup>25</sup>

7 Joint Applicants are not requesting recovery of any portion of the purchase  
8 price (i.e., the acquisition premium in excess of net book value or  
9 transaction costs) in revenue requirement and rates paid by customers for  
10 electric service and, as such, any savings realized from the Transaction  
11 that are reflected in revenue requirement and rates through the ratemaking  
12 process represent benefits for customers in the form of rates that are lower  
13 than they would have been absent the Transaction.<sup>26</sup>

14 GPE's proposal is to flow all savings through to customers, as its actual  
15 costs are recovered through the normal ratemaking process.<sup>27</sup>

16 **Q. WHAT SHARE OF OPERATIONAL SAVINGS DOES GPE SEEK FOR ITS**  
17 **SHAREHOLDERS?**

18 A. In return for giving substantially all operational savings to customers, GPE asks to be  
19 compensated for the on-going costs of implementing those savings:

20 Transition-related costs refer to those costs necessary to ensure that the  
21 savings and efficiencies are achieved and that the integration process is  
22 effective... We are asking that we be allowed to include in our revenue  
23 requirement in future rate cases any transition costs incurred during the  
24 test year provided that those transition costs produce savings (i.e., revenue  
25 requirement reductions) in excess of the associated cost.<sup>28</sup>

26 GPE says that its shareholders will get those operational savings that are not given to  
27 customers due to regulatory lag in the process of updating customer prices through  
28 general rate cases:

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<sup>25</sup> Ives Direct Testimony, p. 7

<sup>26</sup> Ives Supplemental Direct Testimony, p. 4.

<sup>27</sup> Response to Question KCC-254.

<sup>28</sup> Ives Direct Testimony, pp. 19-20.

1 GPE agrees that a sharing of the savings between customers and  
2 shareholders is appropriate and proposes to do so by allowing the net  
3 savings to fully flow through to customers as a result of the normal  
4 process of future rate cases while the utilities maintain those net savings  
5 prior to those rate cases.<sup>29</sup>

6 While the Companies [*sic*] proposal results in savings being retained by  
7 shareholders over the period from achievement of savings until rates are  
8 next set by the Commission, this is the only opportunity for the  
9 Companies to retain savings in order to fund the cost of the Transaction  
10 which is not requested by the Companies to be recovered from  
11 customers... [W]hile the Company retains the savings for the discrete  
12 period prior to the next case, once a case is filed and new rates are  
13 implemented, the lower cost of service as a result of the savings is a  
14 benefit to customers from that point forward as a perpetual reduction to  
15 the cost of service that would have been requested from customers had the  
16 Companies remained stand-alone.<sup>30</sup>

17 GPE also says that its shareholders may get some additional benefits, though they are  
18 vaguely defined:

19 GPE shareholders receive their benefits over time as the new larger  
20 organization integrates operations and grows going forward.<sup>31</sup>

21 **Q. WHAT SHARE OF OPERATIONAL SAVINGS WILL GO TO**  
22 **SHAREHOLDERS IN THE YEARS SHORTLY FOLLOWING THE**  
23 **TRANSACTION?**

24 A. As shown in Table 1, KCP&L forecasts that most operational savings will go to  
25 shareholders in the first few years following completion of the Transaction. The  
26 percentages retained by shareholders should decline substantially after the completion  
27 of KCP&L's and Westar's general rate cases, which in Kansas are forecast to have  
28 effective dates of November 2019 and February 2019, respectively.<sup>32</sup> Given

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<sup>29</sup> Ives Direct Testimony, p. 19.

<sup>30</sup> Response to Question KCC-248.

<sup>31</sup> Ives Direct Testimony, p. 13.

<sup>32</sup> Response to Question CURB-117.

these forecast dates for the general rate cases, the forecast savings retained by shareholders is surprisingly high in 2020.

**Table 1**  
**KCP&L's Forecast of Operational Savings, 2017-2020 (millions of \$)**<sup>33</sup>

	2017	2018	2019	2020
Net revenue requirement savings	\$14.7	\$64.5	\$149.2	\$198.6
Savings retained by shareholders	\$14.7	\$59.9	\$101.0	\$148.6
Percent retained by shareholders	100%	93%	68%	75%

**Q. MIGHT CUSTOMERS PAY FOR SOME PORTION OF GOODWILL?**

A. Yes. GPE is clear about customers not needing to pay for the *amortization* of goodwill; but it admits that customers might end up paying for the *impairment* of goodwill. This admission appears in the following statements:

GPE will not be asking for recovery in rates of the amortization expense of goodwill. Rather, the topic requires annual impairment testing to determine whether the value of the underlying asset has been impaired. If no impairment exists, that asset simply continues on the books indefinitely, at the same amount. If an impairment is indicated, a write-down would be required. Impairment testing, between annual testing, is required if events or circumstances indicate an impairment is more likely than not.<sup>34</sup>

The goodwill impairment charge is a non-cash charge that would result in an increase to expense/decrease to net income on Great Plains Energy's income statement and would also reduce total assets and decrease retained earnings on Great Plains Energy's balance sheet. Because pushdown accounting is not being applied to Westar, a potential impairment charge would occur at the Great Plains Energy consolidated level and not on Westar's standalone financials and thus, would not affect Westar customers unless specific relief was requested.<sup>35</sup>

<sup>33</sup> Response to Question CURB-117. All figures are in nominal dollars. Aside from rounding, the figures for net revenue requirement savings also appear in Kemp Direct Testimony, Schedule WJK-3, which is not confidential.

<sup>34</sup> Busser Direct Testimony, p. 12.

<sup>35</sup> Response to Question KCC-261.

1 The Joint Applicants commit that they would only seek rate relief for an  
2 impairment charge to the extent that there are capital cost increases that  
3 occur from an impairment that results from a KCC order.<sup>36</sup>

4 GPE also identifies another situation in which it might seek to recover the acquisition  
5 premium from customers:

6 Great Plains Energy's (GPE's) utility subsidiaries will not seek to include  
7 goodwill (or transaction costs) related to the Transaction in revenue  
8 requirement and customer rates unless any party to a general rate case of a  
9 GPE utility subsidiary proposes to impute the cost or proportion of debt  
10 GPE is using to finance the transaction to a GPE utility subsidiary for  
11 purposes of determining a fair and reasonable return for a GPE utility  
12 subsidiary. In that event, GPE and its utility subsidiaries reserve the right  
13 to seek, in any such rate case, recovery and recognition in retail rates of  
14 goodwill (or transaction costs) related to the Transaction.<sup>37</sup>

15 **Q. PLEASE SUMMARIZE YOUR UNDERSTANDING ABOUT GPE'S POSITION**  
16 **CONCERNING WHO WILL ULTIMATELY PAY FOR THE ACQUISITION**  
17 **PREMIUM.**

18 A. On the surface, it appears that shareholders, not customers, will pay the lion's share of  
19 the acquisition premium. GPE's shareholders will take on substantial risk because of  
20 the acquisition premium, but will allegedly recover from customers neither the premium  
21 nor the costs of financing the premium. Instead, shareholders will merely get the  
22 relatively small share of operational savings that is not passed on to customers due to  
23 regulatory lag. On the other hand, shareholders may end up recovering from customers  
24 significant shares of the premium at such times as the value of goodwill is impaired or if  
25 "any party to a general rate case of a GPE utility subsidiary proposes to impute the cost

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<sup>36</sup> *Id.*

<sup>37</sup> Response to Question CURB-115.

1 or proportion of debt GPE is using to finance the transaction to a GPE utility subsidiary  
2 for purposes of determining a fair and reasonable return for a GPE utility subsidiary”.

3 **6. GPE GROSSLY MISCALCULATES THE NET PRESENT VALUE OF THE**  
4 **OPERATIONAL SAVINGS THAT HAVE BEEN PROJECTED FOR THE**  
5 **TRANSACTION.**

6 **Q. DID GPE MAKE ANY MATHEMATICAL ERRORS IN CALCULATING THE**  
7 **NET PRESENT VALUE OF THE PROJECTED SAVINGS OF THE**  
8 **TRANSACTION?**

9 A. Yes, they made two errors that together overstate the net present value of the projected  
10 savings by \$686 million.

11 **Q. WHAT ARE THE INPUTS TO THE NET PRESENT VALUE CALCULATION?**

12 A. The inputs are provided by Mr. Kemp. His Direct Testimony, at Exhibit WJK-3, shows  
13 the net savings due to the Transaction, for the five years 2017 through 2021, will be \$16  
14 million, \$63 million, \$149 million, \$199 million, and \$176 million, respectively.<sup>38</sup> His  
15 footnote for the year 2021 states:

16 Annual savings after 2020 were not projected for GPE’s bid, but minimal  
17 additional costs to achieve would be expected, and gross annual NFOM  
18 [non-fuel O&M] savings would be expected to increase at roughly the rate  
19 of inflation. Capital-related savings would decline after 2020 and have not  
20 been quantified.

21 **Q. HOW DID GPE TRANSLATE MR. KEMP’S ANNUAL OPERATING SAVINGS**  
22 **FIGURES INTO A NET PRESENT VALUE?**

23 A. The details of the translation are provided by Mr. Bryant’s Supplemental Direct  
24 Testimony, which explains how the net present value of operational savings was

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<sup>38</sup> These figures are all in nominal dollars.

1 calculated in 2017 dollars. That is, Mr. Bryant discounts the future stream of Mr.  
2 Kemp's forecast annual savings back to year 2017 using a 7.50% discount rate. Instead  
3 of using Mr. Kemp's \$176 million figure for 2021 as the basis for annual savings in the  
4 out years of 2021 and beyond, Mr. Bryant uses Mr. Kemp's \$199 million figure for  
5 2020 as the basis for the out-year (2021+) figures, which he inflates at 2.40% per year.  
6 Mr. Bryant then finds the net present value of operational savings to be \$4,266 million,  
7 which consists of \$364 million of savings in the year of and the first three years after  
8 completion of the Transaction (2017-2020), plus \$3,902 million of savings over an  
9 infinite number of years starting in 2021.<sup>39</sup>

10 **Q. DOES MR. BRYANT MAKE A MATHEMATICAL ERROR IN HIS NET**  
11 **PRESENT VALUE CALCULATION?**

12 A. Yes, he does. It turns out that, even accepting all of Mr. Kemp's annual savings figures  
13 and all of Mr. Bryant's input assumptions, Mr. Bryant makes two mathematical errors  
14 in calculating the net present value for the out years, the effects of which are to  
15 overstate net present values by \$686 million. The errors are both in an equation that  
16 appears in his Supplemental Direct Testimony.<sup>40</sup> In non-technical terms, the errors are  
17 as follows:

- 18 • The lesser error is that the equation implicitly assumes that the sum of an infinite  
19 series is directly related to the real (inflation-adjusted) discount rate, which is an

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<sup>39</sup> Bryant Supplemental Direct Testimony, p. 6. In Table 1, the \$4,266 million appears in line 9, the \$364 million figure appears in line 6, and the \$3,902 million figure appears in line 8.

<sup>40</sup> In Bryant Supplemental Direct Testimony, p. 6, Table 1, line 8, the equation for on-going savings in the out years is presented as  $(\text{Line 4} / (\text{Line 5} - \text{Line 7}))$ . The correct equation is  $\{\text{Line 4} * [1 / (1 - (1 + \text{Line 7}) / (1 + \text{Line 5})) - 1] / (1 + \text{Line 5})^3\}$ .

1 approximation. Correcting this error increases the net present value of  
2 operational savings by 2.4%.

- 3 • The main error is that the equation fails to discount the savings back to year  
4 2017, but instead discounts the savings back to year 2020. Without realizing it,  
5 Mr. Bryant has in effect added \$199 million per year (plus inflation adjustments)  
6 to the operating savings for each of the years 2018, 2019, and 2020; and he has  
7 also implicitly increased the forecast benefits for all years after 2020 by an extra  
8 three years of inflation. Correcting this error reduces the net present value of  
9 operational savings by 19.5%. Note that Mr. Bryant's \$364 million figure for  
10 years 2017-2020 is correctly discounted back to year 2017.

11 Mr. Bryant's \$3,902 million net present value for the out years does indeed follow from  
12 his incorrect equation for those years.

13 **Q. CAN YOU REPLICATE MR. BRYANT'S INCORRECT RESULT FOR THE**  
14 **OUT YEARS?**

15 A. Yes. Using Mr. Bryant's input data, Exhibit LDK-2 presents a spreadsheet that  
16 calculates Mr. Bryant's \$3,902 million figure using his equation.<sup>41</sup>

17 **Q. WHAT IS THE CORRECT RESULT FOR THE OUT YEARS?**

18 A. Based upon the same input data as are used by Mr. Bryant, the spreadsheet in Exhibit  
19 LDK-2 also calculates the correct \$3,216 million figure three ways: according to the  
20 correct equation, defined in a footnote to this section of testimony; using Excel's NPV  
21 function to calculate the net present value of the annual operational savings figures over

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<sup>41</sup> This appears in yellow-highlighted cell D9 of Exhibit LDK-2.

1 the next 300 years; and summing up the net present values of each of the annual  
2 operational savings figures over the next 300 years.<sup>42</sup>

3 **Q. GIVEN MR. BRYANT'S INPUT ASSUMPTIONS, WHAT IS THE CORRECT**  
4 **NET PRESENT VALUE OF OPERATIONAL SAVINGS?**

5 A. With the correction just identified, the correct net present value is \$3,580 million. This  
6 is the sum of two components: \$364 million of savings in the year of and the first three  
7 years after completion of the Transaction (2017-2020), which is what Mr. Bryant found;  
8 plus \$3,216 million of savings over an infinite numbers of years starting in 2021.

9 **7. GPE'S CALCULATION OF THE NET PRESENT VALUE OF BENEFITS IS**  
10 **INFLATED BY ITS UNDERLYING ASSUMPTIONS.**

11 **Q. WHICH ASSUMPTIONS INFLATE THE NET PRESENT VALUE?**

12 A. The first assumption is that the operational savings due to the Transaction will continue  
13 forever. The second assumption is that Mr. Kemp's \$199 million figure for 2020 is a  
14 suitable basis for annual operational savings in the out years of 2021 and beyond.

15 **Q. HOW DOES THE FIRST ASSUMPTION AFFECT THE NET PRESENT**  
16 **VALUE OF OPERATIONAL SAVINGS?**

17 A. If the operational savings do not continue forever, as Mr. Bryant assumes, the net  
18 present value of operational savings will be smaller than the corrected \$3,580 million  
19 amount. This can be seen in Table 2, which shows how the net present value rises with  
20 the number of years that the operational savings continue.

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<sup>42</sup> These numbers appear in green-highlighted cells D10, C13, and D13 of Exhibit LDK-2. 99% of the net present value of the post-2020 operating savings occurs over the first 95 years of the period. The additional 200 years were added to capture the lion's share of the remaining 1%, as both Mr. Bryant's equation and my equation assume that the operating savings continue forever.



**Table 2**  
**Net Present Value of Benefits by Duration of Operational Savings<sup>43</sup>**

<b>Years</b>	<b>NPV</b>
20	2,102
30	2,671
40	3,021
50	3,236
100	3,550
300	3,580

**Q. IS IT REASONABLE TO ASSUME THAT THE TRANSACTION'S OPERATIONAL SAVINGS WILL CONTINUE FOREVER?**

A. No. On the contrary, one can reasonably expect that the current stock of power industry capital will almost fully turn over during the next 50 years, and that the technological and institutional conditions of the industry will change radically over the next 50 years. Consequently, it is implausible that \$199 million in annual operational savings due to a transaction that closes in the year 2017 will persist, with inflation adjustment, beyond the year 2067; and it is far more likely that those operational savings will be swept away by events – meaning that they will be substantially reduced or nullified – well before 2067.

**Q. DO GPE'S FINANCIAL PRACTICES SUPPORT THE EXPECTATION THAT THE TRANSACTION'S OPERATIONAL SAVINGS WILL LAST NO MORE THAN 50 YEARS?**

A. Yes. GPE's present debt all matures by 2043, its regulatory assets are all amortized by 2058, and its lease commitments end by 2048.<sup>44</sup> As a practical matter, neither GPE nor

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<sup>43</sup> The figures in this table are calculated, by two different methods that find identical results, in cells L5:M10 of Exhibit LDK-2.

1 its lenders assume that its present assets will last forever; so its long-term assets and  
2 liabilities generally have lives shorter than 50 years.

3 **Q. WHAT IS THE PRESENT VALUE OF THE OPERATIONAL SAVINGS IF**  
4 **THEY EXPIRE WITHIN 50 YEARS OF THE TRANSACTION BEING**  
5 **COMPLETED?**

6 A. This net present value can be no higher than the \$3,236 million shown for the 50-year  
7 mark in Table 2, rather than the \$3,580 million shown for the 300-year mark in that  
8 table or the \$4,266 million incorrectly calculated by Mr. Bryant.

