Q: What risk-free rate did you use in your CAPM analysis?

A: I relied on three sources for my estimate of the risk-free rate: (1) the current 30-day average yield on 30-year U.S. Treasury bonds, which is 1.93 percent;[48] (2) the average projected 30-year U.S. Treasury bond yield for the first quarter of 2022 through the first quarter of 2023, which is 2.50 percent;[49] and (3) the average projected 30-year U.S. Treasury bond yield for 2023 through 2027, which is 3.50 percent.[50]

Q: Would you place more weight on one of these scenarios?

A: Yes. Based on current market conditions, I place more weight on the results of the projected yields on the 30-year Treasury bonds. As discussed previously, the estimation of the cost of equity in this case should be forward-looking because it is the return that investors would receive over the future rate period. Therefore, the inputs and assumptions used in the CAPM analysis should reflect the expectations of the market at that time. While I have included the results of a CAPM analysis that relies on the current average risk-free rate, this analysis fails to take into consideration the effect of the market's expectations for interest rate increases on the cost of equity.

Q: What Beta coefficients did you use in your CAPM analysis?

A: As shown on Schedule AEB-4, I used the Beta coefficients for the proxy group companies as reported by Bloomberg and Value Line. The Beta coefficients reported by Bloomberg were calculated using ten years of weekly returns relative to the S&P 500 Index. Value

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[48] Bloomberg Professional as of September 30, 2021.

[49] Blue Chip Financial Forecasts, Vol. 40, No. 10, at 2 (Oct. 1, 2021).

[50] Blue Chip Financial Forecasts, Vol. 40, No. 6, at 14 (June 1, 2021).

Line's calculation is based on five years of weekly returns relative to the New York Stock Exchange Composite Index.

Additionally, as shown in Schedule AEB-4, I also considered an additional CAPM analysis which relies on the long-term average utility Beta coefficient for the companies in my proxy group. As shown in Schedule AEB-5, the long-term average utility Beta coefficient was calculated as an average of the Value Line Beta coefficients for the companies in my proxy group from 2011 through 2020.

Q: How did you estimate the market risk premium in the CAPM?

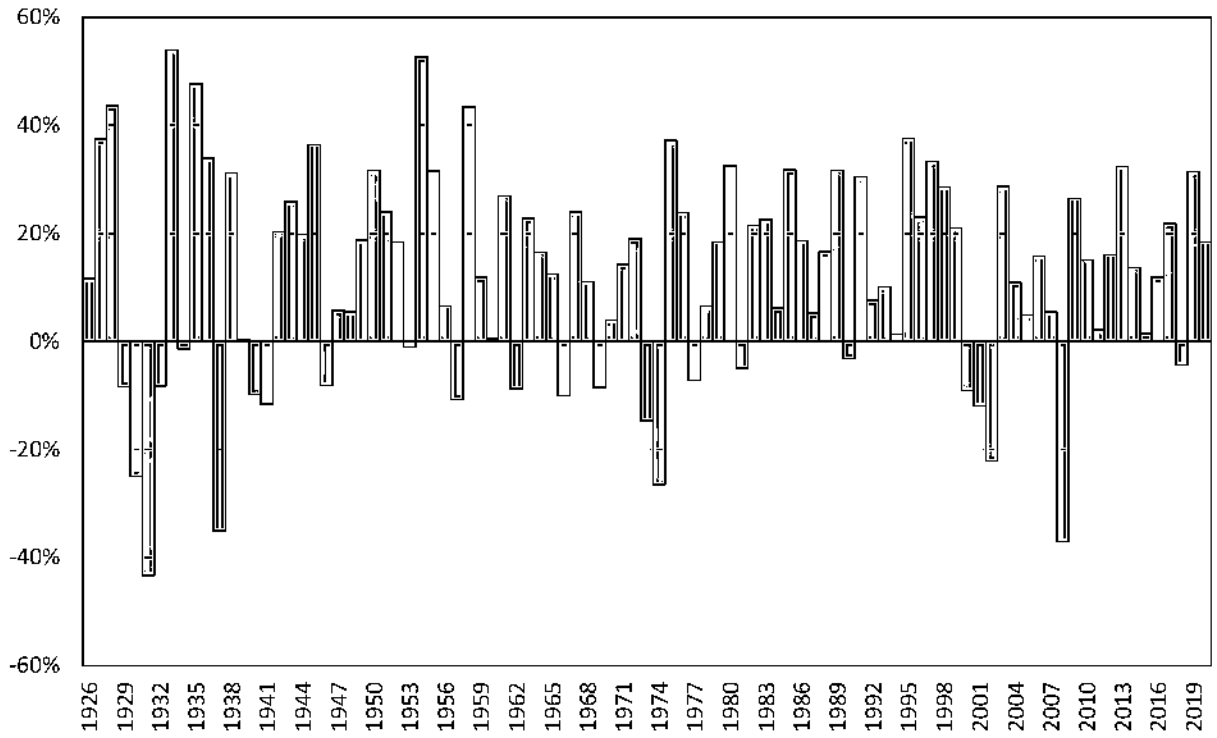
A: I estimated the Market Risk Premium ("MRP") as the difference between the implied expected equity market return and the risk-free rate. As shown in Schedule AEB-6, the expected return on the S&P 500 Index is calculated using the Constant Growth DCF model discussed earlier in my testimony for the companies in the S&P 500 Index. In my calculation of the market return, I included companies in the S&P 500 that: 1) had ether a dividend yield or Value Line long-term earnings projections; and 2) had a Value Line long-term earnings growth rate that was greater than 0 percent and less than or equal to 20 percent. Based on an estimated market capitalization-weighted dividend yield of 1.56 percent and a weighted long-term growth rate of 11.29 percent, the estimated required market return for the S&P 500 Index is 12.94 percent.

Q: How does the current expected market return of 12.94 percent compare to observed historical market returns?

A: Given the range of annual equity returns that have been observed over the past century (shown in Figure 8), a current expected return of 12.94 percent is not unreasonable. In 49

out of the past 95 years (or roughly 52 percent of observations), the realized equity return was at least 12.94 percent or greater.

Figure 8: Realized U.S. equity market returns (1926-2020) [51]



Q: Did you consider another form of the CAPM in your analysis?

A: Yes. I have also considered the results of an ECAPM or alternatively referred to as the Zero-Beta CAPM [52] in estimating the cost of equity for Evergy Missouri West. The ECAPM calculates the product of the adjusted Beta coefficient and the market risk premium and applies a weight of 75.00 percent to that result. The model then applies a 25.00 percent weight to the market risk premium, without any effect from the Beta

[51] Depicts total annual returns on large company stocks, as reported in the 2021 Duff and Phelps SBBI Yearbook.

[52] *See* e.g., Roger A. Morin, New Regulatory Finance, at 189, Public Utilities Reports, Inc. (2006).

coefficient. The results of the two calculations are summed, along with the risk-free rate, to produce the ECAPM result, as noted in Equation [5] below:

$$k_e = r_f + 0.75\beta(r_m - r_f) + 0.25(r_m - r_f) \qquad [5]$$

Where:

k_e – the required market ROE;

β – Adjusted Beta coefficient of an individual security;

rf – the risk-free rate of return; and

r_m = the required return on the market as a whole.

In essence, the Empirical form of the CAPM addresses the tendency of the "traditional" CAPM to underestimate the cost of equity for companies with low Beta coefficients such as regulated utilities. In that regard, the ECAPM is not redundant to the use of adjusted Betas; rather, it recognizes the results of academic research indicating that the risk-return relationship is different (in essence, flatter) than estimated by the CAPM, and that the CAPM underestimates the "alpha," or the constant return term.[53]

As with the CAPM, my application of the ECAPM uses the forward-looking market risk premium estimates, the three yields on 30-year Treasury securities noted earlier as the risk-free rate, and the Bloomberg, Value Line, and long-term average Beta coefficients.

[53] *Id.*, at 191.

Q: What are the results of your CAPM analyses?

A: As shown in Figure 9 (see also Schedule AEB-4), my traditional CAPM analysis produces a range of returns from 9.60 percent to 11.80 percent. The ECAPM analysis results range from 10.43 percent to 12.09 percent.

Figure 9: CAPM Results

	Current Risk-Free Rate (1.93%)	Q1 2022 – Q1 2023 Projected Risk-Free Rate (2.50%)	2023-2027 Projected Risk-Free Rate (3.50%)
CAPM			
Value Line Beta	11.62%	11.68%	11.80%
Bloomberg Beta	10.76%	10.87%	11.07%
Long-term Avg. Beta	9.60%	9.77%	10.08%
ECAPM			
Value Line Beta	11.95%	12.00%	12.09%
Bloomberg Beta	11.30%	11.39%	11.53%
Long-term Avg. Beta	10.43%	10.56%	10.79%

D. Bond Yield Plus Risk Premium Analysis

Q: Please describe the Bond Yield Plus Risk Premium approach.

A: In general terms, this approach is based on the fundamental principle that equity investors bear the residual risk associated with equity ownership and therefore require a premium over the return they would have earned as a bondholder. That is, because returns to equity holders have greater risk than returns to bondholders, equity investors must be compensated to bear that risk. Risk premium approaches, therefore, estimate the cost of equity as the sum of the equity risk premium and the yield on a particular class of bonds. In my analysis, I used actual authorized returns for electric utility companies as the historical measure of the cost of equity to determine the risk premium.

Q: Are there other considerations that should be addressed in conducting this analysis?

A: Yes, there are. It is important to recognize both academic literature and market evidence indicating that the equity risk premium (as used in this approach) is inversely related to the level of interest rates. That is, as interest rates increase, the equity risk premium decreases, and vice versa. Consequently, it is important to develop an analysis that: (1) reflects the inverse relationship between interest rates and the equity risk premium; and (2) relies on recent and expected market conditions. Such an analysis can be developed based on a regression of the risk premium as a function of U.S. Treasury bond yields. If we let authorized ROEs for electric utilities serve as the measure of required equity returns and define the yield on the long-term U.S. Treasury bond as the relevant measure of interest rates, the risk premium simply would be the difference between those two points.[54]

Q: Is the Bond Yield Plus Risk Premium analysis relevant to investors?

A: Yes, it is. Investors are aware of ROE awards in other jurisdictions, and they consider those awards as a benchmark for a reasonable level of equity returns for utilities of comparable risk operating in other jurisdictions. Because my Bond Yield Plus Risk Premium analysis is based on authorized ROEs for utility companies relative to corresponding Treasury yields, it provides relevant information to assess the return expectations of investors.

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[54] *See* S. Keith Berry, Interest Rate Risk and Utility Risk Premia during 1982-93, Managerial and Decision Economics, Vol. 19, No. 2 (March, 1998), in which the author used a methodology similar to the regression approach described below, including using allowed ROEs as the relevant data source, and came to similar conclusions regarding the inverse relationship between risk premia and interest rates. *See also* Robert S. Harris, Using Analysts' Growth Forecasts to Estimate Shareholders Required Rates of Return, at 66, Financial Management, (Spring 1986).

Q: What did your Bond Yield Plus Risk Premium analysis reveal?

A: As shown in Figure 10 below, from 1992 through September 2021, there was a strong negative relationship between risk premia and interest rates. To estimate that relationship, I conducted a regression analysis using the following equation:

$$RP = a + b(T) \text{ [6]}$$

Where:

RP = Risk Premium (difference between allowed ROEs and the yield on 30-year U.S. Treasury bonds)

a = intercept term

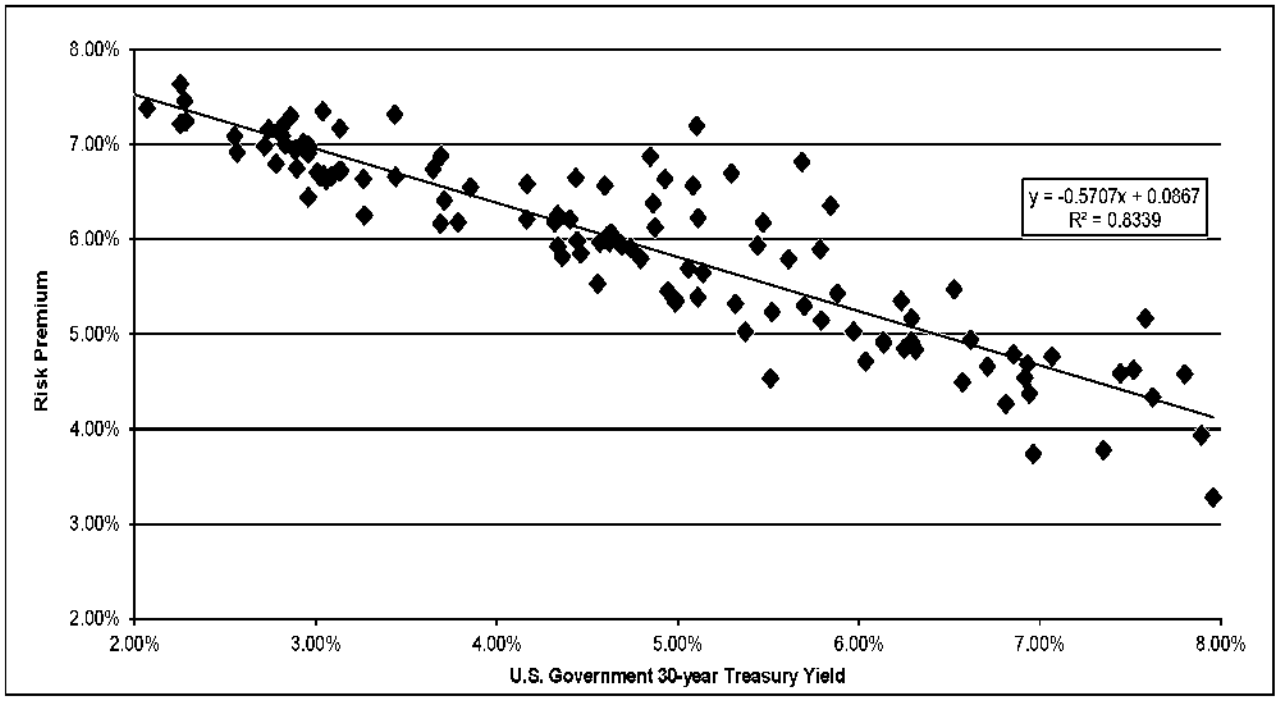
b = slope term

T = 30-year U.S. Treasury bond yield

Data regarding allowed ROEs were derived from 666 vertically integrated electric utility rate cases from 1992 through September 2021 as reported by Regulatory Research Associates ("RRA").[55] This equation's coefficients were statistically significant at the 99.00 percent level.

