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Efficiencies and Savings
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Greater Missouri
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Case No.: EM-2018-0012
Date Testimony Prepared: August 31, 2017

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. EM-2018-0012

DIRECT TESTIMONY

OF

STEVEN P. BUSSER

ON BEHALF OF

**GREAT PLAINS ENERGY INCORPORATED,
KANSAS CITY POWER & LIGHT COMPANY, AND
KCP&L GREATER MISSOURI OPERATIONS COMPANY**

August 2017

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DIRECT TESTIMONY

OF

STEVEN P. BUSSER

Case No. EM-2018-0012

1

I. INTRODUCTION

2 **Q: Please state your name and business address.**

3 A: My name is Steven P. Busser. My business address is 1200 Main Street, Kansas City,
4 MO 64105.

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

6 A: I am employed by Kansas City Power & Light Company (“KCP&L”) and serve as Vice
7 President-Risk Management and Controller for Great Plains Energy Incorporated (“GPE”
8 or “Great Plains Energy”), KCP&L, and KCP&L Greater Missouri Operations Company
9 (“GMO”).

10 **Q: What are your responsibilities?**

11 A: I have executive responsibility for corporate accounting, energy accounting, Securities
12 and Exchange Commission (“SEC”) reporting, income taxes, accounting systems, and
13 risk management.

14 Since mid-2016, in addition to my responsibilities as Vice President – Risk
15 Management and Controller, I have served as an integration leader for the combination of
16 Westar Energy, Inc. (“Westar”) and Great Plains Energy.

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

2 A: I graduated cum laude from the University of Texas at El Paso (“UTEP”) with a Bachelor
3 of Business Administration, with a concentration in Accounting. I have also taken several
4 graduate level classes with a focus in finance and am a Certified Public Accountant.

5 I have over 20 years in accounting and finance positions in the electric utility
6 industry. Prior to joining KCP&L in September 2014, I was Vice President and
7 Treasurer of El Paso Electric Company (“El Paso Electric”) and was responsible for the
8 treasury, risk management, facility services, fleet management and supply chain
9 management functions. In this role, I testified before the Federal Energy Regulatory
10 Commission and state regulatory agencies in Texas and New Mexico regarding El Paso
11 Electric’s public and private financing activities and other securities transactions. Prior to
12 becoming Vice President and Treasurer, I served in positions of increasing responsibility
13 at El Paso Electric including Chief Risk Officer, Vice President Regulatory Affairs, and
14 Assistant Chief Financial Officer.

15 I started my professional career in public accounting at KPMG LLP after
16 graduating from UTEP. I also took several graduate courses at UTEP in Finance while
17 working at El Paso Electric.

18 **Q: Have you previously testified before the Missouri Public Service Commission**
19 **(“Commission”)?**

20 A: Yes. I provided Direct and Surrebuttal testimony in Case No. EM-2017-0226 related to
21 the May 29, 2016 agreement to merge between Westar and GPE (the “Initial
22 Transaction”).

1 **Q: On whose behalf are you testifying?**

2 A: I am testifying on behalf of Great Plains, KCP&L and GMO in this proceeding on the
3 proposed merger (“Merger”) between GPE and Westar Energy Inc. (“Westar”)
4 (collectively, the “Applicants”) to form a new combined company (“combined
5 Company”, or “Holdco”, where appropriate).

6 **Q: What is the purpose of your testimony in this proceeding?**

7 A: I will review the integration planning process. I will discuss the Merger-related
8 efficiencies and associated savings that the Merger is expected to produce. These savings
9 along with the rate commitments and flow-through of savings over time discussed by Mr.
10 Ives support a finding that the Merger will not be detrimental to the public interest as
11 required by the Missouri merger standard. I will also address certain accounting issues
12 for the costs to consummate the transaction, including transition costs, post-Merger
13 accounting of shared corporate costs, and the accounting treatment of Merger-related
14 goodwill that will be recorded and remain solely on the books of Holdco when the
15 Merger is consummated.

16 **Q: Please briefly highlight the savings that the Merger is expected to create.**

17 A: As I discuss in detail later in my testimony, Merger savings of \$555 million (net of costs
18 to achieve) will be realized in the first five years of the Merger. Detailed integration
19 plans reflect cost savings of \$28 million in 2018 and growing to \$160 million per year
20 from 2022 and beyond. As also discussed by Mr. Bassham, these savings will be
21 achieved with no involuntary severance of employees.¹

¹ See also Application Appendix H, Commitment No. 8.

1 **Q: How is the remainder of your testimony organized?**

2 A: Following this introduction, my testimony is presented in the following sections:

3 ▪ **Section II** presents an overview of the Merger integration planning process and a
4 summary of efficiency initiatives and savings. These savings are presented by
5 utility function, by year, and by type of savings (*i.e.*, labor and non-labor O&M,
6 fuel savings and inventory related savings) to provide perspectives that the
7 Commission, Staff and other parties may find useful in assessing efficiencies
8 associated with the Merger;

9 ▪ **Section III** provides a more detailed discussion of initiatives and savings,
10 focusing on Merger-related savings;

11 ▪ **Section IV** addresses certain accounting issues; and

12 ▪ **Section V** summarizes my principal conclusions.

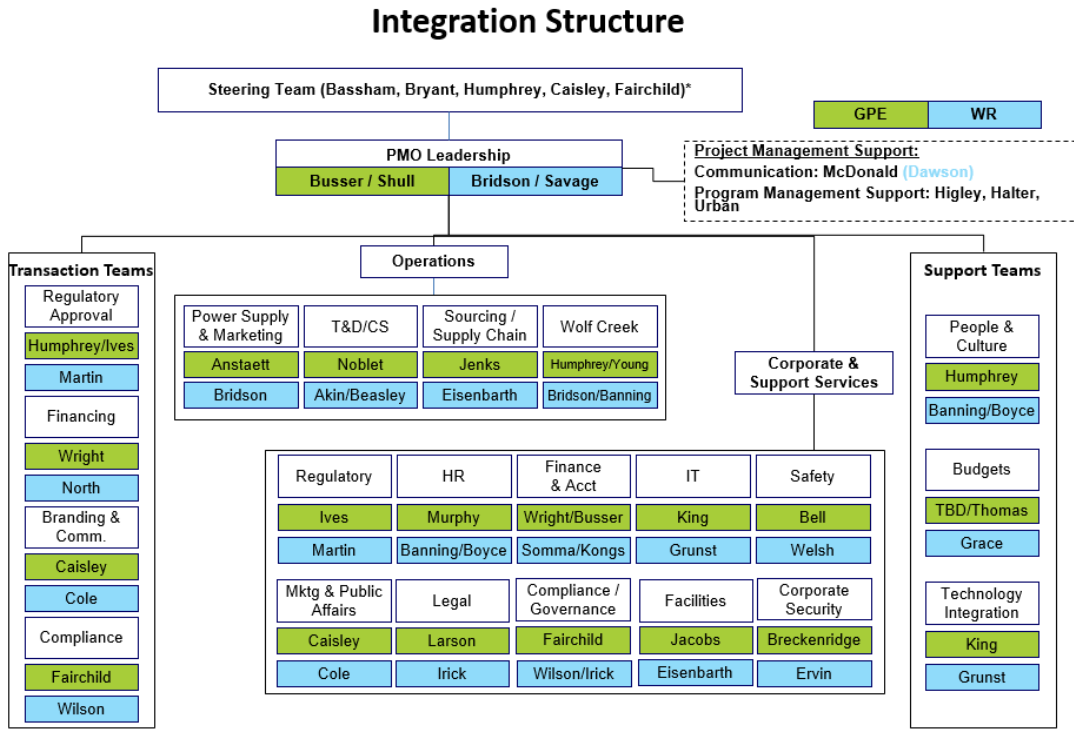
13 **II. INTEGRATION PLANNING PROCESS**

14 **Q: Please describe the governance structure for the integration planning process.**

15 A: Three levels of governance were utilized to oversee the work of the integration teams.
16 The first level was the Steering Team, the second level was the Project Management
17 Office (“PMO”), and the third level was the individual integration team leads.
18 Commitment and support from senior executives, including the chief executive officer
19 (“CEO”), is key to the success of any project of this magnitude. We established a
20 Steering Team led by Terry Bassham at the time the teams were formed in 2016. Mr.
21 Bassham will serve as the President and CEO of the combined Company upon
22 consummation of the Merger. Figure 1 shows the organizational structure of the project.

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Figure 1



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The PMO sets the framework and provides governance and oversight. The PMO was led by myself and John Bridson, Senior Vice President, Generation and Marketing at Westar. The role of the PMO was to organize, direct and report on the integration planning and to engage internal and external resources to achieve these objectives. The PMO was responsible for ensuring the working group teams executed on each integration phase.

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Each of the individual functional integration teams was jointly led by one executive or director-level leader from each company. This structure allowed leadership from each company to provide input into how the combined Company will operate. Team leads guided the detailed integration activities for their respective areas.