9 **Q. REGARDING MR. BRYANT'S SECOND ASSUMPTION, WHY IS IT**  
10 **UNREASONABLE FOR HIM TO USE MR. KEMP'S \$199 MILLION FIGURE**  
11 **FOR 2020 AS THE BASIS FOR ANNUAL OPERATIONAL SAVINGS IN THE**  
12 **OUT YEARS OF 2021 AND BEYOND?**

13 A. With his inflation adjustment, Mr. Bryant implicitly finds operational savings of \$204  
14 million in 2021. By contrast, Mr. Kemp's figure for 2021 is \$176 million. Mr. Bryant  
15 is not necessarily wrong to use a figure higher than \$176 million in 2021 because Mr.  
16 Kemp, in a footnote in Exhibit WJK-3, implies that his \$176 million figure may be low  
17 due to the exclusion of capital-related benefits and may be high due to minimal  
18 additional costs to achieve. Nonetheless, Mr. Bryant makes a leap – from \$176 million  
19 to \$204 million – that Mr. Kemp does not make. Furthermore, Mr. Bryant fails to heed  
20 the footnote's warning that "Capital-related savings would decline after 2020."

21 **Q. HOW DOES THIS SECOND ASSUMPTION AFFECT THE NET PRESENT**  
22 **VALUE OF OPERATIONAL SAVINGS?**

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<sup>44</sup> Great Plains Energy, *2015 Annual Report*: for debt, see p. 85; for regulatory assets, see p. 72, footnote h; and for lease commitments, see p. 92.

1 A. Suppose instead that savings in 2021 are \$176 million as forecast (with qualifications)  
2 by Mr. Kemp, that they escalate with inflation thereafter, and that they persist through  
3 the year 2067. Under these suppositions, the net present value of operational savings  
4 would be only \$2,495 million.<sup>45</sup> Therefore, based upon the numbers presented by Mr.  
5 Kemp and Mr. Bryant, the net present value of operational savings through year 2067  
6 will be somewhere in the range of \$2,495 million to \$3,236 million, which is  
7 substantially below the \$4,266 million figure presented by Mr. Bryant.

8 **8. THERE ARE PROBLEMS WITH THE ESTIMATES OF OPERATIONAL SAVINGS.**

9 **Q. CAN THE OPERATIONAL SAVINGS ESTIMATES BE REPLICATED,**  
10 **CONFIRMED, OR REFUTED AT REASONABLE COST?**

11 A. No. Even if GPE is correct in claiming that its method for developing its savings  
12 estimates is comprehensive, current, detailed, attributable, quality-assured, and  
13 conservative, its results cannot be replicated, confirmed, or refuted at reasonable cost.  
14 The problem is that GPE's method relies upon the estimates and judgments of many of  
15 its managers rather than upon some reproducible approach. Mr. Kemp offers the  
16 following assurance:

17 GPE senior executives reviewed and approved the estimates, and took  
18 ownership for achieving the targeted benefits. This last level of quality  
19 assurance is the acid test. If the sponsoring executives are willing to sign  
20 up to own the estimates, they must be convinced they are realistic and  
21 achievable.<sup>46</sup>

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<sup>45</sup> The \$2,495 million number is calculated, by two different methods that find identical results, in cells G13:H13 of Exhibit LDK-2.

<sup>46</sup> Kemp Direct Testimony, p. 18.

1   **Q.   HOW ARE GPE’S SENIOR EXECUTIVES HELD RESPONSIBLE FOR THE**  
2       **QUALITY OF THEIR SAVINGS ESTIMATES?**

3   A.   GPE is rather vague about responsibility. To explain how executives will “own” the  
4       estimates, KCP&L says that “it is expected that GPE senior executives involved in  
5       reviewing and approving Transaction-related benefits will have substantial  
6       responsibility for achieving those benefits post-closing.”<sup>47</sup> GPE will decide, “on a case-  
7       by-case basis,” “the career consequences, in terms of compensation or promotion, that  
8       are associated with taking ownership,” “how executive management will be held  
9       accountable, and how consequences will be assigned, to those who have taken  
10      ‘ownership for achieving the targeted benefits.’”<sup>48</sup> In spite of these assurances, the  
11      estimates are judgment calls that are more than a little difficult to confirm or refute. It  
12      is thus not feasible for any intervenors to examine or verify the accuracy of the benefits  
13      estimates.

14   **Q.   DOES GPE ASSERT THAT THE TRANSACTION WILL REDUCE THE**  
15       **REQUIRED PLANNING RESERVES OF THE MERGED COMPANIES?**

16   A.   Yes. Mr. Kemp says that “The Transaction-related O&M and capex savings in the  
17       Generation function primarily reflect the combination’s effects on the generation fleets  
18       of GPE and Westar, with the related reduction in required planning reserves for  
19       generation capacity.”<sup>49</sup>

20   **Q.   WILL THE TRANSACTION IN FACT ALLOW THE MERGED COMPANIES**  
21       **TO REDUCE THEIR REQUIRED PLANNING RESERVES?**

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<sup>47</sup> Response to Question KCC-213.

<sup>48</sup> *Id.*

<sup>49</sup> Kemp Direct Testimony, pp. 22-23.

1 A. Through the year 2020, no. After 2020, the reduction in required planning reserves is  
2 unlikely to be more than negligible.

3 **Q. HOW ARE PLANNING RESERVE REQUIREMENTS FOR GPE AND**  
4 **WESTAR DETERMINED?**

5 A. KCP&L (including KCP&L Greater Missouri Operations Company) and Westar are  
6 members of the Southwest Power Pool (SPP), which determines the planning reserve  
7 requirements of its members. These requirements are defined by sections 4.1.6, 4.1.7,  
8 and 4.1.9 of SPP's planning criteria.<sup>50</sup> Ignoring the hydroelectric qualifications that are  
9 not material to KCP&L and Westar, these sections together indicate that each Load  
10 Serving Member's Minimum Required Capacity Margin in a year shall be 12% of its  
11 System Peak Responsibility. System Peak Responsibility is the Member's greatest Net  
12 Load during that Capacity Year, plus Firm Power sales at the time of greatest Net Load,  
13 minus Firm Power Purchases at the time of greatest Net Load.

14 **Q. WHY DO YOU BELIEVE THAT THE TRANSACTION WILL HAVE AT**  
15 **MOST A NEGLIGIBLE IMPACT ON THE MERGED COMPANIES'**  
16 **PLANNING RESERVE REQUIREMENTS?**

17 A. SPP's rules require that KCP&L and Westar, as separate load-serving entities, must  
18 each have planning reserves equal to 12% of their respective peak net load obligations.  
19 Together, KCP&L and Westar would be jointly required to have planning reserves  
20 equal to 12% of their joint peak net load obligation. The joint requirement would be  
21 significantly lower than the sum of the separate requirements only if the two utilities

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<sup>50</sup> Southwest Power Pool, *Planning Criteria*, Revision 1.0, November 20, 2015.

1 have significantly different times of greatest Net Load. Consistent with the foregoing  
2 statements, KCP&L has said the following:

3 At the time of the Westar transaction completion, the Westar load and  
4 KCP&L/KCP&L GMO load will still have separate SPP reserve margin  
5 requirements just as they do today. The requirement will not change  
6 based on the transaction.

7 However, in the future if the companies were to request and obtain  
8 network transmission service based on their combined loads, there may be  
9 a slight reduction in the combined load reserve margin requirement vs the  
10 sum of the individual companies' reserve margin requirements, depending  
11 on the diversity in companies' system loads.<sup>51</sup>

12 **Q. HAS GPE QUANTIFIED THE DIFFERENCE BETWEEN THE JOINT**  
13 **PLANNING RESERVE REQUIREMENT OF KCP&L AND WESTAR AND**  
14 **THE SUM OF THEIR SEPARATE PLANNING RESERVE REQUIREMENTS?**

15 A. Yes, and the quantified difference is zero. In response to a request to specify the  
16 number of MWs by which the Transaction would reduce the utilities' planning reserve  
17 requirement, KCP&L states, "Combining KCP&L's and Westar's annual reserve  
18 margin requirements would provide merged-company reserve margin requirements."<sup>52</sup>  
19 In other words, KCP&L forecasts that the merged company's reserve margin  
20 requirement will be the simple sum of the separate reserve margin requirements of the  
21 merging firms.

22 **Q. WILL THE ACTUAL RESERVE MARGINS OF THE MERGED COMPANY**  
23 **DEPEND UPON SPP RESERVE MARGIN REQUIREMENTS?**

24 A. For the next 20 years, apparently not. GPE has stated that both Westar and KCP&L are  
25 forecast to have generation reserves in excess of SPP requirements for at least 20 years,

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<sup>51</sup> Response to Question BPU-3-18.

<sup>52</sup> The quotation is from Response to Question BPU 2-24. The information request was from Response to Question KEPCo 2-12a. The Response to Question KEPCo 2-12a refers to Question BPU 2-24.

1 and to have reserves that are double the SPP requirements through the year 2020.<sup>53</sup>  
2 Even if the joint reserve requirement is reduced because of differences in the two  
3 utilities' hourly load patterns, that reduction will have no impact on the merged firm's  
4 costs of generating reserves for at least 20 years.

5 **9. ELECTRIC UTILITIES HAVE A POOR RECORD OF PROJECTING THE**  
6 **BENEFITS OF THEIR MERGERS.**

7 **Q. DOES THE HISTORY OF RECENT MERGERS SUPPORT THE VIEW THAT**  
8 **UTILITIES ARE GOOD AT FORECASTING MERGER SAVINGS?**

9 A. No. On the contrary, this history shows the forecasts are about as good as a coin toss.  
10 This can be seen even in data provided by Mr. Kemp. Table 3, which is based entirely  
11 on data supplied by Mr. Kemp, compares forecast and actual non-fuel O&M cost  
12 changes three years after transaction close for twenty-five mergers from 1997 to 2007.  
13 The table shows that the twenty-five mergers had average *forecast* NFOM savings of  
14 9.0% – coincidentally almost the same savings that Mr. Kemp forecasts for the present  
15 Transaction – and yet they achieved average *actual* savings of 0.0%. Of the twenty-five  
16 mergers, fifteen failed to achieve their announced goals and twelve failed to achieve any  
17 savings at all. In the most extreme cases, utilities did 46.1% worse than announced and  
18 22.0% better than announced; and, in one case, a utility that forecast NFOM cost  
19 savings instead experienced a 31.9% *increase* in these costs.

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<sup>53</sup> Response to Question BPU-2-37.

1 **Table 3**  
2 **Projected Versus Actual Non-Fuel O&M Cost Changes for 25 Utility Mergers,**  
3 **1997-2007<sup>54</sup>**

Acquiring Utility	Acquired Utility	ANFOM at Year 3		
		Announced	Actual	Difference
Brooklyn Union Gas	Long Island Lighting Company	-23.5%	22.6%	46.1%
Duke Energy	Cinergy	-22.0%	-33.0%	-11.0%
LG&E Energy LLC	Kentucky Utilities Company	-20.0%	5.6%	25.6%
Dominion Resources Inc	Consolidated Natural Gas Co	-13.5%	-1.7%	11.8%
FirstEnergy Corporation	GPU Inc	-13.5%	18.6%	32.1%
Puget Sound Power & Light	Washington Energy Co	-12.5%	3.1%	15.6%
Nevada Power Company	Sierra Pacific Power Company	-10.0%	4.6%	14.6%
Pacific Enterprises	Enova Corporation	-9.5%	-11.3%	-1.8%
Indiana Energy Inc	SIGCORP Inc	-9.5%	-23.2%	-13.7%
Energy East Corporation	Central Maine Power Company	-9.2%	-11.7%	-2.5%
Delmarva Power & Light Company	Atlantic Energy Inc	-8.0%	-0.1%	7.9%
Northern States Power Company	New Century Energies Inc	-8.0%	15.5%	23.5%
National Grid	Keyspan Corp	-8.0%	31.9%	39.9%
American Electric Power Company	Central and South West Corp	-7.5%	-10.7%	-3.2%
Carolina Power and Light Company	Florida Progress Corp	-7.5%	8.9%	16.4%
WPS Resources	Peoples Energy Corp	-7.5%	20.4%	27.9%
Ohio Edison	Centerior Energy	-7.0%	-2.7%	4.3%
Union Electric Company	CIPSCO Inc	-7.0%	6.8%	13.8%
Unicom	PECO Energy	-5.2%	-27.2%	-22.0%
Potomac Electric Power Company	Conectiv Energy Inc	-4.0%	2.4%	6.4%
Consolidated Edison Company	Orange and Rockland Utilities	-3.5%	-5.1%	-1.6%
Ameren Corporation	CILCORP Inc	-3.0%	-12.4%	-9.4%
Ameren Corporation	Illinois Power	-2.5%	7.4%	9.9%
PNM Resources Inc	TNP Enterprises Inc	-2.0%	-6.2%	-4.2%
MidAmerican Energy	Pacificorp	-0.5%	-1.3%	-0.8%
<b>Average</b>		<b>-9.0%</b>	<b>0.0%</b>	<b>9.0%</b>
<b>Maximum</b>		<b>-0.5%</b>	<b>31.9%</b>	<b>46.1%</b>
<b>Minimum</b>		<b>-23.5%</b>	<b>-33.0%</b>	<b>-22.0%</b>

<sup>54</sup> Announced outcomes are from B. Kemp, *Economies of Scale and Scope in Electric Utility Mergers*, Pathfinder Strategic Services, Black & Veatch Management Consulting, October 10, 2011, p. 9. Actual outcomes are from KCC\_20160803-11-Att-Q11\_Workpaper KCC-11 Functional Savings by Merger Transaction.pdf, which is confidential.



1    **Q.    DOES OTHER RESEARCH CORROBORATE THE FACT THAT UTILITIES**  
2       **HAVE DIFFICULTY ACHIEVING THEIR PROJECTED SAVINGS?**

3    A.    Yes. A report prepared by The Boston Consulting Group examined utility mergers and  
4       found that:

5               Between 1997 and 2004, mergers in all U.S. industries created an average  
6               TSR [total shareholder return] of 2 to 3 percent relative to the market  
7               index two years after closing. In contrast, utilities mergers typically  
8               underperformed the utility index by about 2 to 3 percent three years after  
9               the transaction announcement. T&D mergers underperformed the index  
10              by about 4 percent, whereas mergers of vertically integrated utilities beat  
11              the index by about 1 percent three years after the announcement.<sup>55</sup>

12       As shown in Figure 1, The Boston Consulting Group report found that most electric  
13       utility mergers do not meet their projected savings. The figure has a 45-degree upward-  
14       sloping line at which actual savings equal projected savings. Most of the observations  
15       (circles) are below that line, indicating actual savings are less than projected savings.

