

Exhibit No.:
Issue: Transaction Savings; Integration
Planning
Witness: Steven P. Busser
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

STEVEN P. BUSSER

ON BEHALF OF

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

**Kansas City, Missouri
March 2017**

Table of Contents

I. Background and Qualifications	1
II. Development of Pre-Announcement Savings Estimates	7
III. The Integration Project and Governance.....	10
A. Design Phase 1	17
B. Design Phase 2	18
C. Implementation Planning	22
IV. Attribution of Efficiency Savings to the Merger.....	23
V. Conclusion.....	24

SURREBUTTAL TESTIMONY

OF

STEVEN P. BUSSER

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

I. Background and Qualifications

Q: Please state your name and business address.

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

Q: Are you the same Steven P. Busser who filed direct testimony in this docket on October 12, 2016?

A: Yes, I am.

Q: What is the purpose of your surrebuttal testimony?

A: The purpose of my surrebuttal testimony is to respond to positions taken by witness Michael P. Gorman¹ (on behalf of Midwest Energy Consumers Group – “MECG”) and witness Joseph A. Herz² (on behalf of the City of Independence – “Independence”) relating to the development of the Transaction efficiencies, and the Integration Planning process (“Integration Project”). William J. Kemp is also addressing Transaction efficiencies in his surrebuttal testimony.

¹ Gorman Rebuttal, p. 3. 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.

² Herz Rebuttal, p. 7.

1 **Q: Please summarize the positions of witnesses Gorman and Herz that you will be**
2 **responding to.**

3 A: Mr. Herz expresses the concern that GPE's merger estimates are not realistic and will not
4 be fully realized. He also indicates a "concern" regarding the impact that savings will
5 have on rates and the fact that savings will not be verifiable until future general rate cases
6 when savings will be passed on to customers.³ Mr. Herz also comments on the initial
7 savings estimates that were relied upon by GPE to develop its bid for Westar, casting
8 aspersion on whether initial targets may have dictated the results. He notes further that
9 detailed savings estimates have yet to be validated and are not yet available for review,
10 while acknowledging that the completed integration plans will provide a more definite
11 estimate of savings.⁴ Finally, he questions whether the targets will cause the utilities to
12 pursue savings that will adversely impact security and reliability of operations and
13 staffing.⁵

14 Witness Gorman asserts that the savings may be achievable without the merger,
15 suggesting further that they cannot be relied upon to determine that the public will not be
16 harmed by the Transaction.⁶ He cites a comparison of pre-merger KCP&L and GMO
17 rates to other utilities as proof of his position⁷, stating that "If Mr. Kemp's representation
18 that GPE is able to achieve superior cost management results is accurate, GPE's existing
19 subsidiaries can be shown to be low cost providers."⁸ Curiously, Mr. Gorman relies
20 extensively on out-of-context excerpts from testimony submitted by Kansas Corporation

³ Herz Rebuttal, p. 7.

⁴ Herz Rebuttal, pp. 11-12.

⁵ Herz Rebuttal, p. 12.

⁶ Gorman Rebuttal, p. 3.

⁷ Gorman Rebuttal, p. 7.

⁸ Gorman Rebuttal, p. 35.

Commission (“KCC”) Staff and other intervenors in Docket No. 16-KCPE-593-ACQ before the KCC.

Q: Will you be responding to the testimony of witnesses that submitted testimony in the Kansas proceeding but not in this proceeding?

A: No. These witnesses are not available for cross-examination in this proceeding. Moreover, GPE, KCP&L and GMO have effectively rebutted each of their positions in the KCC case, even though testimony by GPE’s own witnesses is misrepresented by Witnesses Gorman and Herz. The absurdity of this approach is demonstrated by Mr. Gorman’s reliance on his creative interpretation of GPE Witness’s Kemp’s response to one of the KCC case intervenor witnesses:

Clearly, Mr. Kemp’s response to the allegation that the savings could be created absent the merger demonstrates that it is at very best uncertain whether or not the savings are caused only due to the merger or rather the savings could be achieved without the proposed Transaction.⁹

Mr. Gorman is creating the specter of a concession by GPE’s witness that is in fact a complete misrepresentation of Mr. Kemp’s testimony. In order to respond to this testimony, I would have to correct the representations of both the Staff and Intervenor witnesses and the rebuttal by GPE. Rather than responding to these restatements/recreations of both GPE and intervenor testimony in the KCC case, I will respond to testimony that is supported by witnesses Gorman and Herz on their own in this proceeding.

