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GXP - Q3 2016 Great Plains Energy Inc Earnings Call

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CORPORATE PARTICIPANTS

Lori Wright *Great Plains Energy, Inc. - VP Corporate Planning, IR, Treasurer*

Terry Bassham *Great Plains Energy, Inc. - Chairman, President, CEO*

Kevin Bryant *Great Plains Energy, Inc. - SVP Finance & Strategy, CFO*

CONFERENCE CALL PARTICIPANTS

Paul Ridzon *KeyBanc Capital Markets - Analyst*

Chris Turnure *JPMorgan - Analyst*

Charles Fishman *Morningstar - Analyst*

Gregg Orrill *Barclays Capital - Analyst*

Paul Patterson *Glenrock Associates - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Great Plains Energy Q3 2016 earnings conference call. (Operator Instructions) As a reminder, today's conference call is being recorded.

I would now like to turn the conference over to Lori Wright, Vice President of Corporate Planning, Investor Relations, and Treasurer. Please go ahead.

Lori Wright - *Great Plains Energy, Inc. - VP Corporate Planning, IR, Treasurer*

Thank you, Candace. Good morning, everyone, and welcome to Great Plains Energy's third-quarter 2016 earnings conference call. We appreciate that you are joining us this morning.

Terry Bassham, Chairman, President, and Chief Executive Officer, and Kevin Bryant, Senior Vice President Finance and Strategy and Chief Financial Officer, are on the call today. Scott Heidtbrink, Executive Vice President and Chief Operating Officer of KCP&L is also with us this morning, as are other members of our management team who will be available during the question-and-answer portion of today's call.

Today's discussion will focus -- or will include forward-looking information and the use of non-GAAP financial measures. Slide 2 and the disclosure in our SEC filings contain a list of some of the factors that could cause future results to differ materially from our expectations. A reconciliation of the non-GAAP financial measures can be found in the appendix.

I also want to remind everyone that we issued our earnings release and third-quarter 2016 10-Q after market close yesterday. These items are available, along with today's webcast slides and supplemental financial information for the quarter on the main page of our website at GreatPlainsEnergy.com.

As summarized on slide 4, Terry will provide an overview of our financial highlights for the quarter followed by an update on our anticipated acquisition of Westar, regulatory priorities, and a discussion of our strategic plans. Kevin will discuss our financial results and 2016 earnings drivers. With that, I will now hand the call to Terry.



Terry Bassham - *Great Plains Energy, Inc. - Chairman, President, CEO*

Thanks, Lori, and good morning, everybody. I'll start my comments on slide 6. We are pleased to report solid performance in the third quarter, delivering GAAP net income of \$132.7 million or \$0.86 per share, compared with \$126.4 million or \$0.82 per share a year ago. Our adjusted earnings, which exclude items associated with the pending acquisition of Westar, were \$1.00 per share for the quarter.

Our strong financial performance was driven by the impact of new retail rates at KCP&L Missouri and Kansas, including new cost recovery mechanisms, and warmer weather with cooling degree days 7% above third-quarter 2015. The favorable weather impact when compared to normal was about \$0.04 for the quarter.

On a GAAP basis, year-to-date earnings were \$1.23 per share compared to \$1.22 in 2015. Year-to-date adjusted earnings per share were \$1.72.

With three solid quarters behind us, we are revising our 2016 adjusted EPS guidance range from \$1.65 to \$1.80, to \$1.75 to \$1.85. Kevin will discuss the financial results in more detail in his remarks.

The third quarter marked an important milestone for our GMO operations. We successfully gained approval from the Missouri Public Service Commission to consolidate our St. Joseph Light and Power Missouri Public Service jurisdictions into one rate jurisdiction effective December 22.

New retail raise will go in effect on the same day. This consolidation will allow us to operate our business more efficiently while continuing to provide dependable and cost-effective service to GMO's over 300,000 customers.