16       As explained by the report:

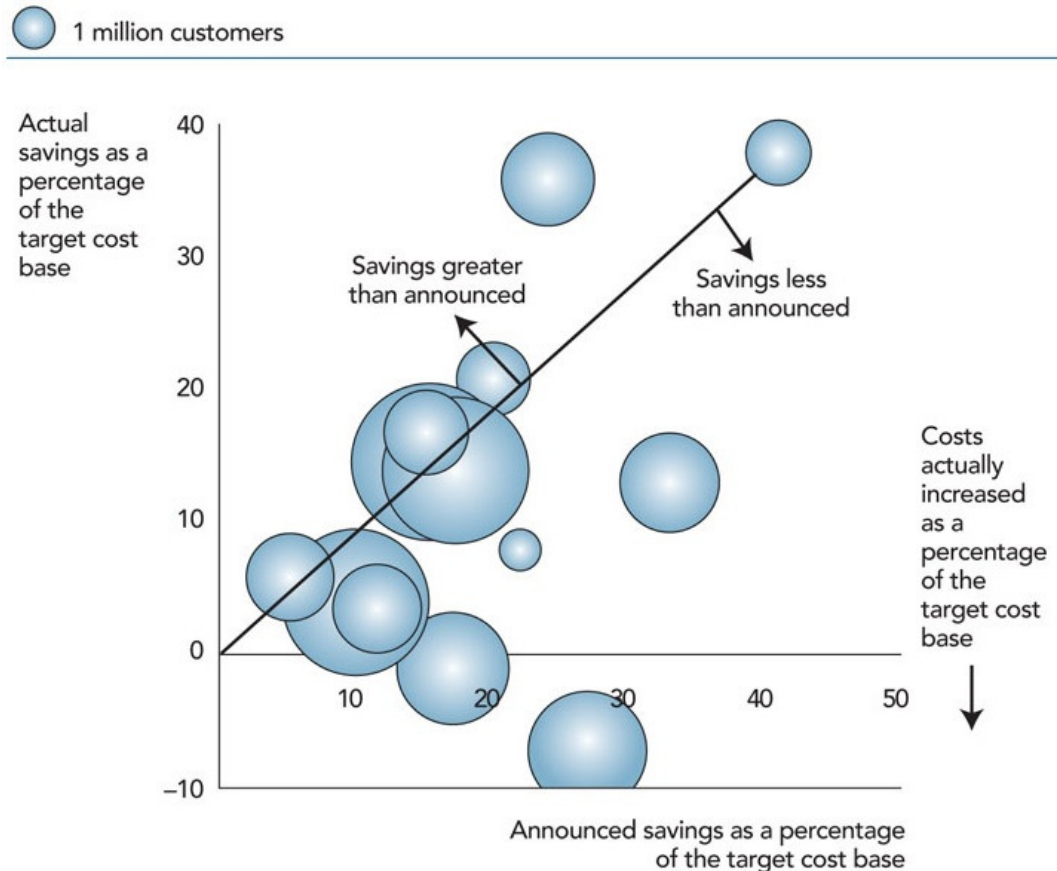
17               Historically... acquirers have found it difficult to derive value from  
18               merged utilities. With the exception of some vertically integrated deals,  
19               most M&A deals have been value-neutral or value-diluting. This track  
20               record can be explained by a combination of factors: steep acquisition  
21               premiums, harsh regulatory givebacks, anemic cost reduction targets and  
22               (in more than half of the deals) a failure to achieve targets quickly enough  
23               to make a difference. In fact, over an eight-year period, *less than half the*  
24               *utility mergers actually met or exceeded the announced cost reduction*  
25               *levels resulting from the synergies of the merged utilities.*<sup>56</sup>

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<sup>55</sup> P. Seshadri, R. Peters, J. Gell, G. Morsches, and M. Finger, *Utility M&A: Beating the Odds*, The Boston Consulting Group, undated, [https://www.bcgperspectives.com/content/articles/energy\\_environment\\_mergers\\_acquisitions\\_utility\\_m\\_and\\_a/#chapter1](https://www.bcgperspectives.com/content/articles/energy_environment_mergers_acquisitions_utility_m_and_a/#chapter1).

<sup>56</sup> *Id.* Emphasis added.

**Figure 1**  
**Most Utility Mergers Fail to Meet Announced Savings Targets**  
**(April 1997 – June 2005)<sup>57</sup>**



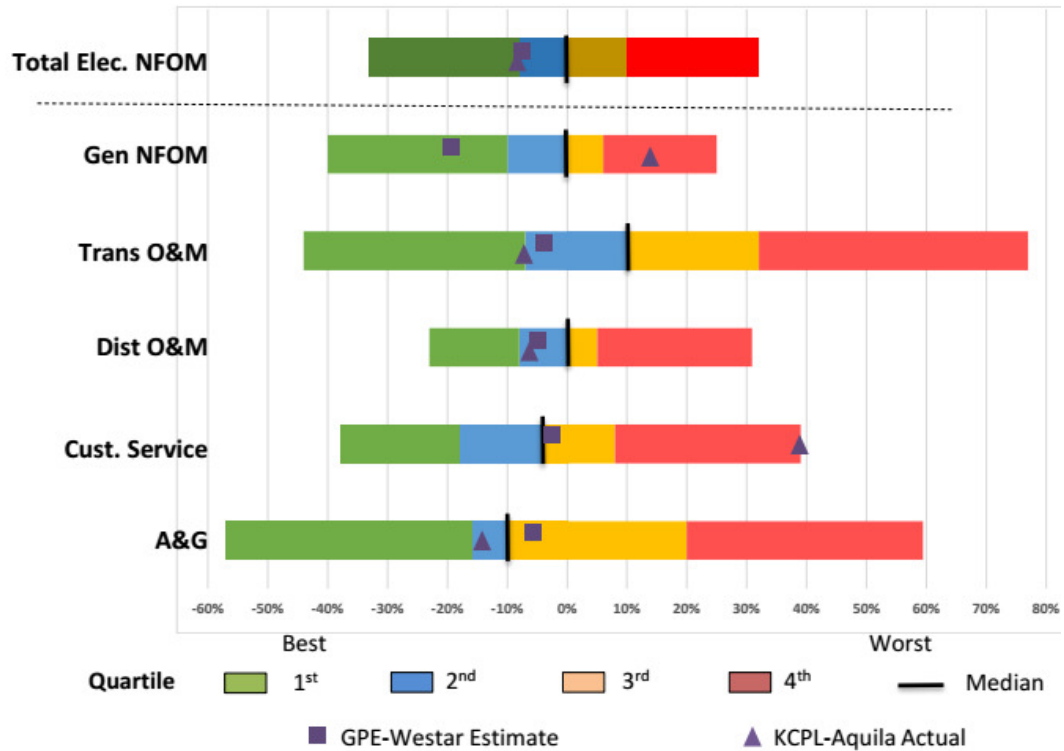
**Q. DOES MR. KEMP'S TESTIMONY IN THE PRESENT PROCEEDING OFFER ADDITIONAL EVIDENCE THAT MERGERS HAVE A WIDE RANGE OF OUTCOMES, WITH HIGHLY UNCERTAIN AND UNPREDICTABLE RELATIONSHIPS BETWEEN FORECAST BENEFITS AND ACTUAL BENEFITS?**

**A.** Yes. Figure 2, which is a copy of Mr. Kemp's Schedule WJK-5, shows that every functional category has a plus-and-minus range of at least 50%, and for two functions

<sup>57</sup> Seshadri *et al*, *op cit.*, Exhibit 4.

over 100%. For all categories, there were instances in which costs after merger went down by at least 20%. For all categories, there were instances in which costs after merger went up by at least 20%.

**Figure 2**  
**Realized Annual Cost Changes as a Percentage of Pre-Transaction Combined Non-Fuel O&M Expense, by Function (36 U.S. Utility Transactions, 1996-2012)<sup>58</sup>**



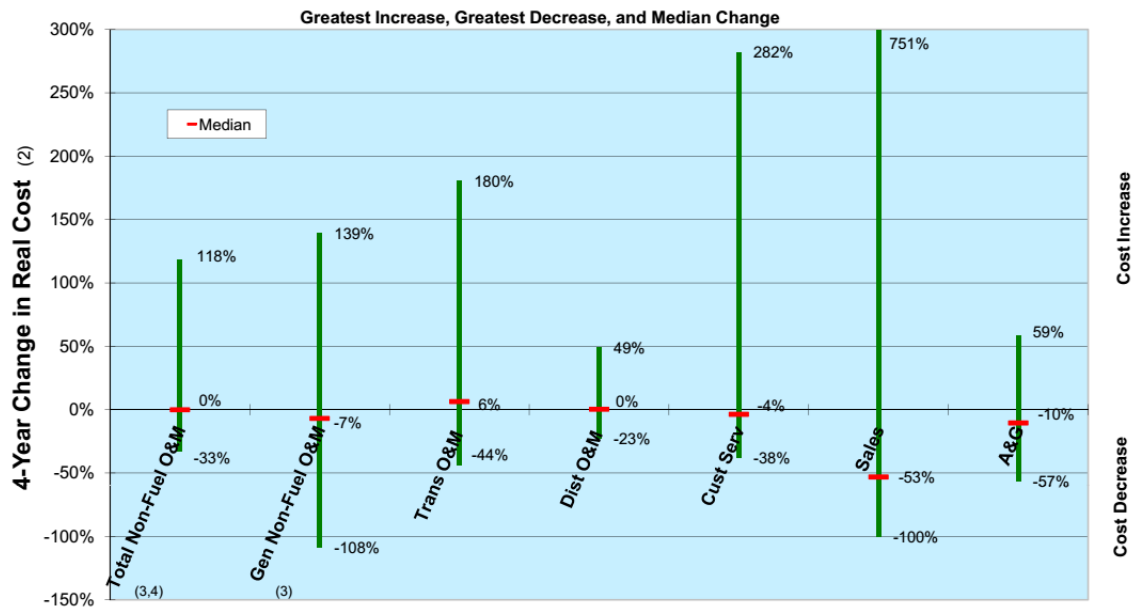
**Q. DO ANY OF MR. KEMP'S PAST PUBLICATIONS OFFER ADDITIONAL EVIDENCE THAT MERGERS HAVE A WIDE RANGE OF OUTCOMES?**

**A.** Yes. An analysis by Mr. Kemp from 2011, reproduced here in Figure 3, compares the sum of the separate utility costs one year prior to the merger closing to the combined utility cost four years after closing. Mr. Kemp finds that, with a single exception, every functional category has a plus-and-minus range of well over 100%. For all categories,

<sup>58</sup> Kemp Direct Testimony, Schedule WJK-5, p. 2.

there were instances in which costs went down by at least 23% and went up by at least 49%. Interestingly, for the 32 mergers covered by this figure, the median changes for all categories, with the exception of Sales, is close to zero. But the key point is that there is significant uncertainty as to the savings outcomes in each of the categories that Mr. Kemp has analyzed for Joint Applicants' Transaction.

**Figure 3**  
**Post-Transaction Changes In Electric Utility Costs**  
**(32 U.S. Electric Utility Merger Transactions, 1997-2007)<sup>59</sup>**



**Q. DOES MR. KEMP CLAIM THAT MERGING UTILITIES ENJOY STATISTICALLY SIGNIFICANT LARGER COST ADVANTAGES RELATIVE TO NON-MERGING UTILITIES?**

**A.** Yes. In response to an information request, Mr. Kemp claims that “The difference between the merger and non-merger groups’ cost changes over the same time periods

<sup>59</sup> B. Kemp, *Economies of Scale and Scope in Electric Utility Mergers*, Pathfinder Strategic Services, Black & Veatch Management Consulting, October 10, 2011, p. 9.

1 [from year before close to three years after close] was highly significant statistically,  
2 with the merger group consistently enjoying bigger cost decreases or lower cost  
3 increases.”<sup>60</sup>

4 **Q. WHAT STATISTICAL ANALYSIS DOES MR. KEMP USE TO SUPPORT THIS**  
5 **CLAIM?**

6 A. Mr. Kemp runs a series of regressions that, for seven cost categories, attempts to  
7 explain the “percentage changes in functional costs over the four-year period from year  
8 before close to three years after close for utilities involved in 32 merger transactions.”<sup>61</sup>

9 To “address the question of whether changes in post-merger costs could be ascribed to  
10 industry cost trends not related to mergers,” Mr. Kemp “provides an Excel spreadsheet  
11 with the statistical results of that analysis... and details on the statistical significance of  
12 differences in mean changes in real costs for peer groups of merger vs. non-merger  
13 utilities over the same four-year periods.”<sup>62</sup> His analysis includes two variables: an  
14 M&A Dummy<sup>63</sup> and a Trend Year Variable, though some of his regressions also  
15 include a square of the latter variable. Mr. Kemp does not define the Trend Year  
16 Variable which, based upon the construction of the regressions reported in his  
17 spreadsheet, can only be a measure at a point in time – perhaps it refers to the year of  
18 merger closing, or perhaps not. He does explain, however, that this variable is intended

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<sup>60</sup> Response to Question CURB-52.

<sup>61</sup> Response to Question CURB-52.

<sup>62</sup> Response to Question KCC-32.

<sup>63</sup> Mr. Kemp’s spreadsheet calls this “M&A Group Equals (1)”, which has a value of 1 for a merged utility and 0 for a non-merged utility.

1 to determine “whether changes in real costs for merged companies are likely to be the  
2 results of industry or national trends, rather than the effect of a merger.”<sup>64</sup>

3 **Q. WHAT ARE THE DEFICIENCIES IN MR. KEMP’S STATISTICAL**  
4 **METHODS?**

5 A. His regression analysis fails to account for the myriad of factors that can influence both  
6 controllable costs and non-controllable costs for both merging and non-merging firms.  
7 His analysis includes only one variable apart from the cost change series, namely his  
8 Trend Year Variable. This trend variable is not adequate as a means of capturing  
9 secular industry trends in costs, or for controlling for existing trends in merged and non-  
10 merged utilities’ costs over time, especially for the pre-merger period. Capturing  
11 utility-specific and industry cost trends would require longer-term data series than are  
12 used by Mr. Kemp, and would benefit from a specification that has some other desirable  
13 characteristics, such as the following:

- 14 • The specification would enable a comparison of the efficiency of both buyers  
15 and sellers for several years before and after the merger.
- 16 • It would capture other characteristics of the merged utilities relative to non-  
17 merged utilities, such as customer mix and degree of vertical integration.
- 18 • It would consider the adjacency of merged utilities.
- 19 • It would consider utilities’ experience with previous mergers.

20 Mr. Kemp’s simple Trend Year Variable is not up to the job because it fails to control  
21 for any of these sorts of factors that could be responsible for efficiency (i.e., cost)  
22 changes of either merging or non-merging firms. Because of these deficiencies, Mr.

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<sup>64</sup> Response to Question CURB-52.

1 Kemp's statistical analysis is not able to credibly determine whether differences in cost  
2 trends between merging and non-merging utilities are due to the act of merging or to  
3 other factors.

4 **Q. WHAT DO MR. KEMP'S RESULTS SHOW?**

5 A. Table 4 summarizes certain elements of Mr. Kemp's regression results for each  
6 of the seven cost categories that he examines. All of the regressions include the M&A  
7 Dummy variable and the Trend Year Variable, and three of them (as shown in the table)  
8 also include squares of the Trend Year Variable. Mr. Kemp includes the square of the  
9 Trend Year Variable for those cost categories for which it improves his regression  
10 results, and excludes it otherwise.

11 The M&A Dummy is the most significant variable in only three of the seven  
12 regressions. In the other four regressions, the Trend Year Variable (in either its linear  
13 or quadratic forms) is more significant. Worse yet, only three of the seven regressions  
14 explain more than 15% of the variation in the mean change in real costs. In other  
15 words, only three of the regressions even begin to account for the observed variations in  
16 real cost changes.

17 Not coincidentally, those same three regressions are the only ones that find cost  
18 trends of merging utilities to be significantly better, at the 95% confidence level, than  
19 the cost trends of non-merging utilities. As shown in the right-most column of the  
20 table, the upper bounds for the other four cost categories are positive, meaning that  
21 there is not a statistically significant difference between merged and non-merged

1 utilities' changes in real average costs, and that the cost trends for merging utilities  
2 might even be worse than those of non-merging utilities for these categories.<sup>65</sup>

3 **Table 4**  
4 **Mr. Kemp's Regression Results<sup>66</sup>**

Cost Category	Trend Squared Variable?	Most Significant Variable	Variation Accounted for by Regression	Upper M&A 95% Confidence Bound
Total Non-Fuel O&M	Yes	Trend	11.5%	0.030
Generation Non-Fuel O&M		Trend	5.1%	0.017
Transmission O&M		M&A	33.4%	-0.255
Distribution O&M		Trend	4.8%	0.077
Customer Service		Trend	15.5%	-0.021
Sales Exp	Yes	M&A	52.1%	-0.129
A&G	Yes	M&A	-0.3%	0.032

5  
6 **Q. PLEASE SUMMARIZE YOUR FINDINGS CONCERNING MR. KEMP'S**  
7 **CLAIM THAT MERGING UTILITIES ENJOY COST DECREASES THAT**  
8 **ARE "HIGHLY SIGNIFICANT STATISTICALLY" RELATIVE TO THOSE OF**  
9 **NON-MERGING UTILITIES.**

<sup>65</sup> The spreadsheet provided by Mr. Kemp in response to Question KCC-32 only provided the lower 95% confidence bound even though results from regressions of the type performed by Mr. Kemp would typically provide both lower and upper bounds. I computed the upper 95% confidence bounds based upon Mr. Kemp's regression results. When the bounds contain zero, it can be concluded that the estimated coefficient is not statistically different from zero.

<sup>66</sup> The content in this table is based upon information presented in Mr. Kemp's confidential spreadsheet "KCC\_20160901-32-Att-Q32\_CONF\_Workpaper 32-1\_Merger vs Non-Merger Groups.xls". In this table, "Most Significant Variable" refers to the variable with the highest absolute t-statistic in Mr. Kemp's regression. "Variation Accounted for by Regression" refers to the adjusted R-squared of Mr. Kemp's regression. "Upper M&A 95% Confidence Bound" refers to Mr. Kemp's estimated coefficient of the M&A Dummy plus  $t_{0.975}$  times Mr. Kemp's estimated standard error for the M&A Dummy, where  $t_{0.975}$  is the critical value of the t-statistic for a 95% confidence interval. Because of variations in the number of degrees of freedom among Mr. Kemp's regressions,  $t_{0.975}$  has values ranging between 2.032 and 2.037, depending upon the regression. The figures in the two rightmost columns of the table appear in red font in my workpaper, "Kirsch Workpaper KCC\_20160901-32-Att-Q32\_CONF\_Workpaper 32-1\_Merger vs Non-Merger Groups.xls", which is identical to Mr. Kemp's spreadsheet except for the addition of the calculations of the "Upper M&A 95% Confidence Bound".