⁹ Gorman Rebuttal, p. 32.

1 **Q: Please summarize your response to the testimonies of Mr. Herz and Mr. Gorman as**
2 **they relate to savings estimates.**

3 A: I will describe how the initial savings estimates were unbiased and reasonable, and have
4 been subsequently validated through integration planning efforts over the past several
5 months. I will describe the integration planning efforts in more detail as well as the
6 governance of this process, which clearly set the stage for the pursuit of all achievable
7 savings in order to flow those savings back to customers, without any adverse impact on
8 service quality. Finally, I will demonstrate that all of these savings are in fact attributable
9 to the merger, while explaining that a simple comparison of existing rates among utilities
10 does not provide any useful information relative to this issue.

11 From a simple common sense point of view, it is obvious that combining these
12 two adjacent, similarly sized utilities who operate nearly identical businesses, with
13 significant fixed costs, using a similar (often identical) tool and equipment set, purchased
14 from common (if not identical) vendors and suppliers, and which can operate (and train)
15 on common computing systems will result in significant operational efficiencies. As
16 proposed by GPE, KCP&L and GMO, those efficiencies will flow back to customers in
17 the normal course of ratemaking, resulting in utility rates lower than they would have
18 been absent the Transaction.

19 **Q: Can you provide a few of the types of efficiencies that will be made possible by this**
20 **merger?**

21 A: Certainly. A few examples include:

- 22 • Today the companies have two CEOs. After closing the combined company
23 will have but one. Reducing to one CEO eliminates not just one salary and

1 compensation, but payroll (social security, Medicare, unemployment) taxes,
2 training and travel expenses, etc. These same reductions hold true for other
3 executive officer positions, such as the chief financial officer, general counsel
4 and others.

- 5 • Today Westar and GPE each have a board of directors. After closing, GPE
6 will add one of Westar's directors to its board and the balance of Westar's
7 board will be eliminated. This will also eliminate board member fees, travel
8 expenses and the cost of professional membership fees, and continuing
9 education for the board positions that are eliminated.
- 10 • Today both companies are listed on the New York Stock Exchange
11 ("NYSE"). After closing, only GPE will be listed on the NYSE, resulting in
12 lower listing expense for the combined company than the sum of such costs
13 for GPE and Westar on a stand-alone basis.
- 14 • By reducing to just one public equity issuer, the costs of complying with
15 Sarbanes-Oxley are also reduced. These and related costs for debt-only SEC
16 registrants are less costly than for equity registrants with separate
17 shareholders.
- 18 • With the legal merger comes one consolidated general ledger after closing and
19 fewer accountants to book entries to it.
- 20 • As the company gets more efficient, it eventually means a smaller work force.
21 With a smaller workforce come lower payroll, payroll taxes, medical, dental,
22 eye and health care expenses, reduced pension and 401(k) expenses, business

1 travel expenses, reduced costs for parking, desks, chairs, computers, real
2 estate—even soap in the washrooms and coffee in the break rooms.

- 3 • By combining computing platforms there should be some reduced software
4 licensing costs. More significantly, however, there will be huge reductions in
5 the greatest cost for new software. That is, the redundancy in the
6 implementation, change management and employee training costs.
- 7 • It could be argued that the electric industry has the greatest set of common
8 denominators of any industry, for we all operate what is essentially just our
9 own little portions of the largest machine in the world; that is, the
10 interconnected grid. That means we purchase the same (or similar) types of
11 equipment from the same (or similar) vendors. The additional economies of
12 scale in purchasing, as well as the purchasing power, are obvious.

13 I could go on, but I hope this helps with a common sense demonstration of the
14 types of significant efficiencies that will result. I think this illustrates that regardless of
15 our backgrounds, whether farming, the legal profession, owning and operating a small
16 business, in the business of building, fixing and improving things, serving the public in
17 state or local government departments — all of us can understand how combining two
18 organizations into one can make the combined organization more efficient than the two
19 stand-alone organizations. This is particularly so in businesses that have a lot in common
20 and ones with a lot of fixed costs, like the electric utility industry.

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

2 A: I will address three topics in my surrebuttal testimony, responding to the testimonies of
3 Witness Herz and Witness Gorman where relevant:

- 4 • The development of the initial efficiency estimates and my role prior to the
5 announcement of the Transaction;
- 6 • The integration planning process, governance of the integration project, and
7 update as to the development of the efficiency estimates; and
- 8 • Whether savings estimates are attributable to the merger.

