Exhibit No.:
Issue: Financial Condition
Witness: Kevin E. Bryant
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Great Plains Energy Incorporated; Kansas City Power & Light Company; and KCP&L Greater Missouri Operations Company
Case No.: EM-2017-0226, et al.
Date Testimony Prepared: March 27, 2017

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EM-2017-0226, et al.

SURREBUTTAL TESTIMONY

OF

KEVIN E. BRYANT

ON BEHALF OF

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

Kansas City, Missouri
March 2017

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OF

KEVIN E. BRYANT

Case No. EM-2017-0226, et al.

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 on behalf of Great Plains Energy ("GPE"), Kansas City Power & Light Company ("KCP&L") and KCP&L Greater Missouri Operations ("GMO")[1] in this case?

A: Yes, I am.

Q: What is the purpose of your surrebuttal testimony?

A: The purpose of my Surrebuttal testimony is to respond to the rebuttal testimony of Midwest Energy Consumers Group ("MECG") witness Gorman and City of Independence ("Independence") witness Herz regarding financial aspects of the proposed acquisition of Westar by GPE (the "Transaction"). I will also provide updates with respect to the financing of the Transaction and the financial and ring-fencing conditions agreed to by GPE, KCP&L and GMO.

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

A: My surrebuttal testimony is structured as follows:

[1] GPE, KCP&L, and GMO filed the Application for Limited Variance from Affiliate Transactions Rule (Case No. EE-2017-0113) and GPE filed the Application for Transaction Approval (Case No. EM-2017-0226). These cases have been consolidated. KCP&L and GMO are the "operating utilities."

- Section II provides an update on progress made in the Transaction to-date and the financial conditions agreed to by GPE;
- Section III provides an overview of my surrebuttal testimony and summarizes the key conclusions I reach;
- Section IV responds to Mr. Gorman's and Mr. Herz's testimony regarding the reasonableness of the purchase price;
- Section V responds to Mr. Gorman's testimony regarding the capital market reaction to the Transaction;
- Section VI responds to Mr. Gorman and Mr. Herz regarding the effect of the Transaction on the going-forward financial condition and cost of capital of KCP&L and GMO; and
- Section VII summarizes my conclusions and recommendations.

II. Transaction Updates

Q: Mr. Gorman discusses the capital market reaction to the Transaction[2], leaving the impression that it has been generally unfavorable. Do you agree, and what steps has GPE taken since the merger announcement to advance the financing of the Transaction?

A: No, I don't agree. Within a week of the merger announcement, 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

[2] Gorman Rebuttal, pp. 9-17. Note: All cites are to the March 23, 2017 Michael P. Gorman Rebuttal testimony filed in EM-2017-0226 *et al.*, based upon representations of MECG counsel that this is the only Gorman Rebuttal that will be offered into evidence.

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.

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: Has GPE issued long-term debt financing for the Transaction?

A: Yes. On March 6, 2017, Great Plains Energy ("GPE") priced $4.3 billion of senior notes. These notes comprised the following amounts, rates and maturity:

- $750 million at a coupon of 2.50% maturing in 2020;
- $1.15 billion at a coupon of 3.15% maturing in 2022;
- $1.4 billion at a coupon of 3.90% maturing in 2027; and
- $1 billion a coupon of at 4.85% maturing in 2047.

This completes GPE's remaining Transaction financing and results in Transaction debt with a weighted average interest rate of 3.68% and a weighted average maturity of 12.1 years. GPE's actual Transaction debt compares favorably to the assumptions in GPE's financial modeling because: (1) the total amount of GPE's Transaction debt of $4.3 billion is lower than the $4.325 billion assumed in the financial modeling; (2) the actual weighted average interest rate of GPE's Transaction debt of 3.68% is lower than the 3.95% assumed in the financial modeling; and (3) the weighted average maturity of GPE's Transaction debt of 12.1 years is longer than the 6.7 year weighted average maturity assumed in the financial modeling. The order book finished approximately 5.8x times oversubscribed with nearly $25 billion of orders from numerous recognizable, high quality participants. Proceeds from the financing will be used to finance a portion of the cash consideration for GPE's proposed acquisition of Westar.

