BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

REBUTTAL TESTIMONY OF

KEVIN E. BRYANT

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 ENERGY, INC. BY GREAT PLAINS ENERGY INCORPORATED

DOCKET NO. 16-KCPE-593-ACQ

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I. Introduction and Purpose

Q: Please state your name and business address.

A: My name is Kevin E. Bryant. My business address is 1200 Main Street, Kansas City, Missouri 64105.

Q: Are you the same Kevin E. Bryant that provided Direct Testimony and Supplemental Direct Testimony on behalf of Great Plains Energy ("GPE") and Kansas City Power & Light Company ("KCP&L")[1] in this case?

A: Yes, I am.

Q: What is the purpose of your rebuttal testimony?

A: The purpose of my rebuttal testimony is to respond to the Direct Testimony of Kansas Corporation Commission Staff ("Staff") and intervenor witnesses regarding financial aspects of the proposed acquisition of Westar by GPE (the "Transaction").

Q: To what testimony do you respond regarding certain of the Kansas Corporation Commission ("KCC" or "Commission") Merger Standards?

A: My rebuttal testimony addresses the testimony of certain Staff and intervenor witnesses regarding the following KCC Merger Standards:

(a) The effect of the transaction on consumers, including:

(i) The effect of the proposed transaction on the financial condition of the newly created entity as compared to the financial condition of the standalone entities if the transaction did not occur. ("Merger Standard (a)(i)");

[1] GPE and KCP&L, together with Westar Energy, Inc. and Kansas Gas and Electric Company ("KGE") (collectively "Westar") are the "Joint Applicants".

(ii) Reasonableness of the purchase price, including whether the purchase price was reasonable in light of the savings that can be demonstrated from the merger and whether the purchase price is within a reasonable range. ("Merger Standard (a)(ii)");

(iv) Whether there are operational synergies that justify payment of a premium in excess of book value ("Merger Standard (a)(iv)"); and

(e) The effect of the transaction on affected public utility shareholders. ("Merger Standard (e)").

Q: How is the remainder of your rebuttal testimony organized?

A: My rebuttal testimony is structured as follows:

1. Section II provides an Executive Summary of my rebuttal testimony;
2. Section III provides an update on commitments and progress in the Transaction to-date;
3. Section IV discusses the effect of the Transaction on the going-forward financial condition of GPE (Merger Standard (a)(i));
4. Section V addresses the reasonableness of the purchase price, including the premium in excess of book value (Merger Standards (a)(ii) and (a)(iv));
5. Section VI responds to intervenor testimony regarding the effect of the Transaction on shareholders of GPE (Merger Standard (e)); and
6. Section VII summarizes my conclusions and recommendations.

II. Executive Summary

Q: Please summarize the primary points that you will make in response to Staff and intervenor witnesses testimony.

A: The primary points that I would like to highlight are:

1) Both S&P and Moody's have reviewed the Transaction and, in response, affirmed the existing investment grade credit ratings of Westar, KCP&L and KCP&L Greater Missouri Operations Company ("GMO") (collectively, the "operating utilities"). The credit metrics of the operating utilities, a fundamental measure of their financial risk, are unchanged by the Transaction.

2) GPE will also continue to maintain an investment grade credit rating following the Transaction. The Transaction is expected to have a near-term negative effect on GPE's financial risk due to the increased debt at the GPE parent holding company level to finance the Transaction. However, this is not uncommon in these types of transactions and, most importantly, any associated risk is borne by shareholders, not utility customers. Further, it is important to recognize that as the Transaction-related debt at GPE decreases, GPE's credit metrics will improve.

3) The Transaction will be financed using a low-cost financing mix, which necessitates the additional debt. Using a low-cost financing mix is necessary for the Transaction to be viable and create benefits for customers while also benefitting shareholders. The Transaction debt is being issued and held by the parent holding company and, as noted above, any risk associated with such debt will be borne by shareholders, not customers.

4) We provided assurances that customers will not be exposed to Transaction-related financial risks in Appendix B of the merger agreement. We greatly expanded these assurances here in our rebuttal case in response to specific issues raised by Staff and intervenor witnesses. These assurances provide customers with a greater degree of protection than exists today. The Commission can be confident that customers are not affected by the financing activity of GPE.

5) It is important to recognize that regulatory risk is a critical factor in the rating agencies' assessments. S&P and Moody's each discuss regulatory considerations in their respective assessments of the Transaction. The actions taken by the Commission in this proceeding, future rate cases and other proceedings will impact the credit rating agencies' assessment of the operating utilities.

6) As detailed in the rebuttal testimony of Joint Applicants' rebuttal witnesses Steven Busser, William Kemp and Thomas Flaherty, the Transaction will create substantial benefits for customers. Absent the ability to (1) finance the Transaction with low-cost debt, while (2) continuing to use a utility capital structure for ratemaking purposes (as opposed to the consolidated company capital structure resulting from the Transaction financing as suggested by Staff and some intervenors), then (3) the Transaction will not go-forward and these customer benefits will be lost.

7) The purchase price GPE agreed to pay for Westar is the result of a competitive auction, reflects the market value of Westar and is reasonable. And while significant operational savings will be created by the Transaction, the acquisition

premium necessary to unlock these savings will not be recovered from customers, rather it is paid for by GPE's shareholders.

8) The Transaction is positive for shareholders as evidenced by their overwhelming support for the Transaction. The fact that the Transaction is positive for shareholders does not negate the fact that the Transaction is also positive for customers.

Q: Please summarize your rebuttal testimony regarding the financing of the Transaction.

A: As I discuss later in my rebuttal testimony, we will finance the Transaction with a low-cost financing mix. "Financial engineering" or "double leverage" can simply and accurately be described as using low-cost debt at the parent holding company level to finance the Transaction. Contrary to the testimony of certain intervenors, this financing plan is beneficial and straightforward. Our approach to the Transaction balances the needs of customers and shareholders by allowing shareholders to use a low-cost financing mix while maintaining the credit of all of the combined Company's utility operating companies and insulating the utilities (and their customers) from any effects or costs of the parent holding company financing.

As I discuss in Section III of my rebuttal testimony, the most challenging Transaction-related financing – the equity issuances – have already been executed. With regard to the debt-related financing, we have executed interest rate hedges to lock in favorable, low rates. Consequently, virtually all Transaction-related financing execution risk has been addressed.

Finally, it is important to recognize that this financing plan, which relies on substantial debt financing in the current unprecedented low-cost interest rate environment, *enables* the creation of an energy company with much larger scale. This new company will create billions of dollars of cost savings while maintaining local control and the commitment to employees and our communities. Unquestionably, the new company is better positioned to serve Kansas for generations to come.

Q: Will the Transaction financing negatively affect the financial condition of the operating utilities?

A: No. As I highlighted earlier and will discuss in detail in Section IV of my rebuttal testimony, the financial condition of the operating utilities will not change due to the Transaction.

Importantly, the Transaction financing will not affect customers. We have proposed firm conditions that serve to insulate customers from any costs or effects of the parent holding company financing. We commited to this in the merger agreement, in our settlement in Missouri and with further commitments we are making here in our rebuttal in response to the issues raised by intervenors. I touch on the financial integrity-related conditions in sections IV and V of my rebuttal testimony. As discussed further in the rebuttal testimony of Messrs. Ives and Reed, these conditions are constructive and workable, have been utilized in other similar proceedings across the country, and may be adopted by the KCC to address such concerns, yet still allow the Transaction to be completed to create the benefits for customers that would otherwise be foregone.

Q: Will the financing of the Transaction negatively impact the financial condition of GPE?

A: Initially GPE will have elevated debt levels but will still continue to maintain investment grade credit ratings following the Transaction. S&P has reaffirmed GPE's current rating. The other major rating agency, Moody's, has indicated that GPE will likely see a slight degradation of its credit rating in response to the increase in parent holding company debt. But as I said, both have affirmed that GPE will remain investment grade. This near-term effect will be mitigated over time as Transaction debt will be paid down. It is important to recognize that the existing shareholders of GPE recognized and accepted this near-term effect on GPE's financial risk when they overwhelmingly approved the Transaction; and many shareholders again affirmed such acceptance by purchasing new equity to finance the Transaction.