9 **II. Development of Pre-Announcement Savings Estimates**

10 **Q: Mr. Herz criticizes the process GPE utilized to develop its initial efficiency**
11 **estimates.¹⁰ Before responding, will you please explain your role in this process?**

12 A: Yes, I am one of the senior executives who worked to develop the initial efficiency
13 estimates on which the financial model supporting the Transaction is premised. As
14 discussed more fully in the testimony of Mr. William Kemp, the senior executives,
15 working with Enovation and utilizing the information available in the data room as
16 provided by Westar, developed efficiencies estimates by area based on the due diligence
17 each had performed using available data and information. I participated in nearly all of
18 the meetings with Enovation and the senior executives during the interviews and the
19 discussions of efficiency opportunities. These were in-depth discussions and consensus
20 among all of GPE's senior executives was obtained as to (1) the efficiencies levels
21 estimated from each area and (2) the commitment necessary, if GPE became the
22 successful bidder in the auction process, to deliver those efficiency amounts.

¹⁰ Herz Rebuttal, pp. 10-11.

1 **Q: What is your assessment of that process?**

2 A: The development of the efficiencies was done on the typical timeline associated with
3 auction process transactions, and our approach assured that the assumptions were clearly
4 understood and that efficiency estimates were not over-stated. Our consultant in this
5 process informed us that through their experience, more often than not, the efficiencies
6 identified could ultimately be exceeded once the joint GPE-Westar teams were able to
7 work together after the Transaction was announced.

8 **Q: How do you respond to the criticism relating to the comprehensiveness of the process**
9 **and level of efficiencies noted by Mr. Herz?¹¹**

10 A: Mr. Herz's criticism that the use of the preliminary efficiencies estimates is insufficient to
11 demonstrate that savings will occur seems to be based on a flawed assertion that the
12 preliminary efficiencies identified in the Application were unsupported. That is not the
13 case. As discussed extensively by witness William J. Kemp in his direct testimony, the
14 preliminary efficiencies were identified through a comprehensive process prior to the
15 Transaction announcement. That process involved an experienced electric utility
16 consulting firm and senior executives from GPE who have an extensive amount of
17 experience in the electric utility industry. These executives have had experience in other
18 mergers and acquisitions throughout their careers, including the recent Aquila
19 transaction. Further, there was an extensive amount of Westar-specific data that covered
20 both historical and forecasted periods that was reviewed by the Great Plains personnel
21 who were involved in developing the bid for the purchase of Westar. Mr. Kemp

¹¹ Herz Rebuttal, pp. 12-13.

1 discusses in his surrebuttal testimony the quantitative aspect of our pre-Transaction
2 efficiency estimates.

3 **Q: Why should the Commission be comfortable that the initial efficiency estimates**
4 **were objectively determined, contrary to the testimony of witness Herz?**¹²

5 A: Mr. Herz has implied that the establishment of minimum levels of efficiencies motivated
6 the teams to find sufficient efficiencies to meet those minimum levels and that the
7 integration teams were stretching to achieve a mandated target and may not have had a
8 path to actually achieving those efficiencies and thereby the efficiencies are overstated.
9 This is simply incorrect. Our integration planning efforts, described further below, have
10 confirmed the level of estimated savings that were developed during the initial stage to
11 develop our bid for Westar. All of the efficiencies estimates that are continuing to be
12 refined, and which will ultimately be incorporated into the financial plans of the
13 combined company, will have a plan around them that details how the efficiencies will be
14 achieved.

15 **Q: What level of commitment are GPE, KCP&L and GMO willing to make with**
16 **regard to the initial efficiencies estimates?**

17 A: GPE, KCP&L and GMO have already made at least three very significant commitments:
18 • First, GPE, KCP&L and GMO are not asking for any of the cost of the premium
19 or the transaction costs to be recovered in rates. This is great for customers as
20 they get the benefit, with no cost.

¹² Herz Rebuttal, p. 13.

1 • Second, GPE, KCP&L and GMO's commitment not to ask for recovery of
2 Transition costs unless it can demonstrate specifically that the related efficiency
3 benefits exceed those transition costs.

4 • Third, GPE, KCP&L and GMO's commitment that all efficiencies achieved will
5 100% flow back to customers through rates post-close of the Transaction as rates
6 are reset in the normal ratemaking process.