[55] My analysis began with a total of 1,321 electric utility cases, which were screened to eliminate limited issue rider cases, transmission cases, distribution only cases, and cases that did not specify an authorized ROE. After applying those screening criteria, the analysis was based on data for 666 cases.

Figure 10: Risk Premium Results



As shown on Schedule AEB-7, based on the current 30-day average of the 30-year U.S. Treasury bond yield (i.e., 1.93 percent), the risk premium would be 7.57 percent, resulting in an estimated ROE of 9.49 percent. Based on the near-term (Q1 2022 – Q1 2023) projections of the 30-year U.S. Treasury bond yield (i.e., 2.50 percent), the risk premium would be 7.24 percent, resulting in an estimated ROE of 9.74 percent. Based on longer-term (2023 – 2027) projections of the 30-year U.S. Treasury bond yield (i.e., 3.50 percent), the risk premium would be 6.67 percent, resulting in an estimated ROE of 10.17 percent.

Q: How did the results of the Bond Yield Risk Premium inform your recommended ROE for Evergy Missouri West?

A: I have considered the results of the Bond Yield Risk Premium analysis in setting my recommended ROE for Evergy Missouri West. As noted above, investors consider the ROE award of a company when assessing the risk of that company as compared to utilities of comparable risk operating in other jurisdictions. The Risk Premium analysis considers

this comparison by estimating the return expectations of investors based on the current and past ROE awards of electric utilities across the U.S.

VII. REGULATORY AND BUSINESS RISKS

Q: Do the DCF, CAPM and ECAPM results for the proxy group, taken alone, provide an appropriate estimate of the cost of equity for Evergy Missouri West?

A: No. These results provide only a range of the appropriate estimate of the Company's cost of equity. There are several additional factors that must be taken into consideration when determining where the Company's cost of equity falls within the range of results. These factors, which are discussed below, should be considered with respect to their overall effect on the Company's risk profile.

A. Capital Expenditures, Plant-in-Service Account and Renewable Energy Standard Rate Adjustment Mechanism

Q: Please summarize the Company's capital expenditure requirements.

A: The Company's current projections for 2022 through 2026 include approximately $2.18 billion in capital investments for the period.[56] Based on the Company's net utility plant of approximately $2.81 billion as of December 31, 2020[57], the $2.18 billion of anticipated capital expenditures are approximately 77.55 percent of Evergy Missouri West's net utility plant as of December 31, 2020.

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[56] Data provided by Evergy Missouri West.

[57] *Ibid.*

Q: How is the Company's risk profile affected by its substantial capital expenditure requirements?

A: As with any utility faced with substantial capital expenditure requirements, the Company's risk profile may be adversely affected in two significant and related ways: (1) the heightened level of investment increases the risk of under-recovery or delayed recovery of the invested capital; and (2) an inadequate return would put downward pressure on key credit metrics.

Q: Do credit rating agencies recognize the risks associated with elevated levels of capital expenditures?

A: Yes, they do. From a credit perspective, the additional pressure on cash flows associated with high levels of capital expenditures exerts corresponding pressure on credit metrics and, therefore, credit ratings. To that point, S&P explains the importance of regulatory support for a significant amount of capital projects:

> When applicable, a jurisdiction's willingness to support large capital projects with cash during construction is an important aspect of our analysis. This is especially true when the project represents a major addition to rate base and entails long lead times and technological risks that make it susceptible to construction delays. Broad support for all capital spending is the most credit-sustaining. Support for only specific types of capital spending, such as specific environmental projects or system integrity plans, is less so, but still favorable for creditors. Allowance of a cash return on construction work-in-progress or similar ratemaking methods historically were extraordinary measures for use in unusual circumstances, but when construction costs are rising, cash flow support could be crucial to maintain credit quality through the spending program. Even more favorable are those jurisdictions that present an opportunity for a higher return on capital projects as an incentive to investors.[58]

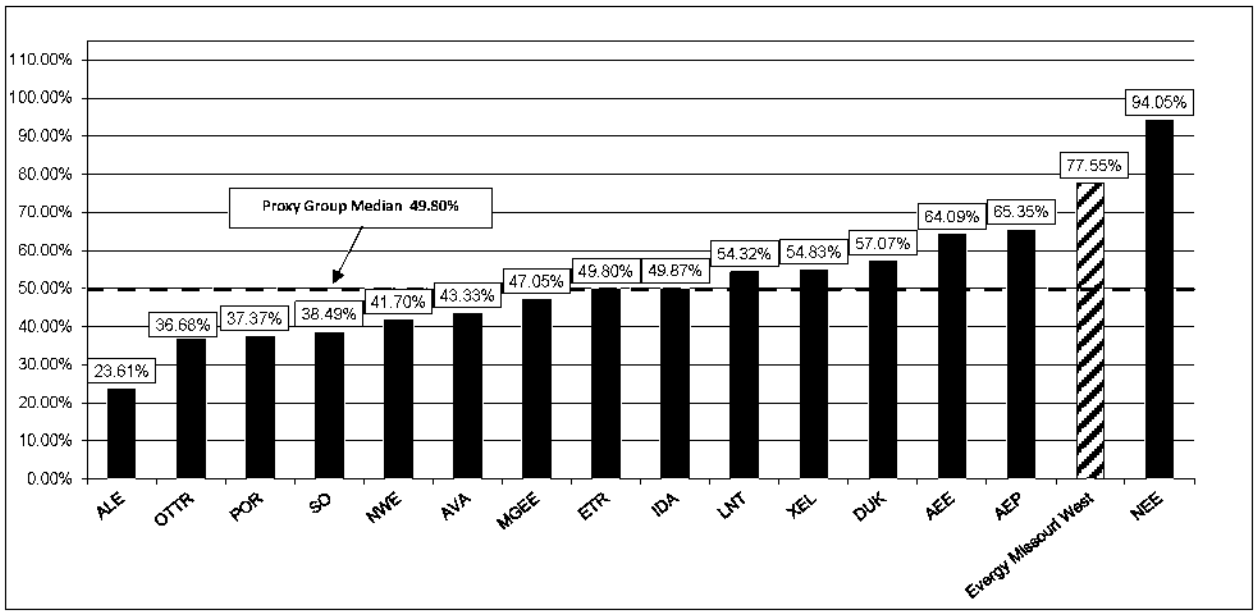
[58] S&P Global Ratings, "Assessing U.S. Investor-Owned Utility Regulatory Environments," at 7 (Aug. 10, 2016).

Therefore, to the extent that Evergy Missouri West's rates do not continue to permit the recovery its capital investments on a regular basis, the Company would face increased recovery risk and thus increased pressure on its credit metrics.

Q: How do Evergy Missouri West's capital expenditure requirements compare to those of the proxy group companies?

A: As shown in Schedule AEB-8, I calculated the ratio of expected capital expenditures to net utility plant for Evergy Missouri West and each of the companies in the proxy group by dividing each company's projected capital expenditures for the period from 2022-2026 by its total net utility plant as of December 31, 2020. As shown in Schedule AEB-8 (see also Figure 11 below), Evergy Missouri West's ratio of capital expenditures as a percentage of net utility plant is 77.55 percent, which is approximately 56 percent higher than the median for the proxy group companies of 49.80 percent. This result indicates a risk level for Evergy Missouri West that is greater than the proxy group companies.

Figure 11: Comparison of Capital Expenditures – Proxy Group Companies



Q: Does Evergy Missouri West have cost recovery mechanisms in place to recover the costs associated with its capital expenditures plan between rate cases?

A: Yes. Evergy Missouri West has implemented Plant-In Service Accounting ("PISA") which was established in 2018 when Senate Bill 564 became law and provides for the deferral of 85 percent of the depreciation and return on capital investment between rate cases. Specifically, Senate Bill 564 provides that utilities who elect to use PISA shall:

> [D]efer to a regulatory asset eight-five percent of all depreciation expense and return associated with all qualifying electric plan recorded to plant-in-service on the utility's books… In each general rate proceeding concluded after the effective date of this section, the balance of the regulatory asset as of the rate base cutoff date shall be included in the electrical corporation's rate base without any offset, reduction, or adjustment based upon consideration of any other factor…[59]

Section 393.1400 of the Missouri Revised Statutes provides that companies electing the use of PISA are required to submit a five-year capital investment plan setting forth the categories of capital expenditures that will be pursued. This statute limits the capital expenditures under PISA to certain types of investments (excluding new coal-fired, nuclear and natural gas units), and requires 25 percent of the plan to be grid modernization investment. The statute also establishes an expiration date on the deferrals of December 31, 2023, after which time regulatory approval for continuance through December 31, 2028, is required.

Q: Does the implementation of PISA reduce Evergy Missouri West's cost of equity?

A: No, it does not. It is important to recognize that while the PISA has provided for some cost recovery, there is a cap on the compound annual growth in rates of 3 percent as compared

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[59] *See* Section 393.1400.2(1) and related provisions of the Missouri Revised Statutes.

to what rates were as of December 6, 2018 through the end of 2023 (and through 2028 but only if PISA treatment is extended), which could limit the recovery of capital through the PISA on a forward-looking basis. Further, it is important to recognize that the estimation of the cost of equity includes a comparative analysis of the risks and returns of the subject company and the proxy group of publicly traded utilities that are relied on in the ROE estimation models, including their utility operating subsidiaries. Therefore, the threshold question is not whether PISA reduces the risk of Evergy Missouri West, but rather, is Evergy Missouri West's risk reduced below that of the proxy group.

As shown in Schedule AEB-9, there are a number of cost recovery mechanisms in place for the proxy companies, including forecasted test year, year-end rate base, revenue decoupling and/or formula-based rates, capital cost recovery mechanisms, fuel/purchased power mechanisms, and/or construction work in progress ("CWIP") in rate base. Many of these mechanisms are not available to Evergy Missouri West. Thus, the use of PISA does not reduce the Company's regulatory risk, relative to its peers. Rather, the implementation of PISA moves the Company closer to the risk profile of the operating utilities of the proxy group companies. Notably, Missouri law prohibits any charge that is based on the costs of construction in progress on any existing or new facility, or any other cost associated with any property before it is fully operational, and used for service.[60] By contrast, the CWIP mechanism eliminates regulatory lag for many of the proxy companies.

[60] Missouri Statute Section 393.135.

Q: Does the Company have any other cost recovery mechanisms?

A: Yes. The Company also has the Renewable Energy Standard rate adjustment mechanism ("RESRAM"). The RESRAM enables the Company to recover between rate cases the costs relating to compliance with Missouri's renewable energy standard, including investments in wind generation and other renewables.[61] Costs recovered through the RESRAM are subject to prudence review.[62]

Q: How does PISA and RESRAM compare with the capital investment trackers that have been implemented by the proxy companies?

A: As shown in Schedule AEB-9, 40 out of 80 (or approximately 50 percent) of the operating companies held by the proxy group recover costs through some form of capital tracking mechanisms and approximately 67.50 percent of the proxy group can earn a return on CWIP. However, as discussed previously, Evergy Missouri West's capital cost recovery mechanism currently expires in 2023, and even if extended, permanently expires in 2028, and remains available only so long as Evergy Missouri West's overall rates do not escalate (as compared to 2017 levels) at a rate in excess of 3 percent compounding annually. Furthermore, if Evergy Missouri West were to exceed the rate cap, the Company would lose recovery of the investments above the cap.

Q: Is regulatory lag eliminated by the PISA and RESRAM mechanisms?

A: Not entirely. As noted previously, PISA is applied to only 85 percent of the depreciation and return for certain qualified investment. While it does allow deferral or return on 85% of the eligible investment, the utility's net income is negatively impacted between rate cases

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[61] Missouri Statute Section 393.1030.2(4).

[62] Missouri Code of State Regulations Section 20 CSR 4240-20.100(6).

because the equity portion of that return cannot be included in the utility's reported earnings. Moreover, the remaining 15 percent of the investment is not included in the recovery mechanism and therefore does not begin depreciation or earn a return until the next rate proceeding. Further, while PISA provides a process for including new projects in rate base, PISA does not provide the ability to put CWIP into rate base. PISA provides for the deferral of depreciation expense however the expense is not included in rates until there is a general rate case. Therefore, while PISA provides an incentive to invest in capital, on a cash basis, the investment is not recovered until the next rate proceeding. Therefore, this mechanism does not provide cash flow relief similar to other jurisdictions where CWIP can be placed into rate base. Finally, PISA is a program that is set to expire in December 2023. Therefore, the Company has no assurance that the investment that is recovered through this mechanism will continue beyond that date.

Q: What are your conclusions regarding the effect of the Company's capital spending requirements on its risk profile and cost of capital?

A: The Company's capital expenditure requirements as a percentage of net utility plant are significant and will continue over the next few years. Additionally, while Evergy Missouri West does have the PISA and RESRAM to recover qualifying capital costs, the mechanism does not provide for timely recovery of all of Evergy Missouri West's capital expenditures. Moreover, a number of the operating subsidiaries of the proxy group have a capital tracking mechanism and/or are able to include CWIP in rate base. As a result, the Company has slightly greater risk relative to the proxy group companies which warrants an authorized ROE above the proxy group mean.

B. Regulatory Risk

Q: Please explain how the regulatory environment affects investors' risk assessments.

A: The ratemaking process is premised on the principle that, for investors and companies to commit the capital needed to provide safe and reliable utility service, the subject utility must have the opportunity to recover the return of, and the market-required return on, invested capital. Regulatory authorities recognize that because utility operations are capital intensive, their decisions should enable the utility to attract capital at reasonable terms; doing so balances the long-term interests of investors and customers. Utilities must finance their operations and require the opportunity to earn a reasonable return on their invested capital to maintain their financial profiles. Evergy Missouri West is no exception. In that respect, the regulatory environment is one of the most important factors considered in both debt and equity investors' risk assessments.

From the perspective of debt investors, the authorized return should enable the utility to generate the cash flow needed to meet its near-term financial obligations, make the capital investments needed to maintain and expand its systems, and maintain the necessary levels of liquidity to fund unexpected events. This financial liquidity must be derived not only from internally generated funds, but also by efficient access to capital markets. Moreover, because fixed income investors have many investment alternatives, even within a given market sector, the utility's financial profile must be adequate on a relative basis to ensure its ability to attract capital under a variety of economic and financial market conditions.

