

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

DIRECT TESTIMONY OF

MARK A. RUELLE

**ON BEHALF OF
WESTAR ENERGY, INC.**

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

I. INTRODUCTION

- 1
- 2 **Q: Please state your name and on whose behalf you are testifying.**
- 3 A: My name is Mark A. Ruelle. I am testifying on behalf of Westar Energy, Inc. and Kansas
4 Gas and Electric Company (“KGE”) (referred to herein collectively as “Westar”) in support
5 of the request of Westar, Great Plains Energy Incorporated (“Great Plains Energy” or
6 “GPE”), and Kansas City Power & Light Company (“KCP&L”) (all parties collectively
7 referred to herein as “Applicants”) for approval of the amended transaction providing for
8 the merger of Westar and GPE (“Merger”).
- 9 **Q: Please state your current position and business address.**
- 10 A: I am employed by and serve as President and Chief Executive Officer (“CEO”) of Westar.
11 My business address is 818 Kansas Avenue, Topeka, Kansas 66612. If the Merger is
12 approved and closes, I will serve as the Chairman of the board of directors of the new
13 combined company (“Holdco” or “combined Company”).

1 **Q: Please describe your education, experience and employment history.**

2 A: I hold Bachelor's and Master's degrees in economics. I have worked in the utility industry
3 for over 30 years, with 25 of those 30 years working at Westar and residing in this
4 community. I started at Westar in 1986 as a regulatory economist, worked in numerous
5 other positions, then resigned in early 1997. Prior to rejoining Westar in 2003, I worked
6 in senior executive positions with a large Nevada-based utility holding company and its
7 operating subsidiaries. In early 2003, I returned to Westar as Executive Vice President and
8 Chief Financial Officer and held that position for about eight years until becoming
9 President, and shortly thereafter CEO in 2011.

10 **Q: Have you previously testified in a proceeding at the Kansas Corporation Commission**
11 **(“Commission”) or before any other regulatory agency?**

12 A: Yes, on numerous occasions.

13 **Q: What are your current responsibilities?**

14 A: I am responsible for the strategic leadership and overall management of Westar. Primarily,
15 this includes assuring that Westar is providing safe, reliable and affordable service to our
16 customers and working to ensure that we remain a responsible employer, a steward of the
17 environment, and a constructive corporate citizen. Serving these roles well helps Westar
18 to be financially strong and to have constructive regulatory and stakeholder relationships
19 which also enables competitive returns on investment.

20 **Q: What is the purpose of your testimony?**

21 A: I will describe how Westar and GPE renegotiated the transaction presented in Docket No.
22 16-KCPE-593-ACQ (“Initial Transaction”) in response to the Commission’s April 19,
23 2017 Order (“Initial Transaction Order”). Together with GPE’s CEO Mr. Terry Bassham,

1 I sponsor the Amended and Restated Agreement and Plan of Merger dated July 9, 2017
2 (“Amended Merger Agreement”), which, in concert with the Applicants’ Merger
3 Commitments and Conditions (see Application, Appendix H), establishes the terms and
4 commitments of this transaction. I will discuss Westar’s resolve to achieve the value of a
5 merger between Westar and GPE and explain why the Merger is the best path forward for
6 customers and shareholders, is in the public interest, and should be approved by the
7 Commission.

8 **Q. How does your testimony relate to the testimony of GPE’s CEO Mr. Terry Bassham?**

9 A. As the current CEO of Westar with plans to become the new Chairman of the combined
10 Company, my testimony focuses on the path we took from the Initial Transaction Order to
11 the Amended Merger Agreement and why we continued to pursue the transaction. As the
12 current CEO of Great Plains Energy and with plans to be the CEO of the combined
13 Company, Mr. Bassham’s testimony focuses on what will come following the closing of
14 the Merger, including the benefits to customers and other stakeholders that will be created.
15 He will also highlight key commitments that will guide how the combined Company
16 operates. Mr. Bassham and I are jointly responsible for the reconstitution of the Initial
17 Transaction as a “merger of equals” or “MOE” of Westar and GPE. Although we
18 represented our respective companies in negotiating the Merger, we share the same
19 strategic objective of charting the path forward that will best serve our respective
20 stakeholders for the long-term. Mr. Bassham and I will be jointly responsible for the
21 Merger’s success.