13

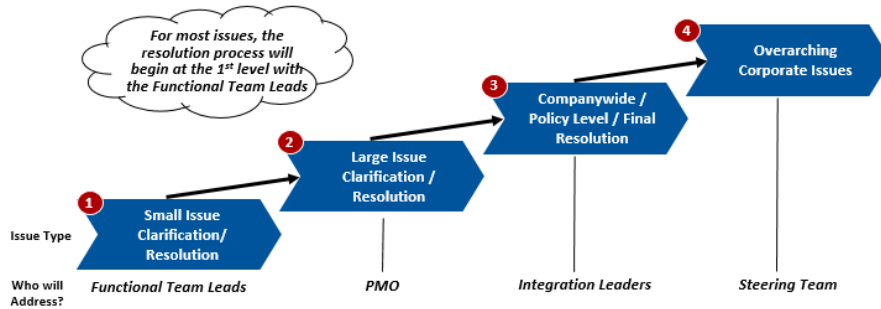
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To ensure the teams had a process to finalize decisions throughout the integration process, we utilized the escalation methodology depicted in Figure 2 below.

1

Figure 2

Decision-Making Structure



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3 This process encouraged dialogue between the integration teams and provided a structure
4 for resolving issues.

5 **Q. Please describe the GPE-Westar integration planning efforts.**

6 **A:** As shown in Figure 3, the pre-closing effort consisted of four phases: Integration
7 Framework, Design Phases I and II, and Implementation Planning.

8 **Figure 3**

Integration Phases



10

1 **Q: Please briefly describe each of the pre-closing integration planning phases.**

2 A: The Integration Framework phase set the guidelines for how the integration planning
3 effort would be managed. In Design Phases I and II, the daily operating practices of the
4 combined organization were evaluated and efficiency opportunities were assessed. In the
5 Implementation Planning phase, the functional teams took the work of the design phase
6 and laid out plans for modifying processes and achieving identified efficiencies. In
7 conjunction with the preparation of the implementation plans that were established, teams
8 began preparing for Day-1.

9 **Q: Please describe the Integration Framework phase in more detail.**

10 A: The Integration Framework phase was necessary to define the scope of the project. It
11 allowed us to build a project plan and to determine resources needed to execute the
12 project. During this phase, we established governance for the project, adopted the
13 jointly-led executive team approach, assigned the officer or director-level leaders to the
14 functional integration teams, provided guidance needed for the teams to do their work
15 and established the overall integration timeline.

16 **Q: Please describe the two Design Phases in more detail.**

17 A: Design Phase I began with the drafting of team charters and baselines (both headcount
18 and cost baselines) that established the boundaries around their respective area and
19 identified the interdependencies with any of the other 14 integration teams. Each
20 functional team consisted of employees from Westar and GPE working together to
21 perform an assessment of the pre-merger processes, activities and performance metrics at
22 both Westar and GPE. These quantitative and qualitative assessments served as a
23 baseline for identifying potential efficiencies. The teams also initially defined their Day-

1 1 requirements during Design Phase I. Day-1 requirements prepare the two companies to
2 transition seamlessly from operating as separate companies to providing service to our
3 customers on the first day after the closing of the Merger. Finally, each team identified
4 risks that could impact either Day-1 success or achievement of efficiencies after the
5 implementation process begins.

6 Design Phase II began with the definition of a new integrated operating model for
7 each function, including performance metrics. The teams then developed detailed
8 process inventories, defined their respective organizations to determine staffing
9 requirements, and developed efficiency charters to pursue distinct activities to achieve the
10 identified efficiencies. The teams also developed implementation and business plans in
11 Phase II.

12 **Q: Please describe the Business and Implementation Plans that were developed during**
13 **Design Phase II.**

14 **A:** The functional team Business Plans describe the future organization and steps necessary
15 to prepare for Day-1 and future state success. It identifies the growth and efficiency
16 opportunities, expected timing of savings, and associated transition costs necessary to
17 integrate Westar and Great Plains and to create the Merger efficiencies. The
18 Implementation Plan is the final section of the Business Plan and presents the actionable
19 plans for executing all integration activities, including the process alignment activities
20 required to bring the respective organizations together. It specifies the Day-1
21 requirements, the change management process necessary to establish the new
22 organization and pursue efficiencies, and presents the detailed implementation actions
23 and milestones.

1 **Q: Can you provide a sense of the level of detail involved in the integration planning**
2 **effort?**

3 A: Yes. The integration planning effort has been an enormous undertaking involving over
4 400 GPE and Westar employees participating in 18 teams, including the 14 “functional”
5 teams, 2 “cross-functional” teams (Information Technology or “IT” and the
6 People/Culture Team, which led the employee offer and hiring process), the Steering
7 Team and the PMO.

8 Over the course of 10 months, the functional teams worked through the four
9 integration planning phases during which over 20 deliverables were required of the
10 functional teams. The culmination of this work is reflected in the team business plans,
11 implementation plans, and efficiency charters that detail specific efficiencies and
12 associated timing. There are 85 distinct efficiency charters that include over 300 specific
13 efficiencies. The savings are aggregated into four functional categories: Support
14 Services, Generation, Supply Chain, and Transmission & Distribution
15 (“T&D”)/Customer Service. There is also a fifth category of savings that represents labor
16 savings in addition to those which the teams have determined. Management reviewed
17 estimates and developed objectives related to labor savings based on an analysis
18 performed by our integration consultant who has substantial experience and expertise in
19 utility integration to develop more efficient operations.

20 **Q. What is the status of the GPE-Westar integration efforts?**

21 A: As depicted in Figure 3, the first four pre-closing phases were necessary to prepare the
22 combined Company to continue operations on Day-1 and beyond. This work has been

1 completed. The implementation of integration initiatives, including the measurement and
 2 reporting of realized savings, is the fifth and final merger integration phase.²

3 **Q: Please summarize the Merger-related savings that have been identified by the**
 4 **integration planning effort.**

5 A: We have identified \$627 million of gross savings that can be realized over the first five
 6 years after the closing for 2018 through 2022. As shown in Table 1, net savings are
 7 projected to be \$555 million, after reflecting transition costs of \$72 million.

8 **Table 1**

Efficiency Savings by Function							
	<u>2016/17</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>Total</u>
Gross Savings							
Support Services		\$18.3	\$31.1	\$35.5	\$39.6	\$47.0	\$171.4
Generation		\$13.6	\$33.1	\$35.2	\$32.0	\$33.5	\$147.4
Supply Chain		\$4.3	\$24.3	\$38.2	\$39.4	\$39.7	\$145.9
T&D/Customer Service		\$1.7	\$6.1	\$8.7	\$9.5	\$9.6	\$35.5
Benchmark Staffing		\$11.7	\$22.4	\$29.1	\$31.3	\$32.3	\$126.7
Total		\$49.7	\$116.9	\$146.7	\$151.9	\$162.0	\$627.0
Transition Costs							
2016/17	(\$35.6)						(\$35.6)
2018-2022		(\$21.9)	(\$6.6)	(\$3.0)	(\$2.5)	(\$2.2)	(\$36.2)
Net Savings	(\$35.6)	\$27.8	\$110.3	\$143.5	\$149.4	\$159.8	\$555.2

² While the implementation plans are final, the teams have the flexibility to make minor changes to respond to new information or changed circumstances, as appropriate and with the approval of the Transition Committee.

1 The Applicants incurred or expect to incur \$35.6 million of transition costs in
2 2016 and 2017, which includes costs related to planning and designing the integration as
3 well as voluntary severance programs offered by each company. I will describe each of
4 the source, type and amount of savings for each of these five areas in detail in Section IV.

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

6 A: Transition costs are costs incurred to enable or ensure that savings are achieved and the
7 integration process is effective. In other words, for customers to receive the benefit of
8 the lower operating costs made possible by the Merger, certain costs must be incurred. A
9 good example of a transition cost would be the cost incurred to enable network
10 connectivity for the merged company and allow for a more efficient combined Company.
11 The transition cost – the cost to plan and implement the combination of the systems – is
12 necessary to unlock the future savings. It is appropriate to net the transition cost against
13 the savings to determine the true savings achieved. For purposes of calculating net
14 savings in Table 1, transition costs are assigned to the year that they are incurred. Mr.
15 Ives will discuss the ratemaking treatment of transition costs in his testimony.

16 **III. MERGER SAVINGS ESTIMATES AND MERGER STANDARD (a)(iii)**

17 **A. Overview**

18 **Q: What will you be addressing in this section of your testimony?**

19 A: I will discuss the efficiency initiatives and associated savings of each of the four
20 functional areas (*i.e.*, Support Services, Generation, Supply Chain, and T&D/Customer
21 Service). Second, I will describe the benchmark-based staffing reductions that enable
22 additional functional area labor savings largely attributable to not filling currently vacant
23 positions and to natural attrition. These will produce a more efficient level of staffing

1 reflecting the increased scale of the combined Company operations. Third, I will
2 describe the IT Roadmap and IT projects that support efficiencies and other
3 enhancements to the IT function that will enable the combined Company to meet its
4 service obligations into the future. Finally, I will discuss the transition costs that are
5 necessary to integrate the companies and achieve efficiencies and savings.

6 **Q: How were the Merger-related savings developed?**

7 A: The savings produced by the functional teams are bottom-up estimates, based on
8 identified efficiency initiatives and approved implementation plans. They are
9 supplemented by the benchmark staffing reductions and associated savings estimates.
10 All savings are expressed in relation to a baseline that is represented by the stand-alone
11 Westar and GPE 2016 budgets.