Now turning to slide 7, I wanted to take this opportunity to update you on the pending acquisition of Westar, which remains on track to close in the spring of 2017. We're pleased with the support we received for the transaction, which we believe will drive long-term shareholder value and cost savings for customers.

In September, shareholders of both Companies voted in favor of all proposals on the ballots. I'd like to take a moment and say how much our Board, management, and employees appreciate the support shown by our shareholders.

We're mindful of this support as we continue to make progress on the remaining transaction milestones, including constructive dialog with all regulatory stakeholders and our integration planning efforts to prepare for a smooth transition. We are confident the plans being put in place today will enable us to hit the ground running on day one.

We continue to make steady progress on the regulatory front and are on track to secure all necessary approvals for the transaction by spring 2017. A few weeks ago the Federal Trade Commission granted early termination of the Hart-Scott-Rodino waiting period, and the Department of Justice closed its investigation.

Also last month we entered into separate stipulations and agreement with the Missouri Public Service Commission staff and the Office of Public Counsel, or OPC, that allowed us to move forward in Missouri in a way that balances the interests of our shareholders and provides protections and safeguards to our over 600,000 customers in Missouri. We believe the agreements are responsive to the Commission's desire to address this transaction in an efficient and timely manner. We, along with the staff and the OPC, have asked the Commission approval by the end of November.

In October, the Midwest Energy Consumers Group, or MECG, filed a complaint in Missouri over our pending acquisition. As we have said, the law and past precedent is clear on the issue. We believe the MPSC does not have jurisdiction or authority to approve the transaction.

To expedite a ruling in the complaint, the MPSC has asked its staff to file a procedural schedule by November 22 with an evidentiary hearing, oral argument, or both on jurisdiction no later than December 15. While we do not believe the MECG complaint will impact the closing of the transaction, we appreciate the Commission's desire to not unnecessarily delay the consummation of the transaction. In short, we remain confident about the financial and strategic benefit the combination will deliver.

Now moving to slide 8, we continue to make progress on our other regulatory initiatives. Our efforts to modernize the Missouri regulatory environment remain a top priority.

This summer the MPSC opened a docket to consider policies to improve electric utility regulation. Procedurally, the Commission is expected to file a report on the matter by December 1, ahead of the 2017 legislative session.

Last month, staff in its report to the Commission on the open docket, demonstrated a willingness to consider changes to improve the electric utility regulatory framework. While we're encouraged by the staff's report, we seek pragmatic regulatory reform that provides clear regulatory treatment that can be relied upon by both investors and our customers.

Also in the summer, the Missouri Senate's Interim Committee on Utility Regulation and Infrastructure Investment convened to review regulatory policy nationwide and understand what improvements make sense in Missouri. After hearing testimony from experts across the nation about what is working in other states, the committee was receptive to considering legislative changes to the regulatory framework in Missouri.

We expect the committee to file a report later this year and remain hopeful it will lay out practical solutions that address regulatory lag in Missouri. There are commonalities between the MPSC's open docket on utility regulation and this committee's work, and we are encouraged that policymakers continue to be actively involved in reviewing ways to move Missouri utility regulation forward. We remain committed to work toward comprehensive regulatory reform and expect to file legislation again in 2017.

Turning to an update on our rate case filings, our KCP&L Missouri rate cases remain on schedule for new retail rates in late May 2017.

Direct testimony in the case is due in late November, with evidentiary hearings expected to begin in February. You can find a summary of our rate case filing in the appendix of this presentation.

Finally on the regulatory front, consistent with our plan, we will be filing an abbreviated rate case in Kansas next week to true-up our costs for the La Cygne environmental project that went into service last spring.

Turning to slide 9, we continue to closely focus on our core strategic priorities, which are managing our existing business, promoting economic growth, improving our customers' experience, and successfully integrating Westar. This combination will create a stronger Company with improved ability to serve customers and meet the region's energy needs. Together we will combine the expertise and operational excellence of each Company, allowing the new Company to draw upon the intellectual capital, technical expertise, processes, practices, and experience of a deeper, more diverse workforce.

