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Witness: John J. Reed
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Sponsoring Party: Great Plains Energy
Incorporated, Kansas
City Power & Light
Company, KCP&L
Greater Missouri
Operations Company,
and Westar Energy, Inc.

Case No.: EM-2018-0012
Date Testimony Prepared: February 21, 2018

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. EM-2018-0012

SURREBUTTAL TESTIMONY

OF

JOHN J. REED

ON BEHALF OF

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

February 2018

Applicant Exhibit No. 12
Date 3/12/18 Reporter JS
File No. Em-2018-0012

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SURREBUTTAL TESTIMONY

OF

JOHN J. REED

Case No. EM-2018-0012

I. INTRODUCTION AND PURPOSE

1

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

3 A. My name is John J. Reed. I am Chairman and Chief Executive Officer of Concentric
4 Energy Advisors, Inc. (“Concentric”) and CE Capital, Inc., which has its headquarters at
5 293 Boston Post Road West, Suite 500, Marlborough, Massachusetts 01752.

6 **Q. On whose behalf are you submitting this testimony?**

7 A. I am testifying on behalf of Great Plains Energy Incorporated (“GPE”) and its wholly-
8 owned subsidiaries, Kansas City Power & Light Company (“KCP&L”) and KCP&L
9 Greater Missouri Operations Company (“GMO”), and Westar Energy, Inc. and Kansas Gas
10 and Electric Company (together referred to herein as “Westar”). GPE, KCP&L, GMO and
11 Westar are collectively referred to herein as “Applicants” who are filing an Application
12 seeking approval of the Missouri Public Service Commission (“Commission”) for the
13 merger of GPE and Westar (the “Merger”).

14 **Q. Are you the same John J. Reed who filed Direct Testimony in this proceeding?**

15 A. Yes, I am.

16 **Q. What is the purpose of your Surrebuttal Testimony?**

17 A. The purpose of my Surrebuttal Testimony is to respond to certain issues raised in the
18 Rebuttal Testimony of Mr. Karl Rábago on behalf of Renew Missouri Advocates (“Renew
19 Missouri), Dr. Geoff Marke on behalf of the Office of the Public Counsel (“OPC”), Mr.
20 Michael Brosch on behalf of the Midwest Energy Consumers Group (“MECG”), and Mr.

1 Martin Hyman on behalf of the Missouri Department of Economic Development, Division
2 of Energy (“MDED”). These issues include Mr. Rábago’s, Dr. Marke’s and Mr. Brosch’s
3 proposed application of the Commission’s “not detrimental to the public interest” standard
4 of review to the Merger, Dr. Marke’s proposed “equal outcomes” condition, and Mr.
5 Hyman’s testimony regarding employee-related considerations.

6 **Q. Are you sponsoring any schedules as part of your Testimony?**

7 A. No, I am not.

8 II. THE COMMISSION’S MERGER STANDARD

9 **Q. Please summarize Mr. Rábago’s concerns regarding whether the Merger meets the**
10 **“not detrimental to the public interest” standard in Missouri.**

11 A. Mr. Rábago testifies that mergers are “complex and expensive undertakings,”¹ and that “in
12 order to effectively assess the impact of the merger, the Commission should take the widest
13 possible perspective of the public interest-because every aspect of providing electric utility
14 service is on the table and potentially impacted by the merger, not just today, but for many
15 years to come.”²

16 **Q. What is your response?**

17 A. As discussed in my Direct Testimony and as Mr. Rábago acknowledges, the review
18 standard in Missouri is that the Commission must find that the Merger is not detrimental
19 to the public interest in order to approve it. The limited, and largely non-substantive,
20 opposition to the Stipulation and Agreement between Applicants, Staff, and other parties
21 filed on January 12, 2018 (“Stipulation”) and the limited opposition to the Merger
22 reinforces my view that the Merger satisfies the standard in Missouri and should be

¹ Rebuttal Testimony of Karl Rábago, at 12.

² *Id.*, at 13.

1 approved. The Merger clearly satisfies the not detrimental to the public interest standard,
2 and will produce both near and long-term benefits for customers.