1 A. This claim is poorly supported. Mr. Kemp uses an inadequate statistical method that  
2 cannot provide credible results; and even the results provided by that method give only  
3 mixed support to his claim.

4 **Q. IS A BETTER STATISTICAL ANALYSIS OF MERGED FIRMS' RELATIVE**  
5 **EFFICIENCY AVAILABLE?**

6 A. Yes. Kwoka and Pollitt<sup>67</sup> examine a “panel of 73 operating companies over the 1994-  
7 2003 period” and use data envelopment analysis to “score each unit’s production  
8 efficiency against best practice in each year”.<sup>68</sup> They measure production efficiency in  
9 two different ways: as variable operating costs and as total controllable costs, the latter  
10 of which include controllable capital expenditures. Each measure results in 730  
11 observations on relative efficiency. The scores are then related to each entity’s merger  
12 experience as a buyer, a seller, or a non-merging entity, as well as to various control  
13 variables and to a number of years before or after the merger. This approach makes it  
14 possible to identify a progression of post-merger effects and any trend in pre-merger  
15 performance.

16 **Q. DOES THE ANALYSIS BY KWOKA AND POLLITT SUPPORT MR. KEMP’S**  
17 **CLAIM THAT MERGING UTILITIES ENJOY STATISTICALLY**  
18 **SIGNIFICANT LARGER COST ADVANTAGES RELATIVE TO NON-**  
19 **MERGING UTILITIES?**

20 A. No. Kwoka and Pollitt:

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<sup>67</sup> J. Kwoka and M. Pollitt, “Do mergers improve efficiency? Evidence from restructuring the US electric power sector,” *International Journal of Industrial Organization*, 2010, 28: 645-656.

<sup>68</sup> *Id.*, p. 646.

1 ...test the propositions that (a) mergers are initiated by firms with superior  
2 efficiency and (b) they result in efficiency gains to one or both parties to  
3 the transaction. The evidence clearly shows the contrary. In the years  
4 prior to merger, acquiring companies are not superior performers in terms  
5 of operating costs, but rather are at best similar to non-merging firms. It  
6 is, in fact, the target firms—the sellers—that have greater efficiency.  
7 Moreover, after merger, sellers’ previously superior efficiency declines  
8 toward the norm. In terms of total controllable costs, much the same  
9 pattern emerges, with buyers of rather ordinary efficiency acquiring  
10 superior performing target firms. These results suggest a striking  
11 inversion of the efficient merger hypothesis, specifically, that poor-  
12 performing companies apparently sought out and acquired better  
13 performers, whose efficiency then eroded subsequent to the merger.<sup>69</sup>

14 Kwoka and Pollitt explore the efficiency comparison through a regression analysis that  
15 controls for a variety of characteristics of the merged and non-merged utilities,  
16 including whether the utilities are adjacent (like GPE and Westar). The hypothesis is  
17 that “adjacency permits the realization of greater efficiencies”<sup>70</sup> that might not be  
18 feasible for merging partners that do not share a border. The results are not statistically  
19 significant.

20 **Q. TO HELP CONTROL FOR NON-MERGER RELATED FACTORS THAT**  
21 **COULD IMPACT UTILITY COSTS AND EFFICIENCY OVER TIME, WHAT**  
22 **CHARACTERISTICS OF MERGED AND NON-MERGED UTILITIES DID**  
23 **KWOKA AND POLLITT EXAMINE IN THEIR REGRESSION ANALYSIS?**

24 A. Kwoka and Pollitt performed regressions of utility efficiency scores for merged and  
25 non-merged utilities on a number of variables designed to control for factors that could  
26 influence utilities’ efficiency. These variables were as follows:

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<sup>69</sup> *Id.*

<sup>70</sup> *Id.*, p. 651.

- 1 • Dummies identifying the type of utility (buyer in a merger, seller in a merger,  
2 non-merging utility).
- 3 • Time-based dummy variables that cover as many as eight years prior to merger  
4 and as many as six years post-merger. These variables help to control for the  
5 efficiency characteristics of the buyers and sellers before and after the merger as  
6 well as to identify any trends in efficiency over time.
- 7 • A dummy variable to capture any effects of adjacency of merged utilities.
- 8 • A dummy variable to capture any effects of having more than one merger.
- 9 • A variable measuring the percentage of power generated by the utility from its  
10 own units. This variable captures the cost impacts of different utilities' relative  
11 degrees of vertical integration.
- 12 • A variable measuring the utility's residential sales as a percentage of its total  
13 sales. This variable captures the cost impacts of different utilities' customer  
14 mixes, particularly including the fact that residential customers tend to be more  
15 costly to serve than other customers.

16 By controlling for these various factors, Kwoka and Pollitt find that efficiency of buyers  
17 in a merger is not significantly different statistically from non-merged firms before or  
18 after the merger. On the other hand, they find that efficiency of sellers is significantly  
19 higher than non-merged firms before the merger but declines to the average for non-  
20 merged utilities after the merger.

21 **Q. ARE KWOKA AND POLLIT'S REGRESSION RESULTS STATISTICALLY**  
22 **SIGNIFICANT?**

1 A. Yes. Kwoka and Pollit report a value for the chi-squared statistic, which is a measure of  
2 how well the estimated regression model fits the data (i.e., how well the values  
3 predicted by the estimated regression model match the observed values). Small values  
4 of this statistic relative to a critical value for the statistic indicate that the regression  
5 model fits the data well (i.e., the differences between the predicted values from the  
6 model and the observed values are small). All of the chi-square statistics that Kwoka  
7 and Pollit present in their Tables 5, 6, and 7 fall well below the critical chi-square  
8 values at a 5% significance level. Indeed, for all their regressions, the values of their  
9 chi-square statistics indicate that there is at least a 99.99% probability of observing a  
10 chi-square value greater than that reported. This means the estimated regression models  
11 do a very good job of fitting the data.

12 ***10. GPE HAS FAILED TO JUSTIFY THE PURCHASE PRICE AND THE ACQUISITION***  
13 ***PREMIUM.***

14 **Q. HAS GPE QUANTIFIED BENEFITS THAT JUSTIFY ANY PORTION OF THE**  
15 **ACQUISITION PREMIUM?**

16 A. Yes, but only to the extent of operational savings. The acquisition premium of \$4.9  
17 billion exceeds by \$0.6 billion GPE's own number for the net present value of  
18 operational savings, and exceeds by \$1.7 billion my corrected version of GPE's  
19 number.

20 **Q. DOES GPE QUANTIFY ANY BENEFITS OF THE TRANSACTION THAT**  
21 **MIGHT FILL THE \$0.6 BILLION OR \$1.7 BILLION GAP?**

22 A. No, GPE fails to quantify any explanation of how the \$0.6 billion gap might be filled,  
23 and of course does not quantify any explanation for filling the \$1.7 billion gap.

1           In response to Staff's reasonable request for specificity about the benefits of the  
2           transaction that might justify the \$4.9 billion acquisition premium, Mr. Bryant's  
3           Supplemental Direct Testimony fails to provide any specifics. Instead, he concludes,  
4           contrary to the evidence, that "The net present value of Transaction-related savings is  
5           consistent with the acquisition premium in excess of book value."<sup>71</sup> Mr. Bryant  
6           thereupon cites evidence in favor of the acquisition premium that is limited to declaring  
7           that various financial ratios support the purchase price: he does not present any benefit  
8           numbers, beyond his incorrectly calculated net present value of operational savings, to  
9           justify the acquisition premium.

10           Mr. Ives, who is KCP&L's Vice President of Regulatory Affairs, provides  
11           Supplemental Direct Testimony that is similarly unresponsive to Staff's request.  
12           Instead, he talks about the reasonableness of Mr. Kemp's estimates of operational  
13           savings, and never gets to the big picture about how those operational savings, together  
14           with other factors, justifies the \$4.9 billion premium.

15           In response to Staff's repeated request that Joint Applicants "identify in detail all  
16           of the reasons for paying the premium, even though the premium (above market and  
17           above book) exceeds the savings", KCP&L's full response is as follows:

18           The purchase price Great Plains Energy (GPE) agreed to pay (which  
19           necessarily includes the acquisition premium, however calculated) was  
20           necessary to win the competitive bidding process and is justified for the  
21           reasons explained in Mr. Bryant's direct testimony.<sup>72</sup>

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<sup>71</sup> Bryant Supplemental Direct Testimony, p. 4.

<sup>72</sup> Response to Question KCC-218.

1 It appears that \$4.9 billion acquisition premium was determined by GPE's decision "to  
2 win the competitive bidding process," and that GPE is unable to quantify the benefits  
3 that would justify the \$4.9 billion premium.

4 Joint Applicants' submission simply lacks numbers that support the \$4.9 billion  
5 acquisition premium. GPE's witnesses repeatedly refer to the detailed work performed  
6 by Mr. Kemp and the reasonableness of Mr. Kemp's approach and findings; but the  
7 major problems are not due to Mr. Kemp's work but are instead due to GPE's erroneous  
8 translation of Mr. Kemp's findings into net present values and GPE's failure to quantify  
9 any benefits other than those quantified by Mr. Kemp. Given that the net present values  
10 of the benefits found by Mr. Kemp are somewhere in the \$2.5 billion to \$3.2 billion  
11 range, GPE needs to show another \$1.7 billion to \$2.4 billion in benefits to justify its  
12 \$4.9 billion acquisition premium. GPE has failed to do so.

13 **Q. WHAT IS THE RELEVANT YARDSTICK FOR MEASURING THE**  
14 **ACQUISITION PREMIUM?**

15 A. The relevant yardstick is the book value, because the book value is put into rate base  
16 and is the basis for setting future customer charges. As Staff rightly notes,

17 ...a regulated utility's book value has unique meaning and importance in  
18 the context of utility regulation; this is the value that a utility's  
19 shareholders are legally entitled an opportunity to earn a 'return on' and a  
20 'return of' for purposes of ratemaking. In other words, there is very little  
21 difference between Westar's rate base and its book value of assets.<sup>73</sup>

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<sup>73</sup> Staff's Reply to Joint Applicants' Verified Response to Commission's Order on Merger Standards, *op cit.*, ¶21.

1 Even GPE acknowledges that “after the closing of the Transaction, rates will continue  
2 to be set on the basis of net book value of assets used and useful in providing electric  
3 service to customers just as they have been for many years in the state of Kansas.”<sup>74</sup>

4 **Q. DOES GPE OFFER A SECOND YARDSTICK FOR MEASURING THE**  
5 **ACQUISITION PREMIUM?**

6 A. Yes, it suggests that Westar’s stock price might serve as such a yardstick. Mr. Bryant  
7 states that “The acquisition premium is estimated at \$4.9 billion over book value and  
8 \$2.3 billion over Westar’s undisturbed stock price (the latter being the true measure of  
9 benefit to Westar shareholders)...”<sup>75</sup> Mr. Bryant’s claim notwithstanding, the market  
10 value of Westar’s stock is irrelevant to the determination of the acquisition premium in  
11 the context of regulated utilities because it is the book value, not the market value of the  
12 stock, that is put into rate base after a merger.

13 **Q. WHAT DOES MR. BRYANT SAY ABOUT THE ACQUISITION PREMIUM**  
14 **RELATIVE TO WESTAR’S STOCK PRICE?**

15 A. He says “We expect the final acquisition premium to be approximately \$2.3 billion or  
16 36% based on the undisturbed Westar stock price of \$44.08 on March 9, 2016 (the  
17 closing price before the first news leak of a potential transaction).”<sup>76</sup> He goes on to  
18 justify this 36% premium by noting that the premiums paid in other utility mergers  
19 “have ranged from 14% to 42%, with the average being 24%.”<sup>77</sup>

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<sup>74</sup> Ives Supplemental Direct Testimony, pp. 4-5.

<sup>75</sup> Bryant Supplemental Direct Testimony, p. 8.

<sup>76</sup> Bryant Direct Testimony, p. 11.

<sup>77</sup> Bryant Direct Testimony, p. 11.

**Q. HAVE THE PREMIUMS PAID IN RECENT UTILITY MERGERS BEEN IN THE 14% TO 42% RANGE CITED BY MR. BRYANT?**

A. Yes, the data do indicate such a range. Table 5 lists 13 recent mergers with premiums ranging from 14.7% to 48.0%. But this is hardly evidence in favor of the wisdom of the 36% premium that GPE is paying for Westar. In the first place, 36% is at the upper end of the range cited by Mr. Bryant. Second, 36% ties GPE for third place out of the thirteen transactions shown in Table 5. The premium paid by GPE is within the range of other deals, but is at the high end of the range.

**Table 5**  
**Price Premiums for Selected Utility Mergers and Acquisitions, 1/1/2013 – 2/15/2016<sup>78</sup>**

<b>Date Announced</b>	<b>Parties</b>	<b>Premium to Market Price (days prior to announcement)</b>
10/20/2014	CLECO/ Macquarie/ BCIMC	14.7% (NA)
2/9/2016	ITC Holdings/ Fortis, Inc.	15.5% (1 day)
6/23/2014	Integrus/ WEC	17.3% (1 day)
5/29/2013	NV/ Berkshire	20.3% (1 day)
12/3/2014	HEI/ NextEra	21.0% (20-day VWAP)
2/9/2016	Empire District/ Algonquin	21.3% (1 day)
2/1/2016	Questar/ Dominion	23.2% (1 day)
2/26/2015	UIL/ Iberdrola	24.6% (1 day)
4/30/2014	Pepco/ Exelon	29.5% (20-day VWAP)
12/11/2013	UNS/Fortis	30.1% (1 day)
8/24/2015	AGL/ Southern	36.3% (20-day VWAP)
10/26/2015	Piedmont/ Duke	40.0% (1 day)
9/4/2015	TECO/ Emera	48.0% (7/15/15)

**Q. IS MR. BRYANT CORRECT IN ASSERTING THAT THE PURCHASE PRICE IS 36% OVER THE UNDISTURBED WESTAR STOCK PRICE?**

<sup>78</sup> Baker Botts, 2015 – Another Record Year for Energy Mergers and Acquisitions, February 15, 2016, Exhibit A.



1 A. It is not clear whether Mr. Bryant is correct because there is an open question as to the  
2 date that Westar's stock price was disturbed by news of a potential merger. In response  
3 to a data request, GPE has indicated that both November 3, 2015 and March 9, 2016 are  
4 plausible dates for measuring the undisturbed Westar stock price. With respect to the  
5 former date, GPE has stated,

6 November 3, 2015 is the date that in the early stages of the process best  
7 represented the unaffected price of Westar's stock; that is the date when  
8 the Westar stock price was not impacted by merger speculation. On  
9 November 3, 2015, Westar released earnings and had an earnings call,  
10 after which the possibility of an acquisition became a topic of speculation  
11 in the market, thus affecting the stock price.<sup>79</sup>

12 The Westar stock price closed at \$39.51 on November 3, 2015 and at \$44.08 on March  
13 9, 2016.<sup>80</sup> The \$60 acquisition price is a 51.9% premium over the November 3, 2015  
14 market price and a 36.1% premium over the March 9, 2016 market price.<sup>81</sup> Thus, the  
15 purchase price might have a substantially larger premium over the undisturbed Westar  
16 stock price than is indicated by Mr. Bryant; and that premium of 51.9% is higher than  
17 any of the recent premiums shown in Table 5. This raises yet another red flag against  
18 the wisdom of the purchase price and acquisition premium that GPE is paying in this  
19 Transaction.

20 **Q. HAS MR. BRYANT PERFORMED AN ANALYSIS TO CONFIRM WHETHER**  
21 **OR NOT THE ANTICIPATED MERGER SAVINGS WILL EXCEED THE \$2.3**

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<sup>79</sup> Response to Question KCC-384.

<sup>80</sup>

<https://www.google.com/finance/historical?cid=15768034&startdate=Sep+1%2C+2015&enddate=Nov+28%2C+2016&num=30&ei=60s8WJGMFtHGmAGc6K2YCg>

<sup>81</sup> These percentage figures are identical with those that appear in Question KCC-384.

1           **BILLION PREMIUM OVER THE WESTAR STOCK PRICE OF \$44.08 ON**  
2           **MARCH 9, 2016?**

3     A.     No, he has not.<sup>82</sup>

4     ***11. JOINT APPLICANTS' CUSTOMERS MAY BE HARMED BY THE TRANSACTION.***

5     **Q.     MIGHT CUSTOMERS BE LIABLE FOR PAYING A PART OF THE**  
6           **ACQUISITION PREMIUM?**

7     A.     Yes, GPE might request that customers pay part of the acquisition premium if that  
8           premium is impaired. The Joint Application has many statements that assure that  
9           customers will not pay the acquisition premium (which is booked as goodwill). But  
10          although "GPE will not be asking for recovery in rates of the amortization expense of  
11          goodwill,"<sup>83</sup> it might ask for recovery of an impairment of goodwill "to the extent that  
12          there are capital cost increases that occur from an impairment that results from a KCC  
13          order."<sup>84</sup> A "potential impairment charge... would not affect Westar customers unless  
14          specific relief was requested."<sup>85</sup> So under certain conditions, customers might pay part  
15          of the acquisition premium. Those conditions are not well defined, however, as GPE  
16          has not identified any condition that the Commission might impose that would cause an  
17          impairment of the goodwill.