1 **Q. Please briefly describe the Merger.**

2 A. The Merger will be accomplished entirely through an exchange of stock with no other cash
3 or securities changing hands. The exchange was agreed to with the intent that no market
4 or control premium be paid to either company. No Merger-related debt will be incurred.
5 It will provide guaranteed timely benefits to customers in the form of upfront bill credits.
6 Other nearly immediate benefits will include initial merger savings that will be reflected in
7 the cost of service of Westar and KCP&L in rate cases that will be filed and pending at the
8 time of the expected Order in this Application. I discuss the Merger in more detail
9 throughout my testimony.

10 **Q. How is the remainder of your testimony organized?**

11 A. Following this introduction, my testimony is organized as follows:

- 12 ▪ **Section II** describes how and why we renegotiated the Initial Transaction;
- 13 ▪ **Section III** highlights key elements of the Merger, including the corporate
14 governance of the combined Company; and
- 15 ▪ In **Section IV**, I present my conclusions and recommendations.

16 **II. NEGOTIATING THE AMENDED MERGER AGREEMENT**

17 **Q. Why did you continue to pursue a transaction after the Commission rejected the**
18 **Initial Transaction?**

19 A. When the Commission rejected the Initial Transaction, Westar had a choice to either treat
20 the Commission's order as a "stop sign" for *any* transaction, or a guide potentially to create
21 a transaction that would satisfy the Commission, address the concerns raised by Staff and
22 other parties and be in the public interest. We remained convinced of the strategic rationale
23 behind a merger of Westar and GPE, but also recognized that the transaction needed to be

1 reconstituted were it to meet the public interest. To do this, we relied on the Commission's
2 Initial Transaction Order and input from parties in the Initial Transaction, as a path to
3 satisfy the Commission's Merger Standards and still achieve the value of merging our
4 companies for both customers and shareholders.

5 **Q. Why do you believe the Merger is the best path forward?**

6 A. The fundamental circumstances that led to the Initial Transaction remain. Westar is faced
7 with flat sales and rising costs such that, absent achieving savings from this combination,
8 those higher costs would translate directly into higher prices. That is not good for any
9 company, its customers, its communities, or its shareholders. Further, electric utilities
10 continue to consolidate and those companies lacking scale may have a disadvantage in
11 accessing capital on good terms.

12 The combination of Westar and GPE is unique. It positions the combined Company
13 to create savings not readily available to either company independently or through a
14 transaction with another entity. Even if another company were willing to attempt to acquire
15 Westar for a higher price, with a substantial control premium, it is unlikely that a different
16 combination would be able to generate the savings this combination can. It is also unlikely
17 that a different combination could generate sufficient savings in relation to a substantial
18 premium, which would make addressing the Commission's Merger Standards more
19 difficult. And, to achieve savings, a different combination would likely result in
20 significant labor dislocations in Kansas and the region. Moreover, were we to seek such a
21 transaction, it would also mean a lengthy delay and organizational disruption, with no
22 assurance that such a transaction is even possible or could obtain Commission approval.

1 As I testified in the Initial Transaction, I can conceive of no course of action for
2 Westar that has the advantages for our customers, our state, our organization, and our
3 shareholders as the combining of these two companies offers.¹ This combination is unique
4 in that we are combining two large adjacent companies, both of whom already serve Kansas
5 and co-own key energy infrastructure in Kansas. Moreover, both companies are known
6 quantities and were acknowledged in the Initial Transaction Order to "...have a long
7 history of providing sufficient and efficient service in Kansas..."²

8 **Q. What were your primary considerations in renegotiating the Initial Transaction?**

9 A. They included:

- 10 1. The many factors and benefits, just discussed, that are addressed only by this
11 combination;
- 12 2. The Initial Transaction Order, including the Commission's conclusions that the
13 purchase price, acquisition premium, and attendant debt associated with the Initial
14 Transaction were excessive, in absolute terms and on a relative basis;
- 15 3. The risks associated with attempting another premium transaction with another
16 company; and
- 17 4. Our commitment to transparency regarding all matters having to do with the
18 transaction.

19 Taking these factors into consideration, we sought to renegotiate merger terms that
20 we could be confident the Commission would find to be in the public interest, yet would
21 still satisfy the Westar board's legal obligations to shareholders, would gain Westar

¹ Docket No. 16-KCPE-593-ACQ, Ruelle Rebuttal at 7, 37 and 38.

² Initial Transaction Order at 3.

1 shareholders' approval (even with no premium) and would be fair to both Westar's and
2 GPE's shareholders from a financial point of view.

