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Issue: Overview
Witness: Terry Bassham
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Kansas City Power & Light
Company; and KCP&L Greater
Missouri Operations Company
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EE-2017-_____

DIRECT TESTIMONY

OF

TERRY BASSHAM

ON BEHALF OF

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

Kansas City, Missouri
October 2016

KCP&L Exhibit No. 1
Date 4.5.17 Reporter AF
File No. Em. 2017-0226



DIRECT TESTIMONY

OF

TERRY BASSHAM

Case No. EE-2017-_____

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

2 A: My name is Terry Bassham. My business address is 1200 Main, Kansas City, Missouri
3 64105.

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

5 A: I am employed by Kansas City Power & Light Company ("KCP&L") and serve as
6 Chairman, President and Chief Executive Officer of Great Plains Energy Incorporated
7 ("Great Plains Energy" or "GPE"). I also serve as Chairman, President, and Chief
8 Executive Officer of KCP&L and KCP&L-Greater Missouri Operations Company
9 ("GMO"). KCP&L and GMO are direct, wholly-owned subsidiaries of Great Plains
10 Energy.

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

12 A: My responsibilities include overall management of all aspects of Great Plains Energy and
13 its subsidiary operations, including KCP&L and GMO (collectively, the "Company").

14 **Q: Please describe your education, experience and employment history.**

15 A: I hold a Bachelor of Business Administration degree in Accounting from the University
16 of Texas at Arlington and a Juris Doctor degree from St. Mary's University School of
17 Law in San Antonio, Texas. I have held positions at Great Plains Energy and KCP&L
18 since April of 2005. Prior to that time, I was employed by El Paso Electric for nine years
19 in various positions including General Counsel, Chief Administrative Officer and Chief

1 Financial Officer. The remainder of my work career I worked as an attorney in the
2 primary practice of regulatory law.

3 **Q: Have you previously testified in a proceeding at the Missouri Public Service**
4 **Commission (“MPSC”), Kansas Corporation Commission (“KCC”) or before any**
5 **other utility regulatory agency?**

6 A: Yes. I have testified on several occasions before the MPSC and the KCC on a variety of
7 issues affecting regulated public utilities. I have also testified before the Federal Energy
8 Regulatory Commission, the Public Utility Commission of Texas, the New Mexico
9 Public Service Commission and various legislative committees of the Texas, New
10 Mexico and Missouri legislatures.

11 **Q: What is the purpose of your testimony?**

12 A: The purpose of my testimony is to support the application of Great Plains Energy,
13 KCP&L and GMO (collectively, the “Joint Applicants”) for a limited variance or waiver
14 from Commission Rule 4 CSR 240-20.015 on affiliate transactions (“Application for
15 Variance”), My testimony will describe (i) the strategic rationale for Great Plains
16 Energy having entered into an agreement to purchase Westar Energy, Inc. (“Westar”) (the
17 “Transaction”); (ii) how the Transaction will affect customers and communities served by
18 KCP&L, GMO and Westar, and (iii) how the Application For Variance, and the
19 Transaction affects the public interest generally and, specifically, how it may affect
20 customers and shareholders.

1 **I. Reasons for the Requested Waiver of the Commission's Affiliated Transaction Rule**

2 **Q: Please explain the reasons that the Commission should grant a limited waiver or**
3 **variance from 4 CSR 240-20.015 except for wholesale power transactions, which will**
4 **be based on rates approved by the FERC.**

5 A: As more fully explained in the Direct Testimony of Darrin R. Ives, there are substantial
6 efficiencies to be achieved through the acquisition of Westar by GPE. Immediately
7 following the close of the Transaction, KCP&L, GMO and Westar will exchange goods
8 and services. For the full benefits of the proposed Transaction to be achieved, it is
9 necessary that the provisions of the asymmetric price provisions of 4 CSR 240-20.015 be
10 waived to allow for the exchange of the goods and services between the regulated
11 operations of KCP&L, GMO and Westar to be accomplished on the basis of cost. A
12 similar waiver was granted by the Commission when GPE acquired Aquila in 2008.