Q: Please summarize your rebuttal testimony regarding the reasonableness of the purchase price.

A: As discussed in Section V of my rebuttal testimony, some attention has been devoted by certain intervenors to the topics of "deal leaks," comparable transactions, precedent transactions, discounted cash flow ("DCF") analysis and "control premium", calling into question whether the purchase price GPE's shareholders agreed to pay Westar's shareholders is reasonable. The bottom line is that Westar's Board of Directors conducted a professional, competitive, arm's length process. The purchase price resulting from that process is, by definition, fair value and, as such, reasonable. Ultimately, GPE was able to offer the highest purchase price due to the value of the numerous unique benefits that the combination of GPE and Westar will create and that were not available to other bidders. This Transaction and its purchase price was the result of a competitive process, is reasonable and is justified based upon the fundamentals of the Transaction.

Q: Please summarize your rebuttal testimony regarding the acquisition premium.

A: As discussed in the rebuttal testimony of Joint Applicant witness Mr. James Proctor, determining whether there are operational synergies that justify payment of a premium in excess of book value is only relevant for purposes of assessing Merger Standards (a)(ii) and (a)(iv) when companies seek recovery of the acquisition premium from customers through inclusion of those costs in rates. That is not the case here, given that we made the significant concession not to seek rate recovery of the acquisition premium or transaction costs as part of our application. As discussed in Section V of my rebuttal testimony, while significant operational savings will be created by the Transaction, the acquisition premium necessary to unlock these savings will not be recovered through customer rates.

Q: Please summarize your rebuttal testimony regarding the effect of the Transaction on GPE and Westar shareholders.

A: The effect on GPE and Westar shareholders is demonstrably positive as evidenced by their overwhelming support for the Transaction and the over-subscription of the September 2016 equity issuances. And, as discussed in the rebuttal testimony of Mr. Reed, shareholders do not need to be protected from their decisions nor should they be prohibited from making them.

III. Transaction Updates

Q: What steps has GPE taken since the announcement to advance the financing of the Transaction?

A: On June 6, 2016, GPE entered into $4.4 billion of interest rate swaps to hedge against potentially higher interest rates on long-term debt that will be issued to fund the Transaction. These swaps protect us against the possibility of having to fund the debt portion of the acquisition at higher rates.

On September 26, 2016 at special shareholder meetings held by both Westar and GPE, shareholders overwhelmingly supported the Transaction with over 92% of votes cast by GPE existing shareholders and over 95% of votes cast by Westar existing shareholders in favor the Transaction. GPE has a strong, sophisticated and informed institutional shareholder base. In fact, institutional shareholders own approximately 85% of GPE's common equity, and the vast majority voted in favor of the transaction. Likewise, as discussed by Mr. Ruelle, Westar's shareholders consist of tens of thousands of individuals and institutional investors.

The day after the shareholder vote, support for the Transaction was further validated when GPE successfully issued $1.6 billion of common stock and $863 million of mandatory convertible preferred stock to the public markets. Both of these offerings were approximately two times oversubscribed (in other words demand for both securities exceeded the offerings by approximately 100%) with approximately 60 institutional investors with sizable and diverse investment portfolios participating in each offering. The successful completion of these equity issuances demonstrates the favorable view of the Transaction by some of the most sophisticated investors in the world.

Q: What is the importance of these financing activities?

A: They remove financing execution risk and position GPE to unlock the billions of dollars of efficiencies and customer savings that will result from the Transaction. With the interest rate risk on the planned debt issuances hedged, Transaction value is protected from fluctuations in interest rates through the Transaction's close. And with equity market risk the largest variable to complete this Transaction, we made it a priority to prudently execute equity financing and eliminate this risk at the earliest point possible. Given this priority, the successful common stock and mandatory convertible preferred stock offerings reduce financial execution risk and highlight the overwhelming support GPE received from both sophisticated existing shareholders and new equity investors. These investors, in contrast to Staff and other intervenors, believe the purchase price is reasonable, are supportive of GPE's financing structure and are enthusiastic about the benefits of the proposed merger. The Commission can have full confidence in the execution of our financing plan, particularly given the most challenging aspects of its execution have already been completed.

Q: Are these steps consistent with GPE's commitments?

A: Yes, these steps are consistent with the financing plan we outlined when the Transaction was announced on May 31, 2016 and reinforce our commitment and ability to execute this plan in a prudent manner that manages and eliminates risk as early as possible along the way.

Q: How will this progress benefit the customers of the merged company?

A: This progress will benefit customers in that it advances GPE towards a merged company where customers will directly benefit through the billions of dollars of savings the Transaction offers with appropriate protections for customers.

IV. Financial Condition

a. Introduction

Q: Which Merger Standard will you address in this section of your testimony?

A: I address the testimony of Staff and intervenor witnesses regarding:

(a) The effect of the transaction on consumers, including:

(i) The effect of the proposed transaction on the financial condition of the newly created entity as compared to the financial condition of the standalone entities if the transaction did not occur. (Merger Standard (a)(i)).

Q: What testimony of Staff and intervenor witnesses do you address in this section of your rebuttal testimony?

A: I respond to the following Staff and intervenor witnesses who question whether the Transaction, and GPE's plans for financing it, places excessive risk on customers.

- Direct Testimony of KCC Staff witnesses McClanahan (starting on page 10); Grady (starting on page 6) and Gatewood (starting on page 3);
- Direct Testimony of CURB witness Crane (starting on page 7):
- Direct Testimony of KCBPU witnesses Lesser (starting on page 14) and Krajewski (starting on page 6);

- Direct Testimony of KEPCO witnesses Doljac (starting on page 6), Kirsh (starting on page 5) and Dismukes (starting on page 19);
- Direct Testimony of KMEA/KMU/IP&L witness Herz (starting on page 8); and
- Direct Testimony of KICG witness Gorman (starting on page 3).

b. Financial Condition and Credit Ratings

Q: What do you address in this section of your rebuttal testimony?

A: The purpose of this section of my testimony is to respond to Staff and intervenor witnesses regarding the purported financial risks of the Transaction, including their alleged effect on the financial condition and credit ratings of GPE, Westar and KCP&L.

Q: What are credit ratings?

A: Credit ratings are evaluations by credit rating agencies of the creditworthiness of debt-issuing entities and a measure of the probability of default, or the failure to pay interest or principal on a debt security when due. These forward-looking opinions are represented by a letter rating, with further sub-ratings, which is an ordinal or positional ranking of the entity and/or a specific debt issuance. The rating is representative of the credit quality of a given entity or issuance and is ranked relative to others across a spectrum of risk including both financial risk and business risk. GPE, Westar and KCP&L are rated by the two most prominent credit rating agencies, S&P and Moody's. The table below provides the letter rating scales used by these rating agencies.

Table 1: Credit Rating Scales

	S&P	Moody's
Investment Grade	AAA	Aaa
	AA	Aa
	A	A
	BBB	Baa
Sub Investment Grade	BB	Ba
	B	B
	CCC	Caa
	CC	Ca
	C	
In Default	D	C

The rating agencies also use sub-ratings, or "notches" within each rating category, and outlooks (e.g., positive, stable, negative). S&P denotes ratings notches with a "+" or "-" (*i.e.*, BBB+, BBB, and BBB-), and Moody's denotes notches with a 1, 2, or 3 (*i.e.*, Baa1, Baa2, and Baa3, with 1 being the highest).

Q: How do S&P and Moody's assess a company's financial risk?

A: S&P focuses on two core financial ratios for assessing the company's financial risk profile to establish the company's credit rating. These two S&P credit metrics are:

1. The ratio of Funds from Operations to Debt ("FFO/Debt"); and
2. The ratio of Debt to Earnings before Interest, Taxes, Depreciation and Amortization ("Debt/EBITDA")

Both of these ratios measure the amount of debt in relationship to the amount of annual cash flow.