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 debt issuances completed on more favorable terms than those assumed in GPE's financial modeling, Transaction value is protected. 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 are supportive of GPE's financing structure and are enthusiastic about the benefits of the proposed merger.

Q: Have GPE, KCP&L and GMO expanded their Transaction-related commitments since filing the Joint Application?

A: Yes. As discussed by Mr. Ives in his surrebuttal testimony, on October 26, 2016 GPE, KCP&L and GMO together with the Office of Public Counsel ("OPC") entered into a Stipulation and Agreement ("OPC S&A") pursuant to which they recommend that the Commission approve the Transaction. In concert with the Stipulation and Agreement between GPE, KCP&L, GMO and the Commission Staff ("Staff") ("Staff S&A"), the OPC S&A expands the financial and ring-fencing commitments as originally set forth in Exhibit B to the Agreement and Plan of Merger ("Agreement"). Further, as discussed by Mr. Ives in his surrebuttal testimony, we also propose to adopt commitments made in the KCC proceeding which are relevant to our Missouri operations and customers and include a number of supplemental ring-fencing measures ("Supplemental Commitments") (see Schedule DRI-4). These commitments 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.

Q: What is the importance of the progress made by GPE in financing the Transaction and expanding its financial commitments to KCP&L, GMO and their Missouri customers?

A: With respect to financing the Transaction, the progress we have made is consistent with the financing plan we outlined when the Transaction was announced on May 31, 2016 and reinforces our commitment and ability to execute this plan in a prudent manner that manages and eliminates risk as early as possible along the way. With respect to the expansion of the financial and ring-fencing commitments, the Stipulations and Agreements ensure that KCP&L, GMO and their Missouri customers will benefit from the Transaction and be protected from potential future risk. Collectively, 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.

III. Overview and Key Conclusions

Q: Please summarize the positions of Mr. Gorman and Mr. Herz that you will be responding to.

A: Mr. Gorman is "generally supportive" of the Stipulations and Agreements and proposes three "additional" merger conditions that are intended to address Mr. Gorman's concern with respect to potential credit rating downgrades for the utility operating subsidiaries as a result of the leverage at the parent company to finance the Transaction. Mr. Gorman alleges that the increased leverage will result in increased risk to customers from (1) an increase in the cost of capital, and (2) uncertainty as to whether needed infrastructure investments will be made and not deferred to preserve the ability to pay cash to the parent company to service debt.[3] The three proposed conditions relate to ring-fencing, utility-specific capital structures and tax elections, and the treatment of integration costs. I will address Mr. Gorman's testimony regarding financial risks of the Transaction and his capital structure proposal that the utilities' use a stand-alone capitalization of 50% debt/50% equity unless a different ratio is necessary to preserve a utility credit standing.

[3] Gorman Rebuttal, p. 18.

The other conditions will be addressed by Mr. Ives (ring-fencing) and Ms. Hardesty (tax elections). Further Ms. Lisa Quilici will address Mr. Gorman's proposed ring-fencing conditions from an industry expert perspective.

Mr. Herz also cites the concern that the Transaction may result in an increased cost of capital if savings don't materialize as projected and are not adequate to cover the acquisition premium, thus having a direct impact on GPE or an indirect impact on the cost of capital of the utility operating subsidiaries.[4] To address these concerns, Mr. Herz proposes that GPE's network transmission customers be provided a "self-help" opportunity to participate and fund future GPE transmission investments as protection against higher capital costs being passed through formula transmission rates. He also proposes that GPE monitor and report realized savings to safeguard against an inequitable allocation of such savings.[5]

Q: Please summarize your response to specific concerns of Mr. Gorman and Mr. Herz regarding the potential for credit ratings downgrades and impact on the cost of capital for GPE's utility operating subsidiaries.