3 **Q. Does the Merger address these considerations and will it benefit the company and its**
4 **stakeholders?**

5 A. Yes.

6 III. KEY ELEMENTS OF THE MERGER

7 **Q Please summarize the key elements of the Merger.**

8 A. They include:

- 9 ▪ Westar and GPE will merge through the exchange of common stock into a new
10 Holdco. Holdco will be the new parent of Westar and its subsidiaries, and KCP&L,
11 GMO and GPE's other subsidiaries.
- 12 ▪ Stock will be exchanged according to an exchange ratio which reflects our best
13 assessment of the common equity value of each company, unaffected by lingering
14 issues from the Initial Transaction.
- 15 ▪ With no control premium, the exchange value (and implied price) for Westar will
16 be substantially lower than in the Initial Transaction. Similarly, there is no control
17 premium in the exchange value for GPE either.
- 18 ▪ There is no transaction debt. Ironically, Holdco will start life with less debt and
19 more equity than is optimal, but will move to balance the capital structure over the
20 next few years to a structure typical both for utility holding companies and
21 regulated utilities, generally. Westar's, KCP&L's and GMO's capital structures
22 are unaffected by the Merger. The rebalancing of Holdco's capital structure will
23 also have no impact on the capital structures or rates of the utilities.

- 1 ▪ The combined Company will be financially stronger than continuing as separate
2 companies. In fact, as discussed by Messrs. Kevin Bryant and Anthony Somma,
3 Moody's Investor Services upgraded GPE's credit rating in response to the Merger
4 announcement and subsequent redemption of Great Plains debt issued to finance
5 the Initial Transaction. Standard & Poor's ("S&P") suggested an additional upgrade
6 may come after closing. In addition, S&P revised its outlook from negative to
7 positive for Westar, KGE, GPE, KCP&L and GMO in response to the Merger
8 announcement.
- 9 ▪ The proposed upfront bill credits to the combined Company's retail electric
10 customers of \$50 million in the aggregate exceed our estimate of net merger savings
11 in 2018. Additionally, both companies will have earlier-discussed and planned rate
12 cases on file before the order in this docket. Their respective costs of service in
13 those rate filings will reflect savings as a result of actions taken by the companies
14 in anticipation of the Merger. This demonstrates our commitment to customer
15 benefits and our willingness to shoulder risk given confidence in the savings the
16 Merger will produce.
- 17 ▪ With more than a year of integration planning behind us, we have detailed, Merger
18 savings analyses and integration and business plans. These support not only the
19 ability to provide the bill credits, but also produce savings that will be reflected in
20 the initial rate cases following the closing of the Merger, and any future rate cases
21 thereafter. We will have produced significant operating efficiencies in the first
22 year³ much of which will be reflected in the cost of service of Westar and KCP&L

³ Depending upon the timing of the closing, the first year will include part of 2018 and part of 2019.

1 when we file our 2018 rate cases. Merger savings are expected to grow
2 significantly from that by 2022 and beyond. Customers will benefit from these and
3 other savings⁴ as these savings help to eliminate the need for future rate cases;
4 reducing the level and frequency of rate cases after the Merger closes.

- 5 ■ These savings will be created with no involuntary severance or layoffs resulting
6 from the Merger. The Topeka headquarters will continue as the Company's Kansas
7 headquarters and, for at least five years, will be staffed by no fewer than 500
8 employees.

9 **Q. What will the ownership of the combined Company be post-closing?**

10 A. Immediately following the Merger, the combined Company will be owned by Westar's
11 present shareholders (approximately 52.5 percent) and GPE's present shareholders
12 (approximately 47.5 percent). Instead of Westar having tens of thousands of individual
13 shareholders, it will have one shareholder, Holdco. Holdco will also become the sole
14 shareholder of KCP&L, just as GPE has been for over 15 years. Holdco, as a publicly
15 traded company, will be widely held by many and diverse shareholders.

16 **Q. Please describe the composition of the combined Company's board of directors and**
17 **executive leadership.**

18 A. I will serve as non-executive Chairman of the Company's board of directors. I will no
19 longer be an employee or an executive of the Company. Mr. Bassham will serve as
20 President and CEO, and also a member of the board. All of the Company's other directors

⁴ GPE has announced that generation plants will close by year-end 2018 (Sibley units 1, 2 and 3; and Montrose units 1, 2 and 3) and by year-end 2019 (Lake Road unit 4/6) and these closings will result in savings.

1 will be independent,⁵ with a majority of them long-time citizens and leaders of both Kansas
2 and Missouri. The combined Company's board will initially be comprised of an equal
3 number of directors from each of Westar's and GPE's current boards. The lead
4 independent director will be designated by Westar, with the expectation that Mr. Charles
5 Q. Chandler, IV, Westar's current independent chairman, will be lead independent director
6 of the combined Company. (See Application Appendix H, Commitment 8.)