Equity investors require that the authorized return be adequate to provide a risk-comparable return on the equity portion of the utility's capital investments. Because equity investors are the residual claimants on the utility's cash flows (which is to say that the equity return

is subordinate to interest payments), they are particularly concerned with the strength of regulatory support and its effect on future cash flows.

Q: Please explain how credit rating agencies consider regulatory risk in establishing a company's credit rating.

A: Both S&P and Moody's consider the overall regulatory framework in establishing credit ratings. Moody's establishes credit ratings based on four key factors: (1) regulatory framework; (2) the ability to recover costs and earn returns; (3) diversification; and (4) financial strength, liquidity, and key financial metrics. Of these criteria, regulatory framework, and the ability to recover costs and earn returns are each given a broad rating factor of 25.00 percent. Therefore, Moody's assigns regulatory risk a 50.00 percent weighting in the overall assessment of business and financial risk for regulated utilities.[63] S&P also identifies the regulatory framework as an important factor in credit ratings for regulated utilities, stating: "One significant aspect of regulatory risk that influences credit quality is the regulatory environment in the jurisdictions in which a utility operates."[64] S&P identifies four specific factors that it uses to assess the credit implications of the regulatory jurisdictions of investor-owned regulated utilities: (1) regulatory stability; (2) tariff-setting procedures and design; (3) financial stability; and (4) regulatory independence and insulation.[65]

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[63] Moody's Investors Service, Rating Methodology: Regulated Electric and Gas Utilities, at 4 (June 23, 2017).

[64] Standard & Poor's Global Ratings, Ratings Direct, U.S. and Canadian Regulatory Jurisdictions Support Utilities' Credit Quality—But Some More So Than Others, at 2 (June 25, 2018).

[65] *Id.*, at 1.

Q: How does the regulatory environment in which a utility operates affect its access to and cost of capital?

A: The regulatory environment can significantly affect both the access to, and cost of capital in several ways. First, the proportion and cost of debt capital available to utility companies are influenced by the rating agencies' assessment of the regulatory environment. As noted by Moody's, "[f]or rate regulated utilities, which typically operate as a monopoly, the regulatory environment and how the utility adapts to that environment are the most important credit considerations."[66] Moody's further highlighted the relevance of a stable and predictable regulatory environment to a utility's credit quality, noting: "[b]roadly speaking, the Regulatory Framework is the foundation for how all the decisions that affect utilities are made (including the setting of rates), as well as the predictability and consistency of decision-making provided by that foundation."[67]

Q: Have you conducted any analysis of the regulatory framework in Missouri relative to the jurisdictions in which the companies in your proxy group operate?

A: Yes. I have evaluated the regulatory framework in Missouri considering three factors which are important to ensuring Evergy Missouri West maintains access to capital at reasonable terms. As I will discuss in more detail below, the three factors are: (1) cost recovery mechanisms which allow a utility to recover costs in a timely manner between rate cases and provide the utility the opportunity to earn its authorized return; (2) rate design which if not based on cost causation can result in a significant amount of fixed costs being recovered through the volumetric charge thus increasing cost recovery risk; and (3)

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[66] Moody's Investors Service, Rating Methodology: Regulated Electric and Gas Utilities, at 6 (June 23, 2017).

[67] *Ibid.*

comparable return standard because an awarded ROE that is significantly below the ROEs awarded to other utilities with comparable risks can affect the ability of a utility to attract capital at reasonable terms.

1. Cost Recovery Mechanisms

Q: Have you conducted any analysis to compare the cost recovery mechanisms of Evergy Missouri West to the cost recovery mechanisms approved in the jurisdictions in which the companies in your proxy group operate?

A: Yes. I selected six mechanisms that are important to provide a regulated utility an opportunity to earn its authorized ROE. These are: (1) test year convention (i.e., forecast vs. historical); (2) method for determining rate base (i.e., average vs. year-end); (3) use of revenue decoupling mechanisms or formula-based rates that mitigate volumetric risk; (4) prevalence of capital cost recovery between rate cases, and CWIP allowances in rate base; (5) fuel cost recovery and (6) recovery of property taxes. The results of this cost recovery assessment are shown in Schedule AEB-9 and are summarized below.

(1) Test year convention: Evergy Missouri West uses a historical test year with limited "known and measurable" changes through a true-up period. By contrast, 42 out of 80 (52.50 percent) of the operating companies held by the proxy group provide service in jurisdictions that use either a fully or partially forecasted test year. Forecast test years have been relied on for several years and produce cost estimates that are more reflective of future costs which result in more accurate recovery of incurred costs and mitigates the regulatory lag associated with historical test years. As Lowry, Hovde, Getachew, and Makos explain in their 2010 report, "Forward Test Years for US Electric Utilities":

> This report provides an in depth discussion of the test year issue. It includes the results of empirical research which explores why the unit costs of electric IOUs are rising and shows that utilities operating under forward test years realize higher returns on capital and have credit ratings that are materially better than those of utilities operating under historical test years. The research suggests that shifting to a future test year is a prime strategy for rebuilding utility credit ratings as insurance against an uncertain future.[68]

(2) Rate Base: The Company's rate base is determined using the year-end rate base method which is consistent with the proxy group since 34 out of 80 (42.50 percent) of the operating companies provide service in jurisdictions where rate base is determined using the year-end method.

(3) Non-Volumetric Rate Design: Evergy Missouri West does have partial protection against volumetric risk in Missouri through a Demand Side Investment Mechanism ("DSIM") Rider, however this charge only allows the Company to recover the costs associated with the effect of energy efficiency on sales and does not address other volumetric risk. Comparing to the proxy group companies, 44 out of 80 (55.00 percent) of the operating companies held by the proxy group have non-volumetric rate design through either straight fixed variable rate design, revenue decoupling mechanisms or formula rate plans that allow them to break the link between customer usage and revenues.

(4) Capital Cost Recovery/CWIP in Rate Base: Evergy Missouri West has capital tracking mechanisms (i.e., PISA and the RESRAM for RES compliance assets) to recover capital investment costs between rate cases. However, as discussed

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[68] M.N. Lowry, D. Hovde, L. Getachew, and M. Makos, Forward Test Years for US Electric Utilities, at 1, prepared for Edison Electric Institute, August 2010.

previously, Evergy Missouri West's capital cost recovery mechanism is set to expire in 2023, and is only available as long as overall rates stay at or below the 3% cap. Evergy Missouri West is expected to be significantly closer to the rate cap at the conclusion of this case, and if it exceeds the cap the Company will no longer benefit from the mechanism. Although 65 of 80 (81.25 percent) of the operating companies held by the proxy group have some form of capital cost recovery mechanism and/or are allowed to include CWIP in rate base.[69] The inclusion of CWIP in rate base reduces regulatory lag associated with new construction, which can be very important particularly when a company is undertaking a large capital investment plan, such as Evergy Missouri West's capital expenditures plan.

(5) Fuel Adjustment Clause: Evergy Missouri West's fuel adjustment clause allows the Company to defer and recover 95.00 percent of the difference between the actual net energy costs and net base energy costs.[70] As shown in Schedule AEB-9, FAC mechanisms are prevalent in the proxy group. In fact, 90.00 percent of the operating companies in the proxy group are allowed to directly recover fuel costs and purchased power costs from customers, without a sharing band.

(6) Property Tax Rider: While Evergy Missouri West does not currently have a property tax rider, the Company is requesting a property tax rider which would allow Evergy Missouri West to recover changes in property taxes as compared to the base levels approved in a general rate case. As discussed in the Direct

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[69] Wisconsin's PSC typically authorizes a premium to allow for a rate of return equivalent to a certain CWIP level in rate base.

[70] Evergy Missouri West Tariff, Fuel Adjustment Clause, Revised Sheet 50.10.

Testimony of Michael Adams, there are at least 11 jurisdictions (Arizona, Arkansas, Colorado, Kansas, Minnesota, Montana, New Hampshire, Oregon, Pennsylvania, South Dakota, and Washington) which have approved property tax riders similar to or more advantageous than the mechanism proposed by Evergy Missouri West and three other jurisdictions (Alabama, Indiana and Massachusetts) which have approved broader cost recovery mechanisms that include the recovery of property tax expenses.[71]

Q: Does the continuation of the FAC change the business risk of Evergy Missouri West?

A: No, it does not. In accordance with the Commission's FAC Rule at 20 CSR 4240-20.090(2)(A)14, the Company is required to explain the continuation of the rate adjustment mechanism ("RAM"), which in this case is the FAC, changes the business risk of Evergy Missouri West. The continuation of the FAC will not change Evergy Missouri West's business risk and will allow the Company to continue to pass through increases or decreases in net energy costs to customers without the need for a time-consuming and costly rate proceeding. Furthermore, as discussed previously, for the purposes of determining the ROE, the risk of the Company is considered in comparison to the proxy group. Since FAC mechanisms are prevalent in the proxy group, the continuation of the FAC for Evergy Missouri West makes the Company more comparable to the proxy group. To the extent that the FAC were eliminated, or materially restructured to recover less of the fuel costs, Evergy Missouri West would have significantly greater risk than the proxy

[71] Direct Testimony of Michael Adams, at 17-24.

group and would likely require an upward adjustment to the ROE to reflect this incremental risk.

Q: Have you considered how Evergy Missouri West compares to the proxy group on overall cost adjustment mechanisms?

A: Yes. As shown in Schedule AEB-9, the proxy group companies have implemented a number of adjustment mechanisms to mitigate the issue of regulatory lag, including forecasted test years, year-end rate base, decoupling mechanisms, formula-based rates, capital cost recovery mechanisms, fuel adjustment clauses, and CWIP allowances within rate base that specifically address the regulatory lag that may be unique to a given jurisdiction. However, Moody's recently noted that aside from the implementation of PISA, the Missouri regulatory environment has been challenging due to regulatory lag. Moody's noted that Missouri regulation authorizes limited interim base rate recovery mechanisms and requires the use of a historical test year which continues to create regulatory lag.[72] While Evergy Missouri West has access to some regulatory mechanisms also available to operating companies within the proxy group, these mechanisms are limited. Further, Evergy Missouri West lacks a comprehensive forward-looking mechanism or set of mechanisms, such as including CWIP in rate base, that would remedy the regulatory lag it faces.

[72] Moody's Investors Service, Credit Opinion, Evergy Missouri West, Inc., p. 4 (April 29, 2021).

2. Rate Design

Q: Can a Company's rate design increase volumetric risk?

A: Yes. The majority of an electric utility's cost are fixed costs that are incurred to construct and maintain the distribution system. As such, most of a utility's costs do not vary with energy consumption. However, rates are often structured to recover a large portion of a utility's fixed costs on a variable basis. This is particularly true for the residential customer class. Since a customer's usage varies from year to year, the more fixed costs that are recovered on a variable basis, the higher the volatility of annual cost recovery for the company. Therefore, cost recovery for utilities that have higher fixed customer charges are less susceptible to fluctuations in usage and are more likely to recover their costs to serve customers.

Furthermore, the design of an energy (or variable) charge can also directly affect the volatility of fixed cost recovery. For example, for the residential rate class, an energy charge can be designed as an inclining, declining or flat block rate structure. A block rate structure is considered: (a) inclining if the energy charge increases as the amount of energy consumed increases; (b) flat if the energy charge is the same for all levels of energy usage; and (c) declining if the energy charges decrease as the amount of energy consumed decreases. A utility with an inclining block rate design would be more susceptible to variability in earnings associated with year-to-year fluctuations in usage since a larger portion of fixed costs would be recovered from the higher usage blocks.

Evergy Missouri West's residential rate class has a customer charge of $11.47 which is low, as discussed below. The residential rate class also has an inclining block rate structure for the energy charge in the summer season which is important because the Company

usually has its highest revenue during the year in the third quarter due to the demand for energy created by the summer air conditioning load; thus, the Company faces increased volumetric risk associated with the residential rate class.

Q: Have you developed any analysis to evaluate the effect of rate design on the volumetric risk of Evergy Missouri West?

A: Yes. It is important to review the size of the customer charges and structure of the energy charges when assessing the volumetric risk of Evergy Missouri West as compared to the proxy group. Therefore, for the residential rate class, I have compared the level of the customer charge and the design of the energy charge (i.e., inclining, declining and flat) of Evergy Missouri West and the operating subsidiaries of the companies in the proxy group. As shown in Schedule AEB-10, Evergy Missouri West has a residential customer charge of $11.47 while the average customer charge for the utility operating companies of the proxy group is between $4.20 to $33.03 with a mean of $11.96. Moreover, approximately 78.48 percent of the operating subsidiaries held by the proxy group companies have either a flat or declining block rate structure for the residential energy charge. Therefore, Evergy Missouri West has greater volumetric risk compared to the proxy group as a result of the Company's residential rate design.

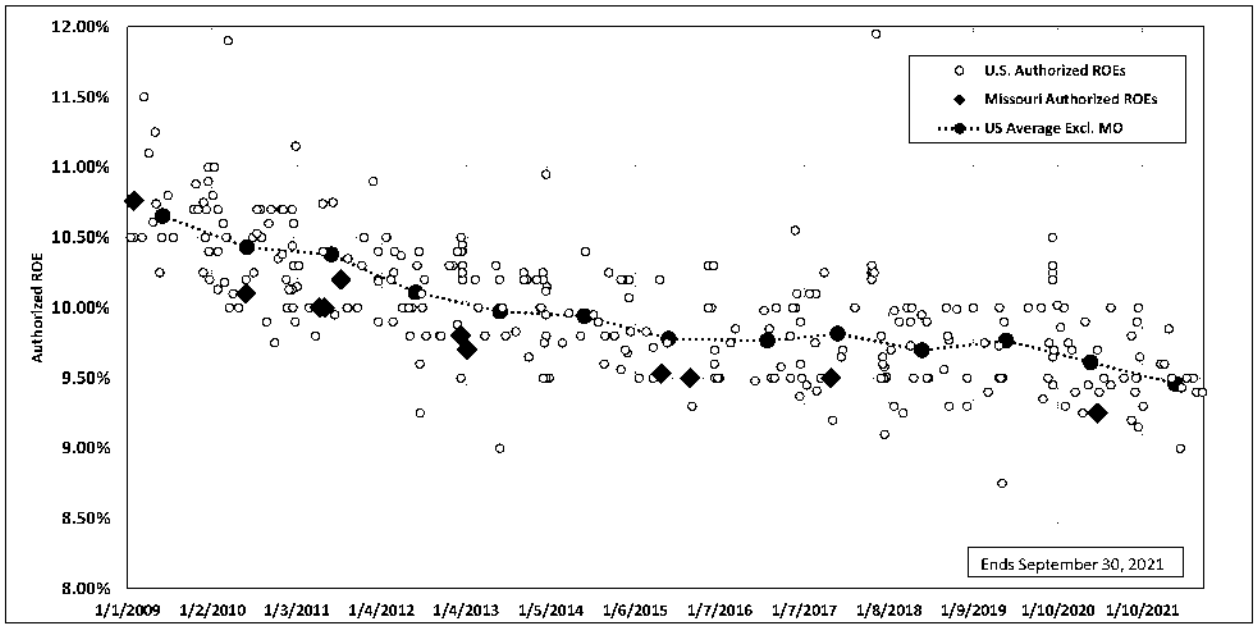
3. Authorized ROEs

Q: How do recent returns in Missouri compare to the authorized returns in other jurisdictions?