A. As discussed in the testimony of Mr. Ives, the Stipulations and Agreements and Supplemental Commitments include a comprehensive set of merger commitments, including ring-fencing conditions that are intended to address concerns that increased debt incurred by GPE at the corporate level in order to finance the acquisition may contribute at some future date to a downgrade of the credit ratings of one or more of GPE's utility operating subsidiaries. GPE has pledged to insulate customers from any increase in the cost of capital that is attributable to a downgrade caused by the increase in

[4] Herz Rebuttal, pp. 6, 23.
[5] Herz Rebuttal, p. 24.

GPE's leverage. As discussed further in the surrebuttal testimony of Mr. Ives and Ms. Quilici, these conditions are constructive and workable, have been utilized in other similar proceedings across the country, and may be adopted by the Commission to address such concerns, yet still allow the Transaction to be completed to create the benefits for customers that would otherwise be foregone. These assurances provide customers with a greater degree of protection than exists today. The Commission can be confident that customers are not adversely affected by the financing activity of GPE.

Q: Are there other points you would like to make in response to Mr. Gorman and Mr. Herz?

A. Yes. It is important to recognize that:

1) Both Standard & Poor's ("S&P") and Moody's have reviewed the Transaction and, in response, affirmed the existing investment grade credit ratings of Westar[6], KCP&L and GMO. 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.

[6] Including Kansas Gas & Electric Company ("KG&E") which, unless specifically identified, is included when discussing Westar in this surrebuttal testimony.

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 GPE, the parent holding company, and, as noted above, any risk associated with such debt will be borne by shareholders, not customers. We have also made the significant concession not to seek rate recovery of the acquisition premium or transaction costs as part of our application.

4) 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 as significantly as changes in credit metrics.

5) As detailed in the testimony of GPE, KCP&L and GMO witnesses Steven Busser and William Kemp, the Transaction will create substantial benefits for customers without requesting customers to pay rates which include the acquisition premium or Transaction costs.

Q: In summary, will the Transaction financing undertaken by GPE negatively affect the financial condition of the operating utilities?

A: No. As I mentioned above and will discuss in detail in Section IV of my surrebuttal testimony, the financial condition of the operating utilities will not change due to the Transaction debt incurred by GPE. Equally important, in part as a result of the initially agreed upon and expanded set of ring-fencing conditions offered in the Staff S&A, OPC

S&A and by Mr. Ives in his surrebuttal testimony, the Transaction financing will not affect customers.

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 one-notch 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 is 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.

IV. Reasonableness of the Purchase Price

a. Introduction

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

A: I respond to MECG witness Gorman and Independence witness Herz who suggest that the purchase price GPE has agreed to pay is excessive.[7]

Q: Please briefly highlight your response.

A: The purchase price GPE agreed to pay Westar shareholders is reasonable and reflects the fair market value of Westar and the unique value that will be created for customers and

[7] Gorman Rebuttal, starting on p. 3; Herz Rebuttal, starting on pp. 5, 6.

shareholders by the Transaction. We have already conceded that we will not seek to recover in rates any acquisition premium or transaction costs. 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 shareholders, then the acquisition premium implicit in the purchase price, and finally the unique value created by the Transaction.

b. Reasonableness of Purchase Price

Q: How do you respond to the suggestions of Messrs. Gorman and Herz that the purchase price GPE agreed to pay for Westar is excessive.

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 my direct testimony, 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.

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 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. 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. 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.

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 $4.8[8] billion. The Joint Applicants' Proxy Statement included goodwill as $4.8 billion based on the estimated fair value of assets as of June 30, 2016.

[8] Busser Direct, p. 12.

From June 30, 2016 through December 31, 2016, Westar's common shareholder's equity has increased by approximately $111 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 December 31, 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.

