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Greater Missouri Operations
Company
Case No.: EM-2018-0012
Date Testimony Prepared: August 31, 2017

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. EM-2018-0012

DIRECT TESTIMONY

OF

TERRY BASSHAM

ON BEHALF OF

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

August 2017

Applicant's Exhibit No. 2
Date 3/12/18 Reporter JB
File No. Em-2018-0012

TABLE OF CONTENTS

I. INTRODUCTION 1

II. NEGOTIATING THE AMENDED MERGER AGREEMENT 5

III. THE COMBINED COMPANY 8

IV. CONCLUSIONS 18

DIRECT TESTIMONY

OF

TERRY BASSHAM

Case No. EM-2018-0012

1

I. INTRODUCTION

2 **Q: Please state your name and on whose behalf you are testifying.**

3 A: My name is Terry Bassham. I am testifying on behalf of Great Plains Energy
4 Incorporated (“Great Plains Energy” or “GPE”), Kansas City Power & Light Company
5 (“KCP&L”) and KCP&L Greater Missouri Operations Company (“GMO”) in support of
6 the request of GPE, KCP&L, GMO, Westar Energy, Inc. and Kansas Gas and Electric
7 Company (referred to herein as “Westar”) (all parties collectively referred to herein as
8 “Applicants”) for approval of the amended transaction providing for the merger of
9 Westar and GPE (“Merger”).

10 **Q: Please state your current position and business address.**

11 A: I am employed by KCP&L and serve as Chairman, President and CEO of Great Plains
12 Energy. I also serve as Chairman, President, and CEO of KCP&L and GMO. KCP&L
13 and GMO are direct, wholly-owned subsidiaries of GPE. My business address is 1200
14 Main, Kansas City, Missouri 64105. If the Merger is approved and closes, I will serve as
15 the President and CEO of the new combined company (“Holdco” or “combined
16 Company”).

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

18 A: I hold a Bachelor of Business Administration degree in Accounting from the University
19 of Texas at Arlington and a Juris Doctor degree from St. Mary’s University School of

1 Law in San Antonio, Texas. I have held positions at Great Plains Energy and KCP&L
2 since April of 2005. Prior to that time, I was employed by El Paso Electric for nine years
3 in various positions including General Counsel, Chief Administrative Officer and Chief
4 Financial Officer. The remainder of my work career I worked as an attorney in the
5 primary practice of regulatory law.

6 **Q: Have you previously testified in a proceeding at the Missouri Public Service**
7 **Commission (“Commission”) or before any other regulatory agency?**

8 A: Yes. I have testified on several occasions before the Commission and the Kansas
9 Corporation Commission (“KCC”) on a variety of issues affecting regulated public
10 utilities. I have also testified before the Federal Energy Regulatory Commission, the
11 Public Utility Commission of Texas, the New Mexico Public Service Commission and
12 various committees of the Texas, New Mexico and Missouri legislatures.

13 **Q: What are your current responsibilities?**

14 A: I am responsible for the strategic leadership and overall management of Great Plains
15 Energy. This starts with providing safe, reliable and affordable service to our customers
16 and includes being responsible employers, stewards of the environment, and constructive
17 corporate citizens in our local areas and region. Serving these roles well enables me to
18 serve GPE’s shareholders by creating and maintaining a company that is financially
19 strong, has constructive regulatory and stakeholder relationships, and provides
20 competitive returns on investment.

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

22 A: Together with Westar’s CEO, Mark Ruelle, I sponsor the Amended and Restated
23 Agreement and Plan of Merger dated July 9, 2017 (“Amended Merger Agreement”) of

1 Westar and GPE (“Applicants”) which reconstitutes the transaction presented in EM-
2 2017-0226, et al. (“Initial Transaction”). I will discuss why the Merger is the best path
3 forward for GPE and Westar, including the benefits to customers and other stakeholders
4 that will be created and key commitments that will guide how the combined Company
5 operates. I will describe the combined Company’s corporate structure, executive
6 leadership, and our commitment to realizing the benefits of merging Westar and GPE.