12 As described in the testimony of Mr. Somma, the financial plan reflects both
13 Merger and non-Merger related savings because whether savings are determined to be
14 Merger related or not, they all result in lowering the cost to serve customers. An example
15 of non-Merger related savings are savings attributable to the retirement of certain
16 KCP&L and GMO generating units that will proceed with or without the Merger.

17 **Q: Why were the 2016 standalone budgets chosen as the baseline for measuring merger
18 related savings?**

19 A: Since the Initial Transaction was announced in mid-2016, the 2016 standalone operating
20 budgets were unaffected by the anticipated transaction. Thus, these standalone budgets
21 were considered to be the best baseline from which to measure the level of efficiencies
22 that could be created by combining the two companies.

1 **Q: Please briefly describe the sources of savings in each of the four functional areas.**

2 **A:** The Applicants expect to achieve labor-related savings throughout the areas that
3 comprise Support Services by eliminating redundant positions and consolidating several
4 other functions. Non-labor efficiency savings in Support Services will be realized from
5 reduced insurance costs and brokerage fees, reduced IT contractors due to system
6 consolidation, and reduced external auditor fees among other items. Total Support
7 Services labor and non-labor savings are \$171.4 million over the 2018-2022 period.

8 The Applicants expect Generation efficiencies will be primarily achieved by
9 reduced labor and maintenance expenditures from planning for and operating the
10 generation fleet on a combined basis versus as two separate fleets. This will allow for
11 acceleration of planned retirement dates for certain older Westar units. The acceleration
12 of these retirements is made possible by the Merger. The total Merger-related savings for
13 Generation is forecast to be \$147.4 million over the first five years.

14 Efficiencies in Supply Chain will result primarily from an ability to source
15 materials and services at a lower cost enabled by economies of scale, moving to common
16 standards, optimizing inventory and the logistics network, and by applying the KCP&L
17 supply chain process and automation throughout the combined Company's utility
18 operations. These savings include reductions in inventory carrying costs (non-
19 Generation) and sum to \$145.9 million over the first five years. Prior to the Initial
20 Transaction Order, Supply Chain management from both companies had completed much
21 of the initial market check of the supply chain savings through work with a subset of
22 suppliers, and the results of that work added to our confidence in these Merger savings.

1 While we will achieve savings in the T&D/Customer Service functions, we will
 2 have the same number of customer facing employees (e.g. linemen) and continue our
 3 maintenance efforts and ability to respond to our customers in storm or emergency
 4 situations. The \$35.5 million of efficiencies that are achievable during the first five years
 5 are attributable to process improvements that reduce spending on outside contractors in
 6 operations and vegetation management while maintaining service and reliability levels.

7 **Q: How do the savings break down by the four types of savings: labor and non-labor**
 8 **related operations & maintenance, fuel, and reductions in inventory carrying**
 9 **costs/revenue requirements reductions?**

10 A: These savings are shown by type and by function in Table 2.

11 **Table 2**

Savings Summary by type and year (\$M)

Note: Numbers may not add due to rounding.

Efficiencies	2016-2017	2018	2019	2020	2021	2022	Total
NFOM Labor	-	\$38.3	\$66.6	\$78.1	\$83.2	\$85.3	\$351.5
NFOM Non-Labor		\$8.6	\$41.4	\$55.1	\$54.3	\$61.1	\$220.5
Fuel	-	\$0.7	\$1.0	\$1.1	\$1.3	\$2.3	\$6.4
Inventory Carrying Costs/Revenue Requirements Reduction	-	\$2.2	\$7.9	\$12.3	\$13.3	\$13.4	\$49.0
Gross Efficiencies		\$49.7	\$116.9	\$146.5	\$151.9	\$162.0	\$627.0
Transition Costs	(\$35.6)	(\$21.9)	(\$6.6)	(\$3.0)	(\$2.5)	(\$2.2)	(\$71.8)
Net Savings	(\$35.6)	\$27.8	\$110.3	\$143.5	\$149.4	\$159.8	\$555.2

12
 13
 14 **Q: Are all Merger-related savings included in this table?**

15 A: No. Capital-related savings and savings likely to be achieved from the consolidation of
 16 Wolf Creek ownership shares are not included in the estimates.

1 The Merger will result in meaningful capital cost savings that result either from
2 the avoidance, or more likely, deferral of capital projects from optimization of capital
3 projects across the much larger combined Company. We have excluded these from
4 Merger savings as a way to reduce controversy in this proceeding because others may
5 view them as being more a matter of management discretion than attributable to the
6 Merger. However, they are included in the pro forma five-year financial model as
7 discussed in the testimony of Mr. Somma.

8 Regarding Wolf Creek, in the interest of making the plant more efficient, the three
9 plant owners have already agreed to have KCP&L and Westar assume additional
10 responsibilities for administrative functions. This decision is not dependent on the
11 Merger and some of the work has already begun. The exception to Wolf Creek savings
12 being excluded from the Merger efficiency estimates is savings related to economies of
13 scale in purchasing. Some opportunities have been identified in this area and are
14 reflected in the Supply Chain savings.

15 **Q: How do the labor-related savings translate to the number of employees required to**
16 **operate the more efficient combined Company?**

17 A: The Merger will create a substantially more efficient organization, with appropriate
18 reductions in labor-related expenses consistent with the work of our integration teams and
19 integration consultant.

20 **Q: How will you manage these reductions to minimize disruption, adverse effects and**
21 **labor dislocations?**

22 A: To minimize such effects we have taken a number of careful actions in contemplation of
23 the Merger. This includes temporarily holding unfilled positions open including:

- 1 ▪ positions that were open but unfilled prior to the announcement of the
2 Initial Transaction in May 2016;
- 3 ▪ positions that were open but unfilled as employees have left the
4 Companies voluntarily since the Initial Transaction in May 2016;
- 5 ▪ positions that were open but unfilled at KCP&L for employees that left as
6 a result of the Voluntary Employee Exit Program (“VEEP”) that was
7 completed in 2017; and
- 8 ▪ positions that will be opened but unfilled at Westar for employees that are
9 expected to leave as a result of a voluntary severance offering that is
10 expected to be completed.

11 By temporarily holding unfilled positions open (positions that won’t jeopardize
12 safety, reliability or customer service) we can prevent negative effects on employees.
13 Labor savings beyond those represented by these open positions we will achieve over
14 time, through natural attrition. These approaches assure we can realize labor related
15 savings with minimal disruption.

16 **Q: This is an important issue. Will you please describe it in more detail?**

17 A: Since the announcement of the Initial Transaction on May 31, 2016, we have been
18 working toward optimal staffing levels, consistent with providing opportunities for
19 employees who wish to remain with the combined Company, and consistent with
20 maintaining safety, reliability and customer service. As noted earlier, one element of this
21 strategy was to temporarily hold open vacant positions that were created by retirements,
22 etc., to create more opportunities to reassign employees to both create savings and
23 minimize labor dislocations due to Merger. These positions would have already been

1 filled “but for” the Merger. The companies have been relying on overtime, contractors,
2 and other compensating measures during the transition to assure that there are no
3 negative effects on safety or service quality. Staffing efficiencies from the Merger will
4 be achieved with no involuntary layoffs. We can achieve the efficiencies through natural
5 retirements and attrition, aided by the natural transition in our workforce demographics.
6 We’ll use this same approach--natural attrition and voluntary changes--to achieve
7 additional efficiencies we identified through benchmarking analyses with our integration
8 consultant.

9 **Q: Can you please illustrate these measures with numbers?**

10 A: The number of vacant positions we have temporarily held open is over 500. This
11 includes 189 positions open at the Initial Transaction announcement, 135 net positions
12 that were opened through employees voluntarily leaving from July 2016 to April 2017, an
13 additional 98 employees that elected to take severance as part of the KCP&L VEEP and
14 approximately 91 positions we expect will be open upon completion of the Westar
15 voluntary severance program. This means that already we have held open positions equal
16 to 54 percent of the labor savings we plan.

17 **Q: How will you address the remaining 46 percent?**

18 A: Both companies continue to experience a high degree of natural attrition. This is due, in
19 large part, to the demographics of our workforces. Consistent with the combined
20 Company’s recent experience, we expect annual natural attrition of employees will allow
21 us to transition our workforce nicely with these naturally occurring openings. These
22 factors, coupled with the fact that we will realize the Merger savings over a few years

1 explain how we can achieve these efficiencies, while avoiding layoffs or involuntary
2 severance and while minimizing labor dislocations.

3 **Q: Does the Merger integration plan contemplate integration of IT systems?**

4 A: Yes. Westar and GPE each have many critical systems that support the business.
5 Fortunately, we use many common systems and approaches, as well. Utilities make
6 substantial capital investments in their IT systems and supporting infrastructure every
7 year to upgrade foundational platforms that support multiple functions (*e.g.* asset
8 management systems, communication systems), provide better customer service (*e.g.*, an
9 update to the customer information system), and improve operations (*e.g.*, integration of
10 an outage management system with other systems). Westar and GPE have invested over
11 \$440 million on a combined basis on IT and supporting infrastructure over the past five
12 years (2012-2016). The portfolio of IT projects changes from year-to-year as some
13 projects are completed, multi-year projects are continuing, and new projects are starting
14 up.