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: It is important to consider the fundamental drivers of value in this Transaction and the broader industry context in which the Transaction occurred, namely the consolidation that is occurring throughout the electric utility industry as noted by Ms. Quilici. 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 GPE's operating utilities 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 – was executed by GPE in the Fall of 2016, and Transaction debt was issued by GPE in March of 2017, eliminating financing risk from the Transaction. The risk of the remaining part of our financing plan have already been addressed, with pre-established equity commitments from Westar's shareholders.

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

A: As described in more detail in Section V 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.

V. Capital Market Reaction to the Transaction

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

A: I respond to MECG witness Gorman's testimony regarding the capital market reaction to the Transaction. In particular, I respond to Mr. Gorman's and Independence witness Herz's assertions that the Transaction, and GPE's plans for financing it, may increase the financial risk of GPE and the operating utilities.[9]

[9] Gorman Rebuttal, starting at 3; Herz Rebuttal starting at 6.

Q: Mr. Gorman discusses GPE's, KCP&L's and GMO's credit ratings in his rebuttal testimony. In order to provide context for your surrebuttal testimony, 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 much do credit metrics impact credit ratings?

A: In S&P's credit rating methodology, credit metrics, such as the ratio Cash Flow from Operations before changes in working capital and interest to interest and the ratio of Debt to total Capitalization, 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."[10] In other words, a quarter of S&P's determination of a utility's credit rating is driven by their view of the regulatory environment.

[10] S&P Criteria Corporates Utilities: Key Credit Factors For The Regulated Utilities Industry, November 19, 2013, page 3.

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."[11] 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."[12] In combination, these two factors contribute half to Moody's determination of a utility's credit rating.

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.

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. GPE 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.

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[11] Rating Methodology, Moody's Global Infrastructure Finance-Regulated Electric and Gas Utilities, August 2009, page 6.

[12] Rating Methodology, Moody's Global Infrastructure Finance-Regulated Electric and Gas Utilities, August 2009, page 7.

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 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 recognized 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. [13]

> 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. [14]

As I discuss later in my surrebuttal testimony, and as 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%.[15]

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.[16]

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13 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

14 Ibid, page 4.

15 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

16 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.[17]

As I discuss later in my testimony, 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. Moreover, it is expected that this near-term impact related to Moody's will reverse as Transaction debt is paid down over time. That GPE's credit ratings will

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

remain investment grade is driven by both maintaining investment grade credit metrics and 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 issues 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 GMO 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 GMO 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 Westar's, KCP&L's and/or GMO'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 $500 million in the first full five years following closing of the Transaction and will enable GPE to reduce its debt by just over 11%. This is accomplished while maintaining balanced capital structures at Westar, GMO 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, GMO 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.

