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COVER STORY

Great Plains–Westar deal: It’s ‘a no-brainer’

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Soon after Independence Day, the regulatory clock will start ticking on one of the biggest deals in Kansas City history.

Everything about [Great Plains Energy Inc.](#)’s bid to buy Westar Energy Inc. is big. Counting assumption of Westar debt, the deal is valued at \$12.2 billion. The combined company would have 1.55 million customers and 9,900 miles of transmission lines. Although Kansas regulators have 300 days after a formal filing to approve such a merger, company officials predict that the deal won’t be finished until a year from now.

The trends driving the proposed deal are big and complex, as well. Utilities face twin regulatory pressures to clean up once-low-cost coal power plants and to derive more power from renewable sources like



ANDREW GRUMKE

Kansas City Power & Light’s Hawthorn Generating Station is along Front Street in Kansas City.

wind and solar. At the same time, the push to make everything from appliances to buildings more energy efficient has leveled the electric demand curve, said Terry Christenberry, managing director of CC Capital Advisors and a veteran of numerous M&A deals for rural electric cooperatives.

“There is a natural move to consolidate when you’ve got to respond to all those challenges,” Christenberry said. “The Westar move was all about what they were going to do for their shareholders if they can’t grow within their market. Becoming more cost efficient is great, but in the long term, you can’t save your way to growth.”

Industry forces

Westar CEO Mark Ruelle’s comment on an analyst call last year that the company was more likely to be a seller than a buyer may have surprised customers of the Topeka-based utility, but it was no shock to those who follow the industry. There’s been a wave of consolidation, driven not only by U.S. companies looking to build scale, but also Canadian utilities.

On Feb. 9 alone, Canadian utilities Fortis Inc. and Algonquin Power & Utilities Corp. each announced multibillion-dollar deals for acquisitions in the United States. Shareholders of Empire District Electric Co. — a Joplin utility whose territory extends to just south of the Kansas City metro area — gave approval on June 16 to a \$2.4 billion sale to Ontario-based Algonquin.

Meanwhile, a Morgan Stanley report predicted that shoppers would look closely at small-cap utilities. Morgan Stanley listed 11 such utilities — with market capitalizations of less than \$10 billion — left in the U.S. Among them: Westar and Great Plains.

Great Plains officials have said they weren’t looking to make an acquisition but saw an opportunity when Westar put itself on the sale block. A sale of Westar would mean more than a new partner in the three power plants it co-owns with Great Plains — but also the prospect of a large new utility on its doorstep.

Great Plains' hunger for the deal shows in its bid. Its \$60-a-share bid equated to a 15.3 percent premium to Westar's trading price at the time the deal was announced. It also includes a heavy debt load for Great Plains.

But Great Plains' existing partnerships with, and proximity to, Westar will let it drive sufficient savings to make the combination a winner for shareholders and customers, said [Chuck Caisley](#), vice president of marketing and public affairs for Great Plains and operating company Kansas City Power & Light.

"This is a utility combining with a neighbor, creating significantly enhanced cash flows as a combined entity and assuming the debt of a stand-alone, investment-grade company," Caisley said.

Ruelle and Great Plains CEO Terry Bassham have said they hope to cut payroll with a minimum of layoffs, helped by a roughly 5 percent natural attrition rate.

Caisley pointed to Great Plains' 2008 purchase of [Aquila Inc.](#) as an example of what's to come.

"With the Aquila transaction, we exceeded the savings targets," he said. "Those savings had tremendous effect for both shareholders and customers. We have no reason to believe that with a transaction very similar in nature, the exact same management team wouldn't be able to re-create the same result this time around."

Gleaning from history

However, look a bit further back in the company's history, and there's reason to believe that getting regulatory approval won't necessarily be a breeze.

The corporate predecessors of Great Plains and Westar tried a few times in the past to combine. The last attempt, in 1998, fell apart after regulators added onerous terms, including prohibiting rate increases for several years.

One supposed benefit of Great Plains' new offer for Westar was that it wouldn't require approval of Missouri regulators. But the Missouri Public Service Commission contends that Great Plains' purchase of Aquila required the company to seek its approval before buying another public utility. Great Plains argues that the agreement applied only to deals for utilities based in Missouri; Westar operates entirely in Kansas.

As for winning over Kansas regulators, company officials have said they plan to maintain Westar's offices in Topeka. They also plan to emphasize the benefits of having a neighbor as an acquirer.

"When you take a look around in the utility industry where you've got Canadian companies coming in and buying up utilities, and very large companies from the coasts or other parts of the U.S. are setting up remote operations, the fact that we have local leadership that will be very responsive to commissioners in both states is another tangible benefit," Caisley said. "You don't have to call up Los Angeles or New York or Miami to find executive leadership. Our leaders live in Missouri and Kansas and will continue to live there. This preserves that."

James Dornbrook

Reporter

Kansas City Business Journal



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