

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

**TESTIMONY IN SUPPORT OF NON-UNANIMOUS STIPULATION AND
AGREEMENT**

DARRIN R. IVES

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

IN THE MATTER OF THE APPLICATION OF GREAT PLAINS ENERGY
INCORPORATED, KANSAS CITY POWER & LIGHT COMPANY,
AND WESTAR ENERGY, INC. FOR APPROVAL OF THE MERGER OF WESTAR
ENERGY, INC. AND GREAT PLAINS ENERGY INCORPORATED

DOCKET NO. 18-KCPE-095-MER

- 1 **Q:** Please state your name and business address and on whose behalf you are testifying.
- 2 **A:** My name is Darrin R. Ives. My business address is 1200 Main Street, Kansas City,
- 3 Missouri 64105. I am testifying on behalf of Great Plains Energy Incorporated (“Great
- 4 Plains” or “GPE”) and Kansas City Power & Light Company (“KCP&L”) in support of the
- 5 Application of GPE, KCP&L, and Westar Energy, Inc. and Kansas Gas and Electric
- 6 Company (referred to herein as “Westar”) (all parties collectively referred to herein as
- 7 “Applicants”) requesting approval of the amended transaction providing for the merger of
- 8 Westar and GPE (“Merger”). The new holding company formed by the Merger is referred
- 9 to variously in this testimony as the “combined company” or “Holdco”.

1 **Q: Are you the same Darrin R. Ives who filed Direct and Rebuttal Testimony in this**
2 **proceeding?**

3 A: Yes, I am.

4 **Q: What is the purpose of this testimony?**

5 A: The purpose of my testimony is to provide support on behalf of Applicants of the Non-
6 Unanimous Stipulation and Agreement (“Stipulation”) submitted jointly by the signatory
7 parties for approval to the State Corporation Commission of the State of Kansas
8 (“Commission”) on March 7, 2018 in this docket. I will do so by:

- 9 • Describing the issues presented by this docket; and
- 10 • Describing the terms of the Stipulation related to the changes to the
11 Commitments and Conditions I sponsored in my rebuttal testimony.

12 Applicants’ witness Greg Greenwood addresses the provisions of the Stipulation that I do
13 not address in detail including bill credits, the 2018 rate reviews of KCP&L and Westar,
14 transition cost recovery and rate moratoriums. Mr. Greenwood also addresses how the
15 Stipulation addresses the Commission’s merger standards and addresses the standards
16 under which the Commission reviews a non-unanimous settlement agreement.

17 **I. BACKGROUND**

18 **Q: Please provide a description of the Company’s issues leading to the filing of this**
19 **docket and the Stipulation.**

20 A: My direct and rebuttal testimony discussed Commitments and Conditions that the
21 Applicants proposed to address concerns of the parties and the Commission from the initial
22 transaction. As discussed by Mr. Bassham in his rebuttal testimony, most of the parties,
23 especially Staff and CURB, recognized that the Merger will create benefits that can be

1 shared between customers and shareholders. Part of the negotiations which led to the
2 Stipulation were focused on how to amend the Commitments and Conditions so that
3 benefits could be equitably shared and savings could be achieved while both companies
4 continue to provide high quality, reliable electric service.

5 **II. STIPULATION**

6 **Q: Have the parties to this docket submitted a Stipulation to the Commission for**
7 **consideration?**

8 A: Yes, we have. On March 7, 2018, we filed the Stipulation with the Commission.

9 **Q: Please describe the general terms of the Stipulation.**

10 A: The Stipulation addresses issues and resolves all issues that were in dispute between the
11 signatories. It was the result of many days of negotiations and concessions were made by
12 all signatory parties. The terms are not based on any specific party's filed position on the
13 issues resolved by the Stipulation, although Staff's framework for a proposed Earnings
14 Report and Sharing Plan is foundational to the Stipulation.

