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

DIRECT TESTIMONY OF

DARRIN R. IVES

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

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

DOCKET NO. 16-KCPE-____-ACQ

Q: Please state your name and business address.

A: My name is Darrin R. Ives. My business address is 1200 Main Street, Kansas City, Missouri 64105.

Q: By whom and in what capacity are you employed?

A: I am employed by Kansas City Power & Light Company ("KCP&L") and serve as Vice President – Regulatory Affairs for KCP&L and KCP&L Greater Missouri Operations Company ("GMO").

Q: What are your responsibilities?

A: My responsibilities include oversight of the Company's Regulatory Affairs Department, as well as all aspects of regulatory activities including cost of service, rate design, revenue requirements, regulatory reporting and tariff administration.

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

A: I graduated from Kansas State University in 1992 with a Bachelor of Science in Business Administration with majors in Accounting and Marketing. I received my Master of Business Administration degree from the University of Missouri-Kansas City in 2001. I am a Certified Public Accountant. From 1992 to 1996, I performed audit services for the public accounting firm Coopers & Lybrand L.L.P. I was first employed by KCP&L in 1996 and held positions of progressive responsibility in Accounting Services and was named Assistant Controller in 2007. I served as Assistant Controller until I was named Senior Director – Regulatory Affairs in April 2011. I have held my current position as Vice President – Regulatory Affairs since August 2013.

Q: Have you previously testified in a proceeding at the Kansas Corporation Commission or before any other utility regulatory agency?

A: Yes, I have testified a number of times before the Kansas Corporation Commission ("Commission" or "KCC") and the Missouri Public Service Commission ("MPSC"). I have also provided written testimony before the Federal Energy Regulatory Commission and have testified before legislative committees in Missouri.

Q: On whose behalf are you testifying?

A: I am testifying on behalf of Great Plains Energy ("GPE" or "Great Plains Energy") and KCP&L in this proceeding.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to show that the proposed acquisition of Westar Energy, Inc. (referred to herein as "Westar") by Great Plains Energy (the "Transaction") meets the standards set forth by the Commission for determination that the Transaction is in the public interest, and to present the Commission with our requested regulatory treatment of the Transaction. Specifically, I will provide: (i) an overview of the Direct Testimony of GPE, KCP&L and Westar (the "Joint Applicants") and the Company's request; (ii) analysis of prior Commission orders regarding mergers and acquisitions; (iii) review of this Transaction in regard to the Commission's Merger/Acquisition Standards; (iv) the requested regulatory treatment of the merger savings, acquisition premium, transaction costs and transition costs for this Transaction; (v) the commitments Great Plains Energy has made with regard to the Transaction; and (vi) post-closing company structures and rate case filings.

I. <u>Overview of Joint Applicants' Testimony and the Company's Request</u>

Q: Please provide an overview of the Joint Applicants' Direct Testimony.

A: As also noted in the Application, the following individuals are sponsoring Direct Testimony in support of this Joint Application:

- Terry Bassham – Overview of the Transaction and its benefits from Great Plains Energy's perspective, including a summary of the benefits to retail customers and the public interest, broadly.
- Mark A. Ruelle – Overview of the Transaction and its benefits from Westar's perspective, including a summary of the benefits to retail customers, Kansas, and the public interest, broadly.
- Kevin E. Bryant – Financial aspects of the Transaction, reasonableness of the purchase price and evidence of the continuing strength of the financial condition of the combined entity post-closing.
- Scott H. Heidtbrink – Operational aspects of the Transaction.
- William Kemp – Savings opportunities resulting from the Transaction.
- Steven P. Busser – Discussion of the integration process, accounting and tax treatment.

- Darrin R. Ives – Analysis of the Transaction under the Commission's Merger/Acquisition Standards and discussion of other regulatory issues and commitments.
- Charles A. Caisley – Public outreach and communication regarding the Transaction, and an overview of the strategy used by GPE's utility subsidiaries with respect to customer service, customer experience and community involvement and key customer satisfaction metrics used by GPE's utility subsidiaries.

Q: What is the Company's request of this Commission regarding the Transaction?

A: The Company requests that the Commission find that the Transaction is in the public interest and approve the Transaction. Additionally, the Company requests that the Commission approve the regulatory treatment set out below including:

- Allow the proposed sharing of Transaction savings whereby the savings will flow through to customers during the normal course of the Kansas rate case process net of test year transition costs while the utilities maintain those net savings prior to those rate cases.
- Confirm GPE's commitment to not request recovery of acquisition premium or transaction costs related to the Transaction; and
- Confirm GPE's financial integrity commitments as discussed later in my testimony.