18    **Q.     WILL THE GOODWILL EVENTUALLY BE IMPAIRED?**

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<sup>82</sup> Response to Question BPU-2-45.

<sup>83</sup> Busser Direct Testimony, p. 12.

<sup>84</sup> Response to Question KCC-261.

<sup>85</sup> *Id.*.

1 A. The lion's share of it, yes. The fundamental problem is that technological and  
2 institutional evolution will erode the value of the goodwill over the course of years:  
3 eventually, its value will be impaired, down to near zero, with only some exceptional  
4 assets (like land, perhaps) retaining any goodwill portions of their values. Thus,  
5 regardless of whether goodwill is amortized or impaired, *somebody* is going to pay for  
6 the eventual decline in its value; and it is a reasonable expectation that GPE's managers,  
7 exercising their fiduciary responsibility on behalf of shareholders, will seek substantial  
8 recovery from customers.

9 **Q. HOW WILL GPE SHAREHOLDERS BENEFIT FROM THE TRANSACTION?**

10 A. This is the central mystery of the Joint Application. In this Transaction, GPE will pay a  
11 \$4.9 billion acquisition premium to create an organization that will provide no more  
12 than \$200 million per year in quantified benefits (i.e., operational savings) in 2020 and  
13 beyond. That is only a 4% return on investment in years 2020 and beyond. The return  
14 is even lower before 2020, only 1% in 2018 and 3% in 2019.

15 The mystery is deepened by the fact that, according to the Joint Application, the  
16 benefits from operational savings will go largely to customers, as GPE shareholders  
17 retain only the portion of operational savings that are not allocated to customers until  
18 the next general rate case. Thus, GPE will supposedly get little return on or of  
19 goodwill, which means that it will have on its books a \$4.9 billion asset that is making  
20 little money for shareholders. It is difficult to see how such an asset can have much  
21 value for shareholders.

22 **Q. WHY SHOULD CUSTOMERS CARE ABOUT THE FINANCIAL RISKS THAT**  
23 **ATTEND THE TRANSACTION?**

1 A. If the Transaction creates financial distress for shareholders, two bad things might  
2 happen to customers. First, GPE may be tempted to cut back on maintenance and  
3 investment in ways that could compromise the quality of service. Second, GPE might  
4 eventually seek relief from customers through rate increases. Although GPE promises  
5 that it, KCP&L, and Westar will all maintain separate capital structures, Standard and  
6 Poor's states that "There are no meaningful insulation measures in place that protect  
7 KCP&L from its parent and, therefore, KCP&L's issuer credit rating is in line with  
8 GPE's group credit profile..."<sup>86</sup> Furthermore, Moody's says that "Because of the added  
9 holding company leverage, we expect that the utilities will have to pay higher dividends  
10 than would otherwise be necessary to service Great Plains' debt and shareholder  
11 dividends."<sup>87</sup> "Right now, utility dividends fund about 96% of Great Plains' financial  
12 obligations... After the acquisition, utility dividends will fund about 70% of Great  
13 Plains' financial obligations."<sup>88</sup>

14 ***12. JOINT APPLICANTS HAVE FAILED TO MEET THE MERGER STANDARDS.***

15 **Q. IS COMMISSION STAFF RIGHT TO BE CONCERNED THAT JOINT**  
16 **APPLICANTS HAVE FAILED TO MEET MERGER STANDARDS (A)(II) AND**  
17 **(A)(IV)?**

18 A. Yes. Staff correctly notes that the Joint Application "is replete with references to  
19 *potential* or estimated savings that can be *caused* by the merger, but the Joint

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<sup>86</sup> S&P Global, *Summary: Kansas City Power & Light Co.*, June 17, 2016, p. 4.

<sup>87</sup> Moody's Investor Service, *Issuer In-Depth: Great Plains Energy, Inc.*, July 7, 2016, p. 4.

<sup>88</sup> *Id.*, p. 5.

1       Application lacks details about savings that can be *demonstrated* from the merger.”<sup>89</sup>  
2       Joint Applicants have plainly failed to meet these two standards. Although they have  
3       identified “operational synergies that justify payment of a premium in excess of book  
4       value,” they have not identified operational synergies that justify a premium of \$4.9  
5       billion. Consequently, they have failed to show that “the purchase price was reasonable  
6       in light of the savings that can be demonstrated.”

7       **Q.   WHAT IS “THE EFFECT OF THE PROPOSED TRANSACTION ON THE**  
8       **FINANCIAL CONDITION OF THE NEWLY CREATED ENTITY”?**

9       A.   The Transaction will significantly add to GPE’s financial risks. This creates risks for  
10       customers, both as to the quality of the service they receive and as to the prospect of  
11       their sharing the financial burdens of the Transaction.

12

13       **Q.   DOES THIS CONCLUDE YOUR TESTIMONY?**

14       A.   Yes.

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<sup>89</sup> Staff’s Reply to Joint Applicants’ Verified Response to Commission’s Order on Merger Standards, *op cit.*, ¶9. Emphases are in the original.

**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**

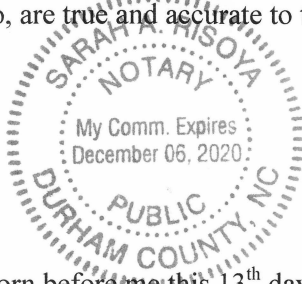
**Docket No. 16-KCPE-593-ACQ**

## AFFIDAVIT OF DR. LAURENCE D. KIRSCH

**STATE OF NORTH CAROLINA            )**  
   **) ss**  
**COUNTY OF ORANGE                  )**

Laurence D. Kirsch, being first duly sworn on his oath, states:

1. My name is Laurence D. Kirsch. I work in Chapel Hill, North Carolina. I am employed by Christensen Associates Energy Consulting, LLC as a Senior Consultant.
2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Kansas Electric Power Cooperative, Inc., having been prepared in written form for introduction into evidence in the above-captioned docket.
3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.



  
Laurence D. Kirsch

Subscribed and sworn before me this 13<sup>th</sup> day of December 2016.

CLAY  
Notary Public

My commission expires: Dec 6<sup>th</sup> 2020

## **Exhibit LDK-1**

## **LAURENCE D. KIRSCH**

### **RESUME**

June 2016

#### **Contact Information**

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800 University Bay Drive, Suite 400  
Madison, WI 53705-2299

E-Mail: Laurence.Kirsch@CAEnergy.com

Cell: 415.663.8608

#### **Academic Background**

Ph.D., University of Wisconsin, Madison, 1982, Economics  
M.S., University of Wisconsin, Madison, 1979, Economics  
A.B., University of California, Berkeley, 1972, Economics

#### **Positions**

Senior Consultant, Christensen Associates, Madison, 1985-present  
Consultant, Pacific Gas and Electric Company, San Francisco, 1982-1985  
Research Assistant, Madison Consulting Group, Madison, 1981  
Teaching Assistant, University of Wisconsin-Madison, 1978-1980  
Staff Accountant, Clarence Rainess & Company, CPAs, Beverly Hills, 1973-1974

#### **Professional Experience**

I specialize in economic analyses for the electric power industry, including studies of wholesale markets, power pool operations, electric power system cost structures, reliability costs, market power, renewable portfolio standards, and greenhouse gas limitations. I have expertise in the pricing and operating practices of U.S. Regional Transmission Organizations, and have provided comments and testimony to the Federal Energy Regulatory Commission and state commissions on a variety of electricity issues, including numerous ratemaking matters. I have developed and applied methods for estimating the real-time marginal costs of both generation and transmission; developed methods for costing and pricing unbundled ancillary services; evaluated the potential for market power in generation service markets; participated in the development and implementation of pricing policies for independent power producers; evaluated the merits of various schemes for auctioning wholesale power; estimated the electricity price impacts of certain environmental policies; and assessed a wide variety of utility pricing practices at both wholesale and retail.



**Electricity Projects (by year of completion)**

2016: Evaluation of the Long-Term Impacts of Retail Choice in Electricity

Transmission Service and Operating Agreements Associated with a Major Power System Expansion

Survey of Alternative Electric Ratemaking Mechanisms

Market Power Analysis of Florida's Electricity Market

2015: Electric Customer Load Volatility and Its Impact on Electricity Costs, Prices, and Profits

Projected Generation Capacity Changes for the U.S., 2015 to 2040

Review of Duke Energy Progress' Benefit-Cost Analysis of its Purchase of North Carolina Eastern Municipal Power Agency's Minority Interest in Jointly-Owned Generation Units

An Assessment of the Competitiveness of a Major Public Power Utility's Wholesale Electricity Rates

2014: Seams Issues Between MISO and the Southwest Power Pool

Dispute Over a Generation Cost-Sharing Agreement

Assessing the Impacts of Prospective Revisions in Transmission Service Rates

Centralized Capacity Markets in Regional Transmission Organizations and Independent System Operators

Evaluation of the Cost Assumptions of EPA's Clean Power Plan

German Experience with Promotion of Renewable Energy

Pricing of Power from Qualifying Facilities

Development of a Green Retail Tariff

Quantifying the Marginal Costs of a Far East Asian Utility

Development of an Electric Vehicle Retail Rate

Quantifying Retail Marginal Costs

2013: Impacts of Electricity Wheeling on the Costs and Reliability of an Island Power System

Recovery of Extra Distribution Facilities Costs

Estimating Impacts of Demand Response Participation in PJM's Capacity Market

Specifications for and Design of an Electric Service Plan Portfolio Management System

Estimated Underpayment of Royalties on Oil Leases

Return on Equity and Performance Indicators for Electric Utilities in Mississippi

Automated Calculation of Day-Ahead Marginal Outage Costs

Reform of Customer Self-Generation Rates

- 2012: New York State Capacity Market Review  
Energy Rate Impacts on Kentucky Industry  
Application of Avoided Costs to Assessment of Energy Efficiency and Related Programs  
Valuation of CO2 Emissions  
Assessment of Fuel Cost Variance Accounts  
Market Structures and Transmission Planning Processes in the Eastern Interconnection  
Assessment of the Relative Benefits and Costs of the Entergy Operating Companies' RTO Membership Options  
Impacts of the Duke Energy / Progress Energy Merger on North Carolina Power Markets
- 2011: Impacts of the Duke Energy / Progress Energy Merger on Florida Power Markets  
Assessment of Transmission Investment Cost Allocation in the Southwest Power Pool  
Electric Vehicle Rate Issues  
Revision of Thresholds for Assessing Market Power in Electricity Markets  
Allocation of the Profits from Off-System Power Sales  
Evaluation of the Impacts of Dynamic Pricing and Smart Grid Technologies on Retail Electricity Consumption  
Fast Demand Response Valuation
- 2010: Assessment of the Benefits of Membership in a Regional Transmission Organization  
Integration of Energy Efficiency and Demand Response into Transmission and Distribution Planning  
Development of a National Transmission Tariff  
Economic Impacts of the Tailorville Energy Center Project Upon Illinois' Electricity Rates and Economy
- 2009: Potential Impacts of the American Clean Energy and Security Act of 2009  
Methods for Determining the Prices for Contingency Reserves Provided by Loads  
Analysis of the Electricity Price Impacts of a Regional Cap-and-Trade Program  
Barriers to Efficient Investment in Generation
- 2008: Alternative Models for Electric Power Market Liberalization  
Development of a Wholesale Real-Time Pricing Tariff  
RTO Report Card  
Adapting an Open Access Transmission Tariff to the Requirements of an RTO  
Ascribing Terminal Value to Energy Resources  
Providing Partial Requirements Service Under an Open Access Transmission Tariff

- Review of Minimum Distribution Studies
- Transmission Risk Management
- 2007: Assessment of Regional Power Procurement Costs
  - Assessment of the Demand Response Provisions of FERC's Advance Notice of Proposed Rulemaking
  - Review of Renewable Portfolio Standard Studies
  - Review of Benefit-Cost Analyses of RTO Markets
  - Review of RTOs' Long-Term Transmission Rights Proposals
  - Fuel Cost Study
  - Evaluation of the Klamath Project Alternatives Analysis Model
- 2006: Forecasts of Off-System Sales Prices
  - The Costs and Values of Operating Reserve Services
  - Critiques of Power Industry Restructuring Analyses
  - Transmission Interconnection Costs of a New Coal-Fired Generating Plant
  - Incentives and Rate Designs for Efficiency and Demand Response
- 2005: Review of Offer Caps of the PJM Interconnection
  - Quantification of the Miscellaneous Benefits of Transmission Investment
  - Hedging the Long-Term Transmission Pricing Risks Associated with Generation Investments
  - How Operating Reserve Markets Can Assist in Managing Transmission Congestion
  - Market Power Analysis of the Kansas City Power & Light Company
  - Market Power Analysis of Westar
  - Independent Coordinator of Transmission as an Economic Alternative to RTO Membership
  - Critique of Historical Contestable Load Analysis of Market Power
  - Review of the ISO New England and PJM State of the Market Reports
  - Survey of Market Power Screen Results
  - Long-Term Transmission Rights
  - Valuing and Redesigning a Retail Interruptible Electric Service Program
  - Approaches for Designing and Pricing Unbundled Transmission and Ancillary Services
  - Interruptible Service Design
- 2004: Evaluation of the Net Benefits of Wisconsin's Participation in the Day Two Market of the Midwest Independent Transmission System Operator

- Market Power Analysis of the AEP Power Marketing Companies
- Technical Aspects of Reactive Power
- Analysis of PJM's Transmission Rights Markets
- Issues in the Design of Korea's Electricity Sector
- Major Issues Affecting Korea's Potential Separation of KEPCO's Distribution and Marketing Functions
- Survey of Operating Reserves Markets in ISO-Run Power Systems
- Criteria for Establishing an RTO in Florida
- Cost-Benefit Analysis of RTO Options
- Evaluation of the New England Locational Installed Capacity Proposal
- Review of the Midwest ISO's Proposed Transmission and Energy Markets Tariff
- Analysis of the California Independent System Operator's Grid Management Charge
- Measuring the Performance of Regional Transmission Groups
- Calculating Marginal Costs
- Critique of the Charles Rivers Associates Study "The Benefits and Costs in North Carolina of Dominion North Carolina Power Joining PJM"
- 2003: Survey of Literature on and Practices for Pricing Reactive Power
  - Economics Of Operating Reserve Markets
  - Hedging Long-Term Transmission Price Risks Associated with Generation Investments
  - The Fundamentals Of Locational Marginal Pricing (LMP): Examples Of Pricing Outcomes On The PJM System
  - Seminar on Power Industry Restructuring in the United States
  - Evaluation of the Midwest Independent Transmission System Operator's Market Mitigation Procedures
  - A Critique of "Estimating the Benefits of Restructuring Electricity Markets: An Application to the PJM Region"
  - Marginal Cost Estimation and Rate Design Policies
  - Commentary on FERC's Standard Market Design
- 2002: Survey of Impacts and Consequences of Locational Marginal Pricing for Hydro Generation
  - Weather Normalization of Loads and Revenue Requirements
  - Opportunities for Retail Participation in Ancillary Services Markets
  - The Effect of Locational Prices on Retail Pricing Options

- Transmission Congestion Analysis
- Commentary on the Redispatch Procedures of the Midwest Independent System Operator
- Curtailable Service and Self-Generation Riders
- Encouraging Demand Participation in Texas' Power Markets
- Seminar on Wholesale Power Markets and Prices
- 2001: The Market Power Impacts of a Generation Plant Divestiture
  - Design of Standby, Buyback, and Interruptible Rates
  - Congestion Charges in the Peruvian Power System
  - Development of a Purchase Power Agreement Between Generation and Distribution Firms
  - Seminar on U.S. Power Markets for an Asian Delegation
  - Analysis of the Readiness for Competition of the Retail Electricity Market in Arkansas
  - Analysis of an Independent System Operator's Grid Management Charge
  - Investigation of the Benefits of Expanded Power System Metering
  - Quantifying the Economic Value of Ancillary Services
- 2000: Development of Competitive Retail Electricity Products
  - New Strategies for Electricity Product Development and Wholesale Pricing
  - Consumer Benefits of Integrating the Generation and Transmission Assets of Municipal Utilities and Investor-Owned Utilities
  - Rate Structure Optimization
  - A New Strategic Direction In Retail Electricity Product Development and Pricing
  - Market Power Study of PG&E's Proposed Divestiture Of Hydroelectric Assets
  - Electric Cost-of-Service and Rate Design Study
- 1999: Redesigning Distribution Tariffs for Restructured Electric Power Markets
  - Managing Transmission Risk
  - Comprehensive Review and Revision of Electric Rates
  - Shaping of Electric Energy Tariff Policy
- 1998: Software for Developing Profitable Retail Product Mixes
  - Software for Reserve Costing and Generation Unit Scheduling
  - Dynamic Pricing and the Future of Distributed Generation
  - Development of Market-Based Pricing Products