7 As it relates to making a commitment on efficiencies, as has been stated from the
8 beginning, the levels of efficiencies that were identified by GPE, KCP&L and GMO are
9 reasonably achievable.

10 Witness Ives discusses in his direct and surrebuttal testimony the ratemaking
11 treatment of efficiencies.

12 **Q: Do you have any additional comments with regard to the initial efficiencies**
13 **estimates?**

14 A: Yes. Enovation Partners was clear as we developed the initial overall efficiencies
15 estimate that the estimate would be verified as part of the integration effort, and that is
16 exactly what has happened, as I will discuss below in greater detail.

17 **III. The Integration Project and Governance**

18 **Q: Please provide an overview of the Integration Project.**

19 A: The Integration Project is being run using a structured approach that establishes the
20 overall governance for the project with a senior executive-led steering committee to
21 whom I report the progress of the project to on a frequent basis, generally at least once
22 per week and more often if needed. Kevin Bryant, our Chief Financial Officer, is the
23 Executive Sponsor for the Project. I, along with John Bridson, a Senior Vice President

1 from Westar, serve as the Integration Leaders, and Julie Shull serves as the Project
2 Manager. The Integration Project is jointly led by Westar and GPE senior executives,
3 with executives from both companies also jointly leading the functional integration teams
4 that cover all areas of the combined companies.

5 **Q: Please explain the benefits of a strong governance structure.**

6 A: The key to the success of any project is the buy-in and commitment of the senior
7 executives and in particular the chief executive officer (“CEO”). Absent this
8 commitment, it is my view that any project has a much lower likelihood of success.

9 **Q: Please elaborate on the jointly led executive structure being utilized in this project.**

10 A: At the beginning of the project shortly after the announcement, we began to analyze the
11 project structure that we wanted to utilize. Building on the experience that was gained
12 from the Aquila acquisition and to ensure that all of the officers from both Westar and
13 Great Plains were engaged in the integration effort, it was decided that the majority of the
14 functional teams that were going to create the combined company would be co-led by
15 both a Westar executive and a Great Plains executive.

16 **Q: Please explain the benefits of the jointly led executive structure.**

17 A: First, because executives from both companies are responsible for each integration team,
18 the decision making as to which process to use – the GPE process, the Westar process or
19 a completely new process – has been streamlined as the officer who will ultimately have
20 to abide by the decision made is the one making the decision. Another benefit of this
21 structure has been that all officers of both companies have been required to remain
22 engaged as they will ultimately be responsible for achieving the deliverables and results
23 that will be expected from their team.

1 **Q: As one of two Integration Leaders, do you believe GPE's senior executives and CEO**
2 **are committed to, and have accountability for the success of this project?**

3 A: Without a doubt. The steering committee is a very demanding and engaged group of
4 senior executives who are informed of the status of the project at all times. They are
5 engaged in analyzing information, providing guidance and making decisions that will
6 affect the combined company post close. In addition to regularly scheduled steering
7 committee meetings, I also often meet individually with the members of the steering
8 committee to discuss issues and seek guidance. Each steering committee member is
9 personally and professionally invested in the success of the Integration Project well
10 beyond my original expectations.

11 **Q: Contrary to the implication made by Independence witness Herz, is it unusual for**
12 **preliminary efficiency estimates for these types of transactions to be validated**
13 **throughout the integration planning process?**¹³

14 A: Not at all. It is the natural course. You have to start somewhere. Starting with
15 preliminary estimates on which to assess whether a transaction makes sense at the highest
16 level is really the best place to start. If it doesn't make sense at the highest level, why
17 pursue it further and expend the time and money to do so? That would be
18 counterintuitive and counter-productive. Fortunately, this Transaction made sense at the
19 highest level, and it was decided to pursue a deal. Continuing on post-bid award, it
20 seems logical that those preliminary estimates would then be verified throughout the
21 integration planning process subsequent to the Transaction announcement. Given the
22 auction process and how Westar was conducting the sale of their Company, I don't see

¹³ Herz Rebuttal, p. 13.

1 how another methodology would have been better than the methodology we utilized and
2 continue to employ in this Transaction. .

3 In further response to Independence witness Herz's criticism of GPE's pre-bid
4 estimates of efficiencies, I will provide an update on the status of the work of the
5 integration project teams that has resulted in validation of GPE's pre-bid estimates of
6 Transaction-related efficiencies.