II. Analysis of prior Commission Orders Regarding Mergers and Acquisitions

Q: What prior Commission decisions regarding mergers and acquisitions have you reviewed?

A: I have reviewed several including the Commission's November 15, 1991 Order approving the merger between KP&L and KG&E in Docket Nos. 172,745-U and 174,155-U ("1991 Merger Order") and the Commission's September 28, 1999 Order approving the merger application of Western Resources and KCP&L in Docket No. 97-

WSRE-676-MER ("1997 Merger Order") (which merger agreement was later terminated). I am also familiar with the Commission's May 15, 2008 Order approving the acquisition of Aquila by GPE in Docket No. 07-KCPE-1064-ACQ ("2008 Merger Order"). All of these orders are instructive on how the Commission has approached mergers.

Q: What are some of your key takeaways from these Commission orders?

A: There are several. First, the Commission specifies a list of standards to be addressed in merger/acquisition cases to determine if the transaction is in the public interest.[1] The Commission states "These factors are the beginning criteria to be used when evaluating a merger application and are to be supplemented by any other considerations that are relevant given the circumstances existing at the time of the merger proposal."[2] These standards address everything from the impacts on customers, communities and regional economics to the financial and managerial ability of the resulting entity to effectively manage the business post-transaction. In this Application, GPE has addressed these standards as set out by the Commission and shows that the Transaction is in the public interest.

Second, the Commission views potential savings as a significant driver in the determination of whether a merger/acquisition transaction is in the public interest. Such savings inure to the benefit of both customers and shareholders. With regard to regulatory treatment of a merger/acquisition, the Commission found that where there are substantial savings related to a merger, it is reasonable and appropriate for these savings

[1] 1991 Merger Order, p. 35-36.
[2] 1997 Merger Order, p. 8, ¶ 18.

to be shared between the ratepayers and the shareholders.[3] The Commission also found that "the savings and benefits from the merger are one of the primary reasons why the merger is in the public interest. The Commission further finds that these savings should be shared between the utility company and its customers."[4] "The Commission has balanced a myriad of conflicting factors, including the expectations of investors, uncertainties in a rapidly changing electric marketplace, and fairness to present and future ratepayers."[5] GPE has proposed an indirect sharing of the savings associated with its acquisition of Westar through the standard rate case process in Kansas.

Third, with regard to acquisition premium, the Commission determined to "permit the Joint Applicants the opportunity to recover a portion of the acquisition premium through retention of some of the savings that can be directly tied to the merger."[6] As I will describe later in my testimony, GPE's proposed regulatory treatment is consistent with this determination. We are not requesting specific recovery of any acquisition premium; however, we are requesting that shareholders participate in the savings through the standard Kansas general rate case process. GPE proposes to do so by allowing the net savings to fully flow through to customers as a result of the normal process of future rate cases while the utilities maintain those net savings prior to those rate cases.

Fourth, the Commission expressed concerns in the 1997 Merger Order that the utilities continue quality customer service both in terms of reliability[7] and customer

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[3] 1991 Merger Order, pp. 74, 83-84; 1997 Merger Order, p. 10, ¶ 24.

[4] 1997 Merger Order, p. 12, ¶ 28.

[5] 1997 Merger Order, p. 12, ¶ 29.

[6] 1991 Merger Order, pp. 83-84; 1997 Merger Order, p. 10, ¶ 25.

[7] 1997 Merger Order, pp. 14-15, ¶¶ 35-37.

programs[8]. These concerns were also expressed in the 2008 Merger Order.[9] GPE submits that it has a proven track record of delivering high quality service even following the acquisition of Aquila in 2008, and will continue the high quality of service currently delivered by both KCP&L and Westar following this Transaction. GPE also submits that no discontinuance of existing customer programs at either utility subsidiary are contemplated as a result of the Transaction; however, the utilities may propose post-closing to incorporate best practice customer programs across both utilities to further improve customer service.

Q: What are the key points you present to the Commission in this testimony?

A: My testimony provides the following key points and conclusions:

1. The Transaction complies with the standards that the Commission has set out for review of mergers and acquisitions. It is beneficial to customers and shareholders and is in the public interest.
2. We are not seeking to include in KCP&L's or Westar's revenue requirement any transaction costs or acquisition premiums in connection with the Transaction.
3. Savings and efficiencies, after considering the necessary costs to achieve those savings and efficiencies (*i.e.*, transition costs), will be given back to customers through the standard rate case process. This results in a reasonable sharing of benefits between the customers and shareholders consistent with past practice and prior Commission decisions.