7 As discussed in more detail by Mr. Bassham, the executive leadership team will
8 reflect a balance of existing Westar and Great Plains Energy executives.

9 **Q. Do the Applicants propose financial and ring-fencing commitments?**

10 A. Yes. Although restructuring the Initial Transaction as an MOE addresses financial
11 concerns expressed by the Commission in the Initial Transaction Order, we still propose
12 financial and ring-fencing commitments to assure the Commission and other stakeholders
13 that customers will be protected from even the possibility of incremental financial risk as
14 a result of the Merger and, in fact, will have greater financial protections than they would
15 absent the Merger. These commitments, discussed in the testimony of Mr. John Reed, will
16 influence the governance of the utilities, establish policies and restrictions pertaining to the
17 financial management of the Company and the utilities. They specifically acknowledge
18 that the utilities need significant amounts of capital and that meeting these capital
19 requirements will remain the priority of the Company's board of directors and executive
20 management. (See Application Appendix H, Commitment No. 44).

⁵ As discussed by Mr. Reed, the Applicants commit that a majority of the Board will be "independent" as that term is defined by the New York Stock Exchange.

1 **Q. Have the Applicants proposed any other regulatory commitments?**

2 A. Yes. We have proposed commitments and conditions addressing charitable giving,
3 community involvement and low-income assistance programs, quality of service,
4 ratemaking and accounting, and other regulatory commitments which are included in
5 Appendix H to the Application. Mr. Darrin Ives' direct testimony addresses these matters.

6 **Q. Why were you willing to enter into a “no premium” transaction?**

7 A. The Commission made it clear that the size of the acquisition premium in the Initial
8 Transaction was likely an insurmountable obstacle. But we also recognized that the long-
9 term value to Westar's customers and shareholders of a combination with GPE remained
10 the best option. The MOE addresses the Commission's concern, yet still captures—even
11 enhances—the long-term value to customers and shareholders from combining our
12 companies. Though, initially not as favorable for Westar's shareholders as the Initial
13 Transaction, it is still more favorable than our alternatives, including were Westar to remain
14 independent.

15 When we first decided to seek an alternative to business as usual for Westar, I
16 testified that it was about size, circumstances and timing. It still is. Size and scale matter
17 in this industry. Circumstances, including rising costs and flat or declining demand for
18 electricity, are a fact. The experience we have gained in the year since we announced the
19 original transaction only reinforces those facts. The time to address these issues is now,
20 when we still have the benefit of our naturally transitioning workforce demographics, with
21 significant natural attrition through voluntary retirements. This allows us to direct our own
22 destiny by entering into a transaction with the best counterparty to create value for our

1 customers and shareholders, without having to resort to involuntary job losses to create
2 those efficiencies.

3 **Q. Is it unusual for utility merger applicants to renegotiate a proposed transaction with**
4 **a fundamentally different structure and financial terms?**

5 A. Yes, it is extremely rare. We took this unusual step for a few reasons. First, we believe
6 that combining Westar and GPE remains the best course of action for customers,
7 shareholders and other stakeholders. We understood and accepted the fact that a lower
8 purchase price, including the absence of a control premium, would create a financially
9 stronger combined Company, something the Commission noted as important in its Initial
10 Transaction Order. We also pursued this structure because it will provide both quantifiable
11 immediate and long-term customer benefits essential to address the Commission's
12 concerns.

13 It has taken nearly three months of challenging analysis and tough negotiations to
14 restructure the Initial Transaction to address the Commission's concerns while maintaining
15 a balance of interests that would allow us to move forward and seek Commission approval.
16 That we were able to craft a revised transaction that we believe addresses concerns
17 expressed with the Initial Transaction is a reflection of the confidence we have in this
18 combination, the commitment, compromise and hard work by many from both companies,
19 and the candor and constructiveness of the regulatory parties in sharing their views from
20 the last proceeding.

21 **Q. Has Westar's board of directors approved the Merger?**

22 A. Yes. Westar's board unanimously approved the Merger.

1 **Q. Have Westar’s shareholders approved the Merger?**

2 A. No, not yet. We expect shareholders of both companies will vote to approve the Merger
3 in the fourth quarter of 2017. The Merger requires approval from a simple majority of
4 Westar’s outstanding shares. I am confident in gaining their approval.