13 **II. Overview of Transaction**

14 **Q: Please provide an overview of the Transaction.**

15 A: The Transaction is the result of a competitive process, established by Westar which
16 culminated in an agreement between Great Plains Energy and Westar. Great Plains
17 Energy decided to participate in the process, as discussed below, due to the strong
18 strategic rationale for the acquisition and the numerous resulting benefits for customers,
19 employees, communities, the States of Missouri and Kansas, and GPE's and Westar's
20 shareholders. GPE's participation in that process was guided by five fundamental
21 principles:

- 22 1. The combined company must be strong financially;
- 23 2. The purchase price must be reasonable and justified by savings;

- 1 3. Customers must benefit;
- 2 4. Shareholders must benefit; and
- 3 5. The states of Missouri and Kansas as well as the communities Westar and
- 4 GPE's utility subsidiaries serve must benefit.

5 Great Plains Energy's winning bid met and fulfills all of these principles, as my
6 testimony and that of my colleagues will illustrate.

7 The primary controlling document for the Transaction is the Agreement and Plan
8 of Merger ("Agreement") dated May 29, 2016, which was entered into between Westar,
9 Great Plains Energy and Merger Sub.

10 GPE has agreed to pay approximately \$8.6 billion to acquire the stock of Westar
11 which GPE intends to finance with approximately 50% equity and 50% debt. On
12 October 3, 2016, GPE completed the first step of securing permanent financings by
13 raising gross proceeds from the issuance of common and mandatory convertible preferred
14 stock of \$1.6 billion and \$863 million, respectively. Westar's existing debt will remain
15 outstanding, so in effect, GPE has also agreed to assume Westar's outstanding debt (\$3.6
16 billion on the date the Transaction was announced), making the overall enterprise value
17 for Westar approximately \$12.2 billion. The transactional mechanics, consideration to be
18 paid by GPE and GPE's plans for financing the Transaction, are described in more detail
19 in the Direct Testimony of Kevin Bryant.

20 **Q: What will Great Plains Energy look like following the Transaction?**

21 **A:** The Transaction will result in Great Plains Energy becoming an even stronger regional
22 utility holding company headquartered in Kansas City, Missouri. Following the receipt
23 of necessary approvals, and upon closing the Acquisition, Great Plains Energy's footprint

1 will be expanded into a larger contiguous service area covering approximately the eastern
2 one-third of Kansas, much of the Kansas City metropolitan area on both sides of the state
3 line, and a large portion of northwestern Missouri. It will serve over 1.5 million
4 customers, the majority of which (almost 950,000) will be in Kansas. GPE's existing
5 utility subsidiaries will remain in place with the same service territories and customers as
6 immediately before closing. Westar operates a regulated electric utility in Kansas and
7 has just over 700,000 electric utility customers, both at the parent utility, Westar Energy,
8 Inc., and at its subsidiary utility, Kansas Gas and Electric Company. For simplicity, in
9 this testimony, I will refer to the entire entity as "Westar", except where more specificity
10 might be required. Westar will become a wholly owned subsidiary of GPE at an
11 organizational level equal to KCP&L and GMO. Westar's current legal structure will
12 remain, but instead of it being a public company, all the shares will be owned by GPE.
13 Westar will continue to have the same service territories and customers as immediately
14 before closing.

15 Following the Transaction, I will remain Chairman of the Board of Great Plains
16 Energy, KCP&L and GMO, as well as President and Chief Executive Officer of Great
17 Plains Energy and KCP&L. Following the Transaction, I will become President and
18 Chief Executive Officer of Westar, as well. With respect to executive management and
19 leadership for the combined company, no firm decisions have been made at this time.
20 However, we fully expect the executive management team for the combined company
21 will have leadership from both GPE and Westar on it. When GPE acquired Aquila in
22 2008, multiple members of its leadership team took positions with KCP&L. Today, a
23 former Aquila executive, Scott Heidtbrink, is the Chief Operating Officer of KCP&L,