[8] 1997 Merger Order, p. 16, ¶ 38.

[9] 2008 Merger Order, *Order Granting Joint Motions to Adopt Stipulation and Agreement and Approving Agreements*, p. 17, ¶ 30, and p. 19, ¶ 49.

4. The proposed regulatory treatment for the Transaction is simple and straightforward and results in equitable treatment for customers and shareholders.

5. The high quality customer service and reliability provided by KCP&L and Westar will continue following the Transaction.

III. Analysis of the Transaction Under the Commission's Merger/Acquisition Standards

Q: What standards does the Commission use as guidelines in reviewing a proposed acquisition such as the one presented in this case?

A: In the course of adopting and amending these standards in previous Commission Orders, the Commission found that utility mergers are complex transactions that should be approved where it is demonstrated that the merger will promote the public interest. With only a few additions and modifications, the standards adopted in the 1991 Merger Order have been routinely applied since that time to merger, acquisition and certification applications in Kansas.

Q: What are those standards?

A: In determining whether a transaction promotes the public interest, the Commission has said it would look to the following list of factors:

a. Effect of the transaction on consumers, including:

(i) Effect of the transaction on the financial condition of the newly created entity as compared to the financial condition of the stand-alone entities if the transaction does not occur;

(ii) Reasonableness of the price; in light of potential savings caused by merger and is the price within a reasonable range;

(iii) Whether ratepayers' benefits can be quantified;

(iv) Whether there are any operational synergies that justify payment of premium; and

(v) The effect of the proposed transaction on the existing competition.

b. Effect of the transaction on the environment.

c. Whether the proposed transaction will be beneficial on an overall basis to state and local economies and to communities in the areas served by the resulting public utility operations in the state.

(i) Whether the proposed transaction will likely create labor dislocations that may be particularly harmful to local communities, or the state generally, and whether measures can be taken to mitigate the harm.

d. Whether the transaction preserves KCC jurisdiction to regulate and audit operations in the State.

e. Effect of the transaction on shareholders.

f. Whether the transaction maximizes the use of Kansas energy resources.

g. Whether the transaction will reduce the possibility of economic waste.

h. What impact, if any, the transaction has on public safety.

i. The regional benefits of a proposed transaction, such as the impact on neighboring states.

j. Whether the transaction would result in unnecessary duplication of utility service.

k. The impact on wholesale competition.

l. The effect on reliability of service – will it promote adequate and efficient service.

m. Will the new entity have the managerial, technical and financial ability to continue operating effectively to provide efficient and sufficient service to its Kansas customers?

Q: Did Joint Applicants take the Commission's Merger/Acquisition Standards into consideration in developing their Transaction?

A: Yes we did. The Transaction meets each of these standards as follows:

a. The Transaction will have a positive effect on consumers.

Q: How will the Transaction have a positive effect on KCP&L's and Westar's customers?

A: As a result of the Transaction our customers will be served by an entity with a strong investment grade financial position with access to the capital markets consistent with other highly rated entities. GPE witness Mr. Kevin Bryant discussed this in detail in his Direct Testimony.

In addition, cost savings resulting from the acquisition will flow to customers in the form of lower revenue requirements than would otherwise be possible absent the Transaction. This savings for customers will continue indefinitely. GPE witness Mr. William Kemp discusses GPE's estimate of Transaction-related savings in his Direct Testimony. Mr. Bryant also discusses the reasonableness of the purchase price in the Transaction in relation to the savings anticipated as a result of combining the two companies.

Finally, this Transaction will not affect the certificated territories of Westar or KCP&L. Under the Retail Electric Supplier's Act, K.S.A. 66-1,170 *et seq.*, Kansas only allows one electric utility company to serve retail customers in each geographical territory in the State. As such, the acquisition of Westar by GPE will have no effect on existing competition because presently there is no such competition for retail customers and that will not change as a result of the acquisition.

Q: How will customer rates be affected by the Transaction?

A: The Transaction will have a benefit for customers going forward because the Transaction-related savings discussed by Mr. Kemp will begin flowing to customers in the form of rates to be set in future rate cases that will be lower than in the absence of the Transaction.

Significantly, GPE commits that it will not request inclusion of goodwill for this Transaction, inclusive of the acquisition premium and transaction costs, in the revenue requirements of either KCP&L or Westar at any time.

b. The Transaction will not have any detrimental effect on the environment.

Q: What environmental impact will result from the Transaction?