On the Transource front, we are pleased to report that in August the PJM Board selected Transource to develop the competitive portions of the Southern Pennsylvania project. Transource's portion of the project is valued at \$225 million, which increases the venture's total transmission portfolio to over \$600 million.

Construction on the project's two 230-kV lines is expected to begin in 2019 with an in-service date in late 2020. Transource remains well positioned to deliver innovative transmission solutions to the grid.

Finally, turning to slide 10, our stable financial position is supported by strong utility operations and solid cash flow profile. We have ample long-term opportunities to invest in our base business while consistently growing our dividend in a way that drives dependable shareholder returns.

Earlier this week our Board approved a 5% annualized dividend increase from \$1.05 to \$1.10 per share. This marks the sixth consecutive year we have increase the dividend.

Our anticipated acquisition of Westar is expected to enhance our growth prospects and provide greater earnings stability, enabling increased investment opportunities and increased operating efficiencies. The post-transaction, long-term earnings growth target of 6% to 8%, long-term dividend growth target of 5% to 7%, position us well to deliver competitive regulated shareholder returns.



With that, I would now like to turn the call over to Kevin.

Kevin Bryant - *Great Plains Energy, Inc. - SVP Finance & Strategy, CFO*

Thanks, Terry, and good morning, everyone. I'll begin with an overview of our financial performance on slide 12.

As Terry mentioned, we had another solid quarter. Our adjusted earnings for the quarter were \$1.00 per share compared with \$0.82 a year ago.

As detailed on the slide, the \$0.18 increase for the quarter was driven by new KCP&L retail rates in Kansas and Missouri, warmer weather, new cost recovery mechanisms, and an increase in weather-normalized demand. These impacts were partially offset by an expected increase in O&M expenses, depreciation and amortization, and general taxes.

For the year-to-date period, adjusted earnings per share increased \$0.50 to \$1.72, driven by several of the same factors impacting the quarter. The favorable weather impacted results \$0.09 in the year-over-year period. When compared to normal, weather contributed \$0.07 year-to-date.

As reflected in our financial results, the implementation of the fuel recovery mechanisms in KCP&L Missouri last fall minimizes margin risk moving forward.

For the 12 months ended September 2016, demand increased 0.3%, net of the impact of our energy efficiency programs, in line with our full-year estimate of flat to 0.5%. Our regional economy continues to expand and employment levels remain at all-time highs.

Continued growth in employment has led to solid demand for new housing. Year-to-date through September, single-family housing starts are at the highest level in nine years, up 24% year-over-year. And not to be outdone, multifamily construction is at its highest level in a decade, up 40% year-over-year.

The growth in new housing continues to translate to new customers on our system. In fact, customer growth for the 12 months ended September 2016 increased 1%.

However, as we've highlighted in the past, traditional increases in efficiency and the success of our energy efficiency programs continue to weigh on average use per customer. We estimate for the 12 months ended September 2016, our MEEIA energy efficiency programs impacted demand approximately 0.7%.

Recall, we recover the cost of the program, and the MEEIA throughput disincentive compensates us for the reduction in sales volumes resulting from the program. Performance incentives are also possible upon conclusion of program vintages.

Turning to slide 13 for a full-year view of 2016, I won't spend a lot of time on this slide, as our earnings considerations remain on track with those that we have highlighted all year. As Terry mentioned, we are revising our 2016 adjusted earnings guidance range to \$1.75 to \$1.85 per share.

As slide 14 highlights, we successfully completed the equity portion of our permanent financing for the Westar acquisition. With interest rate hedges already in place, we expect to complete the remaining portion of our permanent financing with long-term debt to be issued closer to transaction close.

Finally, we remain committed to a solid investment-grade balance sheet. On a pro forma basis, our combined Companies' free cash flow facilitates improving credit metrics post-transaction close.