Moody's uses four key ratios as part of their credit rating methodology used to establish a company's credit rating. These credit metrics are:

1. The ratio of Cash Flow from Operations before changes in working capital and interest to interest ("(CFO Pre-WC+Interest)/Interest") to measure the relationship between pre-interest cash flow and interest;
2. The ratio of Cash Flow from Operations before changes in working capital to Debt ("CFO Pre-WC/Debt") to measure the relationship between cash flow and debt;
3. The ratio of Cash Flow from Operations before changes in working capital and dividend payments to Debt ("(CFO Pre-WC-Dividends)/Debt") to measure the relationship between cash flow after dividends to debt; and
4. The ratio of Debt to total Capitalization ("Debt/Capitalization") to measure the relationship between debt and total capital. Moody's also considers the ratio of parent holding company debt to total outstanding debt to establish the difference between the parent holding company credit ratings and the subsidiary company credit ratings.

Q: How much do credit metrics impact credit ratings?

A: In S&P's credit rating methodology, credit metrics impact a company's financial risk profile which, when combined with a company's business risk profile, establishes the company's anchor credit rating before other credit modifiers are applied. This means that credit metrics have a 50% or less impact on a company's S&P credit rating. In Moody's credit rating methodology, credit metrics have a 40% weighting in determining a company's Moody's credit rating. While credit metrics are an important part of determining credit ratings, they contribute no more than half to the ultimate credit ratings developed by S&P and Moody's and cannot be relied on as the sole determination of financial condition.

Q: Does the regulatory environment affect credit ratings?

A: Yes. For S&P, the other half of a utility's credit rating is determined by their assessment of a company's business risk profile. Half of this assessment of business risk profile is driven by S&P's view of the regulatory environment. As described by S&P, "The regulatory framework/regime's influence is of critical importance when assessing regulated utilities' credit risk because it defines the environment in which a utility operates and has a significant bearing on a utility's financial performance."[2] Said simply, a quarter of S&P's determination of a utility's credit rating is driven by their view of the regulatory environment.

Moody's has two rating factors that are impacted by the regulatory environment with each having a 25% weighting in their credit rating methodology. One factor is the Regulatory Framework: "For a regulated utility, the predictability and supportiveness of the regulatory framework in which it operates is a key credit consideration."[3] The other factor is the Ability to Recover Costs and Earn Returns: "The ability to recover prudently incurred cost in a timely manner is perhaps the single most important credit consideration for regulated utilities."[4] In combination, these two factors contribute half to Moody's determination of a utility's credit rating.

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[2] S&P Criteria Corporates Utilities: Key Credit Factors For The Regulated Utilities Industry, November 19, 2013, page 3.
[3] Rating Methodology, Moody's Global Infrastructure Finance-Regulated Electric and Gas Utilities, August 2009, page 6.
[4] Rating Methodology, Moody's Global Infrastructure Finance-Regulated Electric and Gas Utilities, August 2009, page 7.

The bottom line is that the rating agencies view of the regulatory environment is as important, if not more important, than credit metrics when determining a utility's credit rating. This is why the recommendations of Staff and intervenor witnesses regarding the use of the consolidated capital structure for utility ratemaking purposes are so concerning. As discussed by Messrs. Hevert and Reed, if the Commission adopts this recommendation, it would be a dramatic negative change in regulatory posture in Kansas and would be inconsistent with the approaches taken by regulators nationwide. This would very likely impact the rating agencies assessment of the Kansas regulatory framework, impacting every investor-owned utility in Kansas.

Q: Did S&P and Moody's review the Transaction and offer their respective assessments of its implications for the credit ratings of GPE, KCP&L and Westar?

A: Yes. The Joint Applicants reviewed the Transaction with both S&P and Moody's. The rating agencies also conducted their own analyses of the Transaction and published reports on the credit implications of the Transaction. S&P affirmed its corporate credit rating for GPE, KCP&L and Westar as BBB+ with a negative outlook. Moody's affirmed its long-term debt rating for KCP&L and Westar of Baa1 with a stable outlook. Moody's placed GPE's long-term debt rating of Baa2 under review for a possible downgrade to Baa3, still an investment grade rating. S&P's and Moody's reports on the credit implications of the Transaction, and its underlying benefits and risks from a credit perspective, were provided by the Joint Applicants in response to data request 18 from the Kansas Industrial Consumers Group.

Q: What is the importance of a credit rating agency's "outlook"?

A: An "outlook" reflects the agency's view of the future only if certain future events happen. It is important to recognize that an outlook is not the same as a credit rating action – the affirmation of the utilities' credit ratings is a definitive action by the agency stating that credit ratings are not changing, and Moody's negative watch for GPE is a specific action with regard to GPE's credit rating. While a "stable" or "positive" outlook is preferred, a "negative" outlook, or even a negative action, is not uncommon in utility transactions. For example, Moody's placed Wisconsin Energy Corporation ("WEC") on negative watch after the announcement of WEC's proposed acquisition of Integrys, a transaction which received the approvals of multiple regulatory jurisdictions and closed in 2015. S&P's "negative" outlook and and Moody's negative watch for GPE do not negate the benefits of the Transaction and the value it will create for customers and shareholders, which, as I discuss a bit later in my testimony, is recoginized very favorably by these credit rating agencies. Further, and most importantly, while we do not expect the Transaction to impact the utilities' risk, customers are nonetheless protected by the merger conditions we have proposed.

Q: Please expand on S&P's outlook.

A: S&P attributes its "negative" outlook specifically to potential future changes in GPE's financial condition if the Transaction does not proceed as planned.

> The ratings affirmation on GPE and its subsidiaries reflects our view that the Westar acquisition will enhance GPE's business risk profile given that Westar's operations also consist of regulated electric utilities that benefit from operations under a generally

> constructive regulatory framework and service territories with average customer growth. [5]

> The negative outlook on GPE and its subsidiaries reflects the potential for lower ratings if GPE's financial risk profile, which will deteriorate due to the financing used in the acquisition, does not improve after the transaction closes such that FFO to total debt is well over 13% after 2018. [6]

As I discuss later in my rebuttal testimony, and was recognized by S&P, GPE's financial profile is actually expected to strengthen over time so while S&P identifies potential future risk, this risk is not likely to materialize and customers will not bear this risk in the unlikely event it did materialize.

> We expect that after the acquisition closes, the combined entity's financial profile will strengthen mainly due to ongoing regulatory recovery of costs such that funds from operations (FFO) to total debt is consistently above 13%.[7]

Q: Please expand on Moody's outlook.

A: Moody's, on the other hand, attributed its "stable" outlook to improving credit profiles for the utilities.

> The transaction does not affect the credit of Great Plains' two subsidiaries, KCPL (Baa1 stable) and GMO (Baa2 stable), or Westar (Baa1 stable). We expect the stand-alone credit profiles for each of the utility subsidiaries to improve over the next two to three years. The utilities' stand-alone credit improvement will be driven, in part, by the conclusion of extensive environmental capital plans, as each utility prepares to meet federal emissions standards. The reduced capital spending will lower debt-financing needs at the same time the collective investments will be fully incorporated into the rate base, boosting revenue.[8]

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[5] S&P Global Ratings, Research Update: Great Plains Energy Inc. Ratings Affirmed, Outlook Revised To Negative On Proposed Acquisition Of Westar Energy, May 31 2016, page 2

[6] Ibid, page 4.

[7] S&P Global Ratings, Research Update: Great Plains Energy Inc. Ratings Affirmed, Outlook Revised To Negative On Proposed Acquisition Of Westar Energy, May 31 2016, page 2

[8] Moody's Investors Service, Issuer In-Depth, Great Plains Energy Incorporated FAQ: Great Plains' Acquisition of Westar (July 7, 2016), page 4.