A: KCP&L and Westar have both been strong environmental stewards and GPE intends to continue with the environmental plans and programs of both companies upon approval, so there will be no detrimental impact from the Transaction in this area. Because the State of Kansas is one of the premiere locations for the siting of wind power, the Transaction may enable the future construction of additional wind generation in Kansas, a significant portion of which could be used to serve Kansas customers. In this fashion, the Transaction would have a positive impact on the environment.

c. The Transaction will be beneficial on an overall basis to state and local economies and the communities served by the utilities.

Q: Will the proposed Transaction be beneficial to state and local economies and the communities served?

A: Yes. The efficiencies it will create will result in energy costs that are less expensive for customers. Because virtually everything in our economy is powered in some fashion by electricity, lower prices mean lower cost of factor inputs. As these lower input costs ripple through the economy, virtually everyone benefits. These overall benefits would be unlikely to occur had Westar chosen a purchaser without significant Kansas operations in and ties to the State of Kansas. This Transaction assures that control of the two largest

Kansas utilities will remain in familiar hands. GPE is a Midwestern utility holding company whose utility operating companies today serve nearly 250,000 customers in Kansas (in addition to serving over 600,000 customers in Missouri) and the combination with Westar will bring over 700,000 additional Kansas customers under GPE; and it is important to us that we do our part to support and maintain a strong economic environment in our service territories. This is in our best interest as well as the interest of our customers. In this regard, we share a common vision for our customers, employees, investors and the communities we serve. In furtherance of this goal, GPE has committed to the following as a part of the Agreement:

(1) Retain Westar's Topeka downtown headquarters as GPE's Kansas headquarters.

(2) Maintain aggregate levels of Kansas community support and charitable giving at Westar's 2015 levels until at least five years after the close of the Transaction.

(3) Maintain service quality and reliability consistent with Commission standards.

(4) Honor all existing collective bargaining agreements.

(5) Maintain existing compensation levels and benefits of Westar employees for two years after the closing of the Transaction.

(6) Make best efforts to achieve desired staffing reductions through natural attrition.

(7) Consider targeted voluntary staffing reduction programs if natural attrition is not sufficient. Where severance is unavoidable, honor, and in some cases enhance, Westar's employee severance package.

(8) Maintain and promote all low-income assistance programs consistent with those in place at all operating utility companies prior to the Transaction.

Mr. Bassham addresses many of these commitments in more detail in his Direct Testimony.

d. The Transaction will preserve the Commission's jurisdiction to regulate and audit operations of the utilities.

Q: Will the Transaction have any detrimental impact on the Kansas Commission's ability to regulate the companies and protect electric utility customers in the State?

A: No. The Commission's jurisdiction will continue to be as comprehensive over the combined company as it is presently over the companies on an individual basis.

e. The Transaction will have a positive effect on shareholders.

Q: How will Westar and GPE's shareholders benefit from the Transaction?

A: GPE witnesses Terry Bassham and Kevin Bryant, and Westar witness, Mark Ruelle address this issue in detail in their Direct Testimony. Westar shareholders get immediate benefits at the time of closing through the cash and stock compensation defined in the Agreement. GPE shareholders receive their benefits over time as the new larger organization integrates operations and grows going forward.

f. The Transaction will maximize the use of Kansas energy resources by the utilities.

Q: How will the Transaction maximize the use of Kansas energy resources?

A: Both companies have already committed to significant quantities of native Kansas energy resources, predominantly wind energy, and will continue those commitments. It is likely that the combined company will be in a better position to take further advantage of those resources in the future. Additionally, the combined company will continue to operate its Kansas resources including Wolf Creek Nuclear Generating Station ("Wolf Creek"), the only nuclear facility sourced in Kansas, which will be 94% owned by GPE utility subsidiaries upon closing of the Transaction. GPE will have the opportunity to employ best practices across the combined organization to provide efficiency benefits across all Kansas resources.

g. The Transaction will reduce the possibility of economic waste.

Q: How will the Transaction reduce the possibility of economic waste?

A: Creating efficiencies is the primary driver of the Transaction. The savings discussed and quantified in the Direct Testimony of GPE witness William Kemp, demonstrate how the Transaction will reduce the possibility of economic waste.

h. The Transaction will have a positive impact on public safety.

Q: How will public safety be enhanced as a result of the Transaction?

A: By combining the companies and adopting “best practices” for both utilities, we expect a positive effect on safety for both the public and our employees. KCP&L has a good safety record and has performed at a high level in large construction projects, but Westar’s safety record over last several years outpaces KCP&L’s. We expect to leverage best practices in this area across both companies in advancing our goal of becoming world class in safety performance.

i. The Transaction will result in positive regional benefits.

Q: How will the combination of the two companies impact the region and Kansas’ neighboring states?