As we wrap up on slide 15, we intend to deliver solid total shareholder returns from a combination of both dependable earnings and increasing dividend growth. As Terry mentioned, earlier this week our Board approved a 5% dividend increase, in line with our long-term annualized dividend growth target of 5% to 7% through 2020. This is another example of our team's precise focus on delivering on our commitments.

Thank you for your time this morning. We're now happy to answer any questions you may have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Paul Ridzon, KeyBanc.

Paul Ridzon - KeyBanc Capital Markets - Analyst

Good morning; congratulations on the quarter. Just going back to Missouri and any regulatory improvements, do you think the Commission needs legislative cover, or can they act on their own? And what are the different combinations there that are possible?

Terry Bassham - Great Plains Energy, Inc. - Chairman, President, CEO

I think the Commission thinks it needs legislative authorization. We certainly made request of certain mechanisms in the past, and it appears that they feel they need additional legislative support for that. So that's the process I think we've been going through, just to set things up for that discussion the first of the year.

Paul Ridzon - KeyBanc Capital Markets - Analyst

How do you see things panning out from a timing perspective in the legislature?

Terry Bassham - Great Plains Energy, Inc. - Chairman, President, CEO

Well, it's hard to distinguish or talk about a particular timeline. I will say that we did a lot of work last year and really built off several years' worth of work, leading up and including the Commission's docket and the Senate's committee. So I think we'll be able to start off a little quicker in terms of a lot more knowledge from everybody about what is maybe prevalent in the country and missing in Missouri, and what we think would be helpful. So I guess maybe characterize it as an opportunity to hit the ground running a little earlier than we did last year.

Paul Ridzon - KeyBanc Capital Markets - Analyst

Are there any contentious issues in the legislature that could throw a monkey wrench into things, like happened last time?

Terry Bassham - Great Plains Energy, Inc. - Chairman, President, CEO

Well, I don't think the things that came up last time are immune from coming up again. And don't forget that we have a brand-new Governor no matter what happens, whoever wins. And there is always a little uncertainty about what that might or might not mean.

And then elections in general. Got several elections going on that could affect some of that as well.

So, yes, I think we're ready to get started early. I think the work between sessions is very helpful. But then putting a specific timeline on it, probably a little early to get a feel for that.



Paul Ridzon - *KeyBanc Capital Markets - Analyst*

Okay. Thank you very much.

Operator

Chris Turnure, JPMorgan.

Chris Turnure - *JPMorgan - Analyst*

Good morning. I wanted to just clarify what you were talking about with the hearings in Missouri on the regulatory approval process there or lack thereof. I didn't quite catch everything that you said, and specifically the timeline and how you are thinking about that in context of the two settlements that you've gotten already.

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President, CEO*

Yes. We came to an agreement, which has been filed with both the Commission staff and with OPC, and asked for response from the Commission approving those by the end of the month, which it may or may not do. We're not for sure exactly when that would be done.

But in the meantime, there was a complaint filed by the industrial group that I mentioned, and it raised the issue of jurisdiction once again. What we're pleased with is that the Commission, consistent with what they've said in open meetings, said they didn't want this issue to delay the processing of the transaction in any way. So they asked the staff to set up a process quickly for hearings, oral argument, whatever it would be, the appropriate process, so that they could consider this issue no later than December 15.

So again, the stated reason earlier in that order I think is that they want this issue resolved quickly. And that's what we appreciate, given the timing.

Chris Turnure - *JPMorgan - Analyst*

Okay. Then I presume that you were not able to reach a settlement with this group. Is there a way where you can highlight for us the specific issues that they are most concerned about, and then why you weren't able to reach across the aisle on that?

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President, CEO*

Yes. They haven't really -- we don't know exactly what they would, quote-unquote, want. They are a unique group in the sense that they represent specific customers. We believe that the agreement with the staff and OPC provides them protections that they would want protection for.

Their filing in particular is specifically addressing jurisdiction. So they would prefer to have a full-blown case, I guess, if you will, and hearing on the issue itself.