7 **Q: Have the sources of the efficiencies changed since the development of the pre-**
8 **announcement efficiency amounts?**

9 A: Yes, as one would expect, the sources and amounts of the efficiencies have changed in
10 some respects.

11 **Q: Please explain.**

12 A: Over the last six plus months, with the collaboration between the Westar and GPE jointly
13 and executive-led integration teams, our confidence in the achievability of the overall
14 estimated efficiencies has increased significantly. We will continue to refine the
15 efficiency amounts and get a deeper understanding of the assumptions made as we
16 progress to Day 1 and beyond, but it is clear to me that GPE's original overall
17 efficiencies estimates are achievable and will benefit our customers significantly for
18 years to come.

19 The overall efficiencies were developed based on the best available data at the
20 time and were categorized by functional areas. Throughout the Integration Project, the
21 levels of efficiencies associated with each given functional area have changed, as
22 expected, as additional data has become available and analyzed, but this does not
23 diminish the overall level as identified in our direct testimony. This type of shift in the

1 efficiency levels per functional area is not unusual or unexpected. One very relevant
2 example that pertains to support services functions (such as accounting, human resources,
3 legal, regulatory, etc.) will clearly demonstrate this point. The pre-announcement
4 efficiency amounts for support services functions were assumed to be primarily driven by
5 labor reductions, but through the work of the joint integration teams, we have developed
6 a deeper understanding of the non-labor dollars expended in the support services areas.
7 This has resulted in additional efficiency opportunities that were not included in the pre-
8 announcement efficiency amounts.

9 **Q: Can you please remind the Commission of the four phases of the integration**
10 **project?**

11 A: Yes. As noted in my Direct Testimony, the integration project is a four-phase project
12 designed to, among other important objectives, validate the efficiencies estimates leading
13 up to implementation. All of information gathered in each of the phases builds on and
14 creates the base for the activities that are performed in subsequent phases. The four
15 phases are as follows:

- 16 • Integration Framework
- 17 • Design Phase 1
- 18 • Design Phase 2
- 19 • Implementation Planning

20 **Q: Can you please explain in detail the Integration Framework phase?**

21 A: Yes. The first phase was the Integration Framework phase, which began immediately
22 upon entering the Transaction, and was completed around the end of July 2016. The
23 purpose of this phase was to lay the groundwork for the integration effort. During this

1 phase, we established a mission statement as we wanted to capture, on one page, the
2 entirety of what we expected from the integration effort. We also set the strategic
3 direction for the integration effort. We did this by asking and answering key strategic
4 questions. Some of the key questions, answers, and considerations are as follows:

- 5 • Do we need to modify our strategic objective? Should we adopt Westar's
6 Strategic Plan? *Answer:* No. If one were to look at the strategic plans for each of
7 these companies, the words would likely be different but the themes would be the
8 same. The electric utilities are similar in many respects. Therefore, it was
9 decided that the strategic objectives defined in GPE's most recent Strategic Plan
10 would be appropriate for governing the strategic direction of the combined
11 company.
- 12 • What is our future state aspiration for the combined company for both Day 1 and
13 future state? Do we want it to be status quo? Some of the additional questions
14 explored in answering this question regarding future state aspirations were: Do
15 we operate as two separate companies in almost all respects? Do want to just
16 simply stand up the organization as a combined company? Do we want to, after
17 comparing processes, just simply select the one that is viewed as the best or do we
18 want to have the teams think "out of the box" and perhaps implement another
19 better, more efficient process utilizing the size and scale that the combined
20 company will have? Is there a leading practice or process that is being utilized in
21 the industry that is better than the process that is used by either Great Plains or
22 Westar? This is probably best demonstrated in the graph in schedule SPB-2 to
23 this surrebuttal testimony. *Answer:* Given that the amount of time prior to Day 1,

1 we have asked the functional integration teams to look at the processes used by
2 Westar and the processes used by Great Plains and to the extent possible
3 implement the process that they view as being the most efficient. As we progress
4 past Day 1, and with the benefit of more time and awareness of the needs of the
5 combined company, the executive officers will be tasked with determining if there
6 are any possibilities to improve those processes and adopt perhaps an industry
7 leading practice. It is expected that this will largely be achieved by approximately
8 2020.

- 9 • Which organizational structure should be used as a starting point for integration
10 purposes? *Answer:* We decided that KCP&L's organizational structure would
11 serve as the starting point for the integration efforts. This was done for simplicity
12 purposes and to establish a starting point, but we made it clear that the integration
13 teams should consider all structures and choose the structure which would result
14 in the most efficient, high performing organization.