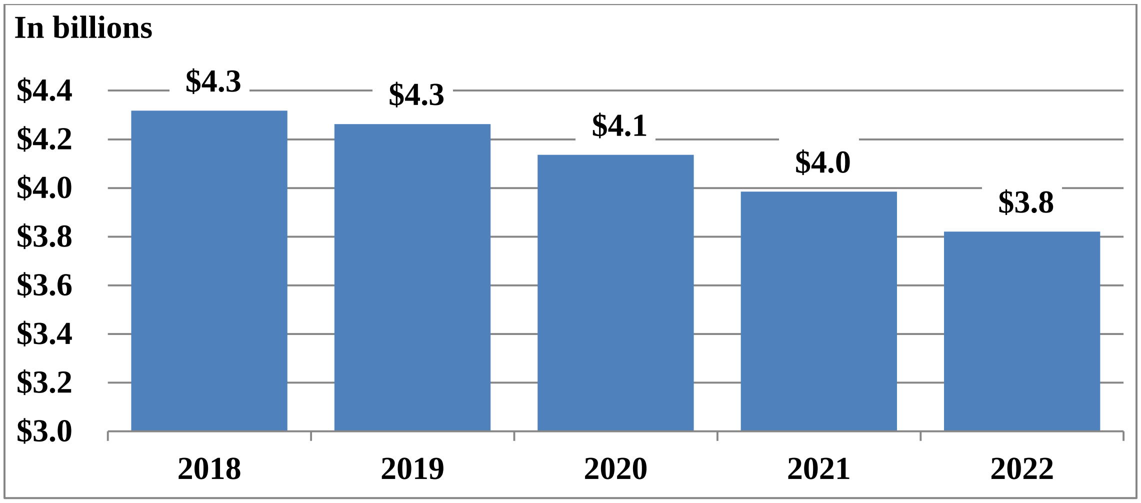
The following table, which is based only on the Westar cash flows and excludes cash flows from KCP&L and GMO, summarizes Transaction-related net free cash flows for each of the first full five years following closing of the Transaction and the cumulative effect of these Transaction-related net free cash flows. It should be noted that while not depicted for purposes of the table below, cash flows from KCP&L and GMO will also continue to be available to GPE.

Table 2: 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 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."

Q: Messrs. Gorman and Herz claim that the Transaction results in a financially weaker utility.[18] Do you agree?

A: No. While Mr. Gorman's testimony references select excerpts from credit rating agency reports that focus on the potential for negative credit impacts after the Transaction closes[19], both S&P and Moody's have indicated that GPE will remain investment grade and the current credit ratings for all of GPE's utility subsidiaries will be <u>maintained</u> and <u>unchanged</u> 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

18 Gorman Rebuttal, pp. 17-19; Herz Rebuttal, pp. 6 and 23.
19 Gorman Rebuttal, pp. 9-17.

aspects of “financial condition” that are relevant. 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 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.[20]

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 regulatory and political environments; and the addition of $1.2 billion of FERC regulated transmission rate base.[21]
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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

[20] 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.

[21] Moody’s Investors Service, Credit Opinion Great Plains Energy Incorporated: A Midwest Utility Holding Company, June 1 2016, page 4.

> facility. Utilities with contiguous service territories tend to produce higher operating cost synergies.[22]

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.[23]

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

A: No. 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 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, GPE, KCP&L and GMO have agreed upon certain financial and ring-fencing measures in the Staff S&A and in the OPC S&A to insulate the utilities and their customers from potential effects or costs related to these types of risks. The agreed upon financial and ring-fencing measures provide greater protections for

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[22] 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.

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

GMO and KCP&L and their customers from the parent holding company than exist today and will exist absent the Transaction.

VI. Financial Risks and Financial and Ring-Fencing Conditions

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

A: I respond to Mr. Gorman's assertion that KCP&L and GMO may be under pressure to increase their dividend payments to GPE to help service Transaction debt, increase their retail rates, and impact their ability to make necessary capital investments. I respond to MECG witness Gorman and Independence witness Herz who question whether the Transaction, and GPE's plans for financing it, may adversely impact customers through a higher cost of capital at the operating utilities.[24] Finally, I discuss how the financial and ring-fencing conditions agreed to by GPE, KCP&L, GMO, Staff and OPC address the concerns raised by Mr. Gorman and Mr. Herz and why no additional conditions are warranted.

Q: Will KCP&L be under extraordinary pressure to increase dividends to GPE in order to pay debt service on the Transaction debt, as alleged by Mr. Gorman?

A: No. GPE's financial analysis affirms that dividends from the utility operating subsidiaries will be sufficient for GPE to meet its debt service obligations. Moreover, should any financial stress create issues for GPE, the parent company has actions that it can take to address these issues without changing the dividend policies of the operating utilities. These include issuing more equity and reducing dividends at the parent company like GPE did in 2009 during the economic downturn while Iatan was being

[24] Gorman Rebuttal, starting on p. 3; Herz Rebuttal, starting on p. 8.

constructed when it cut the dividend in half and issued both common equity and equity units that received equity credit from the rating agencies.