Pricing Issues in California's Restructured Electricity Market

1997: Survey of Unbundled Electric Power Services

Costing and Pricing Ancillary Services

Developing New Electricity Products in a Restructured Electricity Market

Retail Pricing of Electric Power in a Competitive Market Environment

1996: Pricing Risk

Review of Draft Ancillary Service Tariffs

The Pricing of Unbundled Electric Power Services

Ancillary Services and the Organization of Electric Power Markets

Pricing Retail Electricity Financial Services

Including Marginal Reliability Costs In Real-Time Prices

1995: Real-Time Pricing Program Development

Costing and Pricing Transmission and Distribution Services

Market Restructuring for Retail Access

Regulatory Reform in Response to Emerging Competition

Retail Market Management and Service Design

Directions for Reactive Power Price Reform

Transmission Pricing Policy

Retail Market Management and Service Design

Transmission Pricing Strategies

1994: Real-Time Pricing Implementation Study

Managing Electric Power Generation in a Competitive Market Environment

A Plan for Reforming the Price Structure of the New York Power Pool

Design, Implementation, and Evaluation of Real-Time Pricing

Real-Time Pricing Assessment Study

1993: Forecasting and Measuring Hourly Marginal Costs of Electricity

The Use of Rate Design to Achieve DSM Goals

Economic Impacts of Electricity Cost Shocks

1992: Design and Analysis of a Real-Time Pricing Program

Inclusion of Transmission Reliability Costs in Real-Time Pricing Decisions

Commercial and Industrial Market Management

- Development of an External Cost Indexing Incentive Plan
- Forward and Options Contracts for Electric Power
- 1991: Comparative Assessment of Alternative Regulatory Reform Proposals
- 1990: Dynamic Pricing of Decentralized Power Systems
  - Design of a Voluntary Time-of-Use Rate for Residential Customers
  - Design and Testing of Real-Time Pricing Structures for Supplemental Electric Service
  - Evaluation of Proposed Nuclear Performance Incentive Plans
  - A Field Test of Priority Service Pricing
  - Program Design and Implementation for Voluntary Interruptible Service
- 1989: Design of Retail Electricity Rates for Efficiency and Profitability
  - Survey of Recent Developments in U.S. Curtailable Power Service Programs
- 1988: Cost-Benefit Analysis of Seasonal Time-of-Use Peak-Activated and Interruptible Rates
  - Estimation of the Load Relief Provided by an Interruptible Service Program
  - Efficient Pricing of Transmission Services
  - Analysis of the Feasibility of Real-Time Pricing in the State of Maryland
- 1986: Costs and Benefits of Alternative Wholesale Electricity Supply Strategies
  - Analysis of Household Load Response to Voluntary Time-of-Use Rates
  - Design of an Experimental Real-Time Pricing Program
  - The Interaction of Time-of-Use Rates and Energy-Using Technologies: The Case of Residential Heat-Pumps
- 1985: Real-Time Pricing of Power Purchases from Cogenerators and Small Power Producers
  - Marginal Shortage Costs and Avoided Cost Payments to Qualifying Facilities

### **Other Projects**

- Evaluation of the Risk Impacts of Introducing Gas Revenue Decoupling
- Alternative Designs of Gas Revenue Decoupling Programs
- Price Cap Design and X Factor Estimation for Peruvian Telecommunications Regulation
- Review of Pharmaceutical Economics
- Commentary on FERC's Gas Rate Design Mega-NOPR
- Evaluation of the Price Escalation Clauses of a Long-Term Coal Supply Contract
- Bell Operating Companies' Marginal Operating Costs for Interstate Switched Access and Private Line: An Econometric Model

Oil Inventory Economics

The Marginal Cost of Gas Service

The Economic Theory of Enhanced Natural Gas Service to the Industrial Sector

### **Testimony**

*Testimony on Market Power in Florida's Electricity Market*, on behalf of Seminole Electric Cooperative and Florida Municipal Power Agency, January 2016.

*Testimony on the Pricing of Power from Qualifying Facilities*, on behalf of the Public Staff of the North Carolina Utilities Commission, before the North Carolina Utilities Commission, Docket No. E-100, Sub 140, April 2014.

*Affidavit on Seams Issues Between MISO and the Southwest Power Pool*, on behalf of the Arkansas Electric Cooperative Corporation, before the Federal Energy Regulatory Commission, Docket No. EL14-30-000, March 2014.

*Affidavit on Buyer Market Power Mitigation in MISO's Capacity Markets*, on behalf of the National Rural Electric Cooperative Association and the American Public Power Association, before the Federal Energy Regulatory Commission, Docket No. ER11-4081-001, October 2013 (with M.J. Morey).

*Testimony on the Relative Benefits and Costs of the Entergy Operating Companies' RTO Membership Options*, on behalf of the Arkansas Electric Cooperative Corporation, before the Arkansas Public Service Commission, Docket No. 10-011-U, July 2011.

*Affidavit on Buyer Market Power in PJM's Capacity Markets*, on behalf of the National Rural Electric Cooperative Association, before the Federal Energy Regulatory Commission, Docket Nos. EL11-20-000 and ER11-2875-000, March 2011 (with M.J. Morey).

*Comments on Accounting and Financial Reporting for New Electric Storage Technologies*, before the Federal Energy Regulatory Commission, Docket No. AD10-13-000, July 2010.

*Affidavit on the Eligibility of Aggregators of Retail Customers*, on behalf of the American Public Power Association and the National Rural Electric Cooperative Association, before the Federal Energy Regulatory Commission, Docket Nos. ER09-701-000 and ER09-701-001, May 2009 (with M.J. Morey).

*Affidavit on Wholesale Competition in Regions with Organized Electric Markets*, on behalf of the National Rural Electric Cooperative Association, before the Federal Energy Regulatory Commission, Docket Nos. RM07-19-000 and AD07-7-000, April 2008 (with M.J. Morey).

*Affidavit on the Midwest ISO's Proposed Ancillary Services Markets*, on behalf of the Midwest Transmission Dependent Utilities, before the Federal Energy Regulatory Commission, Docket No. ER07-1372-000, October 2007.



*Testimony on Revenue Decoupling*, on behalf of the East Kentucky Power Cooperative, before the Public Service Commission of the Commonwealth of Kentucky, Case No. 2006-00472, August 2007.

*Affidavit on PJM's Proposed Capacity Market*, on behalf of the PJM Industrial Customer Coalition, before the Federal Energy Regulatory Commission, Docket Nos. ER05-1410-000 and EL05-148-000, October 2005 (with M.J. Morey).

*Testimony on Retail Electricity Marginal Costs*, on behalf of the Oklahoma Gas and Electric Company, before the Corporation Commission of the State of Oklahoma, Cause No. PUD 200500151, May 2005.

*Affidavit on the Offer Caps of the PJM Interconnection*, on behalf of the American Public Power Association and the National Rural Electric Cooperative Association, before the Federal Energy Regulatory Commission, Docket No. EL03-236-006, April 2005 (with M.J. Morey).

*Affidavit on FERC's Delivered Price Test in Support of Comments on a Compliance Filing of the Kansas City Power & Light Company*, on behalf of Kansas City Board of Public Utilities, before the Federal Energy Regulatory Commission, Docket Nos. ER99-1005-001 *et al*, March 2005.

*Affidavit on FERC's Delivered Price Test in Support of a Protest Against Market Power Analysis of the AEP Power Marketing Companies*, on behalf of East Texas Electric Cooperative, Inc. and Northeast Texas Electric Cooperative, before the Federal Energy Regulatory Commission, Docket Nos. ER96-2495-018 *et al*, August 2004.

*Affidavit on Supply Margin Assessment and Other Market Power Metrics*, on behalf of the American Public Power Association and the Transmission Access Policy Study Group, before the Federal Energy Regulatory Commission, Docket No. PL02-08-000, February 2004.

*Affidavit on the Market Power Conduct and Impact Thresholds of the Midwest Independent Transmission System Operator*, on behalf of the Midwest Transmission Dependent Utilities, before the Federal Energy Regulatory Commission, Docket No. ER03-323-000, April 2003.

*Affidavit on the Proposed Mitigation Measures of the Midwest Independent Transmission System Operator*, on behalf of the Midwest Transmission Dependent Utilities, before the Federal Energy Regulatory Commission, Docket No. ER03-323-000, January 2003.

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## **Exhibit LDK-2**

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
1	Exhibit LDK-2									Table 2					
2	Correction of Applicants' Net Benefits Calculation									NPV of Benefits by Duration of Operational Savings					
3															
4		Discount Rate		7.50%	Sources of Error:						Years	NPV	Check		
5		Inflation Rate		2.40%	Applicants' formula	\$3,902					20	2,102	2,102		
6		Net Present Values (million \$)			correcting the approximation	\$3,996	1.024				30	2,671	2,671		
7		2017-2020		\$364	correcting the discounting	\$3,216	0.805				40	3,021	3,021		
8		2021-2316			Double Check	0.82428	0.82428				50	3,236	3,236		
9		Applicants' formula		\$3,902							100	3,550	3,550		
10		Correct formula		\$3,216							300	3,580	3,580		
11		Brute force, for the series below:													
12		2017-2020	\$364	\$364											
13		2021-2316	\$3,216	\$3,216			\$2,495	\$2,495							
14															
15			Annual Benefits (in million \$)				Revised Year 2021								
16		Year	Nominal	Discounted		Year	Nominal	Discounted							
17		2017	16.00	16.00		2017	16.00	16.00							
18		2018	63.00	58.60		2018	63.00	58.60							
19		2019	149.00	128.93		2019	149.00	128.93							
20		2020	199.00	160.19		2020	199.00	160.19							
21		2021	203.78	152.59		2021	176.00	131.79							
22		2022	208.67	145.35		2022	180.22	125.54							
23		2023	213.67	138.45		2023	184.55	119.58							
24		2024	218.80	131.88		2024	188.98	113.91							
25		2025	224.05	125.63		2025	193.51	108.50							
26		2026	229.43	119.67		2026	198.16	103.36							
27		2027	234.94	113.99		2027	202.91	98.45							
28		2028	240.58	108.58		2028	207.78	93.78							
29		2029	246.35	103.43		2029	212.77	89.33							
30		2030	252.26	98.52		2030	217.88	85.09							
31		2031	258.32	93.85		2031	223.11	81.06							
32		2032	264.52	89.40		2032	228.46	77.21							
33		2033	270.86	85.16		2033	233.94	73.55							
34		2034	277.37	81.12		2034	239.56	70.06							
35		2035	284.02	77.27		2035	245.31	66.74							
36		2036	290.84	73.60		2036	251.20	63.57							
37		2037	297.82	70.11		2037	257.22	60.55							
38		2038	304.97	66.78		2038	263.40	57.68							
39		2039	312.29	63.62		2039	269.72	54.94							
40		2040	319.78	60.60		2040	276.19	52.34							
41		2041	327.46	57.72		2041	282.82	49.85							
42		2042	335.31	54.98		2042	289.61	47.49							
43		2043	343.36	52.38		2043	296.56	45.24							
44		2044	351.60	49.89		2044	303.68	43.09							
45		2045	360.04	47.52		2045	310.97	41.05							
46		2046	368.68	45.27		2046	318.43	39.10							

[illegible]



	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
93		2093	1123.96	4.61											
94		2094	1150.93	4.39											
95		2095	1178.55	4.18											
96		2096	1206.84	3.98											
97		2097	1235.80	3.80											
98		2098	1265.46	3.62											
99		2099	1295.83	3.44											
100		2100	1326.93	3.28											
101		2101	1358.78	3.12											
102		2102	1391.39	2.98											
103		2103	1424.79	2.84											
104		2104	1458.98	2.70											
105		2105	1494.00	2.57											
106		2106	1529.85	2.45											
107		2107	1566.57	2.33											
108		2108	1604.17	2.22											
109		2109	1642.67	2.12											
110		2110	1682.09	2.02											
111		2111	1722.46	1.92											
112		2112	1763.80	1.83											
113		2113	1806.13	1.74											
114		2114	1849.48	1.66											
115		2115	1893.86	1.58											
116		2116	1939.32	1.51											
117		2117	1985.86	1.44											
118		2118	2033.52	1.37											
119		2119	2082.33	1.30											
120		2120	2132.30	1.24											
121		2121	2183.48	1.18											
122		2122	2235.88	1.13											
123		2123	2289.54	1.07											
124		2124	2344.49	1.02											
125		2125	2400.76	0.97											
126		2126	2458.38	0.93											
127		2127	2517.38	0.88											
128		2128	2577.80	0.84											
129		2129	2639.66	0.80											
130		2130	2703.01	0.76											
131		2131	2767.89	0.73											
132		2132	2834.32	0.69											
133		2133	2902.34	0.66											
134		2134	2972.00	0.63											
135		2135	3043.32	0.60											
136		2136	3116.36	0.57											
137		2137	3191.16	0.54											
138		2138	3267.74	0.52											

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
139		2139	3346.17	0.49											
140		2140	3426.48	0.47											
141		2141	3508.71	0.45											
142		2142	3592.92	0.43											
143		2143	3679.15	0.41											
144		2144	3767.45	0.39											
145		2145	3857.87	0.37											
146		2146	3950.46	0.35											
147		2147	4045.27	0.33											
148		2148	4142.36	0.32											
149		2149	4241.77	0.30											
150		2150	4343.58	0.29											
151		2151	4447.82	0.28											
152		2152	4554.57	0.26											
153		2153	4663.88	0.25											
154		2154	4775.81	0.24											
155		2155	4890.43	0.23											
156		2156	5007.80	0.22											
157		2157	5127.99	0.21											
158		2158	5251.06	0.20											
159		2159	5377.09	0.19											
160		2160	5506.14	0.18											
161		2161	5638.28	0.17											
162		2162	5773.60	0.16											
163		2163	5912.17	0.15											
164		2164	6054.06	0.15											
165		2165	6199.36	0.14											
166		2166	6348.14	0.13											
167		2167	6500.50	0.13											
168		2168	6656.51	0.12											
169		2169	6816.27	0.11											
170		2170	6979.86	0.11											
171		2171	7147.37	0.10											
172		2172	7318.91	0.10											
173		2173	7494.57	0.09											
174		2174	7674.43	0.09											
175		2175	7858.62	0.09											
176		2176	8047.23	0.08											
177		2177	8240.36	0.08											
178		2178	8438.13	0.07											
179		2179	8640.65	0.07											
180		2180	8848.02	0.07											
181		2181	9060.37	0.06											
182		2182	9277.82	0.06											
183		2183	9500.49	0.06											
184		2184	9728.50	0.06											

[illegible]

[illegible]

[illegible]

## **Exhibit LDK-3**

**Exhibit LDK-3**  
**Cited Responses to Data Requests**

This exhibit presents a compilation of the responses to interrogatories cited in the Direct Testimony of Dr. Laurence D. Kirsch on Behalf of Kansas Electric Power Cooperative, Inc. The responses are to the following discovery requests:

<b>KCP&amp;L Responses</b>
BPU-2-24 CONFIDENTIAL*
BPU-2-37 PUBLIC
BPU-2-45 PUBLIC
BPU-3-18 PUBLIC
CURB-43 PUBLIC
CURB-44A PUBLIC
CURB-52 PUBLIC
CURB-115 PUBLIC
CURB-117 CONFIDENTIAL*
Industrial-17 PUBLIC
KCC-11 CONFIDENTIAL*
KCC-32 CONFIDENTIAL*
KCC-213 PUBLIC
KCC-218 PUBLIC
KCC-248 PUBLIC
KCC-254 PUBLIC
KCC-261 PUBLIC
KEPCo-2-12a PUBLIC
<b>Westar Responses</b>
KCC-384 PUBLIC

\*Pursuant to the Commission's Order On Prehearing Motions, issued in this docket on January 26, 2017, this data response is no longer confidential. 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, KCC Docket No. 16-KCPE-593-ACQ, Order on Prehearing Motions, January 26, 2017, at ¶ 15. The claim of confidentiality has not been deleted from the text of the data response to preserve the integrity of the response that the witness verified.