1 and Kevin Noblet is our Vice President of Delivery. As part of the integration process,
2 we will have teams from both GPE and Westar working together to ensure that
3 employees with critical roles and historical knowledge of both companies are fully
4 utilized and put in the right positions. These teams will make recommendations to fill
5 leadership positions across the combined company with qualified individuals from both
6 KCP&L and Westar to ensure that customers and communities see a smooth transition.
7 At Westar, we expect to see no immediate reduction in current union employees, and we
8 have of course agreed to honor existing labor contracts. For Westar's non-union
9 employees, we have agreed to maintain existing compensation levels and benefits for at
10 least two years after closing. In addition, Mark Ruelle (Westar's Chief Executive
11 Officer) will remain at Westar throughout the integration process and until the
12 Transaction closes. His insight and leadership will be a valuable asset through this
13 process.

14 With respect to what the combined company will be named following the
15 Transaction, a firm decision has not been made at this time. In all likelihood, Great
16 Plains Energy will remain the name of the holding company and keep its GXP symbol on
17 the New York Stock Exchange. This process for ultimately branding the utility
18 operations will be informed by two guiding principles:

- 19 1. The combined company brand needs to be reflective of the new company
20 and be relatable to both KCP&L and Westar employees driving one team-
21 oriented culture; and
- 22 2. The combined company brand needs to be the same in all the communities
23 served by the combined company so that customers know who is serving

1 them, what the combined company stands for and how to effectively and
2 efficiently interact with the combined company.

3 The Transaction will alter the membership of the Boards of Directors of Great
4 Plains Energy by the addition of one member of the Westar Board. While Great Plains
5 Energy's corporate headquarters will remain at 1200 Main Street in Kansas City, as
6 discussed in the Direct Testimony of Scott Heidtbrink, we will maintain the current
7 Westar headquarters at 818 Kansas Avenue in Topeka for GPE's Kansas headquarters.

8 We appreciate that this Transaction represents a big change for both companies.
9 We also know that the public interest is served only by carefully managing sometimes
10 competing objectives. It is natural that this type of change creates questions and
11 concerns, all of which we will address. For example, in the past few years both
12 companies have significantly raised their prices. We appreciate that customers and other
13 leaders are wary of rising utility rates, even as they recognize that staffing is our largest
14 driver of cost. We also appreciate that everyone is concerned with jobs and economic
15 development. This Transaction must carefully balance that obvious tension. There is no
16 question that the combined company can operate in a less costly fashion than the two
17 separate companies, and that kind of efficiency is what will keep energy costs affordable
18 for our economy. There is also no question that operating more efficiently also means a
19 smaller payroll.

20 The integration planning process, which is discussed in more detail in the Direct
21 Testimony of Steven Busser, will, among other objectives, identify overlapping
22 administrative, management and support positions that can be eliminated from the
23 combined organization. We expect that many of these efficiencies will occur as a result

1 of natural attrition, which is typically about 4-5 per cent annually for both GPE and
2 Westar. Both GPE and Westar will attempt to make use of attrition—not just from
3 Westar’s current platform, but from across the entire combined company’s platform—as
4 much as possible to achieve the identified efficiencies. If natural attrition is not
5 sufficient, GPE may consider targeted voluntary staffing reduction programs where it
6 makes sense. With so many employees approaching retirement, we know we will have
7 volunteers. Indeed, many employees of both companies have already asked that
8 question.

9 Adaptability is also key, and we will expect employees who are qualified for more
10 than one job to consider an equivalent job, even if it is different than what they might
11 have been doing. Our goal will be to retain the best, regardless of the particular
12 employee’s original organization—KCP&L or Westar. We know from experience that
13 while mergers create unease, they also create opportunities for our company and our
14 employees.

15 That being said, I expect that some level of involuntary severance may occur as
16 this is typically unavoidable in transactions of this nature. At GPE, we have a strong
17 track record in minimizing involuntary employee reductions in acquisitions with adjacent
18 utilities. In 2008, when GPE acquired Aquila, the vast majority of Aquila employees
19 remained employed as part of the transaction. On the day the transaction closed, less
20 than five percent of Aquila’s total workforce received severance packages. We do not
21 make these kinds of decisions lightly, and our history shows this. Again, our goal will be
22 to retain the best of the best, regardless of the particular employee’s original organization.