So don't know that there are things other than are already in our agreements with the staff and OPC that they would want to protect them. But at this point, we think we've provided the protections for all customers that make sense and would resolve this issue.

Chris Turnure - *JPMorgan - Analyst*

Okay. Then my second question is on financing for the transaction. This is not necessarily easy to answer, but as you walk from when you announced the transaction five or so months ago, now to today, you've done a lot of the financings on the equity side -- or done all of those -- and really locked



in, I think, most of the cost of debt as well through the swaps in June. How can we think about the current state of the cost of financing versus your original expectations?

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President, CEO*

Well, I mean I think we're very pleased to have, like you said, the equity issued and have that opportunity and risk locked down. It gives us the ability then to work from there on what we need to do to deliver on our efficiencies and deliver on the accretion that we've talked about over the time period.

So certainly the transaction was a very successful transaction. Market was a little lower than what would have liked, obviously, when we did it; but certainly not within -- still within the range of things we saw as possible. So we are still very comfortable with our delivery of our results running through 2020.

Chris Turnure - *JPMorgan - Analyst*

Okay, great. Thanks, Terry.

Operator

Charles Fishman, Morningstar.

Charles Fishman - *Morningstar - Analyst*

Thank you. Terry, I just want to make sure I understand this legislation in Missouri and the process. The Missouri Energy and Environment Committee asked the Commission for this report? I mean the Commission didn't just decide to generate this report on their own? It was a request from the legislature?

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President, CEO*

No. Actually two things happened. After the session in the spring was over the Commission actually did decide to evaluate the issues on their own. So the Chairman opened the docket to consider the things that had been discussed in the spring and the things that have been discussed for several years and took upon its own staff to look at these issues.

Then the Senate Committee, which is again a committee formed coming out of the session last time to prepare the legislature for the coming session, independently looked at those issues as well. So although they cover the same issues, they were independently initiated reviews.

So we feel very good about the fact that everybody recognizes that we need some change. What that change is, there may be debates about; but certainly we need to move Missouri forward to make it more comparable and comprehensive and competitive with other states.

Both reports then will provide input to what then becomes the conversation starting in January with the new legislative effort. So they were independently initiated.

Charles Fishman - *Morningstar - Analyst*

Okay; well, I guess that's good. Then I'm guilty of not looking at the docket. Is that an open docket where you have filings too?

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President, CEO*

Yes, yes, we were part of the process in both instances.

Charles Fishman - *Morningstar - Analyst*

Okay. So you would envision then -- I think last year you got this through the Senate Committee; it went to the full floor, the Assembly, and then died there, correct? You just ran out of time. Wasn't that what happened?

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President, CEO*

Yes, we were late -- not late, we were at the end of the session timewise; and then there were some social issues, other legislation that was really pushing the legislature on several fronts. And I guess a fair way to say it is we ran out of time.

Charles Fishman - *Morningstar - Analyst*

Okay. Then my final question is: Are all the investor-owned utilities in Missouri on the same page on this?

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President, CEO*

Yes. Yes, yes. Again, they are. And again, we're working very well together.

And I would say that, again, always remember that every legislative session brings in new opportunity and change. I wouldn't suggest to you that exactly what went to the floor at the end of the session would be exactly what gets discussed again this time, but the same issues exist with regard to regulatory lag, timing of Commission activity, and opportunities for economic growth for our state.

Charles Fishman - *Morningstar - Analyst*

Okay. Well, I know this has been a long process for you. Good luck in 2017. I've got some more questions, and I'll wait till EEI. Thank you.

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President, CEO*

Look forward to seeing you there.

Operator

Gregg Orrill, Barclays.

Gregg Orrill - *Barclays Capital - Analyst*

Yes, thank you. Could you talk about where you feel the process for merger approval is in Kansas? I guess you made a responsive filing last night. If you could talk about how you feel that moves the process forward and if there are any things, concerns, that you have, or things you are willing -- you're unwilling to do to move the process forward there.