15 **Q: Do investments in IT systems contribute to the Merger savings?**

16 A: Yes. Each of the functional teams worked with the IT function to identify whether and
17 how their respective efficiency initiatives depend on IT systems. Since many IT systems
18 support multiple functional areas, it is not always possible to directly assign IT-related
19 Merger savings to a single functional team but they are reflected in overall savings.

20 **Q: What proportion of savings are reasonably within the control of the Applicants?**

21 A: We estimated approximately 78 percent of savings are within the control of the
22 Applicants, including all the labor efficiencies. An additional 8% are mostly controllable
23 in the sense that we are partially dependent on market conditions to achieve forecasted

1 savings. A good example of this is property insurance savings we expect to achieve but
2 which are subject to shifts in market conditions that could positively or negatively impact
3 actual results. The remaining 14 percent of the savings are subject to the outcomes of
4 negotiations with suppliers and are based on assumptions regarding the ability of the
5 combined Company to negotiate more favorable terms and pricing for larger contracts.
6 Our initial wave of discussion and pricing results with a group of key suppliers gives us
7 early confirmation of our ability to achieve the Supply Chain Merger savings.

8 **Q: How will the Applicants ensure that the integration plan is implemented and that**
9 **savings are realized?**

10 A: Prior to closing and continuing until shortly after close, the integration planning PMO
11 will transition to the Integration Success team. This team will oversee implementation of
12 the integration plan and be led by Greg Greenwood. Mr. Greenwood describes this
13 Integration Success process in his direct testimony.

14 **Q: Are the savings studies complete?**

15 A: Yes. They have been subject to thorough review on both an individual efficiency basis
16 by the functional integration teams and as elements of the comprehensive integration
17 implementation plan by the Integration Success team, the PMO and the Steering
18 Committee. The efficiency initiatives and associated savings have been approved by the
19 Steering Committee and are ready to be implemented by the management team.

20 **Q: Can you provide more detail on these savings?**

21 A: Yes. I will review each of the functional areas in the next four subsections (III.B-E),
22 before discussing the benchmark staffing savings and IT function efficiencies in sections
23 III.F and III.G, respectively. The savings in these sections are presented and discussed on

1 a gross savings basis. Related transition costs necessary to achieve the gross savings are
2 discussed in section III.H.

3 **B. Support Services**

4 **Q: Please identify the integration teams that comprise the Support Services functional**
5 **grouping.**

6 A: Ten functional teams comprise Support Services: Legal, Regulatory, Human Resources,
7 Finance & Accounting, Compliance, Information Technology, Facilities, Corporate
8 Security, Safety, and Marketing & Public Affairs. There are substantial opportunities to
9 achieve efficiencies by optimizing duplicative and overlapping functions within the
10 combined Company.

11 **Q: Please describe the labor efficiencies in Support Services.**

12 A: There is approximately \$89.2 million in labor-related savings from optimizing payroll
13 costs for the combined Company, including benefits and other loading factors. We will
14 have significant labor-related savings as a result of being able to eliminate duplicative
15 staffing expenses in most of these Support Services areas.

16 **Q: What non-labor efficiencies have been identified over the five-year period, 2018-**
17 **2022 for Support Services?**

18 A: The non-labor efficiencies for Support Services total \$82.3 million over this five-year
19 period and are attributable to the elimination of redundant spending (*e.g.*, audit fees) as
20 well as efficiencies in the use of contractor and other outside services, software and other
21 subscription services, and consolidation of IT systems and software. For example, IT is
22 expected to produce \$18.8 million in savings over the first five years, which will
23 primarily come from the consolidation of IT systems and software as well as

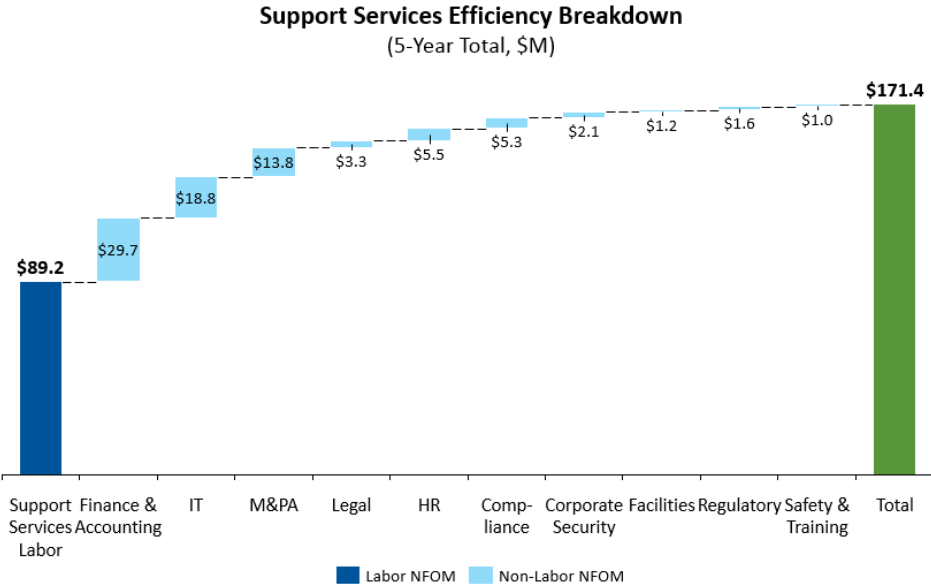
1 rationalization of IT contractors. Economies of scale also contribute to efficiencies in
 2 several of the Support Services functions. For example, lower insurance premiums and
 3 broker fees are expected to produce \$19.0 million in savings in the first five years as
 4 insurance services are combined and optimized for the combined Company's size. Other
 5 sources of efficiencies result from the application of best practices from either Westar or
 6 GPE across the merged company. These best practices impact policies, procedures and
 7 organization design.

8 Support Services efficiencies are summarized in Figure 4.

9

Figure 4

Efficiency Breakdown – Support Services



10

11 As shown in Figure 4, the largest non-labor related savings are realized in Finance &
 12 Accounting (\$29.7 million), IT (\$18.8 million), Marketing and Public Affairs (\$13.8
 13 million) and HR (\$5.5 million).

1 **Q: Do you perceive any significant challenges or risks related to the achievement of**
2 **Support Services savings?**

3 A: There is minimal risk of lower savings associated with Support Services as the vast
4 majority of savings are attributable to elimination of redundancies that are within the
5 control of the Applicants.

6 **C. Generation**

7 **Q: How are the generation resource portfolios of Westar and GPE currently planned**
8 **and dispatched?**

9 A: External factors that impact the portfolio composition include potential changes to
10 environmental regulations and changes to Southwest Power Pool (“SPP”) rules and
11 trends in the power markets. Of course, cost, efficiency and reliability of plants also are
12 important factors.

13 Both generation portfolios are generally dispatched by SPP based on economics
14 of the plants in relation to other generating units across the 15-state region and
15 transmission system availability.

16 **Q: How will this planning and dispatch change with the Merger?**

17 A: In addition to continuing to evaluate each of the Applicants’ generation needs on an
18 individual basis, the planning process will also evaluate an integrated company
19 generation portfolio to determine if additional efficiencies can be gained. The generation
20 portfolios will remain dispatched by SPP as they are today.

21 **Q: How did Applicants identify Merger-related Generation efficiencies?**

22 A: We have continued to evaluate the resource portfolios independent of the Merger. As
23 part of these reviews, and as noted in Section II, GPE has announced that it will retire six

1 coal-fired units at Sibley, Montrose, and Lake Road either in 2018 or 2019. The
2 retirement of these older, less efficient plants will occur with or without the Merger, as
3 they reflect general market and environmental conditions, and the costs of retrofitting and
4 maintaining the plants.

5 **Q: How will customers benefit from these announced plant retirements?**

6 A: The Applicants project that the announced KCP&L plant retirements will result in
7 approximately \$222.6 million of savings over the first five years after they are retired.
8 Although these savings are not Merger-related and are not included in the savings
9 estimates discussed in my testimony, these savings will be reflected in the cost of service
10 as rate cases are processed, benefitting customers, as discussed by Messrs. Ives and
11 Somma.

12 **Q: Have the Applicants identified any changes to the portfolio made possible as a result
13 of the Merger?**

14 A: Yes. We have determined that it will now be possible to accelerate the retirement of five
15 generating units at three of Westar's generating plants. These retirements can be
16 accelerated to reduce costs for customers, yet still meet reserve requirements established
17 by the SPP. Cost savings attributable to accelerating these retirements from the mid-to-
18 late 2020s to as early as 2018 are Merger-related, and accordingly, have been included in
19 Merger savings. Non-fuel operations and maintenance ("NFOM") savings from these
20 retirements are estimated to be \$55.4 million over the first five years after retirement.