15 **Q: What else was established during the Integration Framework Phase?**

16 **A:** The next items established during the Integration Framework phase were the guiding
17 principles that govern the project. The guiding principles for the project are as follows:

- 18 • Maintain **safety** at the appropriate levels across the combined organization
- 19 • Capture benefits of greater **scale and skills**
- 20 • Deliver on our **financial requirements**
 - 21 – Credit metrics
 - 22 – Savings
- 23 • Maintain or improve **customer service** across both states

- Maintain or improve **rates**
- Find new roles for as many **employees** in duplicate positions as possible
- Standardize key processes using **best practices** from both organizations
- Continue to promote **energy efficiency** and **environmental gains**

The guiding principles were viewed as necessary to being able to ensure that we maintained solid operations at both companies during the pendency of integration as well as to guide the decision making that each of the integration teams would make.

We also established the project governance structure, including the steering committee and joint Westar and Great Plains team leads which I discussed above.

A. Design Phase 1

Q: Can you please explain, in detail, the key activities that were undertaken in Design Phase 1?

A: The next phase was the Design Phase 1, which took place from late July 2016 through September 2016. Some of the key activities that took place during this phase were:

- Establishment of the baseline - This was key to being able to analyze and determine the level of efficiencies that would be achieved as part of the integration effort. Essentially, the financial forecasts of GPE and Westar, through 2020, as they existed prior to the announcement of the transaction were combined. On the expense side, these financial forecasts were then separated out for each of the functional integration teams so that they knew what the combined operating budgets from which the efficiencies were to come were based on. We did the same thing with employees. We mapped every employee to a baseline for each of the functional integration team. The establishment of the baseline has set the

cornerstone for the functional integration teams to start their work of finding both the labor and non-labor efficiencies.

- Process inventory – The integration teams identified all of the key processes utilized by each of the companies in the operation of the business. The importance of this step cannot be understated for a couple of reasons. We needed to be able to see how each of the respective organizations carried out their business and we needed to be able to select the process that we thought would result in the most efficiency gains.
- Day 1 requirements – The integration teams identified an initial list of Day 1 requirements. Day 1 is important for several reasons. An example of this would be the need to report to regulatory agencies, such as OSHA, if there were a catastrophic event.

B. Design Phase 2

Q: Can you please explain, in detail, the key activities that were undertaken in Design Phase 2?

A: The next phase was Design Phase 2 which began in late September 2016 and ran through early January 2017. During this phase, we established the operating model for the combined company going forward. This was important to set the parameters for the team as to how we expected them to establish their organizational areas. Ultimately, it was decided that we would use a centralized operating model, not only because it makes the most common sense, but also because it will likely result in the most efficiencies. We felt that this would give us the greatest ability to manage the combined company other than in areas where a centralized model did not make sense because, for example, the

1 rural location of the activities being performed. We also established the processes that
2 will be utilized by the combined company, which essentially built on the activities in
3 Design Phase 1 where we documented the processes. We finalized our Day 1
4 requirements and identified the key IT and non-IT Day 1 activities. As part of this we
5 named a resource to oversee and ensure that all identified Day 1 activities are tested and
6 completed in time to be able to rely on such starting on Day 1.

7 **Q: Can you please provide an example of one such activity?**

8 A: Yes. A good example, which is near and dear to my heart in my role as Controller, is that
9 we need to be able to close the books and report our results to the Securities and
10 Exchange Commission. This also requires that we certify that our internal controls are in
11 place and functioning as designed.

12 **Q: What else has been accomplished during this phase?**

13 A: Additionally, the organizational structure for the combined company was established.
14 The first activity here was the naming by Terry Bassham of his officer team. The
15 placement process for the remainder of the employees of the combined company will
16 drive off of this announcement and will take place throughout the first several months of
17 2017. We also developed plans to achieve efficiency targets, including costs to achieve.
18 Each of the identified efficiencies has a charter associated with it. We will continue to
19 refine these charters and the identified efficiencies as we move forward. The final
20 deliverable in Design Phase 2 was a business plan for each of the functional integration
21 teams. These business plans provide an overview of each one of the functional
22 integration teams' business activities, the efficiencies that have been identified and the

1 implementation plans that each of the functional integration teams has to achieve their
2 efficiencies.