Terry Bassham - *Great Plains Energy, Inc. - Chairman, President, CEO*

Yes, sure. The process continues forward. We made the filing, I don't know, 30, 45 days after our announcement.

And it moves forward. We continue to operate on a 30-day statutory schedule.

The last request from the Commission and our filing yesterday was really responsive to their request to clarify that we are operating under the same merger standards as they would expect. We had previously made clear that we were; but we once again made clear that we were. But we also provided some additional testimony just to be sure if there were any questions about our willingness and ability to move forward under the standard that the Commission will apply is absolutely in place. So we filed some additional testimony.

But that was clarification on the standards. The Commission had several things in front of them, wanted to be sure that all the M&A being reviewed would be similarly reviewed, was kind of the grounds for that.

We continue to talk to the staff. We continue to answer discovery. We continue to move forward on a schedule that the Commission has set, which matches our 300-day schedule.

And we're very confident we'll continue to move that forward as we work through issues with parties and anticipate sticking with the schedule.

Gregg Orrill - *Barclays Capital - Analyst*

Yes. Was there -- one thing that you talked about in the filing was you reiterated that you're not seeking recovery of the premium for the merger, unless there would be a -- in a case they would impute -- the Commission would look to impute a cost of debt, leverage used in the transaction. What are you -- why did you do that? Do you see that becoming an issue in Kansas?

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President, CEO*

Well, we could have issues related to that in either jurisdiction. What's important to know is that the legal standard and past precedent on capital structure for operating utilities is the capital structure for the operating utility. We don't expect that to be any different in either state going forward.

However, if someone suggested that the Holding Company capital structure should be applied, then all other factors related to that Holding Company capital structure should apply as well, right? You shouldn't be able to take a capital structure without considering the other parts.

And that debt, in particular, was used to finance the premium. So we're not asking for the premium; wouldn't ask for the premium. But if somebody suggested that you can't ask for the premium but yet we're going to apply the debt used to finance the premium -- well, that doesn't make common sense.

So we would just make clear that if someone made that argument, we would make sure it was clear what the full total package would look like in that situation. That's all we're doing.

We don't expect to pass the premium. We don't expect the capital structure with the debt at the Holding Company to be applied. And we're comfortable moving forward with our conversations.

Gregg Orrill - *Barclays Capital - Analyst*

Great, thanks.



Operator

(Operator Instructions) Paul Patterson, Glenrock Associates.

Paul Patterson - *Glenrock Associates - Analyst*

Hey, how you doing? Looks like a good quarter, guys. What I wanted to touch base with you is back on the Kansas thing a little bit. And it was a little hard for me to understand the filing.

They were basically saying that they disagreed about the characterization that you guys were just paraphrasing the merger standards. And although they weren't taking formal action, they indicated that that might happen if things don't -- if, I guess, more information isn't forthcoming or what have you. So with respect to this -- and I think you guys asked for reconsideration, is that right, of the order?

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President, CEO*

Well, we didn't really ask. I think technically legally you have to say reconsideration. What we were trying to do is simply make clear that we were prepared to meet and operate under the standards they've set forth; and if there was any misunderstanding of what they want, we are prepared to meet it.

So we're really asking for maybe a little clarification. It had to be filed as a reconsideration; but really we're not asking them to reconsider as much as we're just asking for clarity around what they need and want. And we're prepared to provide it all.

Paul Patterson - *Glenrock Associates - Analyst*

Okay. What's the next step in this process? Do we get a response from the Commission or from somebody else?

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President, CEO*

We're not really sure. I think what we hope is that what we filed would satisfy their concerns, and the parties would now have in their hands everything they need to be clear that we're going to meet the standards set by the Commission, and all that will be rolled into the case where we'll see testimony from the other parties and stand for cross-examination on any issues within that testimony.

So we may not necessarily hear anything. And if we don't, we'll continue to move forward in the case on the current schedule.