**BPU-2-24 CONFIDENTIAL\***

\* Pursuant to the Commission's Order On Prehearing Motions, issued in this docket on January 26, 2017, this data response is no longer confidential. 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, KCC Docket No. 16-KCPE-593-ACQ, Order on Prehearing Motions, January 26, 2017, at ¶ 15. The claim of confidentiality has not been deleted from the text of the data response to preserve the integrity of the response that the witness verified.



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

Response to Bond Ashley Interrogatories - BPU\_20160928  
Date of Response: 11/04/2016

Question:2-24

Referring to the Direct Testimony of William Kemp at 22:19-23:1, please:

1. Provide the actual planning reserves for each Joint Applicant in 2016.
2. State the anticipated required planning reserves for each Joint Applicant for the years 2017-2020 and the anticipated planning reserve for the merged company.

Number of Attachments:

Response:

The response to this data request is considered **CONFIDENTIAL** as it contains marketing analysis or other market-specific information relating to services offered in competition with others.

1. Based on KCP&L's actual 2016 peak, there was 430 MW of reserve capacity between the peak and SPP-required capacity responsibility which was based upon the 2016 forecasted peak.
2. Planning reserve requirement (beginning in 2017, SPP requires 12% above the anticipated peak) for KCP&L is as follows:  
2017: 417 MW 2018: 416 MW 2019: 416 MW 2020: 413 MW

Westar will provide their reserve margin requirement. Combining KCP&L's and Westar's annual reserve margin requirements would provide merged-company reserve margin requirements.

**Response Provided By:**

Laura Becker, Manager, Resource Planning

Attachment:

QBPU-2-24\_Verification.pdf



# **Verification of Response**

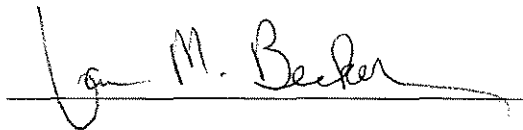
## **Kansas City Power & Light Company**

Docket No. 16-KCPE-593-ACQ

The response to BPU Data Request #2-24, submitted by KCP&L, is covered by this Verification of Response:

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

Signed: \_\_\_\_\_

A handwritten signature in black ink, appearing to read "Jon M. Becker", is written over a horizontal line.

Title: Manager, Resource Planning

Date: October 4, 2016

**BPU-2-37 PUBLIC**

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

Response to Bond Ashley Interrogatories - BPU\_20160928  
Date of Response: 11/04/2016

Question:2-37

Referring to the Direct Testimony of William Kemp at 32:21-23, please:

1. Define a “long position” in generation capacity as Mr. Kemp understands that term. Include all supporting documents, workpapers, and analyses he relied upon for his definition, if any.
2. State if either GPE or Westar have a “long position” in generation capacity. If “yes,” please identify the long position and indicate the duration of that “long position.”
3. State whether the term “long position” includes transmission capacity. If “yes,” please define a “long position” in transmission capacity as Mr. Kemp understands that term. Include all supporting documents, workpapers, and analyses he relied upon for his definition, if any.
4. State whether either GPE or Westar have a “long position” in transmission capacity. If “yes,” please identify the long position and indicate the duration of that “long position.”

Number of Attachments:

Response:

1. For the purposes of the bid evaluation, a long position was defined as excess reserve margin over and above the minimum as proscribed by the Southwest Power Pool (SPP). SPP currently requires a planning reserve margin of 12%. The combined reserve margin of Westar and KCP&L is estimated to be over twice that amount from 2017-2020. (See response to Question 2-24 for details).
2. Both Westar and KCP&L have a long position in generation as defined above. The long position as defined extends beyond 20 years.
3. The long position as defined does not include transmission capacity.
4. For the purpose of the bid evaluation, only generation capacity was evaluated.

Attachment: Q2-37\_Verification.pdf

# Verification of Response

## Kansas City Power & Light Company

Docket No. 16-KCPE-593-ACQ

The response to KCC Data Request# 2-37, submitted by KCP&L, is covered by this Verification of Response:

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

Signed: William J. Kemp

Title: Senior Managing Director

Date: October 11, 2016

**BPU-2-45 PUBLIC**

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

Response to Bond Ashley Interrogatories - BPU\_20160928  
Date of Response: 11/04/2016

Question:2-45

Referring to the Direct Testimony of Kevin E. Bryant at 11:7-9, confirm whether or not it is Mr. Bryant's testimony the anticipated merger savings will exceed the \$2.3 billion acquisition premium. If "yes," please provide all supporting workpapers, documents, and analyses demonstrating the present value of forecast merger savings will be at least \$2.3 billion. If "no," please explain the rationale for paying \$2.3 billion for present value benefits that are less than \$2.3 billion.

Number of Attachments:

Response:

Mr. Bryant has not performed an analysis of this nature. See response to KCC Data Request No. 17 for Mr. Bryant's rationale for paying the \$2.3 billion acquisition premium.

Attachment: Q2-45\_Verification.pdf



## Verification of Response

### Kansas City Power & Light Company

Docket No. 16-KCPE-593-ACQ

The response to BPU Data Request# 2-45, submitted by KCP&L, is covered by this Verification of Response:

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

Signed: 

Title: Director, Financial Analysis

Date: 10/4/16

**BPU-3-18 PUBLIC**

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

Response to Bond Ashley Interrogatories - BPU\_20161107  
Date of Response: 11/15/2016

Question:3-18

In reference to the response to BPU-2-24, please confirm that the Southwest Power Pool (“SPP”) reserve margin requirement for the merged companies will equal the sum of the individual companies’ margin requirements. If the answer is “no,” please provide the forecast margin requirements for the merged company for the period of 2017-2021.

Number of Attachments:

Response:

At the time of the Westar transaction completion, the Westar load and KCP&L/KCP&L GMO load will still have separate SPP reserve margin requirements just as they do today. The requirement will not change based on the transaction.

However, in the future if the companies were to request and obtain network transmission service based on their combined loads, there may be a slight reduction in the combined load reserve margin requirement vs the sum of the individual companies’ reserve margin requirements, depending on the diversity in companies’ system loads.

Attachment:  
Q3-18\_Verification.pdf

# Verification of Response


## Kansas City Power & Light Company

Docket No. 16-KCPE-593-ACQ

The response to BPU Data Request #3-18, submitted by KCP&L, is covered by this Verification of Response:

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

Signed: \_\_\_\_\_



Title: Director, Energy Resource Management

Date: November 11, 2016

**CURB-43 PUBLIC**

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

Response to Nickel David Interrogatories - CURB\_20160803  
Date of Response: 11/04/2016

Question:CURB-43

Please identify the equity acquisition premium that is being paid relative to the current Westar book equity balance. Please provide all assumptions, workpapers, and calculations with your response.

Number of Attachments:

Response:

The estimate of the equity acquisition premium based on Westar's June 30, 2016 book equity balance is \$4,758,552,461. See the attached calculation for details supporting this calculation.

Information provided by: Matt Gunning, Accounting

Attachments:

QCURB-43\_Calculation of Acquisition Premium to Book Equity.xlsx

QCURB-43\_Verification.pdf

## Verification of Response

### Kansas City Power & Light Company

Docket No. 16-KCPE-593-ACQ

The response to CURB Data Request# 43, submitted by KCP&L, is covered by this Verification of Response:

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

Signed: Zeig Anne Jones

Title: Director, Accounting

Date: 8/9/16

**CURB-44A PUBLIC**



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

Response to Nickel David Interrogatories - CURB\_20160803  
Date of Response: 09/07/2016

Question:CURB-44A

AMENDED:

Please identify the acquisition premium that is being paid relative to the current Westar net book value (i.e., rate base). Please provide all assumptions, workpapers, and calculations with your response.

Number of Attachments:

Response:

The estimate of the acquisition premium has been calculated by GPE in a number of ways. The attached spreadsheet shows those calculations, including the acquisition premium of approximately \$5.2 billion relative to Westar's rate base.

Attachments:

QCURB-44A\_Summary of Westar Acquisition Premiums.xlsx  
QCURB-44A\_Verification.pdf

## Verification of Response

### Kansas City Power & Light Company

Docket No. 16-KCPE-593-ACQ

The response to CURB Data Request# 44, submitted by KCP&L, is covered by this Verification of Response:

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

Signed: Regina Jones

Title: Director, Accounting

Date: 8/9/16

**CURB-52 PUBLIC**

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

Response to Nickel David Interrogatories - CURB\_20160803  
Date of Response: 11/04/2016

Question:CURB-52

Please provide a narrative describing how Mr. Kemp determines annual savings many years after a merger has taken place, and specifically how he attributes savings to the merger instead of to other factors.

Number of Attachments:

Response:

See the response to CURB Data Request No. 51 for the explanation of the realized savings calculations.

Mr. Kemp has analyzed the question of whether changes in real costs for merged companies are likely to be the results of industry or national trends, rather than the effect of a merger. He compared percentage changes in functional costs over the four-year period from year before close to three years after close for utilities involved in 32 merger transactions (the merger group) to the cost changes for a peer group of similar companies who had not been involved in any recent merger (the non-merger group) in the same four-year period for each transaction. The difference between the merger and non-merger groups' cost changes over the same time periods was highly significant statistically, with the merger group consistently enjoying bigger cost decreases or lower cost increases.

Attachment: QCURB-52\_Verification.pdf

# Verification of Response

## Kansas City Power & Light Company

Docket No. 16-KCPE-593-ACQ

The response to CURB Data Request# CURB-52, submitted by KCP&L, is covered by this Verification of Response:

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

Signed: Mary Britt Turner

Title: DIRECTOR, REGULATORY AFFAIRS

Date: August 15, 2016

**CURB-115 PUBLIC**

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

Response to Nickel David Interrogatories - CURB\_20161014  
Date of Response: 10/28/2016

Question:CURB-115

Will any portion of the \$4.8 billion of goodwill per the prospectus be claimed for ratemaking purposes? If yes, please provide the amount and explain why recovery would be appropriate.

Number of Attachments:

Response:

Great Plains Energy's (GPE's) utility subsidiaries will not seek to include goodwill (or transaction costs) related to the Transaction in revenue requirement and customer rates unless any party to a general rate case of a GPE utility subsidiary proposes to impute the cost or proportion of debt GPE is using to finance the transaction to a GPE utility subsidiary for purposes of determining a fair and reasonable return for a GPE utility subsidiary. In that event, GPE and its utility subsidiaries reserve the right to seek, in any such rate case, recovery and recognition in retail rates of goodwill (or transaction costs) related to the Transaction.

Attachment: *Q\_115\_Verification.pdf*

# Verification of Response

## Kansas City Power & Light Company

Docket No. 16-KCPE-593-ACQ

The response to CURB Data Request# 115, submitted by KCP&L, is covered by this Verification of Response:

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

Signed: Mary Britt Turner

Title: DIRECTOR, REGULATORY AFFAIRS

Date: 10/24/ 2016



**CURB-117 CONFIDENTIAL\***

\* Pursuant to the Commission's Order On Prehearing Motions, issued in this docket on January 26, 2017, this data response is no longer confidential. 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, KCC Docket No. 16-KCPE-593-ACQ, Order on Prehearing Motions, January 26, 2017, at ¶ 15. The claim of confidentiality has not been deleted from the text of the data response to preserve the integrity of the response that the witness verified.

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

Response to Nickel David Interrogatories - CURB\_20161014  
Date of Response: 10/28/2016

Question:CURB-117

Regarding the proposal to share savings with shareholders between rate cases:

- a. Please provide the annual savings expected in the first ten years of operations,
- b. Transition costs in each of those ten years,
- c. the expected timing of rate cases during those ten years, and
- d. the expected savings by year to be retained by shareholders.

Number of Attachments:

Response:

This response and attachments are considered **CONFIDENTIAL** as they contain private, technical financial and business information.

Ten years of operations data is not available. Both GPE and Westar develop five year plans on an annual basis with the most recent updates included in our response and attachment to Data Request CURB\_20160803-CURB-42 which includes, or can be implied from, data specific to this question. The following table provides (a) the annual savings estimate in the first four years of operations related to the transaction, (b) the estimated transition costs in each of those years and (d) the estimated savings by year to be retained by shareholders.

Dollars in millions	2017	2018	2019	2020
Capital expenditures (CapEx)	\$20.8	\$93.6	\$83.2	\$101.2
<i>Cumulative CapEx</i>	<i>\$20.8</i>	<i>\$114.4</i>	<i>\$197.6</i>	<i>\$298.8</i>
CapEx revenue requirement	\$2.6	\$12.5	\$24.6	\$36.4
Non-fuel O&M expense	\$20.0	\$53.6	\$153.8	\$172.0
(a) Revenue requirement savings	\$22.6	\$66.1	\$178.4	\$208.4
(b) Transition costs	\$7.9	\$1.6	\$29.2	\$9.8
Net revenue requirement savings	\$14.7	\$64.5	\$149.2	\$198.6

(d) Revenue requirement savings retained by shareholders	\$14.7	\$59.9	\$101.0	\$148.6
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The estimated effective dates of Kansas rate cases during these years are February 2019 for Westar and November 2019 for KCP&L.

Attachment: QCURB\_117 Verification.pdf

# Verification of Response

## Kansas City Power & Light Company

Docket No. 16-KCPE-593-ACQ

The response to CURB Data Request# 117, submitted by KCP&L, is covered by this Verification of Response:

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

Signed: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

[Signature]  
Director, Financial Analysis  
10/25/16

**Industrial-17 PUBLIC**

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

Response to Zakoura James Interrogatories - Industrial\_20160928  
Date of Response: 11/04/2016

Question:17

Regarding the Direct Testimony of Joint Applicant witness Kevin E. Bryant, has any credit rating agency expressed any concern about the lack of ring-fence separation between the proposed GPE Holding Company and the operating utility subsidiaries, in terms of protecting the utility operating companies from the increased leverage at the parent company, or a need for more of an autonomous regulated utility company? Please explain answer and provide all copies of such material from credit rating agencies.

Number of Attachments:

Response:

The credit rating agencies have not expressed any concern about the lack of ring-fence separation between the proposed GPE Holding Company and the operating utility subsidiaries, in terms of protecting the utility operating companies from the increased leverage at the parent company, or a need for more of an autonomous regulated utility company. However, S&P does state in the group influence section of their report on KCP&L dated 6-17-2016 (included in response to data request 18) that "There are no meaningful insulation measures in place that protect KCP&L from its parent and, therefore, KCP&L's issuer credit rating is in line with GPE's group credit profile of 'bbb+'."

Attachment:

Q17\_Verification form.pdf

## Verification of Response

### Kansas City Power & Light Company

Docket No. 16-KCPE-593-ACQ

The response to Industrial Data Request# 17, submitted by KCP&L, is covered by this Verification of Response:

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

Signed: \_\_\_\_\_



Title: \_\_\_\_\_

ASSISTANT TREASURER

Date: \_\_\_\_\_

10-6-16

**KCC-11 CONFIDENTIAL\***

\* Pursuant to the Commission's Order On Prehearing Motions, issued in this docket on January 26, 2017, this data response is no longer confidential. 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, KCC Docket No. 16-KCPE-593-ACQ, Order on Prehearing Motions, January 26, 2017, at ¶ 15. The claim of confidentiality has not been deleted from the text of the data response to preserve the integrity of the response that the witness verified.



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

Response to Figgs Katie Interrogatories - KCC\_20160803  
Date of Response: 11/04/2016

Question: 11

RE: Realized Cost Reductions:

Please provide all documentation, analysis, assumptions, and calculations supporting Mr. Kemp's Schedule WJK-5 showing the quartiles of the realized cost reductions by major function for 36 historical utility mergers and GPE-Westar.

Number of Attachments:

Response:

The list of M&A transactions used for comparison in Schedule WJK-5 is provided in Mr. Kemp's testimony at page 34. The attached Workpaper KCC-11-1 provides the data on changes in real costs by FERC functional account group, upon which the graph in Schedule WJK-5 is based. The quartile break points in the distribution of functional savings percentages are also shown.

The estimated savings by functional area for the GPE-Westar transaction were calculated in Schedule WJK-5 on the same basis as the historical transactions listed, as explained in Mr. Kemp's testimony.

Please note that the data presented in Workpaper KCC-11-1 are **CONFIDENTIAL** as it is proprietary to KCP&L's outside consultant Mr. Kemp and his employer, and should not be distributed to third parties.

Attachments:

Q11\_Workpaper KCC-11-1\_Functional Savings by Merger Transaction.pdf  
Q11\_Verification.pdf

# Verification of Response

## Kansas City Power & Light Company

Docket No. 16-KCPE-593-ACQ

The response to KCC Data Request# 11, submitted by KCP&L, is covered by this Verification of Response:

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

Signed: Mary Britt Turner

Title: DIRECTOR, REGULATORY AFFAIRS

Date: August 16, 2016

**KCC-32 CONFIDENTIAL\***

\* Pursuant to the Commission's Order On Prehearing Motions, issued in this docket on January 26, 2017, this data response is no longer confidential. 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, KCC Docket No. 16-KCPE-593-ACQ, Order on Prehearing Motions, January 26, 2017, at ¶ 15. The claim of confidentiality has not been deleted from the text of the data response to preserve the integrity of the response that the witness verified.