Q: Mr. Gorman also raises a concern that, "The parent company may have an incentive to increase cost of service at the utilities in order to permit the utilities to pay larger dividends and income tax payments to the parent company, which will enhance GPE's cash flow available for serving acquisition debt."[25] Please respond.

A: As discussed by Mr. Ives and Ms. Quilici, the cost of service of the utility operating companies is subject to the jurisdiction of the Missouri and Kansas Commissions. Even making such a proposal would be short-sighted and foolhardy as it would undoubtedly inflict serious harm on our relationships with customers and regulators. In contrast, KCP&L, GMO and Westar are focused on reducing the cost of service, not increasing it. Our long-term success and ability to grow earnings depends on serving our customers efficiently and reliably. The interests of our shareholders and customers are aligned and will continue to be aligned based on the structure of the Transaction.

Q: Will the Transaction increase KCP&L's and GMO's cost of capital and their Missouri customers rates?

A: No. As I noted earlier, the credit ratings of KCP&L and GMO are unchanged by the Transaction. Further, GPE, KCP&L and GMO have agreed to specific financial and ring-fencing conditions in the Stipulations and Agreements reached with Staff and OPC which we have added to in the Supplemental Commitments discussed by Mr. Ives to insulate the operating utilities and their customers from potential effects or costs related to the Transaction. In particular, neither KCP&L nor GMO shall seek an increase to the cost of

[25] Gorman Rebuttal, p. 19.

capital as a result of the Transaction or KCP&L and GMO's ongoing affiliation with GPE and its affiliates other than KCP&L and GMO after the Transaction (see Staff S&A, Financing Condition 7 and Supplemental Commitment 24) and GPE commits that retail rates for Missouri KCP&L and GMO customers shall not increase as a result of the Transaction (Staff S&A, Ratemaking/Accounting Condition 4).

Q: What is the import of the financial and ring-fencing commitments provided for in the Stipulations and Agreements with Staff and OPC and in the Supplemental Commitments?

A: As discussed by Mr. Ives and Ms. Quilici, GPE, KCP&L and GMO have agreed upon a number of specific financial integrity and ring-fencing commitments to provide protections for the operating utilities and their customers. See Schedule DRI-4 to Mr. Ives' surrebuttal testimony and Schedule LMQ-2 to Ms. Quilici's surrebuttal testimony.

These conditions demonstrate GPE, KCP&L and GMO's commitment to customers and to ensuring that customers will benefit from the Transaction without being exposed to financing and affiliate risk. As discussed further in the surrebuttal testimony of Mr. Ives and Ms. Quilici, these conditions are constructive and workable, have been utilized in other similar proceedings across the country, and may be adopted by the Commission to address such concerns and still allow the Transaction to be completed and create the benefits for customers that would otherwise be foregone. Further, should any unforeseen risks or 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 GMO and KCP&L and their customers and will not exist if the Transaction is not approved and does not close.

Q: Mr. Gorman also proposes a condition that would require that a 50% debt/50% equity capital structure be used by KCP&L and GMO. What is your response?

A: In making his recommendation, Mr. Gorman cites to my testimony describing our intention to maintain a capital structure for the operating utilities that is approximately 50% debt and 50% equity and asserts that this intent should be a requirement.[26] In response to Mr. Gorman's recommendation, as Mr. Ives discusses in his Surrebuttal Testimony, GPE, KCP&L and GMO are willing to commit that KCP&L and GMO will use an actual utility-specific capital structure with an equity share of no less than 45% and no more than 53%. It is appropriate for the operating utilities to have some flexibility around a target range to allow us to manage changes in each utility's capital structure which may occur from time to time in the normal course of business. Further, as discussed by Mr. Ives, it will continue to be within the Commission's rate-setting authority to review KCP&L's and GMO's capital structure in the normal course of ratemaking.