A: Figure 12 below shows the authorized returns for vertically integrated electric utilities in other jurisdictions since January 2009, and the returns authorized in Missouri for electric utilities. While partially the result of settlement agreements approved by the Commission,

as shown in Figure 12, the authorized returns for electric utilities in Missouri have been below the average authorized ROE for vertically integrated electric utilities in other jurisdictions since 2010.

Figure 12: Comparison of Missouri and U.S. Authorized Electric Returns[73]



Q: Should the Commission be concerned about authorizing equity returns that are at the low end of the range established by other state regulatory jurisdictions?

A: Yes, for several reasons. Evergy Missouri West must compete for discretionary capital within the Company's own corporate structure, which must in turn compete for capital with other utilities and businesses. Placing Evergy Missouri West at the low end of recently authorized ROEs across state regulatory jurisdictions, coupled with the relatively high

[73] S&P Capital IQ Pro. Includes only vertically integrated electric utility ROEs between January 1, 2009, and September 30, 2021. The chart excludes the authorized returns in Vermont since they are established based on a formulaic approach that is directly linked to interest rates and therefore is affected by market conditions and monetary policy.

regulatory risk faced in Missouri over the longer term can negatively impact the Company's access to capital.

Further, as noted in Sections IV and VI, the economy is in the expansion phase of the business cycle; thus, interest rates are expected to increase, and utilities are expected to underperform over the near-term. If utility stocks underperform over the near-term then utility dividend yields will increase resulting in higher estimates of the ROE results produced by the DCF model. Therefore, the results of the DCF model will underestimate investors' expected ROE over the time-period in which Evergy Missouri West's rates will be in effect. As a result, it is important that the Commission consider, the results of alternative methods such as the forward looking CAPM, ECAPM, and Bond Yield Plus Risk Premium and the returns that have been authorized by other electric utilities across the U.S.

Q: Do credit rating agencies consider the authorized ROE in the overall risk assessment of a utility?

A: Yes, they do. Therefore, to the extent that the returns in a jurisdiction are lower than the returns that have been authorized more broadly, credit rating agencies will consider this in the overall risk assessment of the regulatory jurisdiction in which the company operates. For example, Moody's downgraded ALLETE, Inc. from A3 to Baa1 primarily based on the less than favorable outcome in Minnesota Power's last fully litigated rate case in Minnesota which included what Moody's noted was a below average authorized ROE of 9.25 percent.[74] In addition, FitchRatings downgraded CenterPoint Energy Houston

[74] Moody's Investors Service, Credit Opinion: ALLETE, Inc. Update following downgrade, at 3 (April 3, 2019).

Electric's ("CEHE") Long-Term Issuer Default rating from A- to BBB+ and revised the rating outlook from Stable to Negative following the approval of an unfavorable outcome in a recent rate case in Texas.[75] Finally, FitchRatings recently downgraded and maintained a negative outlook for Arizona Public Service Company ("APS") and its parent, Pinnacle West Capital Corporation, following the hearings conducted by the Arizona Corporation Commission ("ACC") in October 2021 regarding APS' current rate case proceeding.[76] While the ACC had not issued a final order in APS' rate case at the time, FitchRatings noted that the developments at the hearing in October indicate a likely credit negative outcome that will negatively affect the financial metrics of both APS and Pinnacle West Capital Corporation. It is also important to note that Moody's recently placed both APS and Pinnacle West Capital Corporation on review for downgrade following the ACC hearing in October.[77]

Q: How should the Commission use the information regarding authorized ROEs in other jurisdictions in determining the ROE for Evergy Missouri West?

A: As discussed above, the companies in the proxy group operate in multiple jurisdictions across the U.S. Since Evergy Missouri West must compete directly for capital with investments of similar risk, it is appropriate to review the authorized ROEs in other jurisdictions. The comparison is important because investors are considering the

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[75] FitchRatings, Fitch Downgrades CenterPoint Energy Houston Electric to BBB+; Affirms CNP; Outlooks Negative, (Feb. 19, 2020).

[76] FitchRatings, "Fitch Downgrades Pinnacle West Capital & Arizona Public Service to 'BBB+'; Outlooks Remain Negative" (Oct. 12, 2021).

[77] Moody's Investors Service, "Rating Actions: Moody's places Pinnacle West and Arizona Public Service ratings on review for downgrade," (Oct. 12, 2021).

authorized returns across the U.S. and are likely to invest equity in those utilities with the highest returns.

Furthermore, investors are also likely to consider business and financial risks for a company like Evergy Missouri West which faces increased risk as a result of its capital expenditure plan and limited cost recovery mechanisms. Therefore, authorizing an ROE for Evergy Missouri West that is equivalent to the average authorized ROE for other vertically integrated electric utilities is not sufficient to compensate investors for the added risk of Evergy Missouri West. As such, it is important that the Commission consider, as I have in my recommendation, the additional risk of Evergy Missouri West and place the authorized ROE for Evergy Missouri West towards the high end of authorized ROEs for other vertically integrated electric utilities.

Q: Have you developed any additional analyses to evaluate the regulatory environment in Missouri as compared to the jurisdictions in which the companies in your proxy group operate?

A: Yes. I have conducted two additional analyses to compare the regulatory framework of Missouri to the jurisdictions in which the companies in the proxy group operate. Specifically, I considered two different rankings: (1) the Regulatory Research Associates ("RRA") ranking of regulatory jurisdictions; and (2) S&P's ranking of the credit supportiveness of regulatory jurisdictions.

Q: Please explain how you used the RRA ratings to compare the regulatory jurisdictions of the proxy group companies with the Company's regulatory jurisdiction.

A: RRA develops their ranking based on their assessment of how investors perceive the regulatory risk associated with ownership of utility securities in that jurisdiction,

specifically reflecting their assessment of the probable level and quality of earnings to be realized by a state's utilities as a result of regulatory, legislative, and court actions. RRA assigns a ranking for each regulatory jurisdiction between "Above Average/1" to "Below Average/3," with nine total rankings between these categories. I applied a numeric ranking system to the RRA rankings with "Above Average/1" assigned the highest ranking ("1") and "Below Average/3" assigned the lowest ranking ("9"). As shown in Schedule AEB-11, the Missouri regulatory environment is ranked as "Average/3," while the proxy group is ranked between "Average/1" and "Average/2".

Q: How did you conduct your analysis of the S&P credit supportiveness ranking?

A: S&P classifies the regulatory jurisdictions into five categories ranging from "Credit Supportive" to "Most Credit Supportive" based on the level of credit supportiveness. Similar to the RRA regulatory ranking analysis discussed above, I assigned a numerical ranking to each jurisdiction ranked by S&P, from most credit supportive ("1") to credit supportive ("5"). As shown in Schedule AEB-12, the proxy group is ranked between very credit supportive and highly credit supportive while the Missouri regulatory jurisdiction is only ranked as very credit supportive. Thus, similar to the results using the RRA regulatory rankings, Missouri is perceived as being below the average for the proxy group.

Q: What are your conclusions regarding the perceived risks related to the Missouri regulatory environment?

A: Both Moody's and S&P have identified the supportiveness of the regulatory environment as an important consideration in developing their overall credit ratings for regulated utilities. Considering the available regulatory adjustment mechanisms, many of the companies in the proxy group have cost recovery mechanisms that provide stronger

financial support than those that Evergy Missouri West is permitted to implement. Additionally, authorized ROEs in Missouri have been below the average authorized ROEs for vertically integrated electric utilities across the U.S. Both, the RRA jurisdictional ranking and the S&P credit supportiveness ranking for Missouri indicates greater risk than the average for the proxy group. Therefore, the average ROE for the proxy group actually understates the return on equity that an investor would require in Missouri because the risks of timely and full cost recovery are greater for Evergy Missouri West in Missouri than for the proxy group. For that reason, I conclude that the authorized ROE for Evergy Missouri West should be higher than the proxy group mean.

C. Generation Ownership

Q: How does the business risk of vertically integrated electric utilities compare to the business risk of other regulated utilities?

A: According to Moody's, generation ownership causes vertically integrated electric utilities to have higher business risk than either electric transmission and distribution companies, or natural gas distribution or transportation companies.[78] As a result of this higher business risk, integrated electric utilities typically require a higher ROE or percentage of equity in the capital structure than other electric or gas utilities.

[78] Moody's Investors Service, Rating Methodology: Regulated Electric and Gas Utilities, at 21-22 (June 23, 2017).

Q: Are there other risk factors specific to vertically integrated electric utilities that the credit rating agencies consider when determining the credit rating of a company that owns generation?

A: Yes. As discussed above, Moody's establishes credit ratings based on four key factors: (1) regulatory framework; (2) the ability to recover costs and earn returns; (3) diversification; and (4) financial strength, liquidity and key financial metrics. The third factor of diversification, which Moody's assigns a 10.00 percent weighting in the overall assessments of a company's business risk, considers the fuel source diversity of a utility with generation. Moody's notes:

> For utilities with electric generation, fuel source diversity can mitigate the impact (to the utility and to its rate-payers) of changes in commodity prices, hydrology and water flow, and environmental or other regulations affecting plant operations and economics. We have observed that utilities' regulatory environments are most likely to become unfavorable during periods of rapid rate increases (which are more important than absolute rate levels) and that fuel diversity leads to more stable rates over time.
>
> For that reason, fuel diversity can be important even if fuel and purchased power expenses are an automatic pass-through to the utility's ratepayers. Changes in environmental, safety and other regulations have caused vulnerabilities for certain technologies and fuel sources during the past five years. These vulnerabilities have varied widely in different countries and have changed over time.[79]

Q: Has Missouri enacted legislative requirements related to renewable energy?

A: Yes. In 2008, the voters of Missouri approved a mandatory renewable portfolio standard ("RPS") which became Section 393.1030. The RPS requires electric utilities to generate or purchase 15 percent of their electricity sales with power generated from renewable energy sources by 2021. As discussed previously, S.B.564 became law in 2018, allowing Plant in

[79] *Id.*, at 16.

Service Accounting treatment for "qualifying electric plant" that included renewable resources. In addition, in July 2021, House Bill ("HB") 734 was signed into law which contained provisions that allow electric utilities to securitize their investment in coal generation facilities that has yet to be recovered from customers after the generation facility has been retired as well as in renewable generating facilities that qualify as "replacement resources". Thus, a major effect of the legislation is to accelerate the transition in Missouri from coal generation to renewable generation such as wind and solar.[80]

Q: Is Evergy subject to legislative mandates regarding renewable generation in other jurisdictions?

A: Yes. In May 2009 Kansas enacted the Renewable Energy Standards Act ("RESRA") which required investor-owned electric utilities and electric cooperatives to either generate or purchase 20 percent of their peak demand from renewable energy sources by the year 2020.[81] It is important to note that the legislation was mandatory at the time enacted; however, the approval of Senate Bill ("SB") 91 in May 2015 adjusted the RPS from mandatory to voluntary. Additionally, similar to Missouri, Senate Substitute for House Bill 2072 was signed into law in April 2021 which allows securitization of coal generation plant costs after the retirement of the plants to accelerate the transition in Kansas from coal to renewable generation.[82]

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[80] *See* §§ 393.1700, 393.1705, and 393.1715.

[81] Kan. Stat. Ann. §66-1256 through 66-1262.

[82] Carpenter, Tim, "Kansas opts for bonding to help consumers with energy price shocks, transition from coal," Kansas Reflector, April 19, 2021.

Q: What are the fuel sources that Evergy currently relies primarily on for its generation portfolio?

A: As of December 2020, Evergy's total generation capacity consisted of 37 percent coal, 30 percent natural gas and oil, 25 percent wind, 7 percent nuclear and less than 1 percent solar, landfill gas and hydroelectric.[83] Further, Evergy's total generation (MWh) is 42.08 percent coal, 4.20 percent natural gas and oil, 53.38 percent wind and less than 1 percent solar, landfill gas and hydroelectric.[84]

Q: Is Evergy's generation portfolio currently in a state of transition?

A: Yes. As described in the 2021 Integrated Resource Plan ("IRP"), Evergy is taking near term actions to retire fossil fuel generation units and invest in new renewable generation. Specifically, Evergy expects to retire approximately 1,200 MWs of fossil fuel generation (i.e., coal, oil and natural gas) and add approximately 3,200 MWs of renewable generation (i.e., solar and wind) over the next ten years.[85] In fact, Evergy projects that it will retire nearly all remaining coal generation by 2040 with the goal of net-zero carbon emissions by 2045.

Q: How does Evergy's generation investment plan affect its business risk?

A: The Company's 2021 IRP includes significant investment in adding new wind and solar generation. This significant investment in renewable energy will require continued access to capital markets, which highlights the importance of granting Evergy Missouri West an allowed ROE and equity ratio that is sufficient to attract capital at reasonable terms.

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[83] Evergy, "Evergy 2021 Integrated Resource Plan Overview", at 4 (April 2021).

[84] Evergy Missouri West Executive Summary Integrated Resource Plan 4 CSR 240-22.010 at 9. (April 2021).

[85] Evergy, "Evergy 2021 Integrated Resource Plan Overview", at 4 (April 2021).