Moody's outlook highlights the importance of regulatory actions on the utilities' risk and credit profiles. In fact, Moody's went on to state:

> **What is the main risk to Great Plains' investment-grade credit profile?** Regulatory contentiousness that results in stagnant financial performance is the biggest risk for the investment-grade credit profile. Great Plains will need to secure regulatory approvals and maintain sufficient regulatory support for its three utility subsidiaries…Great Plains needs healthy relationships with its regulators in order to achieve the cash flow improvements necessary to keep its investment-grade rating.[9]

As I discuss later in my testimony and is discussed by Messrs. Hevert and Reed, the actions of the Commission have a significant impact on GPE's and the operating utilities credit profiles.

Q: Is it customary in a transaction like the proposed merger to impact near-term credit metrics of the holding company?

A: Yes. As is customary when financing an investment made today that will deliver benefits over a longer-term, the Transaction-related debt will decrease GPE's credit metrics as compared to a standalone plan that does not include such an investment. Although the parent holding company credit metrics are projected to be lower than they would have been on a standalone basis, on average, they remain within the ranges acceptable for investment grade companies. As noted, S&P has maintained its current investment grade credit rating for GPE. And while Moody's has indicated that a one-notch downgrade is likely for GPE, GPE's credit rating by Moody's will also remain investment grade. That GPE's credit ratings will remain investment grade is driven by

[9] Moody's Investors Service, Issuer In-Depth, Great Plains Energy Incorporated FAQ: Great Plains' Acquisition of Westar (July 7, 2016), pages 1-2.

both maintaining investment grade credit metrics <u>and</u> maintaining a constructive regulatory environment.

Q: Will the Transaction affect the credit metrics of the operating utilities?

A: No. It is very important to recognize that although the debt GPE will issue in connection with the Transaction will impact GPE, it will not affect the credit metrics of its utility subsidiaries or their customers. Since the additional debt is only at the parent holding company level, the debt does not impact the Westar or KCP&L credit metrics. S&P and Moody's took this into consideration before affirming the existing investment grade credit ratings for each of the operating utility companies.

Q: Please describe the risks to GPE and how they might be mitigated.

A: There is always the risk to GPE that the earnings and cash flow of its operating utilities could be lower than expected. GPE also has the risk of servicing its debt obligations, that it incurred to finance the acquisition premium, and producing adequate returns for GPE shareholders. These are risks for GPE shareholders and not for customers of either Westar or KCP&L.

Meaningful opportunities are available to mitigate these risks and meet the needs of financing the acquisition and related costs, should the unexpected need to employ them arise. These options include issuance of additional equity, a reduction in the level of GPE dividends and/or withstanding a lower earned rate of return on the Westar's common equity than assumed. Although these opportunities would have a negative impact on shareholders, they are options available, if necessary, to provide further assurance that we can meet GPE's debt obligations related to the Transaction without asking customers to bear any of that risk.

Q: Will GPE have the ability to reduce its debt and improve its credit metrics after the Transaction closes?

A: Yes, as shown in the table and chart which follows, the Transaction-related net free cash flows are projected to be nearly **<u>**$500 million</u>**** in the first full five years following closing of the Transaction and will enable GPE to reduce its debt by just over **<u>**11%**</u>** This is accomplished while maintaining balanced capital structures at Westar and KCP&L.

The Transaction-related net free cash flows are the result of four fundamental drivers as follows:

1. Dividends received from Westar Utility Operating Company ("OpCo") Earnings – Based on the standalone operating and financial plans of Westar, earnings not paid to existing shareholders in the form of common dividends will instead be paid to the parent holding company.
2. Net after-tax operating cash flows from Transaction efficiencies – Reductions in operating expenses at Westar and KCP&L, after consideration for savings which will flow to customers through normal rate proceedings, will improve these utilities' ability to earn their allowed returns and create additional earnings that can be paid to the parent holding company
3. Dividends on Transaction related equity – The parent holding company will pay dividends on the common stock and mandatory convertible preferred stock issued to fund the Transaction.

4. Interest cost on Transaction related debt – The parent holding company will pay interest cost on the debt issued to fund the Transaction.

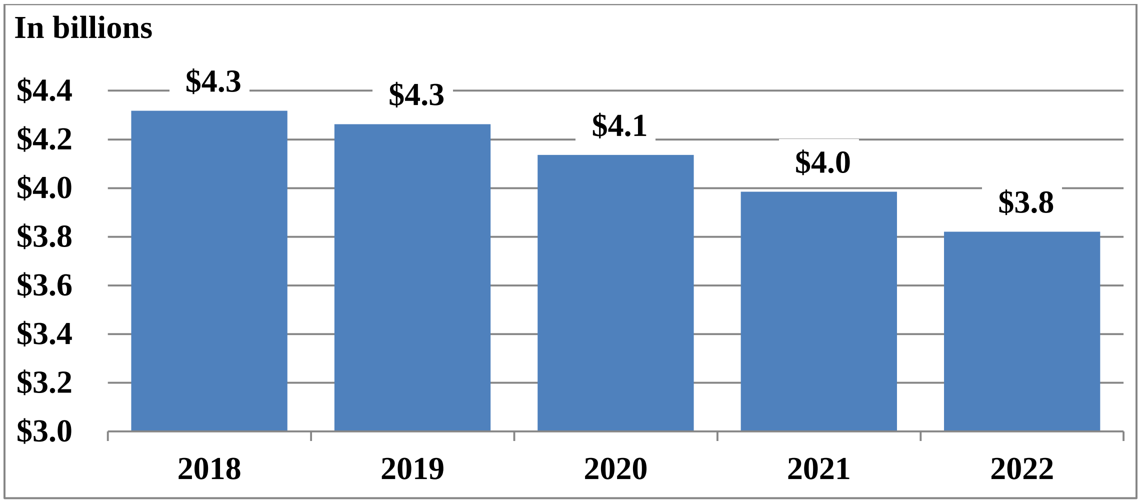
The following table summarizes Transaction-related net free cash flows for each of the first full five years following closing of the Transaction and the cumulative effect of these Transaction-related net free cash flows.

Table 1: Transaction-Related Net Free Cash Flows

In millions	**2018**	**2019**	**2020**	**2021**	**2022**
Dividends received from Westar OpCo Earnings	$352	$389	$402	$402	$402
Net after-tax operating cash flows from Transaction efficiencies	32	46	68	83	92
Dividends on Transaction related equity	(228)	(221)	(181)	(175)	(175)
Interest cost on Transaction related debt	(159)	(159)	(162)	(159)	(155)
Transaction-related net free cash flows	**($3)**	**$55**	**$127**	**$151**	**$164**
Cumulative	*($3)*	*$52*	*$179*	*$330*	*$494*

The following chart highlights GPE's ability to deleverage its balance sheet (i.e., pay down debt) by utilizing the Transaction-related net free cash flows (highlighted in the prior table) to pay down the debt originally issued to finance the Transaction.

Chart 1: Transaction-Related Net Debt



Q: Did the rating agencies recognize GPE's ability to deleverage its balance sheet?

A: Yes. This was recognized in the **** <u>S&P report dated May 18, 2016 that states "…. operating cash flow, after capital spending and dividends, would be positive over the 2018-2020 period, and would provide incremental operating cash flow that could be used to help support balance sheet deleveraging</u>."****

Q: Mr. Gatewood claims that the Transaction results in a financially weaker utility, and thus fails to meet Merger Standard (a)(i).[10] Do you agree?

A: No. While Mr. Gatewood devotes several pages of testimony to select excerpts from credit rating agency reports which focus solely on the potential for negative credit impacts after the Transaction closes, devoting little to no attention on the credit supportive impacts, the fact remains that both S&P and Moody's have indicated that GPE

10 Direct Testimony of Adam Gatewood, page 8.

will remain investment grade and the current credit ratings for all of GPE's utility subsidiaries will be maintained and unchanged from their current levels after the Transaction closes. Further, while credit quality of the combined entity has been affirmed by the rating agencies, there are other aspects of "financial condition" that are relevant to this merger standard. The improved access to capital, greater buying power, and overall larger size of the combined company will allow it to perform and withstand various market conditions better than otherwise. In addition to GPE's credit metrics improving over time as Transaction debt is paid down, I also expect the utilities' credit metrics to improve over time as efficiencies and savings are generated at the utilities. A more careful reading of the rating agencies' actual assessments demonstrates they balance their evaluations with both positive and negative credit sentiments, but express no sense of alarm and generally view the Transaction as favorable.