Q: Should GPE's consolidated capital structure, which includes the Transaction-related debt, be used for utility ratemaking purposes?

A: No. I would note that KCP&L and GMO intend to use a utility-specific capital structure for ratemaking purposes and this intent is recognized in the Staff S&A. However, others may propose the use of GPE's consolidated capital structure with substantial Transaction

[26] Gorman Rebuttal, p. 17.

debt post-closing as this fundamentally flawed position has been advocated in Kansas so it is worth explaining our objection here, if only briefly.

The rates of both KCP&L and GMO have historically been set using actual capital structures with debt/equity ratios that have been very consistent with their peer utilities across the country. Prior to the acquisition of GMO the difference between KCP&L's and GPE's capital structures was relatively minor with only $100 million of debt and $39 million of preferred stock at the holding company level. The preferred stock had originally been issued by KCP&L prior to the formation of GPE and the $100 million of debt issued in 2007 was contributed as equity to KCP&L. These facts and the small dollar amounts involved made it easy for KCP&L to agree to use the GPE consolidated capital structure to set rates. When GMO was acquired in 2008, GPE guaranteed all of GMO's debt and GMO's equity ratio was higher than what was typically approved by the Commission so initially using the GPE consolidated capital structure to set rates for GMO was appropriate. GMO now issues its own debt without guarantees and has lowered its equity ratio to be within a range approved by the Commission so the circumstances have changed sufficiently to allow for use of the utility-specific capital structures to set rates today. It is both reasonable, and necessary for the Transaction to go forward, to continue this practice after the Transaction closes. 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. 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 GMO 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 GMO. 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 GMO and KCP&L.

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 Missouri 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 GMO and KCP&L. Given these implications, if the consolidated capital structure of the parent holding company is used for utility ratemaking purposes, GPE would no longer be able to commit not to seek rate recovery of the acquisition premium and Transaction costs and this customer benefit would be lost.

As a result of these facts, the continued use of capital structures with debt/equity ratios consistent with their industry peers for purposes of setting GMO and KCP&L's rates is reasonable.

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. While transformative, the Transaction will preserve GPE's current character as almost exclusively a utility holding company. The operating utilities comprise 100% of GPE's 2016 revenues and if the Transaction is approved and closes, 100% of GPE's revenues will come from utility operations. As detailed in the rebuttal testimony of GPE, KCP&L and GMO's surrebuttal witnesses Steven Busser and William Kemp, 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 as low cost financing mix as possible and the utilities rates must continue to be set based upon a capital structure reflecting an evenly mixed balance of debt and equity and not the consolidated capital structure of the parent holding company which includes substantial Transaction debt. 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.

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 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. The financial and ring-fencing commitments made by the GPE, KCP&L and GMO through the Stipulations and Agreements with Staff and OPC, and the Supplemental Commitments ensure that customers will be protected from potential future risks of the Transaction. These conditions include the commitment that the cost of capital reflected in the operating utilities rates for Missouri customers will not increase as a result of the Transaction. In fact, these financial and ring-fencing conditions provide customers with a greater degree of protection than they have today.

We live and work in this community and care passionately about ensuring GMO and KCP&L can better serve our region now and for the future. We believe this Transaction does that.

Q: Does this conclude your rebuttal testimony?

A: Yes, at this time.

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

IN THE MATTER OF THE APPLICATION OF GREAT PLAINS ENERGY INCORPORATED FOR APPROVAL OF ITS ACQUISITION OF WESTAR ENERGY, INC.	))))	**Docket No. EM-2017-0226**

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 I am employed by 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 Surrebuttal Testimony on behalf of Great Plains Energy Incorporated, Kansas City Power & Light Company, and KCP&L Greater Missouri Operations Company consisting of thirty-eight (38) 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 27th day of March, 2017.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4, 2019

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