21 **Q: What other Generation-related savings are attributable to the Merger?**

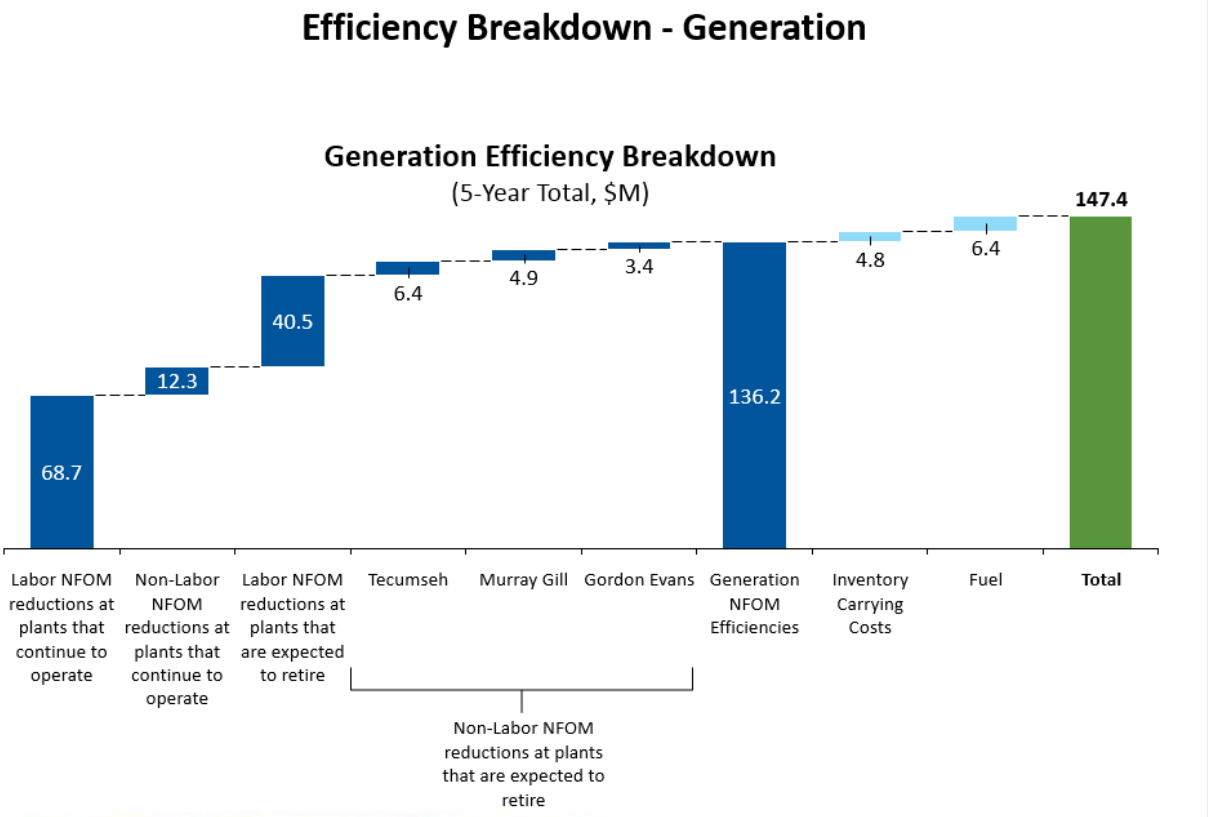
22 A: Generation efficiencies will be realized by reduced labor, maintenance, and fuel
23 expenditures from operating a combined fleet approximately twice the size of either

1 independent generation portfolio. These savings are created by improved processes that
 2 reduce both labor and non-labor related O&M expenses. Optimization across the
 3 combined portfolio will also reduce the number of rail car deliveries and inventory
 4 carrying costs. In addition, a consolidation of the Generation support functions (e.g.,
 5 generation system planning, generation engineering, etc.) will contribute to Merger
 6 savings. Generation Merger-related savings other than those attributable to the
 7 acceleration of Westar unit retirements are forecast to be approximately \$80 million over
 8 the first five years (excludes inventory carrying costs and fuel).

9 Savings from Generation efficiencies are summarized in Figure 5.

10

Figure 5



11

1 **Q: Do you perceive any significant challenges or risks related to the achievement of**
2 **Generation savings?**

3 A: No. Generation-related savings are primarily within the control of the Applicants
4 although a minor portion of the savings will be impacted by reduced fuel costs and from
5 interest rates that affect inventory-carrying costs. This portion remains exposed to
6 market influences.

7 **D. Supply Chain**

8 **Q: Please describe the nature of Supply Chain savings.**

9 A: The Supply Chain function is a critical function for utilities because a relatively small
10 percentage of savings in the costs associated with purchasing from equipment and service
11 providers will produce large dollar savings for customers. GPE and Westar combined
12 spent approximately \$1.9 billion on “repeatable” equipment and services in 2015.

13 The supply chain organizations achieve savings through a range of practices, and
14 measure their success by performing analytics and understanding the impact of supplier
15 negotiations against a baseline spend (pricing and volume) to determine efficiencies
16 associated with negotiating new contracts. The practices include inventory management,
17 competitive solicitations, and supplier relationship management.

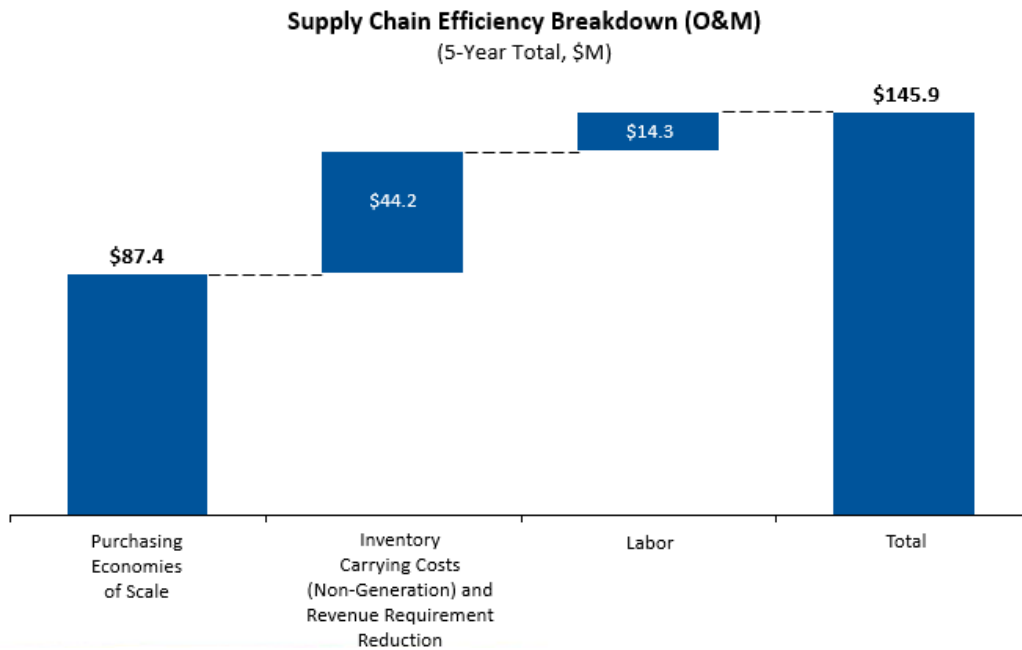
18 **Q: Please describe the opportunities for efficiencies in this area.**

19 A: Most savings are attributable to two non-labor categories: economies of scale in
20 purchasing including supplier rationalization (\$87.4 million) and reduced inventory
21 carrying costs (non-Generation) and revenue requirements on capital sourcing savings
22 (\$44.2 million). The economies of scale result in opportunities to consolidate the supply
23 base, negotiate volume-driven cost reductions with potential suppliers, leverage better

1 logistics alternatives, adopt common standards, increase outsourcing for certain functions
2 that are outside of the utilities' core competencies, and other improved sourcing practices.

3 Savings from Supply Chain efficiencies are summarized in Figure 6.

4 **Figure 6**



5
6 **Q: Do you perceive any significant challenges or risks related to the achievement of**
7 **Supply Chain savings?**

8 **A:** Approximately \$87.4 million of the Supply Chain savings are attributable to the ability of
9 the Applicants to negotiate lower costs with suppliers because of improvements in the
10 purchasing process and economies of scale. This portion of the Supply Chain savings
11 depends on our negotiations with suppliers and prevailing market conditions, as well as
12 our ability to move to common standards and a consolidated supply base. However, as
13 stated earlier, our initial market checks of these potential savings are consistent with our
14 overall savings expectations.

1 **E. T&D/Customer Service**

2 **Q: Please describe the T&D/Customer Service functions.**

3 A: This functional area has two teams: T&D and Customer Service with a combined annual
4 labor O&M budget of approximately \$185 million. The T&D functions are responsible
5 for maintaining the T&D assets including vegetation management activities, providing
6 reliable service, and restoring power in response to emergency conditions or more routine
7 outages. The Customer Service function includes activities performed at the customer
8 location and all interactions with customers through the customer contact centers as well
9 as billing and collection processes.

10 **Q: What efficiencies have been identified by the T&D Integration Team?**

11 A: The most significant efficiency opportunity will come from optimizing the vegetation
12 management process. As a result of adopting a “best of both” approach, Westar will
13 adopt the outsourcing model used for KCP&L’s and GMO’s distribution systems and
14 KCP&L and GMO will adopt Westar’s fixed pricing bidding strategy for its transmission
15 system. The Applicants also expect to negotiate a more favorable contract with an
16 outside vendor due to the increased scale of the combined Company program, while
17 remaining consistent with Westar’s existing “ReliabiliTree” program parameters. In
18 addition, the KCP&L and GMO vegetation management cycles will be extended to the
19 Westar service area. Using standardized cycles and crew sizes along with optimizing
20 KCP&L’s, GMO’s and Westar’s programs will allow for better planning and more
21 efficient spend while maintaining consistent levels of customer reliability.