7 **Q. Why was it necessary to reconstitute the Initial Transaction?**

8 A. By an Order issued on April 19, 2016, in the Kansas Corporation Commission (“KCC”)
9 Docket No. 16-KCPE-593-ACQ (“KCC’s Initial Transaction Order”), the KCC denied
10 approval of the Initial Transaction. The primary concerns noted by the KCC related to
11 the financial condition of the merged company due to the magnitude of the acquisition
12 premium GPE had agreed to pay and the amount of debt GPE had proposed to incur.¹ As
13 a result, if we desired to achieve the benefits of combining Westar and GPE, we needed
14 to address the concerns expressed in the KCC’s Initial Transaction Order to obtain
15 necessary regulatory approvals of a GPE-Westar combination.

16 **Q. How does your testimony relate to that of Westar’s CEO Mr. Ruelle?**

17 A. As the current CEO of Great Plains Energy with plans to be the CEO of the combined
18 Company, my testimony focuses on how the combined Company will operate and realize
19 the value of the Merger for its stakeholders. As the current CEO of Westar with plans to
20 be the Chairman of the combined Company’s Board, Mr. Ruelle’s testimony focuses on
21 how and why we got from the Initial Transaction to the proposed Merger. We are jointly
22 responsible for the reconstitution of the Initial Transaction as a “merger of equals” or

¹ KCC’s Initial Transaction Order, ¶ 92.

1 “MOE” of Westar and GPE. Although we represented our respective companies in
2 negotiating the MOE, we share the same strategic objective of charting the path forward
3 that will best serve our respective stakeholders for the long-term. Mr. Ruelle and I will be
4 jointly responsible for the Merger’s success.

5 **Q. Please briefly describe the MOE.**

6 A. It will be accomplished entirely through an exchange of stock with no other cash or
7 securities changing hands, with the intent that no control premium be paid to either
8 company and no Merger-related debt will be incurred. It will provide guaranteed timely
9 benefits to customers in the form of upfront bill credits. Other nearly immediate benefits
10 will include initial Merger savings that will be reflected in the cost of service of KCP&L
11 and GMO in rate cases that will be filed and pending at the time of the expected Order in
12 this Application. I discuss the Merger in more detail throughout my testimony.

13 **Q. How is the remainder of your testimony organized?**

14 A. Following this introduction, my testimony is organized as follows:

- 15 ▪ **Section II** discusses from GPE’s perspective why we renegotiated the Initial
16 Transaction and highlights key benefits of the Merger of Westar and GPE;
- 17 ▪ **Section III** highlights the operations of the combined Company, including what
18 will happen when the Merger closes, and Applicants’ proposed Merger
19 Commitments and Conditions that will guide how the combined Company will
20 operate; and
- 21 ▪ In **Section IV**, I present my conclusions.

1 **II. NEGOTIATING THE AMENDED MERGER AGREEMENT**

2 **Q. Why did you decide to renegotiate the Initial Transaction?**

3 A. We remained convinced that a merger of Great Plains Energy and Westar is the best path
4 forward for customers, shareholders and other stakeholders. We believed it was our
5 responsibility to make every effort to negotiate a revised transaction that would address
6 the KCC's concerns and still maintain a balance of interests that would allow a merger to
7 move forward and deliver value to all stakeholders.

8 **Q. Mr. Bassham, why do you believe the Merger is the best path forward?**

9 A. This Merger is one example of consolidation among many in today's electric industry.
10 We operate in an environment challenged by increasing costs and flat to even declining
11 customer usage which puts significant upward pressure on customers' rates. A number of
12 characteristics of this combination – including good strategic and cultural fit, joint plant
13 ownership, contiguity of the KCP&L/GMO/Westar service territories, and
14 complementary operational strengths – present opportunities for savings, service
15 enhancements and economic development over the long term. These opportunities are
16 unique to this combination and could not be replicated by either company individually or
17 in a transaction with any other entity.

18 **Q. Please describe the impact on customers of increasing costs and flat to declining**
19 **demand for electricity and how the Merger helps address this dynamic.**

20 A. Absent significant savings created by the Merger, our costs to serve our customers will
21 continue to rise unchecked by other than our stand-alone ability to manage costs.
22 Accordingly, we would need to seek higher prices and more frequent price increases as
23 the remedy for any unmitigated higher costs. However, as discussed in more detail by

1 Mr. Darrin Ives, if the Merger is approved and closes, customers will receive substantial
2 benefits. First, customers will receive \$50 million in timely bill credits. Second, we have
3 already taken actions in contemplation of the Merger that have created savings. These
4 initial Merger savings will be reflected in the cost of service of KCP&L and GMO in rate
5 cases that will be filed and pending at the time of the expected Order in this Application.
6 These savings will provide nearly immediate and ongoing reductions in our cost of
7 service as compared to stand-alone operations absent the Merger. Customers will not
8 have to wait to see benefits. Finally, Merger and other savings², expected to grow over
9 time, will reduce the size and frequency of future rate cases. All of this will result in
10 rates that are lower than they would have been absent the Merger.