3 With regard to Mr. Rábago's assertion that "every aspect of providing utility service
4 is on the table and potentially impacted," the question in this proceeding is whether the
5 Merger meets the "not detrimental to the public interest standard" in Missouri. Given that
6 standard, there is no basis to require the merging companies to commit to major
7 enhancements in areas such as clean energy development or grid modernization. Those
8 issues are more appropriately treated in separate dockets, not as part of the Merger. Please
9 see the Surrebuttal Testimony of Applicant witness Greenwood for additional discussion
10 in response to Mr. Rábago on this point.

11 **Q. Mr. Rábago observes that no meaningful clean energy development outcomes are**
12 **included in the Merger commitments provided by Applicants,³ and he contends that**
13 **failure to continue the trend toward clean energy development in Missouri would be**
14 **detrimental to the public interest.⁴ Do you agree?**

15 **A.** No, I do not. As discussed by Applicant witness Crawford, both GPE and Westar have
16 strong histories of embracing clean energy and near-term plans to add additional clean
17 energy to their portfolios. There is no reason to suggest that the Merger would negatively
18 impact this trend. As I discussed above, the Merger docket is not the appropriate venue for
19 requiring incremental clean energy requirements. In conclusion, I do not agree with Mr.
20 Rábago that failure to include a commitment to further clean energy development in
21 Missouri is reason to find that the Merger fails to meet the not detrimental to the public
22 interest standard in Missouri.

³ Rebuttal Testimony of Karl Rábago, at 17-18.

⁴ *Id.*, at 20.

1 **Q. Mr. Rábago also expresses concern about the effect of the Merger on the**
2 **Commission’s regulatory oversight post-merger. What is your response?**

3 A. After the Merger closes, the Commission will continue to have regulatory authority over
4 the operating utility companies in Missouri (*i.e.*, KCP&L’s Missouri operations and
5 GMO), just as it did before the Merger. All capital investments remain subject to
6 Commission prudence reviews before affecting customers’ base rates, and utility earnings
7 are monitored regularly through the normal regulatory process. I do not share Mr.
8 Rábago’s concern that the Merger will reduce the ability of the Commission to effectively
9 regulate the operating utility companies in Missouri, or that the Merger fails to meet the
10 not detrimental to the public interest standard for that reason. The Commission is well-
11 qualified and prepared to evaluate post-Merger performance of the combined entity on
12 issues such as cross-subsidization, customer satisfaction, reliability and service quality,
13 while also addressing broader industry challenges such as grid modernization.

14 **Q. Please summarize Dr. Marke’s testimony regarding the Commission’s “not**
15 **detrimental to the public interest” standard.**

16 A. Dr. Marke addresses the merger standard indirectly by recommending that the
17 Commission’s approval of the Merger “be conditioned upon the terms of the merger
18 approved by the KCC being substantially similar to the terms of the merger agreed to and
19 approved in Missouri.”⁵ As I discuss in the section of my Surrebuttal Testimony which
20 follows, I strongly recommend against the imposition of an “equal outcome” condition. In
21 addition to the reasons I describe below, if this condition were imposed it would have the
22 effect of changing Missouri’s judicially recognized “not detrimental to the public interest”

⁵ Rebuttal Testimony of Geoff Marke, at 7.

1 standard into the “in the public interest”/net benefits standard that applies in Kansas. This
2 is not the appropriate venue for changing the Commission’s standard.

3 **Q. Would adopting MCEG witness Mr. Brosch’s proposed changes to KCP&L’s tax**
4 **allocation method and Tax Allocation Agreement⁶ have the effect of changing the**
5 **Commission’s “not detrimental to the public interest” merger standard?**

6 A. Yes. As discussed by Ms. Hardesty in her Surrebuttal Testimony, Mr. Brosch’s proposals
7 would change the tax allocation methodology that has been used by GPE since 2001 and
8 has been affirmed by the Commission most recently in KCP&L’s 2014 rate case (Case No.
9 ER-2014-0370). Changes to status quo tax allocation methods are not necessary for the
10 Merger to satisfy the “not detrimental to the public interest” standard.

11 **Q. What is your conclusion regarding the Commission’s merger standard?**

12 A. The Commission’s merger standard is clear. Staff witness Ms. Dietrich recognizes this
13 standard when she comments that the Stipulation should be approved because “it provides
14 key protections for Missouri ratepayers, helping to ensure the transaction is not detrimental
15 to the public interest.”⁷ Further, the increased bill credits discussed by Mr. Ives provide
16 significant benefits to customers, which as I demonstrated in my Direct Testimony, exceeds
17 the upfront bill credits of any other MOE stock transaction to date. The proposals made
18 by Mr. Rábago, Dr. Marke and Mr. Brosch that would have the effect of modifying or
19 expanding the Commission’s standard should be rejected.