Q: Did S&P and Moody's offer viewpoints on the Transaction overall that the Commission should be aware of?

A: Yes. In its May 31, 2016 research update regarding its credit rating rationale, S&P states:

> Prospectively, the combined entity would have more diverse electric utility cash flow sources, strengthening the excellent business risk profile.[11]

Moody's offered its assessment in several reports.

> The acquisition of Westar will enhance the business profile of Great Plains in many ways, including: increased size, scale and scope; operating cost synergies due to a contiguous service territory; core competency in managing Missouri and Kansas

[11] S&P Global Ratings, Research Update: Great Plains Energy Inc. Ratings Affirmed, Outlook Revised To Negative On Proposed Acquisition Of Westar Energy, May 31 2016, page 3.

> regulatory and political environments; and the addition of $1.2 billion of FERC regulated transmission rate base.[12]
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> ***
>
> From a strategic perspective Moody's sees Westar as a natural fit for Great Plains, given overlapping service territories and a shared ownership of the 1,170 mega-watt Wolf Creek nuclear generation facility. Utilities with contiguous service territories tend to produce higher operating cost synergies.[13]

Moody's also explains its expectations regarding the outcome of the Commission's review of the Transaction which are reflected in Moody's business risk assessment which inform its ratings.

> We believe regulators will approve the combination because the reasoning behind spreading fixed costs across a larger asset base makes sense for all stakeholders. We also believe that regulators will approve the transaction based on prior approvals, such as when Kansas allowed Great Plains and Black Hills Corp. (Baa1 negative) to divide the assets of Aquila Inc. within the state. [14]

Q: What about the Fitch's Ratings ("Fitch") report referred to by KEPCO witness Mr. David Dismukes and Staff witness Mr. Gatewood?

A: Fitch does not provide credit rating services to GPE and has never discussed the Transaction with GPE management. Westar had previously utilized the Fitch rating services, but, unrelated to the Transaction, discontinued use of their services a couple of years ago. Given the lack of knowledge of Fitch about the two companies, the Transaction and the significant errors in the financing assumptions they used in their analysis, the Commission should give their report no weight.

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[12] Moody's Investors Service, Credit Opinion Great Plains Energy Incorporated: A Midwest Utility Holding Company, June 1 2016, page 4.
[13] Moody's Investors Service, Rating Action: Moody's Places Great Plains Energy on Review for Downgrade; Westar Energy, Kansas City Power & Light and KCP&L Greater Missouri Operations Affirmed; Outlooks Stable (May 31, 2016), page 3.
[14] Moody's Investors Service, Issuer In-Depth, Great Plains Energy Incorporated FAQ: Great Plains' Acquisition of Westar (July 7, 2016), page 1.

Q: Should the company's consolidated capital structure, which includes the Transaction-related debt, be used for utility ratemaking purposes as proposed by Staff witnesses Grady and Gatewood[15]?

A: No. Due to both the expected negative cash flow impact and the implications of a likely material degradation in the rating agencies' view of constructiveness of the Kansas regulatory environment, I would expect the use of the company's consolidated capital structure for utility ratemaking to contribute to the downgrading of the credit ratings of GPE and all of its utility subsidiaries, including Westar and KCP&L. Given these implications, as discussed in the rebuttal testimony of Mr. Terry Bassham, if the consolidated capital structure of the parent holding company is used for utility ratemaking purposes, GPE could not move forward with the Transaction and the benefits it would create would be lost.

Q: Please expand on why you believe it would be unreasonable to use the GPE consolidated capital structure, post-closing, to set rates for GPE's utility companies.

A: The matter is quite simple. The rates of both KCP&L and Westar have historically been set using actual capital structures with debt/equity ratios that have been very consistent with their peer utilities across the country. It is both reasonable, and necessary for the Transaction to go forward, to continue this practice after the Transaction closes. As discussed by Mr. Hevert in his rebuttal testimony, it is standard in the industry overall to use a utility capital structure to establish utility rates when (1) the utility issues its own debt without guarantees; (2) the utility has its own bond rating; and (3) the utility has a capital structure within the range of capital structures approved by the Commission.

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[15] See Direct Testimony of Staff Witnesses Grady (starting on page 58) and Gatewood (starting on page 35).

Using a parent company consolidated capital structure, with a debt ratio considerably higher than typical for utilities on account of Transaction-related debt, the proceeds of which cannot be used to support utility operations, to establish utility rates for Westar and KCP&L post-closing would be far outside industry norms. Rates today reflect the actual capital raised and retained that fund the utility assets (rate base) out of which we serve customers. That should remain the case after the Transaction closes.

Further, GPE is undertaking financing activities at the parent holding company level in connection with this Transaction that it would not do but for the Transaction and as a result GPE's consolidated capital structure will contain more debt than what would be typical for the utility peers of KCP&L and Westar. Because these financing activities are solely related to the Transaction and because the proceeds of such financing activities can only be devoted to one purpose at a time, it is clear that these proceeds will be dedicated solely to supporting the Transaction and will <u>not</u> support any of the operations of Westar and KCP&L. In his rebuttal testimony, Mr. Reed notes a number of transactions in which parent company debt was used, or a party raised the double-leverage as Staff has in this proceeding, and demonstrates that the regulatory bodies approving those transactions declined to impose the consolidated capital structure of the parent.

As a result of these facts, and in addition to the detailed and in-depth analysis and rationale provided by Joint Applicant witnesses Messrs. Hevert and Reed in their rebuttal testimony, the continued use of capital structures with debt/equity ratios consistent with their industry peers for purposes of setting Westar and KCP&L's rates is reasonable. Conversely, as discussed by Mr. Bassham, use of the consolidated capital structure to set rates for Westar and KCP&L is unreasonable and would cause GPE to not move forward with the Transaction.

Q. Mr. Gatewood said he was surprised that GPE did not evaluate the Transaction based on rates being set using a consolidated capital structure.[16] How do you respond?

A: The Transaction was entered into based upon the expectation of regulatory and ratemaking treatment consistent with KCC precedent and industry norms and the opportunity to continue to generate cash flows and earnings post-closing of the Transaction as were generated prior to the Transaction. Requiring any of the operating utilities to use GPE's post-Transaction consolidated capital structure for utility ratemaking purposes would decrease cash flows and earnings. As discussed by Mr. Bassham, such a ruling would result in the Transaction being terminated and the billions of dollars of savings that the Transaction will produce would be lost. For these reasons, the Joint Applicants did not evaluate the Transaction based on rates being set using a consolidated capital structure.

c. Risks to Customers

Q: Will the Transaction increase the financial risk to customers as compared to the status quo?

A: The financial risks to customers are largely the same as the current risks that may impact customers on a standalone basis with two potential exceptions. To the extent the parent holding company cannot fulfill its obligations to its debt holders and/or shareholders, the parent holding company may experience higher debt or equity financing costs and/or

16 Direct Testimony of Adam Gatewood, page 32.

have limitations in accessing such financing. In such extreme circumstances, this could indirectly impact the utilities' credit ratings. As I previously indicated, and will explain in more detail below, the Joint Applicants have proposed financial and ring-fencing measures to insulate the utilities and their customers from potential effects or costs related to these types of risks. The proposed financial and ring-fencing measures provide greater protections for the Westar and KCP&L and their customers from the parent holding company than exist today and will exist absent the Transaction.

Q: Are the benefits to customers greater than the risks to customers?