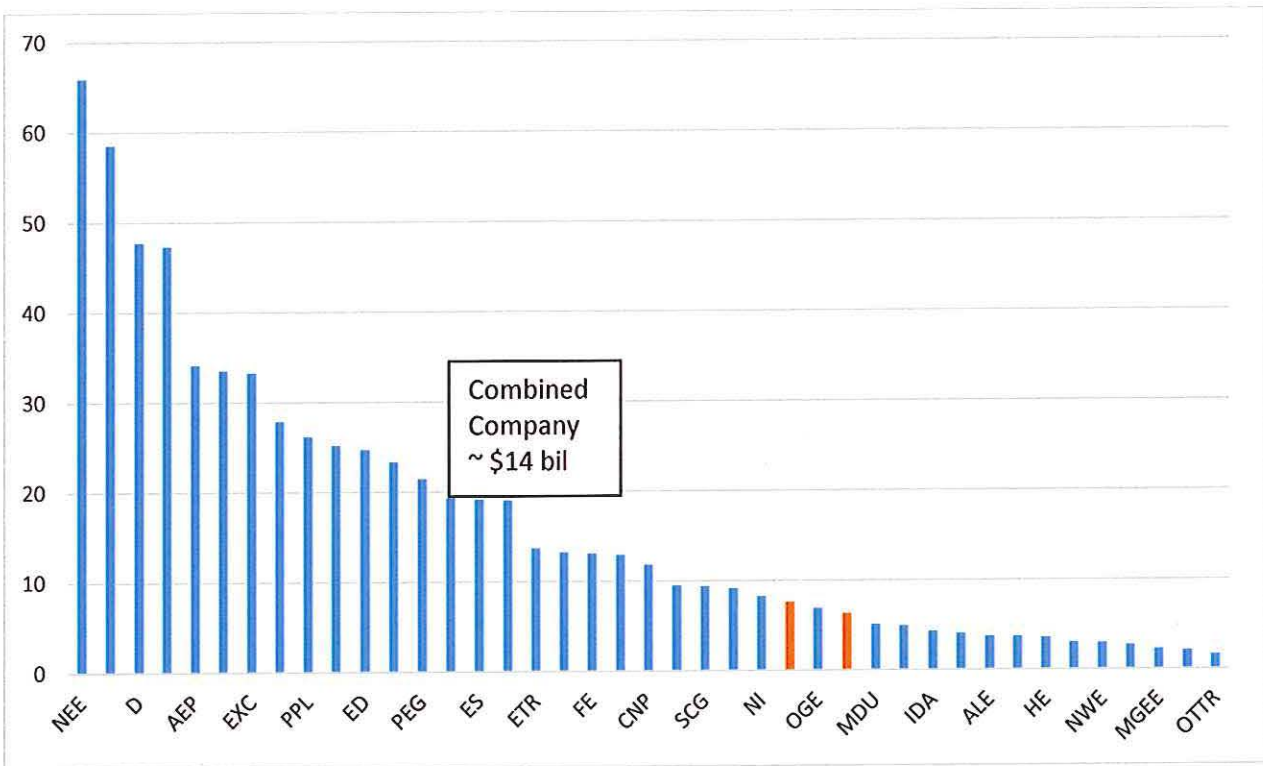
11 **Q. How does the Merger better position the combined Company to access capital to**
12 **finance necessary investments in infrastructure?**

13 A. As discussed by Mr. John Reed, the industry continues to consolidate, making financial
14 strength and access to capital on favorable terms even more important, especially for
15 smaller utilities the size of Westar and GPE. As shown in Figure 1, below, GPE and
16 Westar are small in comparison to other electric utilities.

² GPE has announced that generation plants will close by year-end 2018 (Sibley units 1, 2 and 3; and Montrose units 1, 2 and 3) and by year-end 2019 (Lake Road unit 4/6) and these closings will result in savings.