15 **Q: Is the Stipulation unanimous?**

16 A: No. The Stipulation was signed by numerous parties including the Staff of the State
17 Corporation Commission of the State of Kansas ("Staff" and "Commission" respectively),
18 the Citizens' Utility Ratepayer Board ("CURB"), Sunflower Electric Power Corporation
19 ("Sunflower"), Mid-Kansas Electric Company, Inc. ("Mid-Kansas"), Kansas Power Pool
20 ("KPP"), Midwest Energy, Inc. ("Midwest"), and Brightergy, LLC ("Brightergy"). Wal-
21 mart Stores, Inc. ("Wal-mart") is not signatory to this Stipulation however, they have
22 indicated they will not object. In addition to these signatories, on March 8, 2018, the

International Brotherhood of Electrical Workers, Local Union No. 404, 412, 1464 and 1613 (“Unions”) filed its motion supporting approval of the Stipulation.

Q: Do Applicants believe the Stipulation is a reasonable resolution of the identified issues involved in this proceeding?

A: Yes. Taken in its entirety, the Stipulation provides a reasonable resolution of the issues it addresses. The final outcomes are acceptably aligned within the range of positions taken by the signatory parties for each of the issues and supported by their respective testimonies.

Q: Please provide an overview of those parts of the Stipulation which change the Commitments and Conditions proposed by the Applicants as sponsored in your Rebuttal testimony.

A: Below is a summary of the substantively changed or added Commitments and Conditions from my rebuttal testimony to the Commitments and Conditions attached to the Stipulation as Attachment 1.

- 1) Stipulation Commitment 10: Holdco, KCP&L and Westar agree that the limitation on consolidated debt capitalization of Holdco shall be 65% of total capitalization (excluding short-term debt and long-term debt due within one year) and the limitation on debt capitalization of Westar and KCP&L shall be 60% of total capitalization (excluding short-term debt and long-term debt due within one year). Holdco commits that Westar and KCP&L shall not make dividend payments to the parent company, or other upstream cash payments, to the extent that the cash payment would result in an increase in either utility’s debt level (excluding short-term debt and long-term debt due within one year) above 60% of its total capitalization, unless the Commission authorizes otherwise.
- 2) Stipulation Commitment 16: Applicants agree to add Holdco to Commitment 16 related to providing the Commission notice of a Holdco credit downgrade below investment grade, and related reporting to the Commission on actions to restore such investment grade ratings.
- 3) Stipulation Commitment 18: Holdco agrees that its electric utility subsidiaries will provide Westar and KCP&L retail electric customers with one-time bill credits totaling \$23,065,299 to Westar retail electric customers and \$7,514,220 to KCP&L's Kansas retail

1 electric customers, as soon as practicable following the closing of the Merger with the
2 understanding that the data necessary to effectuate the inter-class allocation of bill credit
3 amounts will not be available until near the end of the respective KCP&L and Westar 2018
4 base rate review proceedings. Thereafter Holdco agrees that its electric utility subsidiaries
5 will provide Westar and KCP&L's Kansas retail electric customers with annual bill credits
6 by March 31 in each year 2019, 2020, 2021, and 2022 in the amount of \$8,649,487 for
7 Westar retail electric customers and \$2,817,832 for KCP&L's Kansas retail electric
8 customers. These amounts shall be allocated among the customer classes using the method
9 recommended by Staff witness, Bob Glass, in his direct testimony, pages 15-18. Once
10 allocated between classes, the bill credit shall be credited to customers on the basis of
11 revenues for commercial and industrial customers and on a per customer basis for
12 residential customers.
13