1 **Q: What are the estimated savings over the 2018-2022 period from T&D efficiencies?**

2 A: The Applicants forecast non-labor savings of \$13.9 million related to improvements in
3 the vegetation management process. Other sources of non-labor O&M savings include
4 \$6.3 million from adoption of consistent materials capitalization practices in both
5 utilities, \$1.8 million from improved fleet maintenance practices, and \$1.5 million from
6 streamlined operations processes. Labor-related savings in T&D are expected to be \$5.6
7 million, bringing total O&M savings to \$29.0 million.

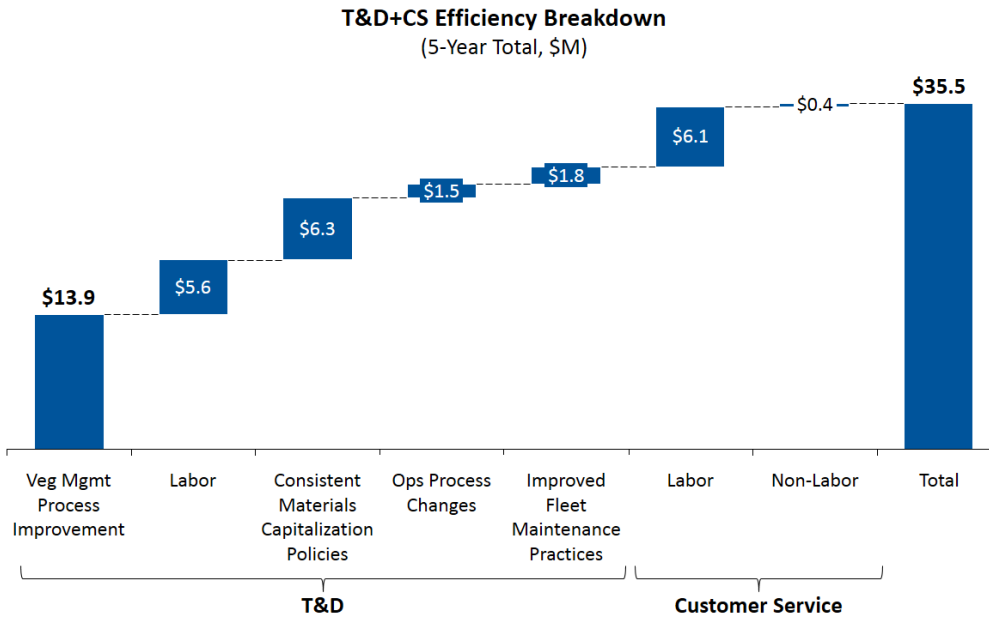
8 **Q: What efficiencies have been identified by the functional Customer Service**
9 **Integration Team?**

10 A: The Customer Service team identified non-labor savings of \$0.4 million and \$6.1 million
11 in labor-related O&M savings. The combined T&D/Customer five-year savings are
12 summarized in Figure 7.

1

Figure 7

Efficiency Breakdown – T&D and Customer Service



2

3 **Q: Do you perceive any significant challenges or risks related to the achievement of**
 4 **T&D/Customer Service savings estimates?**

5 **A:** No. The vegetation management savings are largely within the control of the Applicants
 6 although the precise savings from a new contract will not be known until the negotiations
 7 are completed.

8 **F. Achieve Benchmark Savings – Benchmark Staffing**

9 **Q: Can the combined Company achieve additional labor savings with no Merger-**
 10 **related layoffs?**

11 **A:** Yes. Total labor savings enabled by the Merger over the first five years of combined
 12 operations as detailed on Table 2 above are \$351.5 million, of which \$224.8 million are
 13 from these four functional areas and \$126.7 million are Achieve Benchmark Savings.
 14 The labor savings will be achieved by eliminating many vacant positions both companies

1 have held open in contemplation of the Merger, ongoing natural attrition including,
2 importantly, the contribution of baby boomers continuing to leave the workforce in large
3 numbers, and perhaps other voluntary methods. Accordingly, we can achieve these
4 savings with no Merger layoffs.

5 **Q: Please describe the Achieve Benchmark Savings.**

6 A: To further evaluate labor-related Merger savings potential, we worked with Strategy&, a
7 consulting firm that specializes in merger savings analysis. Strategy& performed three
8 analyses to help management estimate staffing levels for the combined Company
9 reflecting its now more efficient scale. One analysis related to identifying staffing levels
10 that would be consistent with a “Model Utility”, with potential staffing consistent with
11 such a “model”. Another analysis compared KCP&L and Westar staffing efficiencies to
12 other transactions. A final analysis looked at a similar peer group and identified
13 differences in quartile performance. Our assessment based on this further analysis
14 indicates that the combined Company will have the systems and processes in place to
15 enable reductions in staffing while maintaining and assuring service quality.

16 **Q: What were the results of these analyses?**

17 A: The benchmark staffing savings were developed using an average based on three
18 analyses. Two of these analyses evaluated staffing levels against peers and a third looked
19 at headcount savings from prior transactions with the intent of estimating a staffing level
20 for combined Company. When evaluated together, these analyses yielded staffing levels
21 that are consistent with other transactions and companies of the size and scale of the
22 combined company. We determined the combined Company could achieve additional

1 savings of \$126.7 million over the first five years of combined operations through this
2 effort.

3 **Q: How will these be achieved?**

4 A: These reductions will be achieved by implementing further process improvements and by
5 managing net attrition over this period to achieve a level of labor savings that is
6 incremental to the integration team work. However, we will defer the specific decisions
7 as to the number, timing, and functional areas affected until we have experience
8 operating for a period of time as a combined Company. Additionally, since the
9 reductions will be achieved through attrition, management will need to balance the
10 attrition with the targets by functional area to ensure the attrition aligns with the
11 objectives, as attrition can happen anywhere and may not happen in the areas identified
12 for the savings. Managing these position reductions through attrition has several
13 advantages. Most importantly, we will make better-informed decisions that reflect the
14 input of teams that have had the opportunity to work together and validate that
15 performance can be maintained at reduced staffing levels. The alternative, assigning
16 identified reductions to specific functions at this time, would likely produce suboptimal
17 decisions and result in avoidable and disruptive labor dislocations. In addition, operating
18 the combined Company prior to making additional reductions will allow us to monitor
19 these reductions to ensure that we maintain customer service levels, even as we pursue
20 these additional efficiencies.

1 **G. IT Roadmap and IT Business Plans**

2 **Q: Please describe the contribution of IT initiatives to achievement of efficiency**
3 **savings.**

4 **A:** The IT integration team had two primary goals: (1) examine opportunities to execute IT
5 responsibilities more efficiently by integrating the GPE and Westar IT functions into a
6 single, integrated support organization, and (2) working with each of the integration
7 teams to identify opportunities to utilize existing, upgraded, and new IT systems to
8 enable greater efficiencies and better serve customers in the future.

9 The IT team developed an IT Roadmap that examined each system at both
10 utilities and presented a plan, supported by the associated project business cases that
11 would optimize the IT capital plan across both utilities. In some cases, we plan to take a
12 better and/or recently updated system at either Westar or GPE and invest as necessary to
13 expand and/or modify the system to address the needs of both companies (*e.g.*, Westar’s
14 Maximo management system being adapted for use by GPE’s utility subsidiaries).

15 The IT Roadmap combines the project business cases into a single planning
16 document that includes an optimal design, prioritization and sequencing of IT projects
17 that considers the need to replace certain systems, interdependencies among IT projects,
18 and customer rate impacts. The IT Roadmap focuses first on preparing the Applicants to
19 serve customers over the next decade and longer, and then, to achieve Merger savings.
20 This reflects the evolution of IT systems throughout the industry. The IT Roadmap
21 reflects new Merger-related projects and deferral or avoidance of other projects. The
22 prioritization reflects the benefits to customers from enhanced and/or more reliable
23 service and the fact that certain systems contribute to greater efficiencies.

1 **Q: What role did the PMO serve in development of the IT Roadmap and Business**
2 **Cases?**

3 A: The PMO served in a coordinating role. It worked with the IT integration team to
4 develop the IT Roadmap and project business cases, because IT activities are
5 foundational to the achievement of other teams' integration plans. Most all plans depend,
6 to some extent, on technology. In addition, the PMO facilitated the review of the IT
7 Roadmap by the Steering Team and ensured consistency in how the financials were
8 aggregated and integrated into the financial plan of the combined Company.

9 **Q: How were IT projects prioritized in developing the IT Roadmap?**

10 A: Projects were first assigned to one of four groups, in priority:

11 i. Foundational capabilities;

12 ii. Customer-related;

13 iii. Operations-related; and

14 iv. Infrastructure projects.

15 **Q: Please further describe each of the groups of projects on the IT Roadmap.**

16 A: Projects that deliver foundational capabilities establish a platform that may support
17 multiple efficiency initiatives. Projects that deliver customer benefits address the
18 Applicants' commitments to maintaining or enhancing the quality of service. Operations-
19 related projects are intended to deliver efficiencies and ensure and/or improve quality of
20 service. Finally, infrastructure projects such as corporate mobility, access management,
21 and data center consolidation deliver on an ongoing commitment to maintain IT
22 infrastructure necessary to support the entire combined Company.