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

Response to Figgs Katie Interrogatories - KCC\_20160901  
Date of Response: 11/04/2016

Question:32

Please provide the following information regarding KCPL's response to CURB Data Request No. 52. Provide documentation in EXCEL format supporting Mr. Kemp's analysis and his conclusion that the difference between the merger and non-merger groups' cost changes over the same time periods was "highly significant statistically". Include a listing of the companies in both the merger and non-merger groups, the dates of the 4-year cost comparisons, and all relevant data, including actual costs and statistical results.

Number of Attachments:

Response:

In response to CURB Data Request No. 52 regarding the process for determining merger savings and specifically how savings are attributed to the merger instead of other factors, Mr. Kemp discussed an analysis he conducted in 2011 to address the question of whether changes in post-merger costs could be ascribed to industry cost trends not related to mergers. See Q32\_CONF\_Workpaper 32-1, which provides an Excel spreadsheet with the statistical results of that analysis, a listing of the companies in both the merger and non-merger groups, the dates of the four-year cost comparisons, and details on the statistical significance of differences in mean changes in real costs for peer groups of merger vs. non-merger utilities over the same four-year periods. The actual cost data for the various FERC account groupings for each utility for each year are available from FERC and a number of commercial data bases.

The attached workpaper is **CONFIDENTIAL** as it contains reports, work papers or other documentation related to work produced by internal or external auditors or consultants.

Attachments:

Q32\_CONF\_Workpaper 32-1\_Merger vs Non-Merger Groups.xlsx  
Q32\_Verification.pdf

# Verification of Response

## Kansas City Power & Light Company

Docket No. 16-KCPE-593-ACQ

The response to KCC Data Request# 32, submitted by KCP&L, is covered by this Verification of Response:

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

Signed: William J. Kemp

Title: Senior Managing Director

Date: September 15, 2016

**KCC-213 PUBLIC**

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

Response to Hempling Scott Interrogatories - KCC\_20161013  
Date of Response: 11/04/2016

Question:213

Mr. Bassham's Direct Testimony states on page 5 lines 4-5 as follows: "With respect to executive management and leadership for the combined company, no firm decisions have been made at this time."

Mr. Kemp's Direct Testimony states on page 18 lines 18-19 as follows: "...GPE senior executives reviewed and approved the estimates, and took ownership for achieving the targeted benefits."

1. Given that there are "no firm decisions" about "executive management and leadership," please explain the meaning and value of a current senior executive taking "ownership for achieving the targeted benefits."
2. Please explain precisely how executive management will be held accountable, and how consequences will be assigned, to those who have taken "ownership for achieving the targeted benefits."
3. Please explain the career consequences, in terms of compensation or promotion, that are associated with taking ownership.

Number of Attachments:

Response:

1. Executives with a role in reviewing and approving Transaction-related benefits will necessarily have a more informed understanding of the achievability of those benefits than individuals who were not involved in reviewing and approving them. While no firm decisions have been made, it is expected that GPE senior executives involved in reviewing and approving Transaction-related benefits will have substantial responsibility for achieving those benefits post-closing.
2. This would be decided on a case-by-case basis.
3. This would be decided on a case-by-case basis.

Attachment: *Q\_213\_Verification.pdf*

## Verification of Response

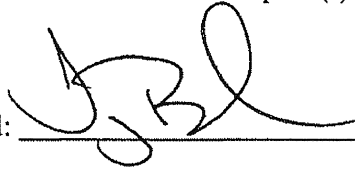
### Kansas City Power & Light Company

Docket No. 16-KCPE-593-ACQ

The response to KCC Data Request# 213, submitted by KCP&L, is covered by this Verification of Response:

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

Signed: \_\_\_\_\_



Title: Chairman, President and CEO

Date: \_\_\_\_\_

10/24/2016



**KCC-218 PUBLIC**

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

Response to Hempling Scott Interrogatories - KCC\_20161013  
Date of Response: 11/04/2016

Question:218

Please identify in detail all of the reasons for paying the premium, even though the premium (above market and above book) exceeds the savings.

Number of Attachments:

Response:

The purchase price Great Plains Energy (GPE) agreed to pay (which necessarily includes the acquisition premium, however calculated) was necessary to win the competitive bidding process and is justified for the reasons explained in Mr. Bryant's direct testimony.

Attachment: *Q\_218\_Verification.pdf*

## Verification of Response

### Kansas City Power & Light Company

Docket No. 16-KCPE-593-ACQ

The response to KCC Data Request# 218, submitted by KCP&L, is covered by this Verification of Response:

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

Signed: Mary Britt Turner

Title: DIRECTOR, REGULATORY AFFAIRS

Date: 10/24/2014

**KCC-248 PUBLIC**

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

Response to Hempling Scott Interrogatories - KCC\_20161013  
Date of Response: 11/04/2016

Question:248

Mr. Ives' Direct Testimony states on page 26 lines 19-22 as follows: "These savings will be used by GPE to extend the period of time before the filing of the next rate cases by KCP&L and Westar; a longer period of time between rate cases than could occur in the absence of the Transaction. The savings will ultimately be flowed through to customers in each successive rate case."

Consider the following statement:

The necessary effect of the Applicants' decision to make no binding commitment concerning the amount or percentage of savings that will go to customers, combined with the post Transaction company's control of the information about those savings and the timing of rate cases, combined with the reality of regulatory lag and the prohibition against retroactive ratemaking, is that the Commission will have no influence over the share of savings going to consumers once those savings have occurred because, given the prohibition against retroactive ratemaking, (a) whatever savings have occurred prior to the rate case will already be owned by the shareholders and therefore cannot be shared retroactively with customers, and (b) the post-Transaction company will have control of information relating to prospective savings.

1. To the extent of disagreement with this statement, please explain all ways (under the Applicants' proposal) in which the Commission can influence the share of savings going to customers. Explain also how the Commission should allocate the customer share of savings among the customers of the various utility subsidiaries of the post-Transaction entity.
2. If the Joint Applicants insist that with respect to the savings, there will be a balancing of interests, please explain in detail where the balancing will occur and who will do the balancing. Please be sure to answer this question consistent with your answers to the preceding questions.

Number of Attachments:

Response:

1. Mr. Ives disagrees with much of the premise of this statement. Regulatory lag and the prohibition against retroactive ratemaking do not impact the ability for savings to flow to customers. While the Companies proposal results in savings being retained by shareholders over the period from achievement of savings until rates are next set by the Commission, this is the only opportunity for the Companies to retain savings in order to fund the cost of the Transaction which is not requested by the Companies to be recovered from customers. It is well established in prior Merger & Acquisition orders from the Kansas Commission that the Commission has historically recognized the necessity for acquirors to retain savings to help fund the Acquisition Premium and Transaction costs not recovered from customers but necessary to unlock the savings that will be

provided to customers. In the Companies' proposal, while the Company retains the savings for the discrete period prior to the next case, once a case is filed and new rates are implemented, the lower cost of service as a result of the savings is a benefit to customers from that point forward as a perpetual reduction to the cost of service that would have been requested from customers had the Companies remained stand-alone. Finally, in the event the Commission determined the Companies were retaining more than an appropriate amount of savings as a result of not filing rate cases, which at worst would create rate stability for Kansas customers, the Commission has the opportunity to issue a Show Cause if it believes the utility is overearning its authorized revenue requirement.

2. The savings from the Transaction will be flowed through to customers during the normal rate case process. Prior to completion of each rate case, those savings that have not already been passed on to customers will be available to the utility to offset costs, including those related to the Transaction. Savings incurred prior to the test year and/or update in a rate case proceeding will have necessarily reduced the cost of service at the time realized and prospectively resulting in a perpetual forward savings to customers that would otherwise have been unavailable to customers had the Transaction not occurred, the companies remained stand-alone and the savings not been able to be achieved.

Attachment: Q\_248\_Verification.pdf


# Verification of Response

## Kansas City Power & Light Company

Docket No. 16-KCPE-593-ACQ

The response to KCC Data Request# 248, submitted by KCP&L, is covered by this Verification of Response:

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

Signed: 

Title: Vice President – Regulatory Affairs

Date: 10/24/2016

**KCC-254 PUBLIC**



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

Response to Hempling Scott Interrogatories - KCC\_20161013  
Date of Response: 11/04/2016

Question:254

Mr. Kemp's Direct Testimony on page 15 refers to communications with "GPE's deal team":

1. Please explain, with precision about data and dates, how, if at all, your estimates of savings were communicated to the individuals involved in determining GPE's price bid for Westar.
2. Please explain precisely what assumptions were made by the deal team regarding how the savings would be allocated between shareholders and ratepayers.
3. Concerning the executives in charge of producing savings estimates, please explain what information they had, at various points in time, about the bid prices the "deal team" was considering.
4. Please explain what information Enovation had, at various points in time, about the bid prices the "deal team" was considering.
5. With respect to the time period in which savings were studied, please explain in detail if anyone was advised, urged, or influenced, to find more savings as necessary to justify the bid price.
6. Please explain any risk whatsoever that those who were studying savings would have felt influenced to find savings sufficient to justify the bid price.

Number of Attachments:

Response:

1. The data on the Summary sheet and the table on the right portion of the Output sheet of the final merger savings workbook were provided to Mike Meyer, who manages GPE's financial model, on May 10, 2016. This workpaper, "Q7\_CONF\_Workpaper\_Merger Savings Model\_5-14-16," was provided in response to KCC data request 134.
2. The GPE deal team did not make any explicit assumptions of how the savings would be allocated between shareholders and customers, since GPE's proposal is to flow all savings through to customers, as its actual costs are recovered through the normal ratemaking process.
3. The GPE executives in charge of producing the savings estimates, i.e., the lead operational executives, were aware of the general range of bid prices that GPE was considering. The more important consideration for the saving estimation process was

whether the aggregate net savings were achievable, i.e., to produce long-term benefits for customers and investors while meeting GPE's desired credit metrics.

4. The Enovation team was not privy to the bid price analyses conducted by the GPE deal team, and was only aware in very general terms of the range of bid prices that were being considered. They were not aware of any changes in that range during the time period of the savings estimation process. As stated in Mr. Kemp's testimony, the over-riding question the Enovation team was charged to answer was: 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? Those targets were communicated to the Enovation and GPE savings estimation team in the form of annual minimum targets for aggregate net savings in the 2017-2020 period, and were not related explicitly to GPE's bid price for Westar.
5. No. No-one on the Enovation and GPE savings estimate team was advised, urged, or influenced to identify anything other than achievable savings to justify the bid price. The team's targets were annual net savings, as explained in part 4 above. Those targets did not change during the savings estimation process.
6. The syntax of the question as stated is unclear. Presuming that the question is intended to ask whether the savings estimation team was influenced to pursue higher risk areas of savings to justify a higher bid price, the answer is no. The guidance from GPE's senior management on the level of acceptable risk (low), and conversely the level of conservatism in the estimates (high), was consistent during the savings estimation process.

Attachment:

Q254\_Verification form.pdf

## Verification of Response

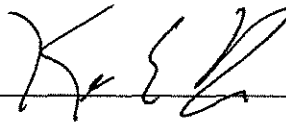
### Kansas City Power & Light Company

Docket No. 16-KCPE-593-ACQ

The response to KCC Data Request# 254, submitted by KCP&L, is covered by this Verification of Response:

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

Signed: \_\_\_\_\_



Title: Senior Vice President - Finance and Strategy and CFO

Date: \_\_\_\_\_

10-21-16

**KCC-261 PUBLIC**

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

Response to Hempling Scott Interrogatories - KCC\_20161013  
Date of Response: 11/04/2016

Question:261

Mr. Busser's Direct Testimony on page 12 refers to the practice of recording goodwill as an asset, then conducting impairment testing:

1. Please describe all possible actions by the Commission, the Kansas Legislature or market participants that could constitute impairment.
2. For each of the impairment-causing actions listed in response to the preceding question, please explain the range of possible effects (a) on the post-Transaction entity's financial condition and (b) on Westar customers.
3. Please confirm that the Joint Applicants commit that they will never seek any version of rate relief as a result of such impairment.

Number of Attachments:

Response:

1. The testing of goodwill for impairment involves calculating a fair value of Great Plains Energy's electric utility operations as of the date of the impairment testing and comparing it to book value. If the calculated fair value is less than book value, the recording of an impairment loss could be required.

The calculated fair value for GPE's electric utility operations is based on the weighted average results of a discounted cash flow analysis based on GPE's 5 year budget projections and a market approach that calculates a fair value based on market multiples of peer companies.

As such, an action by the Commission or the Kansas Legislature that would negatively affect GPE's future cash flows in a significant way could potentially lead to a lower calculated fair value under the impairment test and thus, cause a possible impairment. Also, lower stock valuations of peer companies used in the Company's market approach could also lead to a lower calculated fair value and thus, cause a potential impairment.

2. The goodwill impairment charge is a non-cash charge that would result in an increase to expense/decrease to net income on Great Plains Energy's income statement and would also reduce total assets and decrease retained earnings on Great Plains Energy's balance sheet. Because pushdown accounting is not being applied to Westar, a potential impairment charge would occur at the Great Plains

Energy consolidated level and not on Westar's standalone financials and thus, would not affect Westar customers unless specific relief was requested.

3. The Joint Applicants commit that they would only seek rate relief for an impairment charge to the extent that there are capital cost increases that occur from an impairment that results from a KCC order.

Attachment: Q261\_Verification.pdf

## Verification of Response

### Kansas City Power & Light Company

Docket No. 16-KCPE-593-ACQ

The response to KCC Data Request# 261, submitted by KCP&L, is covered by this Verification of Response:

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

Signed: Regina Jones

Title: Director, Accounting

Date: 10/20/16

**KEPCo-2-12a PUBLIC**



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

Response to Schrempp Kelsey Interrogatories - KEPCo\_20161101  
Date of Response: 11/15/2016

Question: KEPCo 2-12

Mr. Kemp's testimony, at page 23 (line 1) asserts that the merger will result in a "reduction in required planning reserves for generation capacity."

- a. Please specify the number of MWs of this reduction by year.
- b. Please describe how this reduction is consistent with planning reserve and installed capacity requirements of the States of Kansas and Missouri and of the Southwest Power Pool.

Response:

- (a) See GPE's response to BPU Data Request No. 2-24.
- (b) See GPE's response to BPU Data Request No. 2-12. The reduction in reserves from the merger is driven more by the cushion in reserves that the combined company would deem prudent to carry above the minimum Southwest Power Pool (SPP) requirements. This operating reserve cushion is in turn driven by the size of the operating contingencies that it must be ready to meet.

Attachment: QKEPCo 2-12\_Verification.pdf

# Verification of Response

## Kansas City Power & Light Company

Docket No. 16-KCPE-593-ACQ

The response to KCPCo Data Request# 2-12, submitted by KCP&L, is covered by this Verification of Response:

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

Signed: William J. Kemp

Title: Senior Managing Director

Date: November 14, 2016

**KCC-384 PUBLIC**


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**Docket:** [ 16-KCPE-593-ACQ ] Merger - Great Plains  
**Requestor:** [ KCC ] [ Justin Grady ]  
**Data Request:** KCC-384 :: Clarification on the Proxy  
**Date:** 0000-00-00

**Question 1 (Prepared by Larry Wilkua)**

On Page 86 of the Proxy Statement filed on August 25, 2016, there is a table presented that provides various Merger Premium and Implied Merger Multiples calculated by Guggenheim Securities for presentation to the Westar Board in conjunction with Guggenheim's fairness opinion. This table presents an analysis of the degree to which the agreed upon Merger Consideration exceeded Westar's unaffected stock price on March 9, 2016 and on November 3, 2015. The table presents that the merger consideration was a premium of 36.1% over the March 9, 2016 price and 51.9% over the November 3, 2015 price. Please provide the following regarding this table: 1. What is the significance of November 3, 2015 in this merger premium analysis? 2. Why did Guggenheim securities choose November 3, 2015 in particular instead of any other date in late 2015 or early 2016?

**Response:**

November 3, 2015 is the date that in the early stages of the process best represented the unaffected price of Westar's stock; that is the date when the Westar stock price was not impacted by merger speculation. On November 3, 2015, Westar released earnings and had an earnings call, after which the possibility of an acquisition became a topic of speculation in the market, thus affecting the stock price. Westar's stock price was further impacted after a Bloomberg news story on March 10, 2016, which leaked that a sale process was underway. Thus, the second benchmark for Westar's unaffected stock price is March 9, 2016, the trading day prior to the Bloomberg story.

No Digital Attachments Found.