- 14 4) Stipulation Commitment 19: This Commitment was changed to reflect signatories
15 agreement for amortization of transition costs for recovery extended to ten years. It
16 removes certain burden of proof language to conform with the signatories' agreement on
17 the amounts to be recovered.
18
- 19 5) Stipulation Commitment 24: Holdco commits that retail rates for KCP&L and Westar
20 customers shall not increase as a result of the Merger. Additionally, Holdco, KCP&L and
21 Westar commit to not change base rates in Kansas until the expiration of a five-year term
22 that begins at the final order date of KCP&L's 2018 base rate review. Any base rate review
23 filing cannot change rates until after that date but a filing or show cause may be commenced
24 as long as the resulting base rate adjustment becomes effective after the moratorium date.
25 In the event the ROE authorized in either Westar's or KCP&L's 2018 base rate reviews is
26 below 9.3%, the moratorium period for the affected utility shall be reduced to three years.
27 Additionally, Westar and KCP&L agree to make a mandatory base rate review filing so
28 that rates become effective the day after the expiration of the moratorium period. In the
29 event that the moratorium period is three years for either utility pursuant to other provisions
30 of this condition, such mandatory rate review for that utility shall be two years after the
31 end of its rate moratorium. However, Westar and KCP&L can delay their respective
32 mandatory base rate review filings with the approval of Staff.
33
- 34 6) Stipulation Commitment 25: Holdco, Westar and KCP&L commit to inclusion of all
35 Merger-related savings achieved at the update date of Westar's and KCP&L's respective
36 2018 rate cases. Such update dates shall be 60 days after the filing date of each respective
37 rate case. If it is determined to be a shortfall from the amounts below, then an additional
38 adjustment will be made at the update to impute into retail rates the shortfall to achieve a
39 total (some such savings are/will be already reflected in the Applicants rate review filing)
40 of Merger-related savings benefiting Kansas retail rates of \$22,510,589 for Westar retail
41 electric customers and \$7,468,874 for KCP&L's Kansas retail electric customers.
42
- 43 7) Stipulation Commitment 26: Holdco, Westar and KCP&L commit to abide by the terms
44 of the Earnings Review and Sharing Plan (ERSP) , attached as Attachments 2 and 3 to the
45 Stipulation. The purpose of this ERSP is to require both Westar and KCP&L to file an
46 Earnings Review and Sharing Report, in the Compliance Docket established, in the years

2020, 2021, 2022, and 2023. The purpose of these reports will be to evaluate the earned Return on Equity (ROE) of both Westar and KCP&L-KS on an annual basis, as calculated after making limited adjustments to present the financial results of the company on a traditional ratemaking (rate base, rate of return) basis. In the event that the earned ROE of Westar or KCP&L-KS in any year exceeds a 9.3%, any earnings in excess of those necessary to cover the annual fixed bill credits discussed above shall be split 50% to customers, 50% to shareholders. The portion of excess earnings for customers shall be by way of a bill credit no later than September 30 of the succeeding year. Any bill credit amount shall be allocated between Westar or KCP&L-KS retail electric rate classes in the same manner as the final approved proof of revenue provided in support of the rates set in Westar or KCP&L-KS respective 2018 rate case. Once allocated between classes, the bill credit shall be credited to customers on the basis of revenues for commercial and industrial customers and on a per customer basis for residential customers.

- 8) Stipulation Commitment 36: This Commitment was expanded to indicate Exhibits BA-1 through BA-5 are provided in Attachment 4 to the Stipulation. KCP&L and Westar also agree to provide the reports described in Attachment 5 to the Stipulation. For the reports described in Attachment 5 to the Stipulation, changes to future reporting can be made as mutually agreed upon by Applicants, Staff and CURB.
- 9) Stipulation Commitment 37: By January 2019, Staff, CURB and Applicants will initiate a Compliance Docket in order to develop a methodology to evaluate the quality of service of Westar and KCP&L-KS and to update the reporting requirements found in Docket 02-GIME-365-GIE (the "365 docket"). The anticipated docket will include an investigation to determine if conventional reliability metrics such as SAIDI and SAIFI should be adopted as permanent standards and if so, which reliability metrics and associated thresholds should be adopted. The compliance docket will also address the feasibility of including momentary reliability metrics such as CEMMI and MAIFI. In addition to system-wide reliability metrics, the parties to the compliance docket will develop reporting requirements for specific categories of Applicants' operations and maintenance activities that are mutually agreed upon by the parties. The purpose of the operations and maintenance activities report will be to provide Staff and CURB summary reports that may be used to evaluate the impact of Applicants' operations with respect to reliability and quality of service. Applicants, Staff and CURB agree they will not object to the intervention in such compliance docket by KPP.
- 10) Stipulation Commitment 38: By January 2019, Staff, CURB, KPP and the Applicants will jointly initiate a Capital Plan Reporting Compliance Docket to provide capital plan reports substantially similar to Attachment 6 to the Stipulation. The capital spending report for projects initiated or ongoing in a given calendar year will be due by March 31 of the following year. The primary purpose of the Capital Plan Report is to provide Staff and the Commission with the information and data necessary to understand forecasted capital expenditures over a five year period. The capital expenditures to be reviewed include generation, environmental, transmission, distribution and Information Technology. The overall goal of the Capital Plan Reporting Compliance Docket will be to determine the appropriate information and data to report and the format of such reporting.