A: Yes. Other direct and rebuttal testimony on behalf of Joint Applicants specify the significant benefits to customers. These benefits far outweigh any speculative concerns about financial risk to customers and, as I discussed earlier, neither the credit ratings nor the credit metrics of the operating utilities will change as a result of the Transaction. Further, as detailed in the rebuttal testimony of Mr. Ives and Mr. Reed, GPE has committed to isolate, or "ring-fence," the operating utilities from any real financial risk at GPE that is associated with the Transaction. We agreed to this in the merger agreement itself, in our settlement in Missouri and with further commitments we are making here in our rebuttal in response to the issues raised by intervenors. Despite claims to the contrary, the financing plan is straightforward, cost-beneficial and enables the creation of benefits for customers, and the focus should be on these benefits to customers that are enabled by the financing plan and reasonable protections that can be put in place to protect such customers from any unforeseeable risks. As discussed further in the rebuttal testimony of Mr. Ives and Mr. Reed, these conditions are constructive and workable, have been utilized in other similar proceedings across the country, and may be adopted by the KCC to address such concerns and still allow the Transaction to be completed and create the benefits for customers that would otherwise be foregone.

Q: Please describe the financial integrity and ring-fencing commitments made by the Joint Applicants in response to intervenor testimonies.

A: The Joint Applicants' proposed merger conditions are sponsored by Mr. Ives. (See Schedule DRI-3 attached to Mr. Ives' rebuttal testimony) Mr. Reed discusses these conditions, and specifically the financial integrity and ring-fencing commitments, in detail in his rebuttal testimony. As these witnesses discuss, the Joint Applicants have proposed a number of specific financial integrity and ring-fencing commitments to provide protections for the operating utilities and their customers. In addition to commitments regarding financial and asset separation, the Joint Applicants have made other commitments to ensure that customers are not impacted by any financial risk resulting from the Transaction. In particular, refer to the following conditions:

- Condition 12 ***Use of utility-specific capital structure:*** KCP&L and Westar intend to utilize their respective utility-specific capital structure in general rate case filings subsequent to the close of the Transaction. In such filings, KCP&L or Westar (as applicable) shall provide (a) evidence demonstrating that the Transaction has not resulted in a downgrade to that utility's Corporate Credit Rating that exists at the time the general rate case is filed compared to the Corporate Credit Rating of that utility that existed as of May 27, 2016, or (b) if such a Corporate Credit Rating downgrade resulting from the Transaction exists at the time the general rate case is filed, evidence demonstrating that Kansas customers are held harmless from any cost increases resulting from such a downgrade, and (c) evidence supporting the reasonableness of using the utility-specific capital structure of KCP&L or Westar in determining a fair and reasonable rate of return for the applicable utility.

- Condition 14 ***<u>Cost of capital</u>:*** Neither KCP&L nor Westar shall seek an increase to their cost of capital as a result of the Transaction or KCP&L's and Westar's ongoing affiliation with GPE and its affiliates after the Transaction. Any net increase in the cost of capital that KCP&L or Westar seek shall be supported by documentation that: (a) the increases are a result of factors not associated with the Transaction or the post-Transaction operations of GPE or its non-KCP&L and non-Westar affiliates; (b) the increases are not a result of changes in business, market, economic or other conditions caused by the Transaction or the post-Transaction operations of GPE or its non-KCP&L and non-Westar affiliates; and (c) the increases are not a result of changes in the risk profile of KCP&L or Westar caused by the Transaction or the post-Transaction operations of GPE or its non-KCP&L and non-Westar affiliates. The provisions of this section are intended to recognize the Commission's authority to consider, in appropriate proceedings, whether this Transaction or the post-Transaction operations of GPE or its non-KCP&L and non-Westar affiliates have resulted in capital cost increases for KCP&L or Westar. Nothing in this commitment shall restrict the Commission from disallowing such capital cost increases from recovery in KCP&L or Westar's rates.

These conditions demonstrate the Joint Applicants' commitment to customers and to ensuring that customers will benefit from the Transaction without being exposed to financing and affiliate risk. Further, should any financial challenges arise, this Commission will retain its full and broad authority to regulate the utilities, ensuring that customers' rates will remain just and reasonable. Finally, as I noted earlier, these conditions provide greater protections from the parent holding company than exist today for Westar and KCP&L and their customers tand will not exist if the Transaction is not approved and does not close.

V. Reasonableness of the Purchase Price

a. Introduction

Q: Which Merger Standard will you address in this section of your testimony?

A: In this section of my rebuttal testimony, I address the testimony of Staff and intervenor witnesses regarding Merger Standard (a)(ii) and (a)(iv):

(a) The effect of the transaction on consumers, including:

(ii) Reasonableness of the purchase price, including whether the purchase price was reasonable in light of the savings that can be demonstrated from the merger and whether the purchase price is within a reasonable range. (Merger Standard (a)(ii)).

(iv) Whether there are operational synergies that justify payment of a premium in excess of book value (Merger Standard (a)(iv)).

Q: What testimony of Staff and intervenor witnesses do you address in this section of your rebuttal testimony?

A: I respond to the following Staff and intervenor witnesses who challenge the reasonableness of the purchase price, and thus premium over book value, GPE has agreed to pay in light of the transaction-related savings (i.e. operational synergies).

- Direct Testimony of KCC Staff witnesses Grady (starting on page 6); McClanahan (starting on page 18) and Hempling (starting on page 8);

- Direct Testimony of CURB witness Crane (starting on page 44);
- Direct Testimony of KCBPU witnesses Lesser (starting on page 21) and Steffen (starting on page 13);
- Direct Testimony of KEPCO witnesses Kirsch (starting on page 5) and Dismukes (starting on page 5); and
- Direct Testimony of KICG witness Gorman (starting on page 3).

Q: Please briefly highlight your response.

A: The purchase price GPE agreed to pay Westar is reasonable and reflects the fair market value of Westar and the unique value that will be created for customers and shareholders by the Transaction. As discussed by Mr. Proctor in his rebuttal testimony, how the purchase price and acquisition premium compare to the savings that will be produced by the merger is relevant only if the recovery of the acquisition premium is sought from customers. Unlike what existed in prior Westar mergers before the Commission, we have already conceded that we will not seek to recover in rates any premium or transaction costs, for that matter. Regardless, GPE was able to offer the highest purchase price due to the value of the numerous unique benefits that the combination of GPE and Westar will create for customers and shareholders and that were not available to other bidders. I will address these points in detail in the sections which follow starting first with the reasonableness of the purchase price GPE agreed to pay Westar, then the acquisition premium implicit in the purchase price, and finally the unique value created by the Transaction.

b. Reasonableness of Purchase Price

Q: Staff Witness Grady alleges, starting at p. 6 of his testimony that the purchase price GPE agreed to pay Westar is not reasonable. What is your response?

A: The Transaction was the result of a competitive auction process in which many bidders participated and the purchase price resulting from that process is, by definition, the fair market value and as such is reasonable. While GPE was ultimately selected as the winning bidder, four other bidders submitted bids that were in the range of GPE's final, winning bid. Further, as discussed in detail in the rebuttal testimony of Mr. Hevert, the valuation of the Transaction is within a reasonable range of other recent transactions.

Q: How does a competitive auction process demonstrate that the purchase price is reasonable?

A: By soliciting specific proposals to acquire a company, a professionally run, competitive auction process identifies the value of the company available in the marketplace at that time. The value resulting from a well run, competitive auction process is by definition the reasonable, market value of the company. Several intervenors appear to apply non-financial filters to what is "reasonable" and have generally asserted that because the purchase price includes a significant acquisition premium it must be "unreasonable." That logic is simply not supported by the facts because the magnitude of the acquisition premium is simply a mathematical <u>result</u>, quantified by the difference between the fair market value represented by the purchase price and book value, and is not a <u>determinant</u> of fair market value.

Q: How did the competitive market value Westar?