1 We understand that there is almost nothing more important to people and their
2 families than financial security. Knowing this, as part of the Agreement we adopted and
3 defined a very market competitive severance package, should any employee find him or
4 herself not suited to the right job in the new combined company.

5 These efficiencies are critical in achieving the cost reductions that will benefit
6 customers in the form of lower rates than would otherwise be possible without this
7 Transaction. Over the past decade, both companies' rates have increased substantially.
8 This Transaction provides a means of moderating that trend. Our approach balances both
9 of these important public interest objectives, and the obvious tension associated with
10 them.

11 Following closing of the Transaction the overall GPE organization will be larger
12 than either GPE or Westar would be in the absence of the Transaction. This will provide
13 opportunities for employees in the future that would not exist but for the Transaction. In
14 addition, by combining the expertise and experience of the employees of both GPE and
15 Westar as a result of the Transaction, customers will benefit from greater and more
16 diverse management expertise and experience and an organization that has a better
17 opportunity to capitalize on future savings opportunities.

18 **III. Strategic Rationale**

19 **Q: Please describe the strategic rationale for Great Plains Energy to acquire Westar.**

20 **A:** This Transaction is one example of consolidation among many in today's electric
21 industry operating environment which has been characterized in recent years by
22 increasing costs and flat, to even declining customer usage putting significant upward
23 pressure on rates paid by customers. GPE and Westar will be better together than either

1 could be individually on a stand-alone basis. There are a number of reasons why the
2 acquisition of Westar complements Great Plains Energy's current operations. First, this
3 transaction will enable efficiencies and savings that cannot be obtained by either GPE or
4 Westar on a stand-alone basis, and these efficiencies and savings will keep rates lower in
5 the future than they would have been absent this Transaction benefitting customers and
6 our economy, as electricity is a key input into the entire economy. Because Westar's
7 Kansas service territory is adjacent to KCP&L's Kansas service territory we expect
8 significant savings opportunities will be available soon after the close of the Transaction
9 related to combined operations of many functions within KCP&L and Westar. One
10 simple example of adjacency, we both have wind farms within a few miles of each other
11 and history has created a jagged line where our current service areas protrude in and
12 around one another. As discussed in the Direct Testimony of William Kemp, GPE
13 estimates that approximately \$65 million in Transaction-related savings will be achieved
14 in the first full year after closing, and that achieved savings are estimated at nearly \$200
15 million in the third full year after closing. These savings – unattainable for GPE and
16 Westar on a stand-alone basis – ensure that customers will receive substantial benefits in
17 the form of lower future rate increases than would be possible in the absence of the
18 Transaction. Furthermore, as discussed in more detail in the Direct Testimony of Darrin
19 Ives, savings that result from the Transaction are an ongoing reduction to the level of
20 anticipated increase in our cost of service and will continue to benefit customers every
21 time we file a rate case.

22 KCP&L and Westar have had a solid working relationship for many years and
23 have very similar practices, approaches and core values, even as they obviously differ on

1 many smaller things. KCP&L and Westar are joint owners, with other parties, of the
2 Wolf Creek Nuclear Generating Station and La Cygne Station. GMO and Westar are
3 joint owners of Jeffrey Energy Center. By consolidating the ownership of Wolf Creek
4 we can support the nuclear station at an overall lower cost than if KCP&L and Westar
5 remain separate. Even at Jeffrey and La Cygne there will be small efficiencies gained by
6 not having to have one co-owner monitoring the other and doing report writing for each
7 other.