A: By creating, and then giving back to customers, cost saving efficiencies that keep energy costs affordable, we expect the Transaction to have a positive impact on Kansas and the region surrounding Kansas. Because electricity is a factor of production for virtually everything, affordable energy costs benefit the regional economy. Additionally, this

Transaction retains local control and management of both of the region's largest electric utilities.

Although it is our sincere belief that the MPSC does not have jurisdiction to approve the Transaction, we have made it clear we will be working closely with the MPSC to ensure the Missouri public interest is addressed in this process.[10] Savings and efficiencies as a result of the Transaction will also flow to GPE's Missouri customers.

Also, the fact that all operating electric utilities of the combined company are already full participating members of the Southwest Power Pool ("SPP") Regional Transmission Organization ("RTO") will make the impact on the SPP region seamless.

j/k. The Transaction will not result in unnecessary duplication of utility service or impact wholesale competition.

Q: Will there be any duplication of services as a result of this Transaction?

A: No. Quite the opposite. Efficiencies we intend to gain will be created through elimination of duplicative and redundant processes. Additionally, the Transaction will enable additional service offerings to Kansas customers by adopting "best practices" and leveraging the experience of both KCP&L and Westar regarding service offerings that can be expanded across both jurisdictions.

As members of SPP, KCP&L and Westar transferred the functional control of their transmission systems, including the approval of transmission service, to the SPP. The SPP coordinates the operation of KCP&L and Westar's transmission systems across the entire region. The Transaction will not result in duplication of transmission. This is discussed in more detail in the Direct Testimony of Scott Heidtbrink.

[10] The MPSC has opened an investigative docket to evaluate the potential impact of the Transaction on Missouri customers. Case No. EM-2016-0324, *In the Matter of Great Plains Energy Inc.'s Acquisition of Westar Energy, Inc. and Related Matter.*

Q: What about the impact on wholesale competition?

A: There will be no negative impact on wholesale competition, especially since wholesale transactions are now controlled by the SPP's integrated marketplace. As discussed in the Direct Testimony of Mr. Heidtbrink, both KCP&L and Westar are regulated by the Federal Energy Regulatory Commission with respect to transmission and wholesale sales and rates, and will continue to be following the close of the Transaction. Both companies participate in the wholesale market, the Integrated Marketplace or IM, managed by the SPP. For both companies, wholesale power sales flow through their respective energy adjustment clause to benefit our retail customers.

l. The Transaction will promote sufficient and efficient service.

Q: What impact will the Transaction have on the companies' ability to provide sufficient and efficient service?

A: A positive one. Both Westar and KCP&L already provide high quality, reliable service to their customers. Over the last several years GPE's utility subsidiaries have received a number of reliability and customer awards as more fully addressed in the Direct Testimony of Charles Caisley.

Additionally, KCP&L and Westar both meet or exceed the Electric Reliability Standards set out by the Commission.[11] As discussed in the Direct Testimony of Mr. Scott Heidtbrink, post-Transaction both utilities will continue their long tradition of high quality, reliable service and compliance with the Commission's standards. Through the joint integration efforts, as more fully described by KCP&L witness Steven Busser, and continuing efforts after this Transaction, our operations staff will review the practices

[11] *See* Docket No. 02-GIME-365-GIE, *Order Setting Electric Reliability Requirements for Jurisdictional Electric Companies*, issued Jan. 16, 2004, supplemented Oct. 4, 2004, Attachment A, *Electric Reliability Requirements*.

of each entity and adopt the process or operation we find to be the "best practice" overall. This is a common exercise in a post-merger environment because it provides immediate and observable improvements and benefits.

In addition, after the Transaction, we will have access to the high quality staff of both companies to deploy for the benefit of all customers. This can only benefit our customers and improve the reliability of the service we provide for both companies.

m. The new, combined company will have the managerial, technical and financial ability to effectively operate the utilities.

Q: In any certification related proceeding, including reviews of acquisition proposals like the one in this docket, the Commission always evaluates the post-acquisition entity's "managerial, technical and financial" ability to operate the new, combined company. Have the Joint Applicants addressed these factors in the Application and their testimony?

A: Yes, we have. Mr. Bryant has provided testimony regarding the financial ability of the combined entities, Mr. Heidtbrink has testified about the technical abilities, and Mr. Bassham has provided testimony about the managerial ability of the post-acquisition company.

In addition, as I've discussed above, we will have the resources of both companies to deploy to the benefit of our customers and shareholders when the companies are combined, ensuring that we have an extremely qualified technical and managerial staff comprised of employees that have been providing high quality service to Kansas customers for many years.