1

Figure 1: Electric Utilities by Market Cap (\$B)



2

3 **Q. What were your primary considerations in renegotiating the Initial Transaction on**
4 **behalf of Great Plains Energy?**

5 **A.** My primary objective was to maintain a balance of interests that would allow a merger to
6 move forward and deliver value to all stakeholders. To this end, the KCC's concerns
7 must be addressed. Addressing those concerns cannot come at the expense of other
8 matters equally important to customers and the public generally. Further, GPE's
9 participation in the renegotiations was guided by the following principles:

- 10 1. Customers must benefit;
- 11 2. Shareholders must benefit;
- 12 3. The states of Missouri and Kansas, as well as the communities we serve,
13 must benefit;

1 are now Westar's (approximately 52.5 percent) and GPE's (approximately 47.5 percent)
2 shareholders. Mr. Ruelle will serve as non-executive Chairman of the Company's board
3 of directors and I will serve as President and CEO and member of the board. All of the
4 Company's other directors will be independent³ and will reflect an equal number of
5 directors from each of GPE's and Westar's current boards. Most directors are long-term
6 citizens and have substantial and longstanding business and personal connections to the
7 Missouri and Kansas region. As I discuss in more detail later in my testimony, the
8 executive leadership team will reflect a balance of existing Great Plains Energy and
9 Westar executives. The Company will begin implementing its integration plan (see the
10 testimony of Mr. Greenwood), initiating bill credits to all retail electric customers (see
11 the testimony of Mr. Ives), and operating in compliance with substantial financial and
12 ring-fencing and other Merger Commitments and Conditions (see the testimony of Mr.
13 Ives).

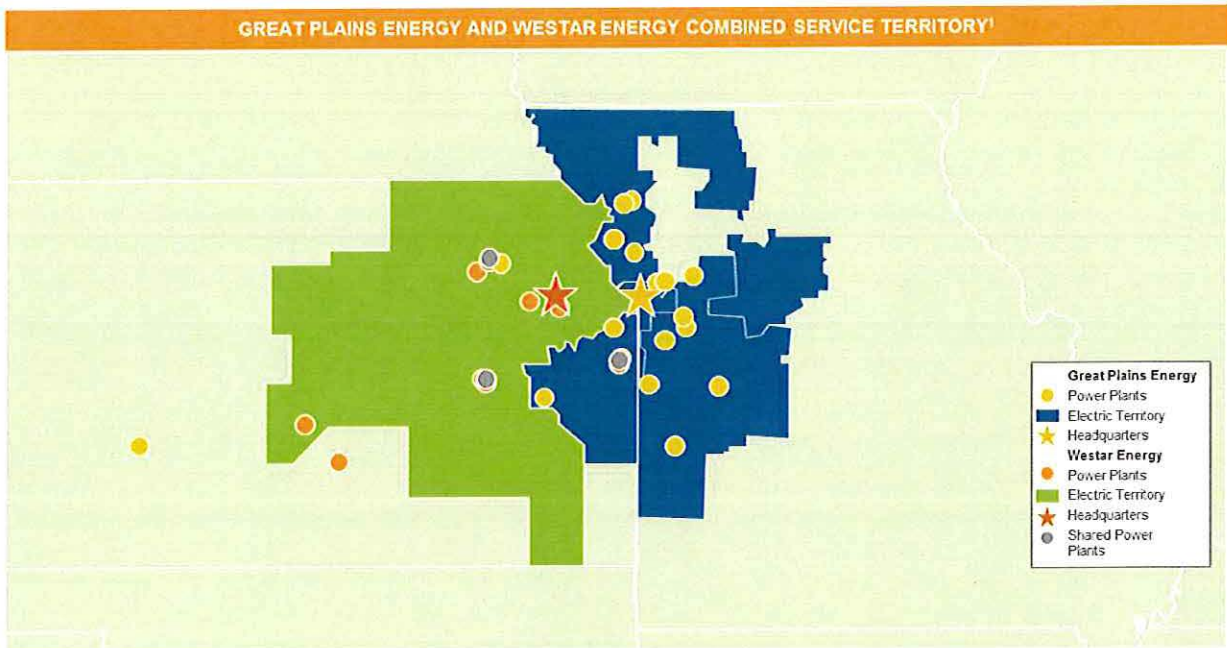
14 **Q. Please describe the combined Company's operations.**

15 A. As shown in Figure 2, combining service territories of KCP&L and GMO (in blue) and
16 Westar (in green) will create a larger, contiguous base of operations.