3 **Q: How do you respond to Independence witness Herz's criticism relating to the**
4 **verification of the efficiency levels during this portion of the Integration Project**
5 **process?**¹⁴

6 A: Mr. Herz implies that because the Design Phase was just recently completed, he is unable
7 to verify the efficiency levels because the results of the Integration Project are not
8 concluded. As explained above, the efficiencies attributable to the Transaction will
9 continue to evolve throughout the process, as can logically be expected. Through my
10 testimony as well as that of Mr. Kemp, GPE, KCP&L and GMO have shown that GPE's
11 Transaction savings estimates are reasonable and achievable by virtue of the process used
12 to develop them and by reference to savings achieved in other utility transactions.
13 Requiring more detail for parties' review and comment would simply delay the process to
14 the detriment of customers. The development of the efficiency estimates is not
15 something that can be taken lightly as once they are finalized they will set the financial
16 direction for the company, the results of which customers will reap the benefits from, for
17 years to come. To that end, an extensive amount of work has been put forth, and will
18 continue to be put forth, to refine the efficiencies estimates that have been identified. So,
19 while the exact value of efficiencies cannot be known until they are actually achieved
20 after the Transaction closes, the level of certainty surrounding the validity of the original
21 efficiency targets has been solidified throughout the process.

¹⁴ Herz Rebuttal, p. 13.

1 **Q: Please explain how the level of preliminary efficiency targets has been solidified?**

2 A: The approach that was taken in regards to verifying the efficiencies estimates was to ask
3 each of the integration teams to review the assumptions that were used to develop the
4 efficiencies estimates supporting the Transaction, and either confirm those assumptions,
5 or identify where those assumptions may not have been accurate, and why they were not
6 accurate. The teams were then asked to identify additional efficiency opportunities that
7 were not identified through the initial efficiencies development process that took place
8 prior to the Transaction announcement. We utilized this approach based on the
9 recognition that that the collective knowledge of the employees who work for each of
10 those executives would be well suited to identify additional areas to gain efficiencies
11 through the Transaction.

12 **Q: Has the approach you put in place to validate the efficiencies worked out as you had**
13 **planned?**

14 A: Absolutely. The teams have been able to review the initial efficiencies estimates that
15 were identified prior to the Transaction announcement and refine those estimates utilizing
16 the extensive knowledge that each team has of both Westar and GPE, as described above.

17 **Q: You have said before that you believe the efficiency estimates are reasonably**
18 **achievable. Has that view changed?**

19 A: No it has not. I feel confident that the overall level of efficiencies that were identified
20 prior to the Transaction announcement are reasonably achievable and robust. We will
21 continue to refine our plans to achieve those efficiencies as we have proposed.

1 ***C. Implementation Planning***

2 **Q: Please explain the key activities you expect to undertake in the Implementation**
3 **Planning phase.**

4 A: The final phase prior to Implementation is Implementation Planning began in January
5 2017 and continues to Day 1. During this phase we will create a comprehensive
6 implementation plan with input from all functional areas utilizing the business plans that
7 were developed as part of the Design Phase 2, we will coordinate and monitor
8 implementation progress through our appointed Day 1 coordinator, and will work
9 towards developing budgets and tools to track efficiency progress for the combined
10 company post Transaction closing. A key activity during this phase will be to test for
11 Day 1 readiness to ensure the combined company is set to operate as a combined
12 company on Day 1 through implementation of the Day 1 plans.

13 **Q: Can you alleviate the concern raised by Mr. Herz¹⁵ that merger savings should not**
14 **come at the expense of reliability?**

15 A: GPE absolutely agrees with this principle. First, with regard to the validity of the
16 estimated Transaction efficiencies, I have previously addressed those concerns, and will
17 not restate my position here. With regard to the distribution level efficiencies and not
18 affecting reliability, one of the guiding principles I noted earlier that was established and
19 given to the integration teams was that we would “Maintain or improve **customer service**
20 across both states”. We have a solid customer service track record and a deep
21 understanding of the need to provide high quality, reliable service and our view on these

¹⁵ Herz Rebuttal, pp. 12-13.

1 types of issues has not changed as a result of this Transaction. Great Plains witness
2 Kevin Noblet discusses these issues in greater detail in his surrebuttal testimony.