IV. Public Outreach Efforts

Q: Has GPE engaged in any efforts to reach out to its customers to inform them about the Transaction and how it will impact them?

A: Yes, we have. We are aware of and sensitive to the fact that an acquisition such as this can raise concerns for customers; particularly for the customers of the utility being acquired. KCP&L began outreach to affected communities immediately following the announcement of the Transaction. In his Direct Testimony, Mr. Caisley describes our outreach efforts since the announcement of the Transaction as well as our approach to customer outreach that will continue to be employed from now through completion of the Transaction and by the combined company post-closing.

V. Requested Regulatory Treatment for the Transaction

Q: What items must be included when considering the regulatory treatment of the Transaction?

A: Treatment of the various savings and costs related to the Transaction should be considered by the Commission including: Transaction savings and benefits, transition costs, transaction costs and acquisition premium. I will discuss each of these in turn.

Q: Does KCP&L propose that savings resulting from the Transaction be passed on to customers?

A: Yes. Mr. Kemp discusses the types and levels of savings expected from the Transaction in his Direct Testimony. Those savings are expected to be considerable at approximately $65 million in the first full calendar year following completion of the Transaction and growing to almost $200 million by the third full calendar year following completion. As noted above under the discussion of prior Commission orders on mergers and acquisitions, GPE agrees that a sharing of the savings between customers and shareholders is appropriate and proposes to do so by allowing the net savings to fully flow through to customers as a result of the normal process of future rate cases while the utilities maintain those net savings prior to those rate cases. In this fashion, all savings flow through to customers over time but the utilities are allowed to share in those savings by keeping them in between rate cases, which has the effect of reducing the magnitude of future increases and, where permitted, likely the frequency of future rate increases. This is a simplistic but effective sharing mechanism.

Q: What do you mean by "net savings"?

A: The savings flowing through to customers would be net of transition costs.

Q: What are transition costs?

A: Transition costs are those costs attributable to the actual integration of the companies. Transition-related costs refer to those costs necessary to ensure that the savings and efficiencies are achieved and that the integration process is effective. Transition costs are necessary to unlock the savings of the Transaction.

Q: What are some examples of transition-related costs?

A: These costs include severance and retention costs as well as costs associated with process integration. These costs are discussed more fully in the testimony of Mr. Kemp.

Q: Why are transition-related costs netted against the savings?

A: As explained above, transition costs are costs incurred by the post-acquisition entity to ensure that savings are achieved and the integration process is effective. In other words, for customers to receive the benefit of the lower operating costs made possible by the Transaction, certain costs must be incurred. A good example of a transition cost would be the cost incurred to merge two computer systems into one, more efficient platform. The transition cost – the cost to plan and implement the combination of the systems – is necessary to unlock the future savings – lower system costs going forward. It is appropriate to net the transition cost against the savings to determine the true savings achieved.

Q: What is GPE's proposal regarding rate recovery of transition costs?

A: We are asking that we be allowed to include in our revenue requirement in future rate cases any transition costs incurred during the test year provided that those transition costs produce savings (*i.e.*, revenue requirement reductions) in excess of the associated cost. This is fair and reasonable since these transition costs are necessary to produce the associated savings, and 100% of those savings will be flowed through to the benefit of customers in the form of revenue requirement and rates lower than they would otherwise be.

This proposed treatment of transition costs is consistent with traditional treatment by the Commission for costs of this nature. For example, if KCP&L were to implement an early retirement plan resulting in a lower salary expense going forward, the costs of the plan would be considered legitimate costs to include in the revenue requirement calculation. The fact that such revenue requirement reduction opportunities will be enabled by the Transaction should not change that ratemaking treatment.

Q: Since these transition costs are most likely to be one-time costs, wouldn't the Commission normally amortize them over a period of years?

A: Generally, the Commission would consider some degree of amortization of such costs to set revenue requirements and rates. As long as the parameters of an amortization are fair and reasonable, KCP&L would not disagree in principle with an adjustment along those lines.

Q: What is meant by transaction costs?

A: Transaction costs refer to those costs necessary to support efforts to evaluate, negotiate and complete a transaction and the associated transaction agreements through and including approval of the transaction.

Q: What are some examples of transaction costs?

A: As discussed in the testimony of Mr. Bryant, transaction costs include such items as legal, investment banker and consulting fees associated with the evaluation, bid, negotiation and structure of the Transaction.

Q: Is GPE asking the Commission to allow inclusion of Transaction costs in KCP&L's or Westar's revenue requirements?