1 **Q: How were individual projects prioritized within each grouping?**

2 A. IT projects were further prioritized based on the efficiencies dependent on those projects,
3 and the benefits to the combined Company. Projects on the IT Roadmap were then
4 sequenced to ensure that systems that are obsolete or approaching obsolescence were
5 addressed first. They were then sequenced to ensure that the projects with the highest
6 level of efficiencies and benefits were completed first.

7 **H. Transition Costs**

8 **Q: What constitutes transition costs?**

9 A: As I noted earlier and is also discussed in the testimony of Mr. Ives, Transition costs are
10 costs necessary to integrate Westar and Great Plains and to create the Merger efficiencies
11 and savings. Transition costs unlock the savings of the Merger. Examples of transition
12 costs include voluntary severance, other than change-in-control severance, costs incurred
13 in integration planning as well as costs incurred to enable network connectivity for the
14 merged company and allow for a more efficient combined company. Transition costs are
15 netted against gross savings to calculate and present net savings.

16 **Q: How will you track transition costs?**

17 A: The Applicants are utilizing project accounting capabilities of their accounting systems to
18 track the costs to achieve the Merger savings. This information is captured by integration
19 team and resource cost category. All requisitions, purchase orders and invoices for
20 services charged to the Merger project are routed through Accounting for review to
21 ensure the costs are appropriately coded. I regularly review the transition costs that have
22 been incurred.

1 **Q: Please summarize the amount of transition costs that have been identified in the**
 2 **integration effort.**

3 A: We have identified \$71.8 million of transition costs over the first five years after the
 4 closing, including \$35.6 million incurred or expected to be incurred in 2016 and 2017 in
 5 the planning and design of the integration of GPE and Westar as shown in Table 3 below.

	<u>2016/2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>Total</u>
Transition Costs							
Severance	\$ 6.1	\$ 14.5	\$ -	\$ -	\$ -	\$ -	\$ 20.6
Supply Chain	7.1	6.8	5.4	2.0	1.6	1.2	24.2
Information Technology	11.8	0.3	0.3	0.3	0.3	0.3	13.4
Integration Planning & Integration Support	7.5	-	-	-	-	-	7.5
Other integration teams	3.1	0.3	0.9	0.6	0.6	0.6	6.1
Total	\$ 35.6	\$ 21.9	\$ 6.6	\$ 3.0	\$ 2.5	\$ 2.2	\$ 71.8

6
 7 **Q: What comprises severance costs?**

8 A: Severance is comprised of two voluntary separation offers made available to employees
 9 during the integration planning phase. It also includes voluntary severance associated
 10 with the accelerated retirement of Westar plants. GPE non-union employees received an
 11 opportunity to participate in a VEEP which provided a severance payment. A total of 98
 12 employees elected to participate in the VEEP at a total cost of \$6.1 million.

13 Additionally, Westar non-union employees had the opportunity to elect to
 14 participate in Westar's severance program ("Westar Severance"), which provides for
 15 varying levels of pay and benefits based on employee position and length of service,
 16 through an organizational design and staffing process. A total of 91 employees initially
 17 elected to participate in the Westar Severance at a cost of \$11.1 million. While due to the
 18 passage of time and change of circumstances we will give employees an opportunity to
 19 revisit their decisions, we do not expect a meaningfully different outcome. Finally, the
 20 severance cost includes the expected amount associated with accelerating the retirement

1 of the Westar generation facilities. Because we do not assume that all employees at those
2 plants will be able to relocate to another plant, we have assumed a severance cost of \$3.4
3 million.

4 **Q: Please describe the nature of the transition costs associated with the Supply Chain**
5 **function.**

6 A: In connection with the planning and design of the integrated Supply Chain function and
7 the identification of the \$145.9 million of Supply Chain savings discussed previously, we
8 incurred consulting costs to assist in the analysis of combined spend, inventory levels and
9 prioritization of competitive solicitation. In addition, the Supply Chain team plans to
10 implement more advanced analytics and management systems across the combined
11 organization to enable the savings.

12 **Q: What costs principally make up the Information Technology transition costs?**

13 A: They are comprised of costs associated with several IT efforts. First, we engaged a
14 consultant to assist the IT integration team to examine opportunities for combining into a
15 single, integrated support organization, work with each of the integration teams to
16 identify opportunities to utilize IT systems to enable efficiencies and assist the IT team in
17 the development of the IT Roadmap. Second, these transition costs include costs
18 associated with Day-1 projects prioritized to enable connectivity and visibility across
19 both companies' IT systems. In addition, the IT Transition Costs include incremental
20 costs to facilitate network connectivity between GPE and Westar IT networks.

21 **Q: What costs comprise the Integration Planning & Integration Support?**

22 A: These are comprised primarily of consulting fees totaling \$7.5 million in support of
23 integration planning.

1 **Q: Are there other costs to achieve not included in the total above?**

2 A: Yes. GPE and Westar employees have tracked their time associated with integration
 3 team activities. Related labor and benefits are charged to the same accounting projects as
 4 the incremental non-labor costs above. These costs, totaling \$14.7 million through June
 5 30, 2017, were not in final transition costs amounts as they are already included in the
 6 cost of service already reflected in rates.

7 **Q: Does the combined Company expect to recognize the transition costs totaling \$71.8**
 8 **million in rates as an offset to the gross Merger savings?**

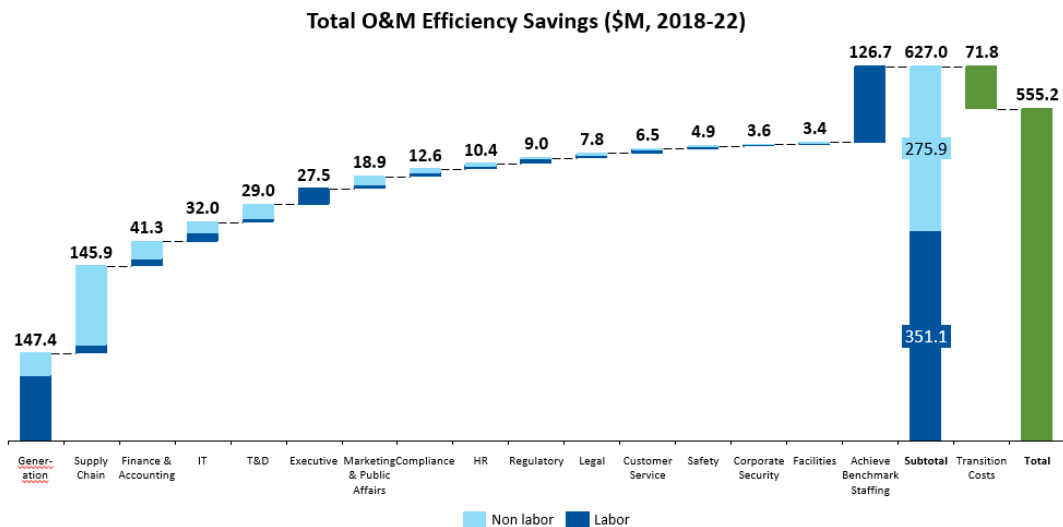
9 A: Yes. This rate-related issue is addressed by Mr. Ives in his direct testimony.

10 **I. Summary of Efficiencies and Savings Estimates**

11 **Q: You have indicated that the savings can be presented along multiple dimensions.**
 12 **Please identify these dimensions and present summary results.**

13 A: Savings by function and year were presented in Table 1. Figure 9 presents similar
 14 information with savings disaggregated between labor and non-labor savings.

15 **Figure 9**



16

1 **Q: How are these savings relied upon by the Applicants?**

2 A: They support benefits that will accrue to customers as a result of the Merger and they are
3 critical inputs to the financial projections and related analyses described in the testimony
4 of Mr. Somma.

5 **Q: Do these efficiencies and associated Merger Savings support a finding that the**
6 **Merger is not detrimental to the public interest?**

7 A: Yes. In fact, they demonstrate that the combined Company will operate more efficiently
8 and that customers will benefit from substantial savings. The integration planning process
9 has been comprehensive and is complete, including the identification of well-defined
10 efficiency initiatives. Each initiative and each team's plan demonstrate reliable savings
11 and executable implementation plans. They have been developed to capture all
12 efficiencies, while avoiding any double-counting. Mr. Ives addresses how savings flow-
13 through and will benefit customers in addition to the upfront bill credits, reinforcing the
14 net benefits provided by the integration effort.

15 **IV. MERGER ACCOUNTING**

16 **A. Introduction**

17 **Q: Please summarize the accounting topics you will address in this section of your**
18 **testimony.**

19 A: In this section of my testimony, I will address the following Merger accounting topics:

- 20 ▪ Goodwill;
- 21 ▪ Shared services and affiliate transactions; and
- 22 ▪ Property taxes.

1 **B. Goodwill**

2 **Q: What accounting pronouncements provide guidance with respect to accounting for**
3 **the Merger?**

4 A: Under Generally Accepted Accounting Principles (“GAAP”), the accounting rules for a
5 business combination are prescribed in Financial Accounting Standards Board (“FASB”)
6 Accounting Standards Codification (“ASC”) Topic 805, Business Combinations. ASC
7 Topic 350, Goodwill and Other, is also relevant to the Merger, among others.