³ As discussed by Mr. Reed, the Applicants commit that a majority of the Board will be "independent" as that term is defined by the New York Stock Exchange.

1

Figure 2: Combined Company Service Territory



2

1. Excludes Great Plains Energy's Crossroads Generating Station located in Starkville, MS and Westar Energy's Spring Creek Energy Center located in Logan County, OK

3

This operational base creates a larger, more diverse and financially strong Company. See

4

Table 1 and Figure 3 for key operating metrics and characteristics of GPE, Westar and

5

the combined Company.

1

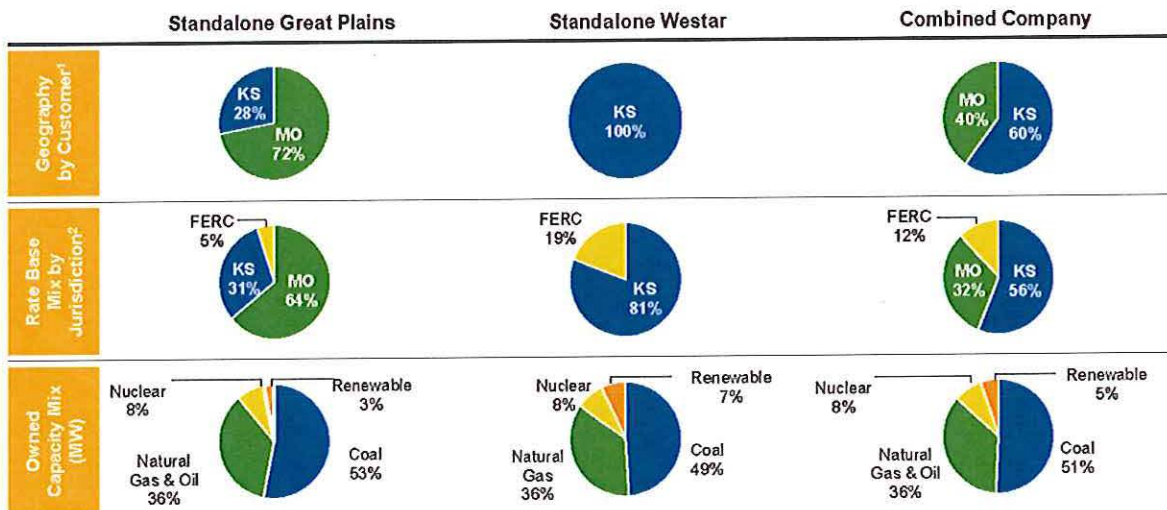
Table 1: Key Operating Metrics

	Great Plains	Westar	Combined
Rate Base (\$billion) ²	\$6.6	\$6.5	\$13.1
Electric Customers	860,100	701,000	1,561,100
Owned Generation Capacity (MW)	6,524	6,573	13,097
Transmission Miles	3,600	6,400	10,000
Distribution Miles	22,700	29,000	51,700

2

3

Figure 3: Key Operating Characteristics



1. Customer breakdown by jurisdiction based on retail sales generation.

2. KCP&L, GMO, Westar and KG&E are also subject to regulation by The Federal Energy Regulatory Commission (FERC) with respect to transmission, wholesale sales and rates, and other matters.

4

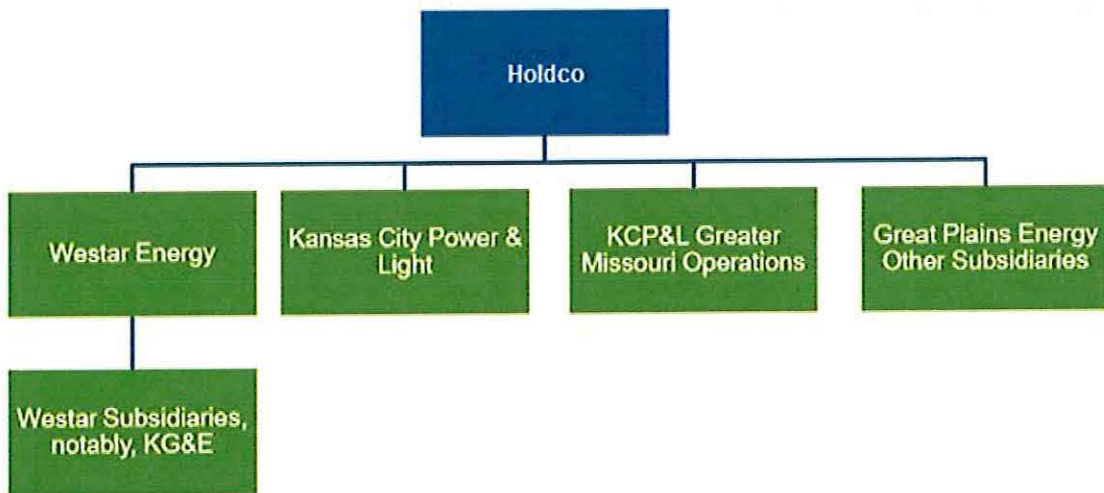
5 **Q. Please describe the combined Company's corporate structure.**