A: No. GPE has clearly represented in this Application that it has not, and will not, seek to include transaction costs in the revenue requirement of KCP&L or Westar in any rate case.

Q: Is there an acquisition premium, or goodwill, being paid by GPE for Westar?

A: Yes, there is. This is discussed in the Direct Testimony of Mr. Bryant.

Q: Is KCP&L requesting recovery of the acquisition premium, or goodwill, from customers?

A: No. Similar to the Transaction costs, KCP&L is not requesting inclusion of acquisition premium, or goodwill, in KCP&L's or Westar's revenue requirements.

Q: Are there other regulatory treatment considerations that the Commission should review?

A: Yes. As noted in the next section, GPE has made a number of regulatory commitments as part of the Transaction.

VI. <u>Regulatory Commitments</u>

Q: What regulatory commitments has GPE undertaken related to the Transaction?

A: GPE agreed to a number of regulatory commitments related to the Transaction regarding customer rates, financial integrity, capital requirements, service quality and reliability, books, records and information, collective bargaining, low-income assistance, and charitable and community involvement.[12] Mr. Bassham described several of these in his Direct Testimony including the commitments to honor existing labor contracts and the commitment to maintain levels of charitable and community involvement at Westar's 2015 levels for five years following the Transaction. I will discuss the others below.

Q: Please describe the commitments made relating to customer rates.

A: As noted earlier, a significant benefit to Kansas customers is GPE's commitment to not seek inclusion in KCP&L's or Westar's revenue requirements of any transaction costs or acquisition premium. And as noted below, GPE plans to continue with the current KCP&L and Westar business plans for filing future rate cases, which assures that we will flow back net savings to customers in the cost of service. The third commitment related to customer rates requires that each utility subsidiary will provide an updated cost allocation manual to the Commission. This last requirement is consistent with the

[12] *See* Agreement and Plan of Merger, dated May 29, 2016, Exhibit B.

requirements already in place under the Commission's affiliate transaction and ring-fencing rules ordered in Docket No. 06-GIMX-181-GIV.[13]

Q: What are the financial integrity and capital requirements commitments GPE made in the Agreement?

A: GPE agreed to protect its subsidiary utility customers from adverse capital cost impacts related to the Transaction, if any. Specifically, GPE agreed that its subsidiary utilities' capital costs used to set rates will not increase as a result of the Transaction, and that its utility subsidiaries' customers will not bear any financing costs associated with the Transaction such as interest expense associated with any debt issued to finance the Transaction. GPE agreed to maintain separate capital structures to finance the activities and operations of each entity and maintain separate debt, which is separately rated by national credit rating agencies, unless otherwise approved by the Commission, and to maintain investment grade ratings for both GPE and its utility subsidiaries. Finally, GPE acknowledged the importance of addressing its utility subsidiaries' continued need for significant amounts of capital for supply and delivery infrastructure, including renewable energy resources and other environmental sustainability initiatives such as energy efficiency and demand response programs.

Q: What commitments did GPE make regarding service quality and reliability?

A: KCP&L consistently provides high quality service and reliability and has proven this even through its prior acquisition of Aquila in 2008. KCP&L has also complied with the Commission standards and requirements under Docket No. 02-GIME-365-GIE regarding

[13] In the Matter of the Investigation of Affiliate and Ring-Fencing Rules Applicable to all Kansas Electric and Gas Public Utilities, Docket No. 06-GIMX-181-GIV, *Order Adopting Report of Staff and Active Participating Utilities and Approving Procedure for Filing Information* (issued Dec. 3, 2010).

customer service quality and reliability reporting. GPE agreed to continue such compliance for its subsidiary utilities going forward and to agree to reasonable conditions regarding service quality and reliability, if any, as part of the approval process for this Transaction.

Q: Please describe the commitments made by GPE in regard to books, records and information related to this Transaction.

A: Simply put, GPE agreed to continue what it has always done in providing reasonable access for its regulators to information, books and records. In addition, GPE agreed to maintain separate books and records for its utility subsidiaries, other affiliates and itself.

Q: Please describe the remaining commitment regarding low-income assistance.

A: KCP&L and Westar each have a history of supporting and promoting assistance for their low-income customers. GPE agreed to continue to maintain and promote low-income assistance programs consistent with those in place prior to the Transaction.

VII. Post-Closing Company Structure and Anticipated Rate Case Filings

a. Company Structure

Q: If all necessary approvals of the Acquisition are obtained and the Transaction closes, how does GPE intend to structure the regulated companies and their tariffs?

A: KCP&L will continue operating in Kansas as a subsidiary of GPE as it has done in the past. Westar will also be operated under its current utility operating structure as a subsidiary of GPE. No tariff changes will occur immediately as a result of the Transaction. As such, the transition should be seamless to all customers.