5 **Q. Why are you confident that the Merger of these two companies will be successful?**

6 A. First, the two companies have a lot in common. We are the two largest investor-owned
7 electric utilities serving Kansas. We already have long-standing relationships working
8 together to manage three of our largest assets, which we jointly own. These relationships
9 have become stronger over the past year as we worked together on a transaction. We have
10 contiguous territories, with nearly adjacent facilities in a few cases. We operate similar
11 major computing platforms. We are both members of the Southwest Power Pool, and both
12 of us are subject to the jurisdiction of this Commission.

13 Second, Westar and KCP&L share a common vision for our customers, employees,
14 investors, and the communities we have the privilege to serve. As you walk into Westar’s
15 Topeka headquarters, you see on the wall its mission: “*We power lives – one home, one
16 business, one community at a time – with safe, clean, reliable electricity and the highest
17 dedication to customer care.*” Our vision of building trust and confidence means “*taking
18 to heart the needs of those we serve – our customers, employees, investors and
19 communities.*” Westar’s core values are safety, integrity, accountability, and adaptability.
20 Similarly, KCP&L’s mission and vision are to “*provide safe, reliable power... through
21 operational excellence, innovation and a diverse, engaged workforce.*”

22 The common ground between our companies and our approach to serving our
23 customers and communities is clear. While there are many small differences between our

1 companies, in things that matter most, it's difficult to imagine a better fit. This unique fit
2 demonstrates why the companies have tried to combine on so many prior occasions, over
3 decades.⁶ I am hopeful this time will be successful.

4 We invested the last year working together to provide the extensive analysis of
5 merger savings and detailed merger integration plans discussed by Mr. Steve Busser and
6 Mr. Greg Greenwood. We are confident in these analyses and plans and our ability to
7 execute on them to deliver value to our customers and shareholders and to keep our
8 organization successful over the long term.

9 Finally, it is my personal obligation to make the Merger successful. Not only do I
10 have that responsibility to Westar today, but I have also taken on the responsibility of
11 helping the new combined Company be successful for the long term. Our companies have
12 unique obligations and privileges in providing an essential service, without which modern
13 life and commerce isn't possible. Nothing is more important to me than that we be
14 successful. It is our obligation to make that happen.

15 IV. CONCLUSIONS

16 **Q. Do you have any concluding comments?**

17 A. I recognize that the Commission found that our first plan for combining the companies did
18 not satisfy its Merger Standards, and thus did not support a Commission determination that
19 the Initial Transaction promoted the public interest. We have endeavored to remedy each
20 deficiency that caused us earlier to fail, yet still craft conditions and commitments that
21 allow the Merger to move forward so that its many benefits can be realized.

⁶ See Haines, Public Hearing Transcript, at 62-65, Docket No. 16-KCPE-593-ACQ.

1 We worked hard to ensure that the Merger addresses the concerns of Staff and the
2 other parties expressed in the Initial Transaction Order, and that our customers,
3 shareholders and other stakeholders will be better off as a result of this Merger. The Merger
4 will create a larger, financially stronger company and leading Midwest electric utility better
5 positioned to meet our customers' needs at lower rates and achieve competitive financial
6 returns expected by investors. As a result, I can confidently testify that the Merger is in
7 the public interest and recommend that it be approved.

8 **Q. Does this conclude your Direct Testimony?**

9 **A.** Yes, it does.

BEFORE THE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Application of Great Plains Energy Incorporated, Kansas City Power & Light Company, and Westar Energy, Inc. for Approval of the Merger of Westar Energy, Inc. and Great Plains Energy Incorporated)
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) Docket No. 18-KCPE-095 -MER
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AFFIDAVIT OF MARK A. RUELLE

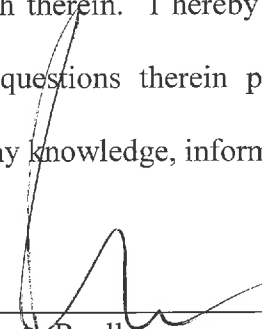
STATE OF KANSAS)
) ss
COUNTY OF SHAWNEE)

Mark A. Ruelle, being first duly sworn on his oath, states:

1. My name is Mark A. Ruelle. I work in Topeka, Kansas, and I am employed by Westar Energy, Inc. as President and Chief Executive Officer.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Westar Energy, Inc. consisting of fifteen (15) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

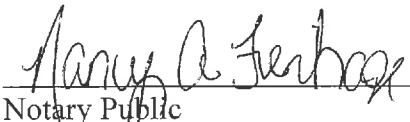
3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.



Mark A. Ruelle

Subscribed and sworn before me this 18th day of August 2017.





Notary Public

My commission expires: 3/23/20