6 A. As shown in Figure 4, the Company's proposed corporate structure is similar to today's

7 corporate structure of GPE with KCP&L having been its utility subsidiary for about 15

1 years and GMO for over 9 years. From GPE's perspective, Holdco simply replaces what
2 is GPE today, and GPE as an entity will cease to exist. From Westar's perspective, it will
3 now have a holding company, just as KCP&L has had for a decade and a half, and as
4 most investor-owned utilities already have.

5 **Figure 4: Pro Forma Combined Company Corporate Structure**



6

7 **Q. Where will the combined Company's corporate and operational headquarters be**
8 **located?**

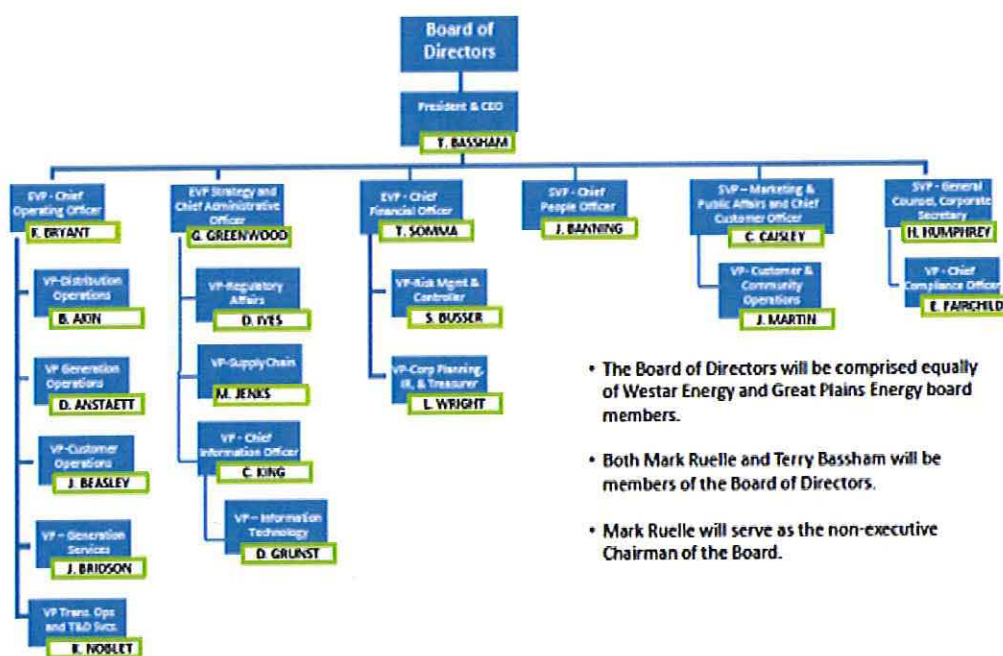
9 **A.** The combined Company's corporate headquarters will be at GPE's current headquarters'
10 in Kansas City, Missouri. We have also committed in the KCC Merger approval
11 proceeding that the current Westar headquarters in downtown Topeka will continue to be
12 a substantial operational headquarters and have made staffing commitments supporting
13 this intention. See Application Appendix H, Commitment No. 1.

1 Q. What are the Applicants' plans for the Company's executive leadership?

2 A. The executive leadership team will reflect a balance of existing Westar and Great Plains
3 Energy executives. I will be the President and CEO. The chart in Figure 5 below
4 highlights this balanced executive leadership team.