Q: Will GPE look to standardize the rules and regulations of the KCP&L and Westar subsidiaries post-closing?

A: Yes. As part of the integration process, we will look at the differences in the two companies' Kansas tariff rules and regulations,[14] determine best practice, and, as appropriate, file for Commission approval of changes to standardize terms and provisions of service under our tariffs. That process will take time, coordination with Commission Staff and approval of the Commission to implement.

Q: Does GPE plan to standardize rate design between KCP&L and Westar going forward?

A: We will certainly look at opportunities to standardize rate design at some point in the future; however, there are no immediate plans to do so.

b. Rate Case Filings

Q: What is GPE's intent regarding future rate cases for the two subsidiaries?

A: As a result of KCP&L's and Westar's last general rate cases in 2015, each company is scheduled to file an abbreviated rate case in the latter part of 2016. GPE will ensure that KCP&L complies with its commitment to file an abbreviated rate case later this year. In his Direct Testimony, Westar witness Mark Ruelle addresses Westar's planned and authorized abbreviated rate case later this year. I understand Westar plans to proceed with its abbreviated rate case as authorized.

In 2018, KCP&L plans to file a general rate case, primarily to recover costs being incurred to implement a new customer information system. We currently expect the cut-off period for that case will be some time in the second quarter of 2018. Assuming the

[14] Westar refers to these as General Terms and Conditions for their tariffs.

Transaction closes in the second quarter of 2017, GPE will have had an opportunity to implement a number of savings opportunities resulting from the Transaction and those savings can be reflected in customer rates (net of the associated transition costs necessary to produce the savings) resulting in lower revenue requirement and rates for KCP&L customers than would have occurred in the absence of the Transaction.

As discussed in the Direct Testimony of Mark Ruelle, I understand Westar also plans to file a general rate case in 2018, with Westar's case being driven primarily by its investment in wind generating facilities and the expiration of a sizeable wholesale power contract. The cut-off period for that Westar case is expected to be in the second or third quarter of 2018. Again, assuming the Transaction closes in the second quarter of 2017, GPE will have had an opportunity to implement a number of savings opportunities resulting from the Transaction and those savings can be reflected in customer rates (net of the associated transition costs necessary to produce the savings) resulting in lower revenue requirement and rates for Westar customers than would have occurred in the absence of the Transaction.

Although no specific general rate case plans have been identified at this time for KCP&L or Westar after the 2018 cases discussed above, it is expected that additional Transaction-related savings opportunities will continue after the cut-off period for the 2018 rate cases. 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. The Transaction presents an opportunity for lower and slower rate increases for Kansas customers than could have been achieved absent the Transaction.

Q: How would you characterize the benefits of the rate treatment GPE proposes for Transaction-related savings?

A: Given the increasing cost of service environment and slowing growth in kWh sales the electric utility industry has been experiencing generally in recent years, we do not believe KCP&L and Westar can avoid the filing of rate cases for extended periods of time, even with the benefits to be produced by the Transaction; however, we do believe that the Transaction will enable us to make lower revenue requirement requests and reduce the frequency of those rate increase requests than would be the case in the absence of the Transaction. This is a significant benefit of the Transaction and supports the reasonableness of the proposed rate treatment.

Additionally, as GPE is not asking for customers to pay any transaction costs or any portion of the acquisition premium, there is no need for tracking savings and benefits and savings to customers will be larger and earlier than had GPE requested recovery of these costs. There can be significant difficulties in attributing transaction savings and efficiencies in the years subsequent to the close of a transaction. GPE's requested treatment allows savings and efficiencies to flow to customers through the normal ratemaking process in Kansas which allows the quickest opportunity to steady state operations for the combined company.

Q: Does that conclude your direct testimony?

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 Acquisition of Westar Energy, Inc. by Great Plains Energy Incorporated	)	**Docket No. 16-KCPE-_____**

AFFIDAVIT OF DARRIN R. IVES

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Darrin R. Ives, being first duly sworn on his oath, states:

1. My name is Darrin R. Ives. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Vice President – Regulatory Affairs.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Great Plains Energy Incorporated and Kansas City Power & Light Company consisting of twenty-seven (27) 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.

Darrin R. Ives
Darrin R. Ives

Subscribed and sworn before me this 28th day of June 2016.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4, 2019

NICOLE A. WEHRY
Notary Public - Notary Seal
State of Missouri
Commissioned for Jackson County
My Commission Expires: February 04, 2019
Commission Number: 14391200