⁶ Rebuttal Testimony of Michael Brosch, at 24-26.

⁷ Rebuttal Testimony of Natelle Dietrich, at 5.

1 significant differences in the ratemaking and regulation in the two states such that what is
2 agreed to or ordered in one state may not make sense in the other.

3 **Q. Are you aware of other jurisdictions that have adopted an “equal outcome”**
4 **provision¹⁰ as a condition of Merger approval?**

5 A. I am aware of only a few jurisdictions that have adopted an “equal outcome” provision as
6 part of the Order approving a merger, and the use of such a mechanism has proven to be
7 problematic.

8 From an industry perspective, the vast majority of multi-jurisdictional mergers that
9 have been approved in the past seven or eight years have not included an “equal outcome”
10 provision. This is because there are normally many important differences across
11 jurisdictions that make such a clause unworkable or inappropriate. The priorities of the
12 regulators and elected officials in one state are often not the same priorities as in other
13 states. These differences often lead to merger commitments that differ significantly, such
14 as economic development, safety, and employee protection concerns in one state, while
15 another state focuses on rates, environmental benefits, and affiliate standards. Applicants
16 here have focused on providing benefits in each state, but those benefits are not the same
17 in each state, nor should they be. Comparing the value of one set of commitments to
18 another often involves a very subjective and uncertain process that can, and has, led to
19 disputes about the administration of such a provision. Where “equal outcome” provisions
20 have been attempted to be included in a merger approval process, the language has to be
21 virtually identical in multiple jurisdictions, what is included and what is excluded has to be
22 carefully defined, and measurement mechanisms have to be carefully and fully specified.

¹⁰ This is referred to in some jurisdictions as a “Most Favored Nations” clause.

1 Even these attempts have failed to address differences across jurisdictions in merger
2 standards and commission policies.

3 Moreover, the Kansas Corporation Commission, as noted above, requires
4 applicants to show that a proposed merger “will promote the public interest” (*i.e.*, provides
5 net benefits), as opposed to the “no detriment” standard in Missouri. The difference in the
6 Missouri and Kansas standards alone justifies different outcomes in the two states. In short,
7 I advise against trying to go down this path.

8 IV. EMPLOYEE-RELATED CONSIDERATIONS

9 **Q. MDED witness Hyman recommends additional conditions be placed on the Merger,
10 including extending the quarterly reporting requirement for headcount levels and
11 changes in employment from two years to five years.¹¹ Please respond.**

12 **A.** Mr. Hyman contends that post-Merger reporting on employment levels should at least
13 cover the five-year period of transition costs that Applicants report.¹² I do not agree with
14 Mr. Hyman that it is necessary to require Applicants to continue submitting quarterly
15 reports on headcount levels for more than two years. Mr. Hyman has offered no specific
16 reason that the Commission should be concerned with staffing levels at the operating utility
17 companies in Missouri other than that some employees may voluntarily choose to leave
18 earlier than anticipated, which is beyond the control of Applicants. As Mr. Ives discusses
19 in his Surrebuttal Testimony, Applicants have made a Commitment that there will be no
20 involuntary severance as a result of the Merger, or the closing of a number of generating
21 units.¹³ The Commission will also continue to have the same regulatory authority over the

¹¹ Rebuttal Testimony of Martin Hyman, at 2.

¹² *Id.*, at 4-5.

¹³ See Condition 8 of Exhibit A to the Stipulation and Agreement.

1 operating utilities after the Merger, and parties may request information through the
2 discovery process in future rate proceedings.

3 **Q. Mr. Hyman proposes an additional commitment related to Applicants supporting job**
4 **retraining and job placement services for employees who are displaced by the**
5 **Merger.¹⁴ Do you agree that such a commitment is needed?**

6 A. No, I do not agree. Applicants have offered a Commitment that there shall be no
7 involuntary severance as a result of the Merger and that the new holding company will
8 maintain substantially comparable compensation levels and benefits for all employees for
9 two years after the closing of the Merger. Mr. Hyman acknowledges these Commitments,
10 but his concern is with employees who may voluntarily decide to leave the combined
11 company after the Merger. I do not see any reason why Applicants should be required, as
12 a condition of the Merger, to support retraining and job placement services for employees
13 who choose to end their employment post-Merger. In any event, such a requirement is not
14 consistent with common industry practice.