5 Figure 5:

Executive Officer Team



6
7 Q. Will the Merger result in any involuntary severance of employees?

8 A. No. We will have no layoffs or involuntary severance as a result of the Merger. We have
9 also made the commitment that there will be no involuntary severance as a result of
10 closing the Sibley, Montrose and Lake Road plants that GPE has planned to retire, or the
11 additional Westar generating stations whose retirement is accelerated by the Merger.
12 Finally, we have committed that staffing-related efficiencies will be achieved through

1 normal attrition and other voluntary means over time in a generally balanced way across
2 both Kansas and Missouri. (See Application Appendix H, Commitment No. 8) As
3 discussed by Mr. Steve Busser, the Merger will enable us to do more with less. A
4 significant reason that we can make the extraordinary commitment to no involuntary
5 layoffs while also demonstrating large savings is because of the unique demographic
6 transition naturally occurring in our companies and our industry in which so many
7 employees are reaching or approaching retirement age. As a result, the efficiencies that
8 entail needing fewer employees can be accomplished through normal attrition and other
9 voluntary means as employees choose to retire on their own terms in the normal course.
10 We can reduce costs by not filling certain vacant positions, now and in the future, without
11 involuntary layoffs and in a generally balanced way across both Kansas and Missouri.

12 **Q. Have the Applicants made other commitments to their employees?**

13 A. Yes. In addition to no involuntary severance as a result of the Merger, we have
14 committed that employee compensation and benefits will remain substantially the same
15 for at least two years following the closing. Of course, we also have collective
16 bargaining agreements that remain in place. (See Application Appendix H, Commitment
17 Nos. 6 and 7)

18 **Q. Why haven't the Applicants simply agreed for the combined Company to maintain
19 the current staffing levels of Westar and GPE?**

20 A. There is no question that a tension exists between creating and maintaining jobs and
21 keeping costs and rates as low as possible. We believe it is our obligation to operate as
22 efficiently as possible while maintaining safe and reliable service for our customers. The
23 Applicants' have made specific commitments to undertake no involuntary severance due

1 to the Merger. The Applicants have also made other commitments, including but not
2 limited to a commitment to meet and potentially exceed current customer service and
3 reliability levels (Commitment No. 34), coupled with upfront bill credits totaling \$50
4 million to retail electric customers across all rate jurisdictions (Commitment No. 18) and
5 reflecting in rates of Merger savings. We ask the Commission to affirm the
6 understanding that the combination of these commitments serve to balance these
7 important factors of achieving efficiencies while maintaining operational levels and
8 treating employees fairly.

9 **Q. Have the Applicants made any other commitments to their communities?**

10 A. Yes. We recognize how important charitable giving, community involvement and low-
11 income assistance programs are to our communities. We have committed to maintain all
12 such spending levels for at least five years. See Application Appendix H, Commitment
13 Nos. 3 and 4. Also, it is important to note that there will be economic benefits to the
14 communities resulting from the upfront bill credits and Merger savings reflection in the
15 cost of electricity. This is discussed by Mr. Reed.

16 **Q. Why have the Applicants publicly characterized the upfront bill credits to**
17 **customers as “at least” \$50 million?**

18 A. In addition to \$50 million in timely upfront bill credits to the Company’s retail customers
19 in Kansas and Missouri, Westar’s, KCP&L’s and GMO’s customers will also benefit
20 from a reduction in their respective costs of service attributable to Merger savings
21 achieved in their respective test years in the rate cases that will be filed and pending at
22 the time of the expected Order in this application. While we estimate approximately \$28
23 million in Merger savings in the first year following the closing, the exact amount of

1 savings that will be reflected in the rate cases is influenced by the timing of the closing of
2 the Merger. Accordingly, when publicly describing the near-term benefits to customers
3 we characterized them as a minimum of \$50 million in bill credits.