Q: What are your conclusions regarding the perceived risks related to the fuel mix of Evergy's generation portfolio?

A: Evergy generates a significant percentage of its electricity using coal-fired generation. As renewable resources have become more economic, Evergy has planned to reduce customer costs by making sizable future capital expenditures to become less dependent on coal-fired generation. While the Company intends to improve fuel diversity over the long run, the plans will require continued access to capital markets to finance the new investments. The Company's existing generation portfolio and proposed generation investment plans increase the overall risk profile as compared with the proxy group.

D. Sibley Coal Plant Retirement

Q: Please summarize the Sibley coal plant retirement.

A: As discussed by Company witness Larry Kennedy, the Company fully retired the Sibley plant in 2018 and Accounting Authority Orders ("AAO") were established to aggregate the recovery of any financial impacts of the retirement which would then be considered in the next rate case. The Company projects that as of November 30, 2022, $49.54 million of operating expenses and return on investment will be deferred pursuant to the AAO and $41.45 million of depreciation will be deferred to be applied to the accumulated plant reserve in the 2022 rate case pursuant to the 2018 rate case stipulation and agreement.

Q: What is the implication of the Sibley coal plant retirement and the disposition of the AAO on the Company's risk profile?

A: The Commission's decision in the complaint case, No. EC-2019-0200, to establish an AAO for the operating expense savings and return on investment increases the risk of Evergy Missouri West for two reasons. First, the Commission's order the complaint case

determined that the retirement of the Sibley coal plant was an "extraordinary" event under deferral accounting principles and ordered the Company to establish a regulatory liability for the revenue and the return on the Sibley investments collected in rates. However, the Commission expressly noted that whether the decision to retire Sibley was prudent would be addressed in a future general rate case.[86] Even though the order did not comment on whether the retirement was prudent it increases uncertainty regarding whether or not the Commission will ultimately allow the Company to recover the return of and return on its investment in the Sibley coal plant as of the time of retirement. A decision to disallow a portion of the Company's investment (i.e., refund return on investment since the time of retirement) would be viewed as credit negative by the rating agencies and could have a significant effect on the financial metrics of the Company if there were to be a significant disallowance. Second, a negative decision regarding the AAO in the current proceeding could provide a disincentive for retiring coal plants in the future and negatively affect the state's transition from fossil fuels to renewable energy. This would be counter to the effect of the House Bill ("HB") 734 which was signed into law and discussed above that allows securitization of coal generation plant costs after the retirement of the plants.

Q: How have credit rating agencies and equity analysts reacted to the Sibley plant retirement and the Commission's decision in the complaint case to establish an AAO?

A: Yes, they have. As noted above both Bank of America and Moody's concluded that the Commission's decision had a negative effect on the Company and the views of investors and credit analysts regarding the regulatory environment in Missouri. Specifically, Bank

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[86] Office of Public Counsel v. KCP&L Greater MO. Operations Co. No. EC-2019-0200, Report and Order, at 13-15 (Oct. 17, 2019).

of America noted in a research note on October 11, 2019 that the decision caused "market participants questioning of the fairness of Missouri regulation" and resulted in investors altering expectations to reflect: 1) the likelihood that the Company would not pursue up to $850 million of incremental capital expenditures; and 2) the financial impact of customer refunds.[87] Similarly, Moody's commented on October 11, 2019 that it also viewed the decision as credit negative because it: 1) indicated a weaker regulatory relationship between the Commission and the Company; 2) could result in a reduction in the incremental capital that the Company plans to invest in Missouri; and 3) could create a disincentive for the future retirement of coal plants in Missouri.[88] Furthermore in a more recent credit report issued on April 28, 2020, Moody's noted that the recovery of the Sibley rate base was a credit challenge for Evergy Missouri West.[89]

Q: What are your conclusions regarding the effect of the Sibley plant retirement on the cost of equity of the Company?

A: The Commission's decision with respect to the deferral of the recovery of the investment in, return on and operating expenses related to Sibley increases uncertainty regarding the recovery of the Company's investment in Sibley at the time of retirement. As noted by Moody's, the uncertainty regarding recovery of the Company's investment increases the risk of the Company and warrants an ROE that is greater than the proxy group mean.

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87 Bank of America Merrill Lynch, "US Electric Utilities & IPPs: Midweek PPTS: PCG Feedback, EVRG Response, XEL's EVs in XEL, at 1 (Oct. 11, 2019).

88 Moody's Investor Service, Issuer Comment: KCP&L Greater Missouri Operations Company, at 1-2 (Oct. 11, 2019).

89 Moody's Investor Service, Credit Opinion: Evergy Missouri West, Inc., at 2 (Apr. 28, 2020).

VIII. CAPITAL STRUCTURE, COST OF DEBT, OVERALL RATE OF RETURN

A. Capital Structure

Q: Is the capital structure of the Company an important consideration in the determination of the appropriate ROE?

A: Yes, it is. Assuming other factors equal, a higher debt ratio increases the risk to investors. For debt holders, higher debt ratios result in a greater portion of the available cash flow being required to meet debt service, thereby increasing the risk associated with the payments on debt. The result of increased risk is a higher interest rate. The incremental risk of a higher debt ratio is more significant for common equity shareholders, who are the residual claimants on the cash flow of the Company. Therefore, the greater the debt service requirement, the less cash flow is available for common equity holders.

Q: What is Evergy Missouri West's proposed capital structure?

A: As shown in Schedule AEB-13, the Company proposes to establish a projected capital structure as of the recommended true-up date of May 31, 2022 of 51.81 percent common equity and 48.19 percent long-term debt.

Q: Did you conduct any analysis to determine if the requested equity ratio was reasonable?

A: Yes, I did. I reviewed the Company's proposed capital structure and the capital structures of the utility operating subsidiaries of the proxy companies. Because the ROE is set based on the return that is derived from the risk-comparable proxy group, it is reasonable to look to the proxy group average capital structure to benchmark the equity ratio for the Company.

Q: Please discuss your analysis of the capital structures of the proxy group companies.

A: I calculated the mean proportions of common equity, long-term debt, and preferred equity over the most recent eight quarters[90] for each of the companies in my proxy group at the operating subsidiary level. My analysis of the capital structures of the companies in the proxy group is provided in Schedule AEB-14. As shown in that Schedule, the mean equity ratio for the proxy group at the operating utility company level is 52.86 percent. The average equity ratios for the utility operating companies held by the proxy group range from a low of 46.97 percent to a high of 60.85 percent. Evergy Missouri West's proposed equity ratio of 51.81 percent is well within the range of equity ratios for the utility operating subsidiaries of the proxy group companies and is therefore reasonable.

Q: Are there other factors to be considered in setting the Company's capital structure?

A: Yes. The credit rating agencies' response to the Tax Cuts and Jobs Act of 2017 ("TCJA") must also be considered when determining the equity ratio. All three rating agencies have noted that the TCJA has negative implications for utility cash flows. S&P and FitchRatings have specifically identified increasing the equity ratio as one approach to ensure that utilities have sufficient cash flows following the tax cuts and the loss of bonus depreciation. Furthermore, Moody's downwardly revised the rating outlook for the entire utilities sector in June 2018 and has continued to downgrade the ratings of utilities based in part on the negative effects of the TCJA on cash flows.

Additionally, it is also important to consider the negative effects of COVID-19 on the credit metrics of utilities. In April 2020, Standard & Poor's downwardly revised the outlook on

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[90] The source data for this analysis is the operating company data provided in FERC Form 1 reports. Due to the timing of those filings, my average capital structure analysis uses the quarterly capital structures reported for the proxy group companies for the period from the third quarter of 2019 through the second quarter of 2021.

the entire North American utilities sector. It noted that COVID-19 would create incremental pressure on credit metrics and that a recession would lead to an increasing number of credit rating downgrades and negative outlooks.[91]

Finally, S&P has continued to maintain a negative outlook for the utility industry in 2021 noting that so far in 2021 downgrades have outpaced upgrades with the median rating of the industry approaching the BBB category which would be the first time that has ever occurred.[92] S&P expects continued pressure on cash flows over the near-term as utilities continue to increase leverage to fund capital expenditure plans necessary to reduce greenhouse gas emissions and to improve safety and reliability.[93] The continued concerns of credit ratings agencies over the negative effects of the TCJA, COVID-19 and increased capital expenditures underscores the importance of maintaining adequate cash flow metrics for the industry—and for Evergy Missouri West, in the context of this proceeding.

Q: Is there a relationship between the equity ratio and the authorized ROE?

A: Yes. The equity ratio is the primary indicator of financial risk for a regulated utility such as Evergy Missouri West. To the extent the equity ratio is reduced, it is necessary to increase the authorized ROE to compensate investors for the greater financial risk associated with a lower equity ratio.

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[91] Standard & Poor's Ratings Direct, COVID-19: The Outlook for North American Regulated Utilities Turns Negative, April 2, 2020.

[92] S&P Global Ratings, "North American Regulated Utilities' Credit Quality Begins the Year on A Downward Path," April 7, 2021.

[93] *Ibid.*

Q: Will the capital structure and ROE authorized in these proceedings affect the Company's access to capital at reasonable rates?

A: Yes. The level of earnings authorized by the Commission directly affects the Company's ability to fund its operations with internally generated funds. Both bond investors and rating agencies expect a significant portion of ongoing capital investments to be financed with internally generated funds.

It also is important to realize that because a utility's investment horizon is very long, investors require the assurance of a sufficiently high return to satisfy the long-run financing requirements of the assets placed into service. Those assurances, which often are measured by the relationship between internally generated cash flows and debt (or interest expense), depend quite heavily on the capital structure. As a consequence, both the ROE and capital structure are very important to debt and equity investors. Furthermore, considering the capital market conditions discussed in Section IV, the authorized ROE and capital structure take on even greater significance.

Q: What is your conclusion regarding an appropriate equity ratio for Evergy Missouri West?

A: Considering the actual capital structures of the proxy group operating companies, I believe that Evergy Missouri West's proposed common equity ratio of 51.81 percent is reasonable. The proposed equity ratio is well within the range of equity ratios established by the capital structures of the utility operating subsidiaries of the proxy companies. In addition, based on the cash flow concerns raised by credit rating agencies as a result of the TCJA, COVID-19 and increased capital expenditures, this proposal is reasonable.

B. Cost of Long-term Debt

Q: What is Evergy Missouri West's proposed cost of long-term debt?

A: As shown in Schedule AEB-13, the Company's cost of long-term debt is 3.79 percent.

Q: Have you evaluated the Company's proposed cost of long-term debt?

A: Yes, I have reviewed the embedded cost of long-term debt for Evergy Missouri West. My analysis evaluated the cost at the time of issuance for each of the issuances listed in Schedule AEB-13 in comparison with the market at that time. I compared the Moody's Baa and A-rated utility bond indexes to the embedded long-term debt costs. As shown in Schedule AEB-15 this analysis demonstrates that the embedded cost of debt is reasonable.

C. Overall Rate of Return

Q: Based on the Company's proposed capital structure, long-term debt cost and your recommended ROE, what is the recommended overall Rate of Return?

A: As shown in Figure 13 below, the recommended overall rate of return is 7.20 percent.

Figure 13: Overall Rate of Return

	Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	48.19%	3.79%	1.87 %
Common Equity	51.81%	10.00%	5.33 %
Overall Rate of Return	100.00%		7.20 %

IX. CONCLUSIONS AND RECOMMENDATION

Q: What is your conclusion regarding a fair ROE for Evergy Missouri West?

A: Figure 14 below provides a summary of my analytical results. Based these results and the qualitative analyses presented in my Direct Testimony, a reasonable range of ROE results for Evergy Missouri West is from 9.90 percent to 10.50 percent and the Company's

requested rate of return on common equity of 10.00 percent is reasonable taking into consideration Evergy Missouri West's company-specific risks relative to the proxy group, as discussed in my Direct Testimony. This ROE would enable the company to maintain its financial integrity and therefore its ability to attract capital at reasonable terms under a variety of economic and financial market conditions, while continuing to provide safe, reliable and affordable electric service to customers in Missouri.

Figure 14: Summary of Analytical Results

Constant Growth DCF - Median			
	Median Low	Median	Median High
30-Day Average	8.83%	9.58%	10.03%
90-Day Average	8.78%	9.36%	10.03%
180-Day Average	8.81%	9.38%	10.10%
Constant Growth DCF - Average w/ exclusions[94]			
	Mean Low	Mean	Mean High
30-Day Average	8.66%	9.49%	10.03%
90-Day Average	8.67%	9.50%	10.05%
180-Day Average	8.89%	9.58%	10.13%
CAPM			
	Current 30-day Average Treasury Bond Yield	Near-Term Blue Chip Forecast Yield	Long-Term Blue Chip Forecast Yield
Value Line Beta	11.62%	11.68%	11.80%
Bloomberg Beta	10.76%	10.87%	11.07%
Long-term Avg. Beta	9.60%	9.77%	10.08%
ECAPM			
	Current 30-day Average Treasury Bond Yield	Near-Term Blue Chip Forecast Yield	Long-Term Blue Chip Forecast Yield
Value Line Beta	11.95%	12.00%	12.09%
Bloomberg Beta	11.30%	11.39%	11.53%
Long-term Avg. Beta	10.43%	10.56%	10.79%
Treasury Yield Plus Risk Premium			
	Current 30-day Average Treasury Bond Yield	Near-Term Blue Chip Forecast Yield	Long-Term Blue Chip Forecast Yield
Risk Premium Results	9.49%	9.74%	10.17%

[94] Constant Growth DCF analysis - Average w/ Exclusions represents the DCF results excluding the results for individual companies that did not meet the minimum threshold of 7 percent.

Q: What is your conclusion with respect to Evergy Missouri West's proposed capital structure?

A: My conclusion is that Evergy Missouri West's proposal to establish a capital structure consisting of 51.81 percent common equity, and 48.19 percent long-term debt is reasonable. This conclusion is supported by comparing this proposal to the capital structures of the companies in the proxy group and taking in consideration the effect of increased capital expenditures and COVID-19 on cash flows and therefore should be adopted.

Q: Does this conclude your Direct Testimony?