A: There were four separate parties in addition to GPE that made binding or non-binding indications of interest for Westar at a purchase prices that ranged from $50.50 to $60.00 per share. As a result, the market firmly valued Westar with an equity value between $7.1 billion and $8.6 billion. These facts are not in dispute. As the winning bidder, GPE's bid was the highest of all submitted, yet well within the financial advisor's valuation range. As I discuss more later in my testimony, it is reasonable for GPE to be at the high end of this range of values given the numerous efficiency opportunities resulting from the geographic proximity of the two companies and their shared ownership of assets. The bottom line is that a fair, competitive and efficient process was conducted during the sale process for Westar and the market of suitors determined the price in this Transaction to be reasonable.

Q: Is the purchase price within the reasonable range of other recent transactions?

A: Yes. As discussed in more detail in the rebuttal testimony of Mr. Hevert, the purchase price and premium implied by the purchase price is consistent with those that have been paid in a number of recent transactions involving regulated utilities. Our financial advisor's analysis also adjusts for the fact that certain transactions, including our Transaction, leaked and therefore the stock price of the targets traded up prior to announcement of the deals. This is an adjustment that Staff and other intervenors failed to make or did not calculate correctly. The forward price to earnings multiples and the forward Enterprise Value to EBITDA multiples implied by the purchase price is also consistent with the multiples paid in precedent transactions of regulated utilities.

It is important to note that we compared the premium and multiple being paid for Westar against the most recent and therefore most relevant precedent regulated utility transactions at the time of deal announcement. Staff witness Mr. Grady has filed detailed testimony in opposition based on Staff's own analysis that excludes three of the most recent and relevant transactions. As is also more fully discussed in the rebuttal testimony of Mr. Hevert, the Staff's selective picking of certain data points and exclusion of others resulted in a smaller data set that places greater weight on older, less relevant precedent transactions. Mr. Hevert provides a full discussion of other critical analyses demonstrating that the Staff has arrived at incorrect conclusions based on incomplete data and incorrect assumptions.

Staff has also criticized other financial analysis performed by our financial advisor to support our evaluation. While Mr. Hevert will further elaborate on the flaws of the Staff's criticism of the financial analysis performed by Goldman Sachs in his testimony, I would point out that Goldman is a well-known international investment bank and a preeminent advisor on mergers and acquisition transactions and has worked on thousands of transactions. Goldman has a leading utility practice and has served as advisor to either the acquirer or the acquiree on 12 corporate merger transactions since 2010. For all transactions in which Goldman delivers a fairness opinion, including this one, they have a rigorous process in which their firm-wide fairness opinion committee reviews the work of the transaction advisory team. Goldman's analysis was based on a broad range of assumptions.

In summary, our financial advisor and we looked to a number of financial analyses to determine the appropriate purchase price for Westar. We did not rely on any single analysis as the definitive measure but rather looked at the totality of these various methodologies before concluding that the purchase price is reasonable.

c. Acquisition Premium

Q: Can you provide an update to the calculation of the acquisition premium and related goodwill?

A: Yes. Specific accounting rules prevent an exact determination of the acquisition premium, and related goodwill, until the day the Transaction closes, as it is subject to a number of factors, including the GPE stock price at the time of closing and the fair value of Westar's assets at that time. Various estimates of goodwill (a term used interchangeably with "acquisition premium" in this case) have been provided.

The Direct Testimony of Steven P. Busser included goodwill as $4.9 billion based on the estimated fair value of net assets as of March 31, 2016. The Joint Applicants Proxy Statement included goodwill as $4.8 billion based on the estimated fair value of assets as of June 30, 2016.

From June 30, 2016 through September 30, 2016, Westar's common shareholder's equity has increased by approximately $106 million as common earnings, in excess of dividends paid, have accrued. All else equal, this would be expected to reduce the estimated goodwill to $4.7 billion as of September 30, 2016.

Q: Is it common for goodwill to be incurred in connection with a merger or acquisition?

A: It is not only common; it is almost universal. The vast majority of utility deals have created goodwill as publicly traded utilities in recent years have typically been trading at market values which are above their book value of equity, so that even a theoretical merger with no market premium can generate goodwill. This is the case with Westar, as prior to the announcement of the Transaction and even prior to March 9, 2016 when the sale process leaked to the market, Westar was already trading at 1.7 times its book value (a closing stock price on March 9 of $44.08 per share versus book value of $25.87 per share). In the context of an acquisition for a healthy company, acquirers typically pay a premium to the market value of equity, as without doing so, it would be far less likely to find a willing seller.

Q: Why do acquirers of financially sound companies pay acquisition premiums?

A: Acquirers are willing to pay acquisition premiums because they believe the acquisition will create incremental value for their shareholders relative to the standalone value of the acquiring company. These benefits can be generated through economies of scale, increased opportunities for investment and growth, improved operations and cost efficiencies and enhanced access to financing which lowers the cost of capital and increases strategic flexibility.

The target company will typically run a sale process that will involve more than one potential acquirer, as was the case with Westar. As a result of the competitive dynamic, the successful acquirer will always need to offer a premium that fully reflects the value of the underlying business, compensating selling shareholders who are relinquishing both control and future upside potential.

To determine the appropriate premium, acquirers will evaluate the business prospects of the combined company relative to that of their standalone business on a per share basis, just as GPE has done when determining the purchase price for Westar. The price that an acquirer is willing to pay must result in a transaction that is value enhancing for its shareholders when accounting for all the strategic and operational benefits of the merger and the value of potential merger efficiencies as well as the transaction expenses, the cost of financing and the premium.

Q: Staff witnesses suggest that the only logical explanation for GPE's willingness to pay a premium for Westar is its expectation that it will receive authorized returns that exceed the requirements of its investors.[17] Do you agree?

A: No. As I discussed earlier, the price that we offered to purchase Westar and the resulting acquisition premium were determined after a rigorous analysis of the benefits the Transaction would create for customers and shareholders and the market value of Westar. Our purchase price was based on the expectation that Westar would continue to be constructively regulated by the KCC, and that future revenue requirements and customer rates would be based upon the cost of service of the utility, including the utility capital structure and cost of capital.

Q: Are customers, in effect, paying for the Transaction since GPE has assumed in its modeling of the financial feasibility of the Transaction that shareholders will be able to retain a portion of Transaction-related savings over the first three years after the Transaction closes as Staff and intervenors have argued?

A: No. While GPE has assumed that shareholders will retain a portion of the Transaction-related savings during the first years after closing due to normal regulatory lag between general rate case proceedings, this will cause neither the utilities to earn excessive returns nor customers to fund the Transaction. In reality, the savings being retained will simply

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[17] This includes the Direct Testimony of: Messrs. Grady (starting on page 30) and Hempling (starting on page 46).

offset existing regulatory lag and help the utility operating companies to earn an actual return that is closer to what is authorized by the Commission.

d. Unique Value of the Transaction

Q: You commented earlier that GPE was able to offer the highest purchase price due to the value of the numerous unique benefits that the combination of GPE and Westar will create for customers and shareholders and that were not available to other bidders. Please expand.

A: Some intervenor witnesses have focused their assessment somewhat subjectively on what is "reasonable" and have failed to understand or consider either the fundamental drivers of value in this Transaction or the broader industry context in which the Transaction occurred, namely the consolidation that is occurring throughout the electric utility industry as noted by Messrs. Reed and Hevert. The Transaction value is driven by many factors including:

1. Compelling logic of the combination
2. Enhanced strength of the combined company
3. Advantageous financing plan
4. Continued investment grade credit ratings for operating utilities and GPE

All of this results in lower rates for customers than is possible absent the Transaction.

Q: Please expand upon the compelling logic of the combination.

A: The combination of GPE and Westar creates a larger, more diversified utility company with greater opportunities for growth, greater economies of scale, and enhanced financial capabilities—an overall stronger, more stable platform better positioned to provide safe, reliable and reasonably-priced energy to the region. Given adjacent service territories and already shared power plants, the combination of GPE and Westar creates significant benefits for all stakeholders that are not available to either company on a standalone basis. The combination of Westar and GPE will create far greater value for the respective stakeholders than any other potential combination available to either Westar or GPE. These benefits will accrue to our customers as well as to our shareholders and were thoroughly evaluated when we determined the purchase price.