4 **Q. How will the financial condition of the combined Company compare to the financial
5 condition of Westar and GPE on a standalone basis?**

6 A. Very favorably. The combined Company's financial and credit metrics will be strong.
7 As discussed by Messrs. Kevin Bryant, Anthony Somma and Reed, the credit rating
8 agencies and equity analysts that follow Westar and GPE have reacted favorably to the
9 Merger. In part, this is due to the elimination of the transaction-related debt, preferred
10 equity and convertible preferred equity secured in anticipation of financing the Initial
11 Transaction and the fact that the Merger will result from the exchange of stock, have no
12 control premium and which requires no debt financing. As discussed by Mr. Somma, this
13 will result in the Company having more equity than is optimal for the near term, but over
14 time we will adjust the Company's capital structure to be consistent with other utility
15 holding companies and regulated utilities, generally. The credit rating agencies were
16 aware of such plans when issuing their reactions to the Merger. Finally, the agencies and
17 analysts have clearly identified the size, scale, geographic diversification and other
18 benefits and strengths of the Merger.

19 **Q. Please comment on the Applicants' proposed Merger Commitments and Conditions
20 and their influence on how the combined Company will be governed and how the
21 utilities will be financed and interact with Holdco.**

22 A. As described in the testimony of Mr. Ives, the Applicants have proposed comprehensive
23 Merger Commitments and Conditions including financial and ring-fencing, service

1 reliability, ratemaking and accounting, employees, local communities, and others. See
2 Application Appendix H. The Company's board of directors and executive leadership
3 will be bound by these important commitments.

4 **Q. Have the Applicants continued to engage in discussions with the parties from the**
5 **last proceeding since the announcement of the Merger?**

6 A. Yes. We continue to meet with Staff, the Office of the Public Counsel ("OPC") and
7 interveners, and we have had collaborative discussions with them regarding the benefits
8 of the Merger. We appreciate the constructive discussions we had with Staff and OPC in
9 Case No. EM-2017-0226 and we used those discussions as a starting point for the Merger
10 Commitments and Conditions discussed in the direct testimony of Mr. Ives. We believe
11 that the Merger has been structured to constructively and comprehensively respond to the
12 concerns the parties in Missouri and Kansas raised in response to the Initial Transaction,
13 while maintaining significant benefits for the broader set of stakeholders. No doubt there
14 are additional things some of the intervenors might seek from their electric utility (*e.g.*,
15 different rate designs or lower prices, generally), but we have worked earnestly to address
16 concerns they might have in regard to the Merger.

17 **Q. Why are you confident that the Merger will be successful and produce benefits for**
18 **customers?**

19 A. Great Plains and Westar have complementary strengths that, when combined, will
20 produce a stronger company than either could achieve alone. Our geographic adjacency
21 is a clear advantage of this combination. It presents many opportunities for synergies,
22 efficiencies and cost savings and the proximity of the two headquarters helps us maintain
23 more headquarters jobs in both present headquarters locations. We have had a strong

1 working relationship for many years jointly owning major assets. We have very similar
2 practices, approaches and core values. We have invested a year working together
3 specifically to provide the extensive analysis of Merger savings and detailed Merger
4 integration plans discussed by Messrs. Busser and Greenwood. We are confident in these
5 analyses and plans and our ability to execute on them to deliver value to our customers
6 and shareholders. Nothing is more important than that the Merger be successful. It is my
7 obligation to make that happen.

8 IV. CONCLUSIONS

9 **Q. Do you have any concluding comments?**

10 A. This MOE is important for Missouri and a logical next step in an industry under pressure
11 to manage costs and keep electricity both increasingly reliable yet affordable. By
12 approving the merger of two local companies who have been integral parts of the
13 Missouri and Kansas region and economy for over 100 years, the Commission will
14 enable the size, scale, complementary operational strengths and substantial experience of
15 KCP&L, GMO and Westar for the benefit of customers, shareholders, local communities
16 and our state.

17 **Q. Do you believe that the Merger is not detrimental to the public interest and should
18 be approved by the Commission?**

19 A. Yes. We worked hard to ensure that our customers, shareholders and other stakeholders
20 will be better off as a result of this Merger. The Merger will create a larger, financially
21 stronger, regional Fortune 500 company and leading Midwest electric utility better
22 positioned to meet our customers' needs and achieve competitive financial returns
23 expected by our investors, with Merger savings, and not just higher rates, as a means of

1 doing so. The Merger is the best path forward. I respectfully request the Commission
2 approve our Application for GPE and Westar to merge and confirm that the MOE is not
3 detrimental to the public interest in the State of Missouri.

4 **Q. Does this conclude your Direct Testimony?**

5 **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 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, KCP&L Greater Missouri Operations Company consisting of nineteen (19) 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 31st day of August 2017.



Notary Public

My commission expires: 4/26/2021