A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Evergy Missouri West, Inc. d/b/a Evergy Missouri West's Request for Authority to Implement A General Rate Increase for Electric Service	))))	Case No. ER-2022-0130

AFFIDAVIT OF ANN E. BULKLEY

COMMONWEALTH OF MASSACHUSETTS)
) **ss**
COUNTY OF MIDDLESEX)

Ann E. Bulkley, being first duly sworn on his oath, states:

1. My name is Ann E. Bulkley and I am employed by Concentric Energy Advisors, Inc. as Senior Vice President.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Evergy Missouri West consisting of eighty-four (84) 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.

Ann E. Bulkley

Subscribed and sworn before me this 31st day of December 2021.

Notary Public

My commission expires: October 19, 2023

CONCENTRIC ENERGY ADVISORS

ANN E. BULKLEY
Senior Vice President

Ms. Bulkley has more than two decades of management and economic consulting experience in the energy industry. Ms. Bulkley has extensive state and federal regulatory experience on both electric and natural gas issues including rate of return, cost of equity and capital structure issues. Ms. Bulkley has provided expert testimony on the cost of capital in nearly 100 regulatory proceedings before 32 state regulatory commissions and the Federal Energy Regulatory Commission. In addition to her regulatory experience, Ms. Bulkley has provided valuation and appraisal services for a variety of purposes including the sale or acquisition of utility assets, regulated ratemaking, ad valorem tax disputes, and other litigation purposes. In addition, Ms. Bulkley has experience in the areas of contract and business unit valuation, strategic alliances, market restructuring and regulatory and litigation support. Prior to joining Concentric, Ms. Bulkley held senior expertise-based consulting positions at several firms, including Reed Consulting Group and Navigant Consulting, Inc. where she specialized in valuation. Ms. Bulkley holds an M.A. in economics from Boston University and a B.A. in economics and finance from Simmons College. Ms. Bulkley is a Certified General Appraiser licensed in the Commonwealth of Massachusetts and the State of New Hampshire.

REPRESENTATIVE PROJECT EXPERIENCE

Regulatory Analysis and Ratemaking

Ms. Bulkley has provided a range of advisory services relating to regulatory policy analysis and many aspects of utility ratemaking. Specific services have included: cost of capital and return on equity testimony, cost of service and rate design analysis and testimony, development of ratemaking strategies; development of merchant function exit strategies; analysis and program development to address residual energy supply and/or provider of last resort obligations; stranded costs assessment and recovery; performance-based ratemaking analysis and design; and many aspects of traditional utility ratemaking (e.g., rate design, rate base valuation).

Cost of Capital

Ms. Bulkley has provided expert testimony on the cost of capital and capital structure in nearly 100 regulatory proceedings before state and federal regulatory commissions in the United States.

Ratemaking

Ms. Bulkley has assisted several clients with analysis to support investor-owned and municipal utility clients in the preparation of rate cases. Sample engagements include:

- Assisted several investor-owned and municipal clients on cost allocation and rate design issues including the development of expert testimony supporting recommended rate alternatives.

Worked with Canadian regulatory staff to establish filing requirements for a rate review of a newly regulated electric utility. Analyzed and evaluated rate application. Attended hearings and conducted

investigation of rate application for regulatory staff. Prepared, supported and defended recommendations for revenue requirements and rates for the company. Developed rates for gas utility for transportation program and ancillary services.

Valuation

Ms. Bulkley has provided valuation services to utility clients, unregulated generators and private equity clients for a variety of purposes including ratemaking, fair value, ad valorem tax, litigation and damages, and acquisition. Ms. Bulkley's appraisal practices are consistent with the national standards established by the Uniform Standards of Professional Appraisal Practice.

Representative projects/clients have included:

- Prepared appraisals of electric utility transmission and distribution assets for ad valorem tax purposes.
- Prepared appraisals of several hydroelectric generating facilities for ad valorem tax purposes.
- Conducted appraisals of fossil fuel generating facilities for ad valorem tax purposes.
- Conducted appraisals of generating assets for the purposes of unwinding sale-leaseback agreements.
- Confidential Utility Client: Prepared valuation of fossil and nuclear generation assets for financing purposes for regulated utility client.
- Prepared a valuation of a portfolio of generation assets for a large energy utility to be used for strategic planning purposes. Valuation approach included an income approach, a real options analysis and a risk analysis.
- Assisted clients in the restructuring of NUG contracts through the valuation of the underlying assets. Performed analysis to determine the option value of a plant in a competitively priced electricity market following the settlement of the NUG contract.
- Prepared market valuations of several purchase power contracts for large electric utilities in the sale of purchase power contracts. Assignment included an assessment of the regional power market, analysis of the underlying purchase power contracts, a traditional discounted cash flow valuation approach, as well as a risk analysis. Analyzed bids from potential acquirers using income and risk analysis approached. Prepared an assessment of the credit issues and value at risk for the selling utility.
- Prepared appraisal of a portfolio of generating facilities for a large electric utility to be used for financing purposes.
- Prepared fair value rate base analyses for Northern Indiana Public Service Company for several electric rate proceedings. Valuation approaches used in this project included income, cost and comparable sales approaches.

- Prepared an appraisal of a fleet of fossil generating assets for a large electric utility to establish the value of assets transferred from utility property.
- Conducted due diligence on an electric transmission and distribution system as part of a buy-side due diligence team.
- Provided analytical support for and prepared appraisal reports of generation assets to be used in ad valorem tax disputes.
- Provided analytical support and prepared testimony regarding the valuation of electric distribution system assets in five communities in a condemnation proceeding.
- Prepared Feasibility Reports analyzing the expected net benefits resulting from municipal ownership of investor-owned utility operations.
- Prepared independent analyses of proposal for the proposed government condemnation of the investor-owned utilities in the State of Maine and the formation of a Public Power District.
- Valued purchase power agreements in the transfer of assets to a deregulated electric market.

Strategic and Financial Advisory Services

Ms. Bulkley has assisted several clients across North America with analytically based strategic planning, due diligence and financial advisory services.

Representative projects include:

- Preparation of feasibility studies for bond issuances for municipal and district steam clients.
- Assisted in the development of a generation strategy for an electric utility. Analyzed various NERC regions to identify potential market entry points. Evaluated potential competitors and alliance partners. Assisted in the development of gas and electric price forecasts. Developed a framework for the implementation of a risk management program.
- Assisted clients in identifying potential joint venture opportunities and alliance partners. Contacted interviewed and evaluated potential alliance candidates based on company-established criteria for several LDCs and marketing companies. Worked with several LDCs and unregulated marketing companies to establish alliances to enter into the retail energy market. Prepared testimony in support of several merger cases and participated in the regulatory process to obtain approval for these mergers.
- Assisted clients in several buy-side due diligence efforts, providing regulatory insight and developing valuation recommendations for acquisitions of both electric and gas properties.

PROFESSIONAL HISTORY

Concentric Energy Advisors, Inc. (2002 – Present)
Senior Vice President
Vice President
Assistant Vice President
Project Manager

Navigant Consulting, Inc. (1995 – 2002)
Project Manager

Cahners Publishing Company (1995)
Economist

EDUCATION

Boston University
M.A., Economics, 1995

Simmons College
B.A., Economics and Finance, 1991

CERTIFICATIONS

Certified General Appraiser licensed in the Commonwealth of Massachusetts and the State of New Hampshire.

SPONSOR	DATE	CASE/APPLICANT	DOCKET /CASE NO.	SUBJECT
Arizona Corporation Commission				
Southwest Gas Corporation	12/21	Southwest Gas Corporation	Docket No. G-01551A-21-0368	Return on Equity
Arizona Public Service Company	10/19	Arizona Public Service Company	Docket No. E-01345A-19-0236	Return on Equity
Tucson Electric Power Company	04/19	Tucson Electric Power Company	Docket No. E-01933A-19-0028	Return on Equity
Tucson Electric Power Company	11/15	Tucson Electric Power Company	Docket No. E-01933A-15-0322	Return on Equity
UNS Electric	05/15	UNS Electric	Docket No. E-04204A-15-0142	Return on Equity
UNS Electric	12/12	UNS Electric	Docket No. E-04204A-12-0504	Return on Equity
Arkansas Public Service Commission				
Oklahoma Gas and Electric Co	10/21	Oklahoma Gas and Electric Co	Docket No. D-18-046-FR	Return on Equity
Arkansas Oklahoma Gas Corporation	10/13	Arkansas Oklahoma Gas Corporation	Docket No. 13-078-U	Return on Equity
California Public Utilities Commission				
San Jose Water Company	05/21	San Jose Water Company	A2105004	Return on Equity
Colorado Public Utilities Commission				
Public Service Company of Colorado	07/21	Public Service Company of Colorado	21AL-0317E	Return on Equity
Public Service Company of Colorado	02/20	Public Service Company of Colorado	20AL-0049G	Return on Equity
Public Service Company of Colorado	05/19	Public Service Company of Colorado	19AL-0268E	Return on Equity
Public Service Company of Colorado	01/19	Public Service Company of Colorado	19AL-0063ST	Return on Equity
Atmos Energy Corporation	05/15	Atmos Energy Corporation	Docket No. 15AL-0299G	Return on Equity
Atmos Energy Corporation	04/14	Atmos Energy Corporation	Docket No. 14AL-0300G	Return on Equity
Atmos Energy Corporation	05/13	Atmos Energy Corporation	Docket No. 13AL-0496G	Return on Equity

SPONSOR	DATE	CASE/APPLICANT	DOCKET /CASE NO.	SUBJECT
Connecticut Public Utilities Regulatory Authority				
United Illuminating	05/21	United Illuminating	Docket No. 17-12-03RE11	Return on Equity
Connecticut Water Company	01/21	Connecticut Water Company	Docket No. 20-12-30	Return on Equity
Connecticut Natural Gas Corporation	06/18	Connecticut Natural Gas Corporation	Docket No. 18-05-16	Return on Equity
Yankee Gas Services Co. d/b/a Eversource Energy	06/18	Yankee Gas Services Co. d/b/a Eversource Energy	Docket No. 18-05-10	Return on Equity
The Southern Connecticut Gas Company	06/17	The Southern Connecticut Gas Company	Docket No. 17-05-42	Return on Equity
The United Illuminating Company	07/16	The United Illuminating Company	Docket No. 16-06-04	Return on Equity
Federal Energy Regulatory Commission				
Florida Gas Transmission	02/21	Florida Gas Transmission	Docket No. RP21-441	Return on Equity
TransCanyon	01/21	TransCanyon	Docket No. ER21-1065	Return on Equity
Duke Energy	12/20	Duke Energy	Docket No. EL21-9-000	Return on Equity
Wisconsin Electric Power Company	08/20	Wisconsin Electric Power Company	Docket No. EL20-57-000	Return on Equity
Panhandle Eastern Pipe Line Company, LP	10/19	Panhandle Eastern Pipe Line Company, LP	Docket Nos. RP19-78-000 RP19-78-001	Return on Equity
Panhandle Eastern Pipe Line Company, LP	08/19	Panhandle Eastern Pipe Line Company, LP	Docket Nos. RP19-1523	Return on Equity
Sea Robin Pipeline Company LLC	11/18	Sea Robin Pipeline Company LLC	Docket# RP19-352-000	Return on Equity
Tallgrass Interstate Gas Transmission	10/15	Tallgrass Interstate Gas Transmission	RP16-137	Return on Equity
Idaho Public Utilities Commission				
PacifiCorp d/b/a Rocky Mountain Power	05/21	PacifiCorp d/b/a Rocky Mountain Power	Case No. PAC-E-21-07	Return on Equity
Illinois Commerce Commission				

SPONSOR	DATE	CASE/APPLICANT	DOCKET /CASE NO.	SUBJECT
North Shore Gas Company	02/21	North Shore Gas Company	No. 20-0810	Return on Equity
Indiana Utility Regulatory Commission				
Indiana Michigan Power Co.	07/21	Indiana Michigan Power Co.	IURC Cause No. 45576	Return on Equity
Indiana Gas Company Inc.	12/20	Indiana Gas Company Inc.	IURC Cause No. 45468	Return on Equity
Southern Indiana Gas and Electric Company	10/20	Southern Indiana Gas and Electric Company	IURC Cause No. 45447	Return on Equity
Indiana and Michigan American Water Company	09/18	Indiana and Michigan American Water Company	IURC Cause No. 45142	Return on Equity
Indianapolis Power and Light Company	12/17	Indianapolis Power and Light Company	Cause No. 45029	Fair Value
Northern Indiana Public Service Company	09/17	Northern Indiana Public Service Company	Cause No. 44988	Fair Value
Indianapolis Power and Light Company	12/16	Indianapolis Power and Light Company	Cause No.44893	Fair Value
Northern Indiana Public Service Company	10/15	Northern Indiana Public Service Company	Cause No. 44688	Fair Value
Indianapolis Power and Light Company	09/15	Indianapolis Power and Light Company	Cause No. 44576 Cause No. 44602	Fair Value
Kokomo Gas and Fuel Company	09/10	Kokomo Gas and Fuel Company	Cause No. 43942	Fair Value
Northern Indiana Fuel and Light Company, Inc.	09/10	Northern Indiana Fuel and Light Company, Inc.	Cause No. 43943	Fair Value
Iowa Department of Commerce Utilities Board				
Iowa-American Water Company	08/20	Iowa-American Water Company	Docket No. RPU-2020-0001	Return on Equity
Kansas Corporation Commission				
Atmos Energy Corporation	08/15	Atmos Energy Corporation	Docket No. 16-ATMG-079-RTS	Return on Equity
Kentucky Public Service Commission				
Kentucky American Water Company	11/18	Kentucky American Water Company	Docket No. 2018-00358	Return on Equity

SPONSOR	DATE	CASE/APPLICANT	DOCKET /CASE NO.	SUBJECT
Maine Public Utilities Commission				
Central Maine Power	10/18	Central Maine Power	Docket No. 2018-194	Return on Equity
Maryland Public Service Commission				
Maryland American Water Company	06/18	Maryland American Water Company	Case No. 9487	Return on Equity
Massachusetts Appellate Tax Board				
Hopkinton LNG Corporation	03/20	Hopkinton LNG Corporation	Docket No.	Valuation of LNG Facility
FirstLight Hydro Generating Company	06/17	FirstLight Hydro Generating Company	Docket No. F-325471 Docket No. F-325472 Docket No. F-325473 Docket No. F-325474	Valuation of Electric Generation Assets
Massachusetts Department of Public Utilities				
National Grid USA	11/20	Boston Gas Company	DPU 20-120	Return on Equity
Berkshire Gas Company	05/18	Berkshire Gas Company	DPU 18-40	Return on Equity
Unitil Corporation	01/04	Fitchburg Gas and Electric	DTE 03-52	Integrated Resource Plan; Gas Demand Forecast
Michigan Public Service Commission				
Michigan Gas Utilities Corporation	03/21	Michigan Gas Utilities Corporation	Case No. U-20718	Return on Equity
Wisconsin Electric Power Company	12/11	Wisconsin Electric Power Company	Case No. U-16830	Return on Equity
Michigan Tax Tribunal				
New Covert Generating Co., LLC.	03/18	The Township of New Covert Michigan	MTT Docket No. 000248TT and 16-001888-TT	Valuation of Electric Generation Assets
Covert Township	07/14	New Covert Generating Co., LLC.	Docket No. 399578	Valuation of Electric Generation Assets
Minnesota Public Utilities Commission				
CenterPoint Energy Resources	11/21	CenterPoint Energy Resources	D-G-008/GR-21-435	Return on Equity