Q: Please describe the enhanced financial strength that will be created by the Transaction.

A: As I discussed earlier, prior to negotiating the purchase price, we, together with our financial advisor, performed rigorous financial analysis of the combined company's business prospects in comparison to GPE's standalone plan. Over the longer term, the combined company will be stronger financially than either GPE or Westar stand-alone. In this regard, it cannot be forgotten that GPE and Westar, as they exist on a stand-alone basis today, are on the smaller size of electric utility companies across the country, and they are becoming smaller relative to their industry peers as industry consolidation continues across the rest of the country. Issues accompany this relatively small size, and the risks of GPE and Westar remaining stand-alone should not be ignored. As a result of the merger benefits outlined above, the Transaction will allow both Westar and KCP&L to earn closer to their allowed returns. This greater ability for the operating utilities to earn their allowed returns makes the combined company more attractive to investors, which over the long-term will lower our cost of capital for customers and improve our ability to finance investment in our region's critical energy infrastructure while keeping customer rates lower than they would otherwise be moving forward.

Q: Please describe the impact of the Transaction's advantageous financial plan.

A: As I discussed earlier, the current unprecedented low-cost interest rate environment allows GPE to finance the Transaction and create benefits for customers and shareholders. We thoroughly vetted our financing plan with our financial advisors. The most challenging aspect of the financing plan – the equity issuances – has already been executed, eliminating financing risk from the Transaction. The risk of the remaining parts of our financing plan have already been addressed, with pre-established equity commitments from Westar's shareholders and by hedging the interest rate on debt we will issue.

Q: Please expand upon the value of investment grade credit ratings.

A: As described in more detail in Section IV of this rebuttal testimony, we have a firm understanding of the combined company's expected credit profile. GPE's projected parent company key credit metrics will initially decline as a result of the debt issued to finance the transaction but will remain supportive of investment grade credit ratings. There will be no decreases on the utilities' key credit metrics or credit ratings. In fact, the utilities' credit metrics only stand to improve as merger savings are realized. The bottom line is that our purchase price for a high quality business is reasonable, our financing plan is sound and the pro forma combined company will have a strong balance sheet that supports solid investment grade ratings.

Q: Please describe the impact of these value attributes on customer rates.

A: As much time as GPE and Westar spend working to control cost, nothing that either company could implement on its own can come close to the operational efficiencies that will be created by this Transaction, all of which will go to the benefit of customers through normal rate cases. Annual savings after a short ramp-up period are expected to reach $200 million per year. With GPE's commitment not to seek to recover the acquisition premium or transaction costs from customers and the fact that we are only seeking to recover from customers transition costs that yield identifiable savings in excess of such costs, customers will benefit from the savings created by the Transaction without paying for the acquisition premium or transaction costs necessary to create them.

VI. Effect of the Transaction on Affected Public Utility Shareholders

Q: Which Merger Standard will you address in this section of your testimony?

A: In this section of my rebuttal testimony, I address the testimony of Staff and intervenor witnesses regarding Merger Standard (e) that reads in full as follows:

(e) The effect of the transaction on affected public utility shareholders.

Q: What testimony of Staff and intervenor witnesses do you address in this section of your rebuttal testimony?

A: I address the following:

- Direct testimony of Staff witnesses McClanahan (starting at page 31) and Grady (starting at page 84);
- Direct testimony of CURB witness Crane (starting at page 57);
- Direct testimony of KCBPU witness Steffen (starting at page 10); and
- Direct testimony of KEPCo witness Kirsch (starting at page 50).

Q: What is your view of the concern expressed by Staff and intervenor witnesses over the prospects for GPE shareholder returns and the risk of this Transaction?

A: While I appreciate Staff's desire to balance the interests of customers, employees and shareholders, Staff has underappreciated the benefits of the Transaction while overemphasizing potential risks. As I discussed in Section III regarding the September 2016 shareholder votes and equity issuances, GPE shareholders are sophisticated investors who have spoken with both their votes and their investments, strongly supporting this Transaction.

Q: Have GPE shareholders embraced the Transaction given the benefits and risks it presents?

A: Yes. As discussed previously, GPE common and preferred shareholders accepted the risk associated with their investment when they voted to approve the Transaction. Shareholder support was reaffirmed again when over $2.4 billion of new equity securities were purchased on September 27, 2016 and orders for approximately double that amount were put in by eager investors.

Q: Beginning on page 86 of his testimony, Staff witness Grady opines that the Transaction will likely be detrimental to GPE shareholders. What is your response?

A: By adding a third utility to its business, GPE shareholders will benefit from the resulting diversity and economies of scale that create a significantly improved ability for Westar and KCP&L to earn their authorized allowed returns with smaller and less frequent rate cases. This increased scale also reduces the ongoing operating cost impact of major storms or equipment failures and improves regulatory diversity. Both S&P and Moody's commented favorably on these factors.

VII. Conclusions and Recommendations

Q: Please summarize your conclusions and recommendations.

A: This Transaction has the ability to take advantage of a rare confluence of events and create a combined company better positioned to drive value to customers and shareholders for both the near and long-term. As detailed in the rebuttal testimony of Joint Applicants' rebuttal witnesses Steven Busser, William Kemp and Thomas Flaherty, the Transaction will create substantial benefits for customers. This is a big transaction for GPE and requires effective capital market and operational execution and constructive regulatory treatment. In particular, the Transaction must be financed using a low cost financing mix possible and the utilities rates must continue to be set based upon a utility capital structure and not the consolidated capital structure of the parent holding company. Absent the ability to finance the Transaction with low-cost debt, the Transaction will not go forward and the significant customer benefits will be lost.

Much has been made of the purchase price GPE agreed to pay for Westar. The purchase price is reasonable. It was the result of a competitive auction, reflects the market value of Westar, and reflects the unique value the combination of Westar and Great Plains creates. The acquisition premium will not be recovered from customers; rather it is paid for by GPE's shareholders and is appropriate market-based compensation to Westar's shareholders. Customers will benefit from the Transaction through operational efficiencies and savings over the long-term.

To effect this Transaction is not without risk but we have a proven track record and are effectively managing these risks along the way in a responsible manner that will create billions of dollars of value for customers. The Transaction has not impacted the credit ratings or credit metrics of the operating utilities. Both S&P and Moody's have reaffirmed the existing already strong investment grade credit ratings of Westar, KCP&L and GMO. And while Moody's has indicated that it will downgrade the parent holding company's credit rating one-notch, GPE will also continue to maintain an investment grade credit rating following the Transaction. The modest near-term negative impact on GPE's financial risk due to the increased parent holding company debt to finance the Transaction, which is typical in these types of transactions, is temporary and debt at GPE will decrease over time, but until such time, any of this financing plan risk is borne by shareholders, not customers. In fact, the financial integrity and ring-fencing commitments made by the Joint Applicants provide customers with a greater degree of protection than they have today.

We live and work in this community and care passionately about ensuring Westar and KCP&L can better serve our region now and for the future. We believe this Transaction does that and sophisticated customers, community partners, legislators, regional leaders, cities, counties, investors and rating agencies, share this belief.

Q: Does this conclude your rebuttal testimony?

A: Yes, at this time.

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-593-ACQ**

AFFIDAVIT OF KEVIN E. BRYANT

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Kevin E. Bryant, being first duly sworn on his oath, states:

1. My name is Kevin E. Bryant. I work in Kansas City, Missouri, and Kansas City Power & Light Company as Senior Vice President – Finance and Strategy and Chief Financial Officer of Great Plains Energy, KCP&L and KCP&L Greater Missouri Operations.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Great Plains Energy Incorporated and Kansas City Power & Light Company consisting of forty-six (46) 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.

Kevin E. Bryant

Subscribed and sworn before me this 9th day of January 2017.

Nicole A. Wehry

Notary ~~Public~~

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

My commission expires: Feb. 4, 2019