8 The combination of Westar and GPE also makes sense because each organization
9 has complementary strengths that, when combined, will produce a stronger company than
10 either could achieve on a stand-alone basis. I can say this with confidence, because of
11 our recent experience with our last business combination. Naturally, one company has
12 advantages the other does not in terms of skills, competencies, creativity and
13 relationships. Westar has a strong track record in developing public/private partnerships,
14 particularly in cyber-security efforts, and has a great safety record. At GPE, we are eager
15 to learn more from Westar employees about its practices in these and other important
16 areas, and we know the Westar team is equally interested in learning more about us. GPE
17 has extensive experience in customer programs such as energy efficiency and customer-
18 owned solar generation that I believe can benefit Westar customers. The Company is
19 also proud of strong customer satisfaction scores delivered by our KCP&L and GMO
20 utility subsidiaries. As described in more detail in the Direct Testimony of Charles
21 Caisley, we will bring that same level of commitment to Westar's customers once this
22 transaction closes and look for any opportunities to improve upon already high levels of
23 customer service that they currently enjoy.

1 In addition, the Company has developed an industry-leading supply chain process.
2 Over the last five years, our Supply Chain organization has significantly consolidated
3 suppliers and spend and streamlined our sourcing and contract management processes,
4 bringing the benefits of scale and efficiency to bear in order to avoid \$93 million in cost.
5 The combined company will benefit from this process at an even greater scale. The
6 integration process will provide a structured method to identify how these and other
7 complementary strengths can be optimized by the combined organization.

8 In sum, a number of characteristics of this Transaction – including good fit, joint
9 KCP&L/GMO/Westar ownership of generating facilities, contiguity of
10 KCP&L/GMO/Westar service territory and complementary operational strengths present
11 opportunities for savings and service enhancements as well as economic development
12 and community support, that are unique to this Transaction and which likely could not be
13 replicated by any purchaser other than GPE.

14 As described in more detail below, the customers in Missouri will also receive
15 the benefits that will be produced by the substantial efficiencies that are described in the
16 Direct Testimony of William Kemp. Over time, Missouri customers' rates will not be
17 increasing as much because of these efficiencies. In addition, Missouri customers will
18 benefit from the strengths that Westar will bring to the GPE family of public utilities.

19 **IV. Beneficial Effect on Customers and Communities**

20 **Q: Please describe how the Transaction will benefit customers and communities served**
21 **by KCP&L, GMO and Westar in Missouri and Kansas.**

22 **A:** The Company has a long history of providing low-cost, reliable electric service to its
23 customers and communities. It is recognized throughout the communities it serves as an

1 innovative and high-performing utility. It is Great Plains Energy and Westar's objective
2 to combine management practices and resources to achieve significant reduction in costs
3 while further enhancing reliability and customer satisfaction, with rates in Missouri and
4 Kansas lower than they would have been had the Transaction not occurred. The
5 Transaction thus reduces the possibility of economic waste compared to what would be
6 expected to occur in the absence of the Transaction. Transaction-related efficiencies and
7 savings are quantified and described in more detail in the Direct Testimony of William
8 Kemp, and Darrin Ives describes in his Direct Testimony how GPE proposes that
9 shareholders and customers will each realize the benefits of those savings.

10 **V. Public Interest Considerations**

11 **Q: What should the Commission consider in this proceeding?**

12 A: Savings and efficiencies resulting from the Transaction will benefit Missouri customers
13 served by GPE's utility subsidiaries in the form of rates for electric service that will be
14 lower than in the absence of the Transaction. As described more fully in the Direct
15 Testimony of Darrin Ives, unless another party to a KCP&L or GMO rate proceeding
16 proposes to impute the cost or proportion of the debt GPE is using to finance the
17 Transaction to KCP&L or GMO for purposes of determining a fair and reasonable rate of
18 return for either utility, GPE will not ask for recovery in rates of the acquisition premium
19 or transaction costs in Missouri, nor are we requesting anything unusual or untried in
20 terms of ratemaking in Missouri ratemaking proceedings. Moreover, we have committed
21 to pass through savings to customers through the normal course of future general rate
22 case proceedings, resulting in lower rate increases than in the absence of the Transaction.
23 As a result, there is nothing special, unique or unusual in terms of the request we have

1 before the Commission. I would ask the Commission to recognize the significant
2 opportunity for savings and benefits that this Transaction can bring to the State of
3 Missouri and Missouri customers. However, if these benefits are to be achieved, the
4 Companies will need to be able to exchange goods and services at cost. As explained in
5 the Direct Testimony of Darrin R. Ives, a limited waiver of the Commission's Affiliate
6 Transaction rule is necessary to achieve this benefit.