1
2 11) Stipulation Commitment 39: Westar and KCP&L agree to provide 90-days written notice
3 to Staff and CURB related to any power generation unit retirements in excess of 20 MW
4 of capacity during the moratorium period for any retirements not already contemplated in
5 this docket. Notice will also be required if the timing of any planned generating unit
6 retirement is expected to change by more than six (6) months. This condition sunsets upon
7 new reporting requirements being established or the closing of the Capital Plan Reporting
8 Compliance Docket.
9

10 12) Stipulation Commitment 40: KCP&L and Westar agree to extend integration update
11 meetings held every six months during the second year after close to continue through the
12 fifth year. KCP&L and Westar also agree to provide headcount information required in
13 Commitment 40 for an extended time period on an annual basis in years three through five
14 after close.
15

16 13) Stipulation Commitment 43: This Commitment was expanded to reflect Applicants'
17 commitment that, as part of the KCP&L and GMO 2019 IRP Updates, a combined
18 KCP&L/GMO/Westar analysis will be conducted.
19

20 14) Stipulation Commitment 54: The limitation on debt capitalization of Holdco, Westar and
21 KCP&L described in Stipulation Commitment 10 is also updated in Stipulation
22 Commitment 54.
23

24 **Q: What is the effect of the above changes to the Commitments and Conditions?**

25 A: The changed conditions above, in concert with the other Conditions and Commitments set
26 forth in the Stipulation, protect the interests of customers in continuing to receive sufficient
27 and efficient service from KCP&L and Westar at just and reasonable rates while providing
28 KCP&L and Westar with a reasonable opportunity to earn returns competitive in the market
29 and provide reasonable financial flexibility to Holdco, Westar, and KCP&L while
30 maintaining their financial integrity.

31 **Q: Is the Stipulation in the public interest?**

32 A: Yes. As discussed by Applicant witness Mr. Greenwood, the Merger addresses the
33 Commission's Merger Standards which are designed to ensure that a proposed transaction
34 promotes the public interest. Additionally, each signatory has a duty to protect the interests
35 of the party it represents. Staff has a duty to represent the public generally. CURB

1 represents the interests of residential and small commercial customers. Applicants have a
2 duty to both their customers and their shareholders. Sunflower, Mid-Kansas, KPP and
3 Midwest represent the interests of Kansas electric consumers across a large portion of the
4 state. Brightergy represents its own interests and those of its customers in energy efficiency,
5 energy management and distributed generation. Wal-Mart represents the interests of a large
6 commercial enterprise that is a valued customer of both companies. The Unions are labor
7 organizations and represent the interests of approximately 1,100 bargaining unit employees
8 of Westar¹ in Kansas and approximately 1,720 employees of KCP&L that reside in Kansas
9 and Missouri.² The total effect of the terms of the Stipulation will promote the public
10 interest and represents an equitable balancing of the interests of all the signatories.

11 **Q: Does that conclude your testimony?**

12 **A:** Yes, it does.

¹ Petition to Intervene of International Brotherhood of Electrical Workers, Local Union No. 304, at ¶ 3 (February 2, 2018).

² Petition to Intervene of International Brotherhood of Electrical Workers, Local Unions No. 412, 1464 and 1613, at ¶ 1 (September 5, 2017). As noted in its Petition, members of the unions reside in communities in both Kansas and Missouri. *Id.* at ¶ 6.