SPONSOR	DATE	CASE/APPLICANT	DOCKET /CASE NO.	SUBJECT
Allete, Inc. d/b/a Minnesota Power	11/21	Allete, Inc. d/b/a Minnesota Power	D-E-015/GR-21-630	Return on Equity
Otter Tail Power Company	11/20	Otter Tail Power Company	E017/GR-20-719	Return on Equity
Allete, Inc. d/b/a Minnesota Power	11/19	Allete, Inc. d/b/a Minnesota Power	E015/GR-19-442	Return on Equity
CenterPoint Energy Resources Corporation d/b/a CenterPoint Energy Minnesota Gas	10/19	CenterPoint Energy Resources Corporation d/b/a CenterPoint Energy Minnesota Gas	G-008/GR-19-524	Return on Equity
Great Plains Natural Gas Co.	09/19	Great Plains Natural Gas Co.	Docket No. G004/GR-19-511	Return on Equity
Minnesota Energy Resources Corporation	10/17	Minnesota Energy Resources Corporation	Docket No. G011/GR-17-563	Return on Equity
Missouri Public Service Commission				
Ameren Missouri	03/21	Ameren Missouri	Docket No. ER-2021-0240 Docket No. GR-2021-0241	Return on Equity
Missouri American Water Company	06/20	Missouri American Water Company	Case No. WR-2020-0344 Case No. SR-2020-0345	Return on Equity
Missouri American Water Company	06/17	Missouri American Water Company	Case No. WR-17-0285 Case No. SR-17-0286	Return on Equity
Montana Public Service Commission				
Montana-Dakota Utilities Co.	06/20	Montana-Dakota Utilities Co.	D2020.06.076	Return on Equity
Montana-Dakota Utilities Co.	09/18	Montana-Dakota Utilities Co.	D2018.9.60	Return on Equity
New Hampshire - Board of Tax and Land Appeals				
Public Service Company of New Hampshire d/b/a Eversource Energy	11/19 12/19	Public Service Company of New Hampshire d/b/a Eversource Energy	Master Docket No. 28873-14-15-16-17PT	Valuation of Utility Property and Generating Assets

SPONSOR	DATE	CASE/APPLICANT	DOCKET /CASE NO.	SUBJECT
New Hampshire Public Utilities Commission				
Public Service Company of New Hampshire	05/19	Public Service Company of New Hampshire	DE-19-057	Return on Equity
New Hampshire-Merrimack County Superior Court				
Northern New England Telephone Operations, LLC d/b/a FairPoint Communications, NNE	04/18	Northern New England Telephone Operations, LLC d/b/a FairPoint Communications, NNE	220-2012-CV-1100	Valuation of Utility Property
New Hampshire-Rockingham Superior Court				
Eversource Energy	05/18	Public Service Commission of New Hampshire	218-2016-CV-00899 218-2017-CV-00917	Valuation of Utility Property
New Jersey Board of Public Utilities				
Public Service Electric and Gas Company	10/20	Public Service Electric and Gas Company	EO18101115	Return on Equity
New Jersey American Water Company, Inc.	12/19	New Jersey American Water Company, Inc.	WR19121516	Return on Equity
Public Service Electric and Gas Company	04/19	Public Service Electric and Gas Company	EO18060629 GO18060630	Return on Equity
Public Service Electric and Gas Company	02/18	Public Service Electric and Gas Company	GR17070776	Return on Equity
Public Service Electric and Gas Company	01/18	Public Service Electric and Gas Company	ER18010029 GR18010030	Return on Equity
New Mexico Public Regulation Commission				
Southwestern Public Service Company	07/19	Southwestern Public Service Company	19-00170-UT	Return on Equity
Southwestern Public Service Company	10/17	Southwestern Public Service Company	Case No. 17-00255-UT	Return on Equity
Southwestern Public Service Company	12/16	Southwestern Public Service Company	Case No. 16-00269-UT	Return on Equity
Southwestern Public Service Company	10/15	Southwestern Public Service Company	Case No. 15-00296-UT	Return on Equity
Southwestern Public Service Company	06/15	Southwestern Public Service Company	Case No. 15-00139-UT	Return on Equity
New York State Department of Public Service				

SPONSOR	DATE	CASE/APPLICANT	DOCKET /CASE NO.	SUBJECT
Corning Natural Gas Corporation	07/21	Corning Natural Gas Corporation	Case No. 21-G-0394	Return on Equity
Central Hudson Gas and Electric Corporation	08/20	Central Hudson Gas and Electric Corporation	Electric 20-E-0428 Gas 20-G-0429	Return on Equity
Niagara Mohawk Power Corporation	07/20	National Grid USA	Case No. 20-E-0380 20-G-0381	Return on Equity
Corning Natural Gas Corporation	02/20	Corning Natural Gas Corporation	Case No. 20-G-0101	Return on Equity
New York State Electric and Gas Company Rochester Gas and Electric	05/19	New York State Electric and Gas Company Rochester Gas and Electric	19-E-0378 19-G-0379 19-E-0380 19-G-0381	Return on Equity
Brooklyn Union Gas Company d/b/a National Grid NY KeySpan Gas East Corporation d/b/a National Grid	04/19	Brooklyn Union Gas Company d/b/a National Grid NY KeySpan Gas East Corporation d/b/a National Grid	19-G-0309 19-G-0310	Return on Equity
Central Hudson Gas and Electric Corporation	07/17	Central Hudson Gas and Electric Corporation	Electric 17-E-0459 Gas 17-G-0460	Return on Equity
Niagara Mohawk Power Corporation	04/17	National Grid USA	Case No. 17-E-0238 17-G-0239	Return on Equity
Corning Natural Gas Corporation	06/16	Corning Natural Gas Corporation	Case No. 16-G-0369	Return on Equity
National Fuel Gas Company	04/16	National Fuel Gas Company	Case No. 16-G-0257	Return on Equity
KeySpan Energy Delivery	01/16	KeySpan Energy Delivery	Case No. 15-G-0058 Case No. 15-G-0059	Return on Equity
New York State Electric and Gas Company Rochester Gas and Electric	05/15	New York State Electric and Gas Company Rochester Gas and Electric	Case No. 15-E-0283 Case No. 15-G-0284 Case No. 15-E-0285 Case No. 15-G-0286	Return on Equity
North Dakota Public Service Commission				
Montana-Dakota Utilities Co.	08/20	Montana-Dakota Utilities Co.	C-PU-20-379	Return on Equity
Northern States Power Company	12/12	Northern States Power Company	C-PU-12-813	Return on Equity

SPONSOR	DATE	CASE/APPLICANT	DOCKET /CASE NO.	SUBJECT
Northern States Power Company	12/10	Northern States Power Company	C-PU-10-657	Return on Equity
Oklahoma Corporation Commission				
Arkansas Oklahoma Gas Corporation	01/13	Arkansas Oklahoma Gas Corporation	Cause No. PUD 201200236	Return on Equity
Oregon Public Service Commission				
PacifiCorp d/b/a Pacific Power & Light	02/20	PacifiCorp d/b/a Pacific Power & Light	Docket No. UE-374	Return on Equity
Pennsylvania Public Utility Commission				
American Water Works Company Inc.	04/20	Pennsylvania-American Water Company	Docket No. R-2020-3019369 (water) Docket No. R-2020-3019371 (wastewater)	Return on Equity
American Water Works Company Inc.	04/17	Pennsylvania-American Water Company	Docket No. R-2017-2595853	Return on Equity
South Dakota Public Utilities Commission				
Northern States Power Company	06/14	Northern States Power Company	Docket No. EL14-058	Return on Equity
Texas Public Utility Commission				
Southwestern Public Service Commission	08/19	Southwestern Public Service Commission	Docket No. D-49831	Return on Equity
Southwestern Public Service Company	01/14	Southwestern Public Service Company	Docket No. 42004	Return on Equity
Utah Public Service Commission				
PacifiCorp d/b/a Rocky Mountain Power	05/20	PacifiCorp d/b/a Rocky Mountain Power	Docket No. 20-035-04	Return on Equity
Virginia State Corporation Commission				
Virginia American Water Company, Inc.	11/21	Virginia American Water Company, Inc.	Docket No. PUR-2021-00255	Return on Equity
Virginia American Water Company, Inc.	11/18	Virginia American Water Company, Inc.	Docket No. PUR-2018-00175	Return on Equity
Washington Utilities Transportation Commission				
Cascade Natural Gas Corporation	06/20	Cascade Natural Gas Corporation	Docket No. UG-200568	Return on Equity

SPONSOR	DATE	CASE/APPLICANT	DOCKET /CASE NO.	SUBJECT
PacifiCorp d/b/a Pacific Power & Light	12/19	PacifiCorp d/b/a Pacific Power & Light	Docket No. UE-191024	Return on Equity
Cascade Natural Gas Corporation	04/19	Cascade Natural Gas Corporation	Docket No. UG-190210	Return on Equity
West Virginia Public Service Commission				
West Virginia American Water Company	04/21	West Virginia American Water Company	Case No. 21-02369-W-42T	Return on Equity
West Virginia American Water Company	04/18	West Virginia American Water Company	Case No. 18-0573-W-42T Case No. 18-0576-S-42T	Return on Equity
Wisconsin Public Service Commission				
Wisconsin Electric Power Company and Wisconsin Gas LLC	03/19	Wisconsin Electric Power Company and Wisconsin Gas LLC	Docket No. 05-UR-109	Return on Equity
Wisconsin Public Service Corp.	03/19	Wisconsin Public Service Corp.	6690-UR-126	Return on Equity
Wyoming Public Service Commission				
PacifiCorp d/b/a Rocky Mountain Power	03/20	PacifiCorp d/b/a Rocky Mountain Power	Docket No. 20000-578-ER-20	Return on Equity
Montana-Dakota Utilities Co.	05/19	Montana-Dakota Utilities Co.	30013-351-GR-19	Return on Equity

BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

In the Matter of Evergy Metro, Inc. d/b/a Evergy Missouri Metro's Request for Authority to Implement a General Rate Increase for Electric Service	))))	**File No. ER-2022-0129** Tracking Nos. YE-2022-0200 and YE-2022-0201
In the Matter of Evergy Missouri West, Inc. d/b/a Evergy Missouri West's Request for Authority to Implement a General Rate Increase for Electric Service	))))	**File No. ER-2022-0130** Tracking No. YE-2022-0202

REPORT AND ORDER

Issue Date: November 21, 2022

Effective Date: December 6, 2022

TABLE OF CONTENTS

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VELVET TECH SERVICES, LLC

Stephanie S. Bell, 308 E. High Street, Suite 300, Jefferson City, Missouri 65101

Regulatory Law Judge: Charles Hatcher

REPORT AND ORDER

Procedural History

On January 7, 2022, Evergy Metro, Inc. (EMM) and Evergy Missouri West, Inc. (EMW) (together, "Evergy") each submitted tariff sheets to produce net increases in their electric base rates, resulting in the two above captioned files. EMM requested a net increase in its electric base rates of approximately $43.9 million, an increase of 5.20%. EMW requested a net increase in its electric base rates of approximately $27.7 million, an increase of 3.85%. The cases have not been consolidated, but have had joint filings and a joint evidentiary hearing.[1]

The Commission set the test year in both files to be the twelve month period ending June 30, 2021, updated through December 31, 2021, with the true-up period ending on May 31, 2022. To allow sufficient time to study the effect of the tariff sheets and to determine if the rates established by those sheets are just, reasonable, and in the public interest, both EMM's and EMW's submitted tariff sheets were suspended until December 6, 2022.[2]

The Commission directed notice of the filings and set an intervention deadline. The Commission granted requests to intervene in both File No. ER-2022-0129 and File No. ER-2022-0130 to the following entities: ChargePoint, Inc.; Missouri Energy Consumers Group (MECG); Renew Missouri Advocates; Sierra Club; Google, LLC; and Missouri Industrial Energy Consumers (MIEC). The following four additional parties were permitted to intervene in File No. ER-2022-0130: the City of St. Joseph; Velvet Tech Services, LLC; Dogwood Energy, LLC; and Nucor Steel Sedalia, LLC.

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[1] 20 CSR 4240-2.110(3).
[2] Date references are to 2022 unless otherwise noted.

A series of five virtual public hearings were held from August 8 to August 10.[3] An evidentiary hearing was held from August 31 to September 9.[4] Prefiled testimony was given in addition to testimony taken during the evidentiary hearing. Initial post-hearing briefs were filed on October 14, and reply briefs on October 21.[5]

On various dates before and during the evidentiary hearing, the parties submitted four stipulations and agreements, which were approved by the Commission.[6] After the Commission approved the agreements, as presented by the parties, nine issues still remained unresolved. One issue, referenced as the Plant-In-Service Act (PISA) deferral issue, has been made moot as the Commission addressed it in a separate case, File No. ER-2023-0011.[7] This Report and Order addresses the eight remaining issues.