Paul Patterson - *Glenrock Associates - Analyst*

Okay, great. Then with respect to the Missouri application, and the [nondeterminant] settlement with the OPC and staff, I guess the question, -- without getting into any great technical detail, I guess the question that comes up is: With these other non-settling parties, is there any potential for them to -- do they have any due process or legal rights that could drag this thing out?

Or -- I just don't know what the standard is. If you have an application with two obviously very major parties settling with you guys, does that -- is there any potential, I guess, or how should we think about the fact that there may be some unhappy customers or what have you on the sidelines saying: We want more time, or what have you?

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President, CEO*

Yes, so first and foremost, the Commission has made it very clear when they've addressed this issue dating all the way back to the summer that the Commission does not want Missouri to be on any different timeline than other approvals. Specifically we would expect to stay within the timeline of Kansas, which has a statutory 300-day time period.

So we would expect anything that happens in Missouri to continue to be within that timeline. So to answer your first question about delay, we don't believe that to be the case.

In terms of the other parties, it's pretty straightforward in Missouri that there's not jurisdiction for this approval. So their complaint says they disagree with us, but if the Commission agrees that there is no jurisdiction, they've not been harmed in any way.

In fact the Commission obviously has jurisdiction over our utilities as we file for rate cases in the future and any concerns that those customers have about effects on their rates of any issue.

Paul Patterson - *Glenrock Associates - Analyst*

Can I just ask you on this? I mean this is why I'm a little confused. Because you guys did file an application and you do have a settlement. And staff and I think the OPC I think were claiming that they did have jurisdiction.

Are they now, with this current settlement, have they given up -- have they acquiesced on the argument that they have jurisdiction or not?

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President, CEO*

We didn't file an application -- to be clear, we didn't file an application for approval of the merger in Missouri. What ended up happening is we had to file an application to get approval of the waiver of the affiliate transaction rule, which we got in Aquila, and which is a natural waiver to be given to allow us to pass cost savings back and forth between our utilities.

What the settlement with OPC and the staff did was accept that this would be the process to deal with this issue. It doesn't necessarily say that they don't have jurisdiction, but it says this solves the problem.

So that solves that problem there and doesn't constitute an application for approval of the merger itself, but it provides the protections and gives us approval of the waiver of the affiliate rule.

Paul Patterson - *Glenrock Associates - Analyst*

Okay.

Terry Bassham - *Great Plains Energy, Inc. - Chairman, President, CEO*

Does that make sense?

Paul Patterson - *Glenrock Associates - Analyst*

It does make sense, and thanks so much for the clarification. But to understand your earlier statement, the Commission would have to come to the determination that they don't -- that their approval of the merger itself is not required in order for them to approve this merger without a big, long process. Is that right?

Terry Bassham - Great Plains Energy, Inc. - Chairman, President, CEO

I don't think they have to do anything to -- they don't have a need to approve the merger because they don't have jurisdiction. So technically they don't have to do anything.

Now, they may in response to this last filing come to the conclusion they do or don't have jurisdiction; and if they do, they'll act accordingly. So if they found that they don't have jurisdiction, it would be dismissed. If they found that they did have jurisdiction, then they would have to start some process.

And what they've said is in any circumstance they do not expect to run past the time period we're operating in Kansas.

Paul Patterson - Glenrock Associates - Analyst

Excellent. I really appreciate that.

Terry Bassham - Great Plains Energy, Inc. - Chairman, President, CEO

Yes, absolutely. It's a little less than perfectly clear. I appreciate you asking the question.

Operator

Thank you. I'm showing no further questions at this time. I'd like to turn the conference back over to Mr. Bassham for closing remarks.

Terry Bassham - Great Plains Energy, Inc. - Chairman, President, CEO

All right. Well thank you, everybody, for joining us. Obviously, we look forward to seeing many of you next week at EEI. So again, have a great weekend and we'll see you in Phoenix. Thanks.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Have a great day, everyone.

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