15 **Q. Mr. Hyman expresses concern that reduced family incomes could result in lower**
16 **spending in local economies should employees voluntarily leave their employment**
17 **after the Merger closes.¹⁵ Do you share his concern?**

18 A. No, I do not. As discussed in my Direct Testimony, the Merger is expected to result in
19 significant economic benefits in both Missouri and Kansas. Specifically, the combination
20 of the rate credits, lower future rate increases, and other economic activity generated by
21 the Merger is expected to produce approximately \$331 million in direct local economic

¹⁴ Rebuttal Testimony of Martin Hyman, at 5.

¹⁵ *Id.*, at 4.

1 activity and \$176 million in incremental gross regional product within the local economy¹⁶
2 between 2018 and 2030. This estimate of economic activity also accounts for the effect of
3 reductions in spending that result from Merger savings, which are described in the Direct
4 Testimony and schedules of Applicant witness Busser.¹⁷ In addition, the IMPLAN model
5 used to estimate economic benefits does not reflect any benefits associated with stock
6 ownership in GPE, Westar or the new Holdco, nor does it capture any “business attraction”
7 economic benefits associated with lower electric rates. These benefits, if they could be
8 quantified, would be in addition to those that are reflected in my analysis.

9 Furthermore, Applicants have committed that there will be no involuntary
10 separations as a result of the Merger. The Merger has been demonstrated to provide
11 economic benefits to the region, and employees will retain their existing jobs, at the same
12 compensation and benefit levels. Therefore, the Merger meets the not detrimental to the
13 public interest standard in Missouri.

14 V. CONCLUSION

15 **Q. After reviewing the Rebuttal Testimony, has your view changed regarding whether**
16 **the Merger is “not detrimental to the public interest”?**

17 **A.** No, my view has not changed. I continue to believe that the Merger is not detrimental to
18 the public interest and therefore meets the standard in Missouri. As discussed in my Direct
19 Testimony, the Merger offers many benefits including savings for customers through
20 upfront bill credits and longer-term net savings, as well as improved growth prospects,

¹⁶ I have modeled the Missouri and Kansas state economies together in a single regional economy for the purposes of the IMPLAN assessment.

¹⁷ IMPLAN-Online considers the effect the Merger will have on several hundred industrial sectors of the economy in its calculation of economic impacts.

1 benefits of scale (improved credit profile and enhanced access to capital), diversification
2 of regulatory risk, and opportunities for substantial savings.

3 **Q. Do you believe that the additional commitments and conditions proposed by Mr.**
4 **Rábago, Dr. Marke and Mr. Hyman are necessary?**

5 A. No, I do not believe that any additional commitments or conditions are necessary.
6 Applicants have offered a robust set of commitments and conditions as part of the Merger
7 Application. For the reasons discussed in my Surrebuttal Testimony and that of other
8 Applicant witnesses, none of the additional commitments or conditions proposed by the
9 intervenor witnesses are necessary in order for the Merger to meet the Commission's not
10 detrimental to the public interest standard.

11 **Q. Does this conclude your Surrebuttal Testimony?**

12 A. Yes, it does.

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

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

AFFIDAVIT OF JOHN J. REED

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

John J. Reed, being first duly sworn on his oath, states:

1. My name is John J. Reed and my business address is Concentric Energy Advisors, 293 Boston Post Road West, Suite 500, Marlborough, Massachusetts 01752. I have been retained to serve as an expert witness to provide testimony on behalf of Great Plains Energy Incorporated and Kansas City Power & Light Company.

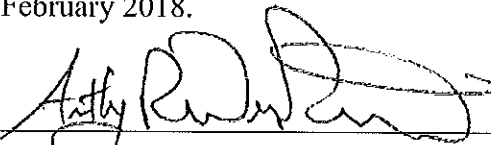
2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Great Plains Energy Incorporated, Kansas City Power & Light Company, and KCP&L Greater Missouri Operations Company consisting of eleven (11) pages, having been prepared in written form for introduction into 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.



John J. Reed

Subscribed and sworn before me this 21st day of February 2018.



Notary Public

My commission expires: 4/26/2021