8 **Q: How will the combined Company account for the Merger?**

9 A: Even though Great Plains Energy and Westar are combining in a merger of equals, in
10 which neither company is acquiring the other in the sense of paying or receiving a control
11 premium, the accounting rules still require that one company be determined to be the
12 “acquirer” and by default the other company is deemed to be the “acquiree”, solely for
13 accounting purposes. Westar has been determined to be the accounting acquirer and GPE
14 will be the accounting acquiree. The acquisition method of accounting will be used to
15 record the Merger. Under the acquisition method, Holdco will record the net assets of
16 Great Plains Energy acquired at fair market value. In the case of regulated assets and
17 liabilities, fair value is generally considered to be book value. At closing, the exchange
18 value of Great Plains Energy’s stock that is in excess of the book value of GPE’s net
19 identifiable assets must be recorded as goodwill. Goodwill to be recorded for the Merger
20 is currently estimated at approximately \$1.52 billion. As discussed by Mr. Ives, Merger-
21 related goodwill and the related purchase accounting adjustments will be recorded only
22 on Holdco’s books and will not be pushed down to the books of any utility operating
23 company.

1 **Q: If there is no control premium, why is there still goodwill being recorded?**

2 A: Determining goodwill for accounting purposes is independent of whether a control
3 premium is paid. Rules require that the exchange value (market value, in this case) of
4 Great Plains Energy's stock upon the closing of the Merger still be compared to its book
5 value. As discussed by Mr. Reed, this will result in the booking of goodwill, but not the
6 creation of any goodwill beyond the amount reflected in prevailing share prices. This is a
7 non-cash journal entry only. The recording of goodwill will have no impact on the
8 exchange ratio or equity value for the transaction. Goodwill simply sits on the books of
9 Holdco and will not ever be reflected in utility rates. See Application Appendix H,
10 Commitment No. 20.

11 **Q: Does the existence of Merger-related goodwill impose any obligations on Holdco or**
12 **any of its utility subsidiaries?**

13 A: No. The goodwill is merely an accounting entry required by GAAP in recognition of the
14 difference between the exchange value (market value) of GPE's stock at closing and the
15 book value of GPE's net assets.

16 **Q: After the consummation of the Merger, must the combined Company amortize this**
17 **goodwill as an expense?**

18 A: No. While that practice – or something like it – may have been required in the past, ASC
19 Topic 350 no longer allows the amortization of goodwill for publicly traded companies.
20 The rules now simply require impairment testing to determine whether the value of the
21 underlying asset has been impaired. If no impairment exists, that asset simply continues
22 on the books indefinitely, at the same amount. If an impairment were ever indicated, a

1 write-down of the value of recorded goodwill would be required. That too, would never
2 affect the utilities or their rates. See Application Appendix H, Commitment No. 21.

3 **Q: Is a write down of goodwill likely?**

4 A: No. Because most of the combined Company's assets are regulated utility plant, and
5 utilities are allowed a reasonable opportunity to earn a return on their book value
6 reflected in rate base, a circumstance in which the fair value of the combined Company's
7 regulated utility operations was less than its book value (which would indicate an
8 impairment) would be unlikely.

9 **Q: Even if extremely unlikely, would the utilities be protected from any adverse effect
10 of a potential write down of Merger goodwill at Holdco?**

11 A: Yes. In the unlikely event that a write down would occur, it would be a non-cash journal
12 entry at Holdco only, and would not affect the financial condition or capital structures of
13 its utility subsidiaries. Mr. Ives testifies to how our Merger Commitments and
14 Conditions further insulate the utilities from even the potential of adverse effects at
15 Holdco, offering more insulative protections than exist today.

16 **C. Shared Services and Affiliate Transactions**

17 **Q: Subsequent to the consummation of the Merger, how does Holdco intend to account
18 for KCP&L's, GMO's and Westar's operations in its accounting and reporting
19 systems?**

20 A: Holdco along with its direct and indirect subsidiaries will each have a separate general
21 ledger similar to GPE's and Westar's general ledgers today, with reporting entities within
22 its accounting and reporting systems for regulatory business units consistent with their
23 current accounting records.

1 **Q: How will the various business units be charged for costs incurred by another**
2 **business unit that benefit multiple subsidiaries, commonly referred to as shared or**
3 **common costs?**

4 A: Certain shared costs will be incurred by KCP&L, GMO and Westar, such as accounting,
5 payroll, regulatory, accounts payable, and human resources. The current allocation
6 methodology used by KCP&L and GMO to allocate shared costs among KCP&L, GMO
7 and other Great Plains Energy business units, as documented in the cost allocation
8 manuals filed annually with the Commission, will be utilized, updated as required for the
9 combined Company's operations and those of its subsidiaries.

10 **Q: Can you please provide an example?**

11 A: Yes. If it is determined that a particular KCP&L shared cost should be allocated based
12 on each business unit's utility plant, then GMO and Westar will receive only a portion of
13 that cost based on its utility plant; if by customer count, then by the number of customers,
14 etc. If it is determined that a particular Westar shared cost should be allocated based on
15 each business unit's utility plant, then KCP&L and GMO will receive only a portion of
16 that cost based on its utility plant; if by customer count, then by the number of customers,
17 etc. GMO shared costs will be allocated consistent with the methodologies that will be
18 used to allocate Westar or KCP&L as described above.

19 **Q: Have the Applicants made commitments regarding Affiliate Transactions and Cost**
20 **Allocation Manuals?**

21 A: Yes. These commitments are discussed by Mr. Ives in his direct testimony.³

³ See Schedule DRI-1, Commitments Nos. 29, 30, 31 and 33.

1 **D. Property Taxes**

2 **Q: What do you expect the impact of the Merger to be on the property taxes of the**
3 **combined Company?**

4 A: I do not expect a material difference in the property taxes paid by the combined Company
5 as a result of the Merger. We have not discussed this Transaction with the tax
6 commissions in Missouri or Kansas, and cannot predict for certain what their positions
7 may be.

8 **Q: Can you elaborate?**

9 A: Yes. Utility property taxes are based upon the fair market value of each utility legal
10 entity. Therefore, KCP&L, GMO, Westar, Kansas Gas & Electric Company, and Prairie
11 Wind Transmission, LLC will continue to have their fair market values assessed
12 separately. As a result, the Merger is not expected to have material impact on the
13 property taxes of the combined Company overall.

14 **V. CONCLUSIONS**

15 **Q: Please summarize your conclusions.**

16 A: The primary conclusions from my testimony are:

- 17 ▪ GPE and Westar have undertaken a very detailed and thorough integration
18 planning effort involving over 400 GPE and Westar employees participating in 18
19 teams, including the 14 “functional” teams, 2 “cross-functional” teams, the
20 Steering Team and the PMO;
- 21 ▪ The culmination of this work is reflected in the team business plans,
22 implementation plans, and efficiency charters that detail specific efficiencies
23 (over 300) and associated timing;

- 1 ▪ We have identified net Merger savings of \$555 million in the first five years
2 following the Merger. Detailed integration plans reflect cost savings of \$28
3 million in 2018 and growing to \$160 million per year from 2022 and beyond.
4 These savings will be achieved with no involuntary severance of employees;
- 5 ▪ Customer benefits resulting from the Merger can and have been quantified, as
6 discussed further by Mr. Ives;
- 7 ▪ GAAP requires the booking of Merger-related goodwill and that goodwill will be
8 booked at Holdco level. This is a non-cash journal entry only. It will have no
9 impact on the exchange ratio or equity value for the transaction. Goodwill simply
10 sits on the books of Holdco and will not ever be reflected in utility rates;
- 11 ▪ Great Plains Energy Cost Allocation Manual filed annually with the Commission,
12 will be utilized, updated as required for the combined Company's operations and
13 those of its subsidiaries, to allocate shared costs among GPE entities. We plan to
14 use Westar's existing allocation methods to allocate shared costs among Westar
15 entities; and
- 16 ▪ While we have not discussed the Merger with the tax Commissions in Missouri or
17 Kansas, I do not expect a material difference in the property taxes paid by the
18 combined Company as a result of the Merger.

19 **Q: Does this conclude your prepared Direct Testimony?**

20 A: Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

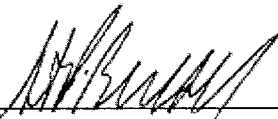
In the Matter of the Application of Great Plains)
Energy Incorporated for Approval of its Merger) Docket No. EM-2018-0012
with Westar Energy, Inc.)

AFFIDAVIT OF STEVEN P. BUSSER

STATE OF MISSOURI)
) **ss**
COUNTY OF JACKSON)

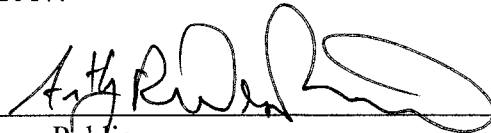
Steven P. Busser, being first duly sworn on his oath, states:

1. My name is Steven P. Busser. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Vice President of Risk Management and Controller.
2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Great Plains Energy Incorporated, Kansas City Power & Light Company, and KCP&L Greater Missouri Operations Company consisting of forty-four (44) 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.



Steven P. Busser

Subscribed and sworn before me this 31st day of August 2017.



Notary Public

My commission expires: 4/26/2021