3 **IV. Attribution of Efficiency Savings to the Merger**

4 **Q: Mr. Gorman suggests that the likely efficiencies identified by GPE may be achieved**
5 **without a merger.¹⁶ What evidence did he rely on?**

6 A: Mr. Gorman presents a comparison of KCP&L and GMO rates to other utilities,
7 concluding that because KCP&L and GMO rates are currently higher it implies that it has
8 not been able to achieve efficiencies in the past, may not be able to realize them now, and
9 to the extent savings are achievable, they can be realized in the absence of the merger.¹⁷
10 As widely acknowledged, simplistic comparisons of regulated utility rates do not prove
11 anything as it relates to the potential for future savings. Some utilities may have already
12 gone through a merger and benefited from synergies. Other utilities may have already
13 taken steps to address environmental challenges placing upward pressure on rates. State
14 energy and ratemaking policies differ widely and have significant impacts on rate
15 comparisons. A simplistic comparison of rates doesn't even attempt to sort through these
16 factors. What we do know, with certainty, is that GPE identified, pursued and achieved
17 substantial synergies as a result of its acquisition of Aquila.

18 **Q: Will KCP&L and Westar's efficiency savings result from the merger?**

19 A: Yes. KCP&L, GMO and Westar are pretty good utilities. Not perfect, mind you – as no
20 one and no company is – but companies that generally provide safe and reliable service at
21 just and reasonable rates (i.e., efficiently). Anyone can hypothesize that he or she could

¹⁶ Gorman Rebuttal, p. 3.

¹⁷ Gorman Rebuttal, pp. 35-37.

1 run someone else's organization or do his or her job even better, or Monday morning
2 quarterback another's results.

3 Whether savings for customers—hundreds of millions, even billions over time—
4 come from things that could not possibly have resulted in the absence of the merger, or
5 not; or maybe were just unleashed by sharing experience, expertise, work practices,
6 systems—or even by just shuffling the decks a bit and shaking loose the status quo, the
7 point is that customers will be the ultimate beneficiary. The merged company will have
8 the motivation and ability to identify and implement many types of efficiencies and
9 savings, which is evidenced from the results of the Aquila acquisition, including ones that
10 cannot be conceived of at this time.

11 The Commission and these companies share a common mission (the companies
12 providing, the Commission assuring) safe, reliable efficient and sufficient electric service
13 at just and reasonable rates. While various theories and arguments have been offered by
14 Messrs. Gorman and Herz, intuition, experience and common sense lead to the
15 conclusion that this Transaction will make us more efficient. That is a good thing, and
16 certainly a thing that advances the public interest.

17 V. Conclusion

18 **Q: Please summarize your principal conclusions.**

19 A: This Transaction will result in billions of dollars flowing to customers in the form of
20 combined company efficiencies that would not otherwise be achievable absent this
21 Transaction. Our integration project is a robust project management effort that is
22 developing, via a mechanical and well thought-through process. This process will result
23 in business plans to achieve these efficiencies for the benefit of customers. Given the six

1 plus months of effort that we have put into integration planning it is clear that the overall
2 efficiencies that were put forth in the direct testimony to support this Transaction are
3 reasonably achievable and will result in significant savings for customers. This
4 Transaction makes sense, and our integration planning efforts continue to confirm that
5 the savings for customers are real. I urge the Commission to not lose sight of the forest
6 for the trees.

7 Assertions made by Mr. Gorman and Mr. Herz related to the development of
8 efficiencies to support this Transaction are unsupported and, if taken at face value, could
9 unnecessarily lead the Commission to an inappropriate conclusion in this case. The
10 efficiencies that were developed in the pre-announcement period have been further
11 refined and affirmed through the Integration Project over the last six plus months and are
12 achievable. Through the Integration Project since the announcement, I have only
13 increased my level of confidence in terms of their achievability.

14 Billions of dollars in combined company efficiencies will ultimately flow to
15 customers as a result of this Transaction. Approval by the Commission of this
16 Transaction will allow customers to reap the benefit of these efficiencies.

17 **Q: Does this conclude your testimony?**

18 **A:** Yes.

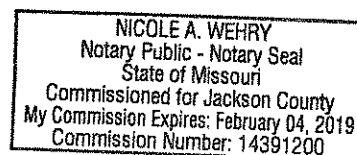
IN THE MATTER OF THE APPLICATION OF)
GREAT PLAINS ENERGY INCORPORATED FOR) Docket No. EM-2017-0226
APPROVAL OF ITS ACQUISITION OF WESTAR)
ENERGY, INC.)

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

H. B. Bunker

Nicol A. Cruz
Notary Public

My commission expires: Feb. 4 2019



Long-term shift towards Future State

Future State Aspirations