7 **Q: You are taking on additional debt to make this acquisition. What assurances can**
8 **you offer that this will not stretch GPE further financially than would be prudent?**

9 A: I do not back away from the fact that this is a big commitment we are making to the
10 future of both states we have the privilege of serving. I will not suggest there are "no
11 risks" in a transaction of this nature, but I will tell you they are reasonable risks to take
12 given the extraordinary opportunities the Transaction presents. And, we have managed
13 those risks prudently. In his Direct Testimony, Mr. Bryant explains our financing plan in
14 more granularity, but let me reiterate some of the reasons I am confident in GPE's ability
15 to consummate this transaction while remaining on solid financial ground.

16 1. The credit rating agencies have reviewed our plan and provided their own
17 assurances that executing that plan will cause GPE to maintain investment grade credit
18 ratings and all operating subsidiaries, will maintain higher ratings still;

19 2. A large, sophisticated manager—and fiduciary—of a public employee
20 pension fund has already committed to invest \$750 million into our plan;

21 3. Westar's management and board have agreed to accept approximately
22 \$1.3 billion of merger consideration in the form of GPE stock;

23 4. GPE has already completed the first step of execution of its equity

1 financing plans in connection with the Transaction, raising net proceeds from a
2 concurrent common stock and depository share offering of \$1.55 billion and \$836
3 million, respectively; and

4 5. One of the most sophisticated investment banks in the world committed to
5 “bridging” \$8 billion of the transaction and related expenses and is another confirmation
6 that our financing plan is reasonable.

7 **Q: Do you have any concluding statements?**

8 A: We appreciate that this is a large and important Transaction for both Missouri and
9 Kansas. But, if one gets beyond the sheer size of the figures and the infrequency of these
10 kinds of mergers, there is nothing surprising or unfamiliar about this acquisition. This is
11 a logical next step in an industry under pressure to manage its expenses to keep electricity
12 affordable.

13 This was a competitive process initiated by Westar. That said, we believe that
14 GPE provides the greatest opportunity for value and a successful combination with
15 Westar than any potential suitor could. We are a local company who has done business
16 in Missouri and Kansas for more than one hundred years. I respectfully request the
17 Commission approve our Joint Application for a limited waiver of the Commission’s
18 Affiliate Transaction Rule to allow the Companies to exchange goods and services at
19 cost. This waiver will promote the public interest.

20 **Q: Does that conclude your testimony?**

21 A: Yes, it does.

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

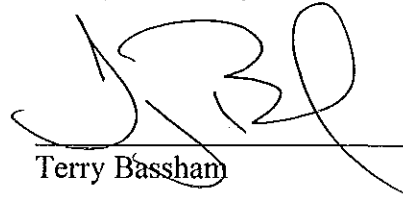
IN THE MATTER OF THE VERIFIED JOINT)
APPLICATION OF GREAT PLAINS ENERGY)
INCORPORATED, KANSAS CITY POWER & LIGHT) Docket No. EE-2017-_____
COMPANY AND KCP&L GREATER MISSOURI)
OPERATIONS COMPANY FOR A VARIANCE)
FROM THE COMMISSION'S AFFILIATE)
TRANSACTIONS RULE, 4 CSR 240-20.015)

AFFIDAVIT OF TERRY BASSHAM

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Terry Bassham, being first duly sworn on his oath, states:

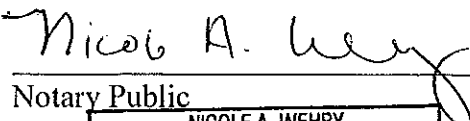
1. My name is Terry Bassham. I work in Kansas City, Missouri, and I am employed by Great Plains Energy Incorporated as Chairman, President and Chief Executive Officer.
2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Great Plains Energy Incorporated, Kansas City Power & Light Company, and KCP&L Greater Missouri Operations Company consisting of sixteen (16) 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.



Terry Bassham

Subscribed and sworn before me this 12th day of October 2016.

My commission expires: Feb. 4 2019



Notary Public

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