General Findings of Fact

1. EMM and EMW are two affiliated, certificated Missouri "electrical corporation[s]" and "public utilit[ies]" as those terms are defined at Section 386.020, RSMo (Supp. 2021). EMM and EMW generally serve the western half of Missouri.[8]

2. EMM serves approximately 301,200 customers in the Kansas City metropolitan area and surrounding cities of Missouri.[9]

[3] Transcript Volume (Tr. Vol.) 2-6.
[4] Tr. Vol. 7-13.
[5] With the exception of MECG which was granted leave to file and filed its reply brief on October 22.
[6] *Order Approving Four Partial Stipulations and Agreements*, issued September 22, 2022.
[7] File No. ER-2023-0011, *In the Matter of the Application of Evergy Missouri West, Inc. d/b/a Evergy Missouri West for Authority to Implement Rate Adjustments Required by 20 CSR 4240-20.090(8) and the Company's Approved Fuel and Purchased Power Cost Recovery Mechanism,* Report and Order, effective November 19, 2022.
[8] Ex. 39 (EMM), Ives Direct, p. 5; and Ex. 113 (EMW), Ives Direct, p. 5.
[9] Ex. 39, Ives Direct, p. 5; and Ex. 113, Ives Direct, p. 5.

3. EMW serves approximately 337,000 customers in the western and northwestern counties of Missouri, including the cities of Lee's Summit, St. Joseph, and Sedalia.[10]

4. Kansas City Power & Light (KCP&L) and Aquila were separate utilities prior to their merger in 2008. Following the merger, Aquila was renamed KCP&L Greater Missouri Operations (GMO). The former companies continued to operate as separate utilities with Great Plains Energy Inc. (GPE) acting as the holding company for the stock of both utilities. In 2018, GPE merged with Westar Energy Inc., with KCP&L and GMO being subsidiaries of the combined company. KCP&L and GMO later became Evergy Missouri Metro (EMM) and Evergy Missouri West (EMW).[11] Although some referenced documents in the present case may still include former company names, for convenience this order will refer to the current monikers of EMM, EMW, Evergy when combined, or the Company.

5. The Office of the Public Counsel (OPC) is a party to this case pursuant to Section 386.710(2), RSMo (2016) and by Commission Rule 20 CSR 4240-2.010(10).

6. The Staff of the Commission (Staff) is a party to this case pursuant to Commission Rule 20 CSR 4240-2.010(10).

7. The parties presented eight issues for determination by the Commission, listed below:

a. Sibley;
b. AMI-SD;
c. Subscription Pricing;
d. Rate Design/Class Cost of Service;

[10] Ex. 39, Ives Direct, pp. 5-6; and Ex. 113, Ives Direct, pp. 5-6.
[11] *See generally* File No. EM-2018-0012, *Report and Order* issued May 24, 2018; File No. EM-2016-0324, Staff's Investigation Report filed July 25, 2016; and File No. EM-2007-0374, *Report and Order* issued July 1, 2008.

e. Rate Base;
f. Resource Planning;
g. Streetlighting;
h. CNPPID PPA (Hydro PPA).[12]

8. By a Commission approved stipulation and agreement, the EMM revenue requirement has been set at $25.0 million and the revenue requirement for EMW has been set at $42.5 million.[13] These revenue requirement amounts may be affected by the decisions of the Commission in this Order, which the parties acknowledged in the stipulation by stating "Resolution of [the remaining disputed] issues will have an impact on the revenue requirement."[14]

9. Cost causation is the principle that costs should be borne by those who cause them to be incurred.[15]

General Conclusions of Law

A. EMM and EMW are public utilities and electrical corporations as those terms are defined in Subsections 386.020(15) and (43), RSMo (Supp. 2021). By the terms of the statute, EMM and EMW are electrical corporations and are subject to regulation by the Commission pursuant to Chapters 386 and 393, RSMo.

B. The Commission's subject matter jurisdiction over EMM and EMW's rate increase requests is established under Section 393.150, RSMo.

C. EMM and EMW can charge only those amounts set forth in their tariffs.[16]

D. Subsection 393.140(11), RSMo, gives the Commission authority to regulate the rates EMM and EMW may charge customers for electric service.

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[12] Order of Witnesses, filed August 30, 2022.
[13] Order Approving Four Partial Stipulations and Agreements, issued September 22, 2022, para. 1.
[14] Stipulation and Agreement, filed August 30, 2022, para. 1.
[15] Tr. Vol. 13, p. 943 (referencing the definition given in the book *Energy Utility Rate Setting* by Lowell E. Alt, Jr.).
[16] Sections 393.130 and 393.140, RSMo.

E. Utilities are required to provide safe and adequate service.[17]

F. In determining the rates EMM and EMW may charge their customers, the Commission is required to determine whether the proposed rates are just and reasonable.[18]

G. EMM and EMW have the burden of proving the proposed rates are just and reasonable, pursuant to Section 393.150.2, RSMo, "[a]t any hearing involving a rate sought to be increased, the burden of proof to show that the increased rate or proposed increased rate is just and reasonable shall be upon the . . . electrical corporation . . . ."

H. In order to carry their burden of proof, EMM and EMW must meet the preponderance of the evidence standard.[19] In order to meet this standard, EMM and EMW must convince the Commission it is "more likely than not" that the proposed rate increases are just and reasonable.[20]

I. Witness credibility is solely a matter for the fact-finder, "which is free to believe none, part, or all of the testimony."[21]

J. Generally, one's belief, feeling, understanding, or thought about a matter does not constitute substantial evidence justifying or permitting a finding to that effect.[22]

K. In determining whether the rates proposed by EMM and EMW are just and reasonable, the Commission must balance the interests of the investor and the

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[17] Sections 393.130 and 393.140, RSMo.
[18] Section 393.150.2, RSMo.
[19] *Bonney v. Environmental Engineering, Inc.*, 224 S.W.3d 109, 120 (Mo. App. 2007); *State ex rel. Amrine v. Roper*, 102 S.W.3d 541, 548 (Mo. banc 2003); *Rodriguez v. Suzuki Motor Corp.*, 936 S.W.2d 104, 110 (Mo. banc 1996), citing to, *Addington v. Texas*, 441 U.S. 418, 423, 99 S.Ct. 1804, 1808, 60 L.Ed.2d 323, 329 (1979).
[20] *Holt v. Director of Revenue, State of Mo.*, 3 S.W.3d 427, 430 (Mo. App. 1999); *McNear v. Rhoades*, 992 S.W.2d 877, 885 (Mo. App. 1999); *Rodriguez v. Suzuki Motor Corp.*, 936 S.W.2d 104, 109-111 (Mo. banc 1996); *Wollen v. DePaul Health Center*, 828 S.W.2d 681, 685 (Mo. banc 1992).
[21] *State ex rel. Public Counsel v. Missouri Public Service Comm'n*, 289 S.W.3d 240, 247 (Mo. App. 2009).
[22] *Dickey Co. v. Kanan,* 537 S.W.2d 430, 433-34 (Mo.App.1976).

consumer.[23] In discussing the need for a regulatory body to institute just and reasonable rates, the United States Supreme Court has held as follows:

> Rates which are not sufficient to yield a reasonable return on the value of the property used at the time it is being used to render the services are unjust, unreasonable and confiscatory, and their enforcement deprives the public utility company of its property in violation of the Fourteenth Amendment.[24]

In the same case, the Supreme Court provided the following guidance on what is a just and reasonable rate:

> What annual rate will constitute just compensation depends upon many circumstances and must be determined by the exercise of a fair and enlightened judgment, having regard to all relevant facts. A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market and business conditions generally.[25]

The Supreme Court has further indicated:

> '**[R]egulation does not insure that the business shall produce net revenues.**' But such considerations aside, the investor interest has a legitimate concern with the financial integrity of the company whose rates are being regulated. From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock. By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure

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[23] *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 603, (1944).
[24] *Bluefield Water Works & Improvement Co. v. Public Service Commission of the State of West Virginia*, 262 U.S. 679, 690 (1923).
[25] *Bluefield,* at 692-93.

confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.[26]

L. Furthermore, in quoting the United States Supreme Court in *Hope Natural Gas*, the Missouri Court of Appeals said:

> [T]he Commission [is] not bound to the use of any single formula or combination of formulae in determining rates. Its rate-making function, **moreover, involves the making of 'pragmatic adjustments.' ... Under the statutory standard of 'just and reasonable' it is the result reached, not the** method employed which is controlling. It is not theory but the impact of the rate order which counts.[27]

M. An administrative agency, as fact finder, also receives deference when choosing between conflicting evidence.[28]

N. **The Commission's interpretation of statutes within its purview are entitled** to great weight.[29]

SIBLEY (EMW ONLY)

Findings of Fact:

Sibley Retirement Prudence

10. The Sibley Generating Station (Sibley) was a coal-fired power-generating plant consisting of three units built during the 1960s.[30]

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[26] *Federal Power Commission v. Hope Natural Gas Co.,* 320 U.S. 591, 603 (1944) (citations omitted).
[27] ***State ex rel. Associated Natural Gas Co. v. Pub. Serv. Comm'n***, 706 S.W. 2d 870, 873 (Mo. App. W.D. 1985).
[28] *State ex rel. Missouri Office of Public Counsel v. Public Service Comm'n of State*, 293 S.W.3d 63, 80 (Mo. App. 2009).
[29] *State ex rel. Sprint Mo., Inc. v. Pub. Serv. Comm'n of State*, 165 S.W.3d 160, 164 (Mo. banc 2005) (citing *Foremost–McKesson, Inc. v. Davis*, 488 S.W.2d 193, 197 (Mo. banc 1972)).
[30] Ex. 113, Ives Direct, p. 30.

11. Two projects extended the depreciable life for approximately 20 years – to 2040.[31] Those projects consist of a 1991 plant conversion to burn low-sulfur coal, and the installation of scrubbers to Unit 3 in 2009.[32]

12. During the time period of January 2015 through November 2016, Sibley Unit 3 supplied 35% of EMW's energy needs.[33]

13. The depreciation study filed in February 2016 in EMW's rate case, File No. ER-2016-0156, was based on the assets in service as of December 31, 2014 (2014 Depreciation Study). The 2014 Depreciation Study included a projected end of depreciable life date of December 31, 2019, for Sibley Units 1 and 2, and December 31, 2040, for Unit 3 and the Sibley common plant.[34]

14. EMW's 2012 Integrated Resource Plan (IRP) shows the retirement of Sibley Units 1 and 2 occurring in 2017 as part of EMW's Preferred Plan.[35]

15. EMW's 2013 and 2014 IRP Annual Updates move the proposed retirement date to 2019.[36]

16. EMW's 2015 IRP shows that Sibley Units 1 and 2 will stop burning coal in 2019.[37]

17. On January 20, 2015, Evergy issued a press release announcing that EMW would stop burning coal at Sibley Units 1 and 2 by December 31, 2019.[38]

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[31] Ex. 113, Ives Direct, p. 30.
[32] Ex. 114, Kennedy Direct, p. 12.
[33] Ex. 308, Marke Surrebuttal, p. 65.
[34] Ex. 114, Kennedy Direct, pp. 27-28.
[35] Ex. 113, Ives Direct, p. 31.
[36] Ex. 113, Ives Direct, p. 31.
[37] Ex. 113, Ives Direct, p. 31.
[38] Ex. 114, Kennedy Direct, pp. 24-25.

18. EMW's 2016 IRP Annual Update restates that Sibley Units 1 and 2 will stop burning coal 2019.[39]

19. EMW's 2017 IRP Annual Update set forth a fuller retirement plan. The retirement of Sibley Units 2 and 3 (including the Unit 1 boiler and common plant) by 2019 reflected the lowest cost plan from a net present value of revenue requirement (NPVRR) perspective. Those retirements on that timeline would result in a savings of $282 million over the 2016 IRP, which would make it the lowest cost alternative on an expected value basis.[40]

20. EMW's modeling for the 2017 IRP Annual Update showed that retiring Sibley Unit 3 reduced costs for EMW customers across all 18 modeled scenarios – regardless of load, gas price, or carbon-dioxide (CO_2) price assumption.[41]

21. The economic evaluation conducted through the IRP process took EMW's projected load growth and specific generation supply portfolio into consideration when the retirement decision was made.[42]

22. EMW determined through the IRP process that the retirement of Sibley would reduce the long-term NPVRR and therefore reduce costs to customers going forward as opposed to continuing to operate the plant. The retirement of Sibley Units 1 and 2 in 2017 were first shown to reduce NPVRR in Evergy's 2012 IRP. The retirement of Sibley Unit 3 in 2018 was first shown to reduce NPVRR in Evergy's 2017 IRP Annual Update.[43]

[39] Ex. 113, Ives Direct, p. 31.
[40] Ex. 113, Ives Direct, p. 31.
[41] Ex. 113, Ives Direct, p. 31.
[42] Ex. 56, Messamore Rebuttal, p. 4.
[43] Ex. 56, Messamore Rebuttal, p. 4.

23. On June 2, 2017, EMW announced by press release it would retire Sibley Units 2 and 3 (including the Unit 1 boiler and common plant) by 2018. The stated factors for the retirement were: the reduction in wholesale electricity market prices; a reduction in the required reserve generating capacity; a decline in near-term capacity needs; the age of the Sibley units; and expected environmental compliance costs.[44]

24. In January 2018, EMW filed a general rate case which included Sibley in rate base as the plant was in operation and expected to be in operation at the true-up date of that rate case, June 30, 2018.[45]

25. **EMW's 2018 IRP,** filed in April of that year, states that Sibley Units 2 and 3 will retire at the end of 2018.[46]

26. On September 5, 2018, Unit 3 tripped and went off-line due to a turbine vibration event. EMW made a required non-case related filing in the Commission's Electronic Filing and Information System (EFIS) on September 6, 2018, and a follow-up non-case related EFIS filing on September 12, 2018, indicating that a preliminary analysis showed the likely impact of the turbine vibration was a repair costing over $200,000.[47]

27. EMW subsequently conducted a root cause analysis of the Sibley Unit 3 turbine vibration event which included an evaluation of the time and expense to repair the unit. The estimated cost to repair was $2.21 million.[48]

[44] Ex. 113, Ives Direct, p. 32.
[45] Ex. 113, Ives Direct, p. 32. **EMW's filed general rate case is** File No. ER-2018-0146.
[46] Ex. 113, Ives Direct, p. 33.
[47] Ex. 113, Ives Direct, p. 33.
[48] Ex. 113, Ives Direct, p. 33.

28. EMW estimated that $54 million in capital costs would have been required to keep Sibley operational in the short term, including a submerged flight conveyer, new ash pond, auxiliary boiler, and generator rewind.[49]

29. EMW estimated the operation and maintenance (O&M) costs to keep Sibley operational would have been $28 million per year.[50]

30. The costs to keep Sibley in operation exceeded the benefits. The energy benefits did not always cover total fuel costs. Sibley's average annual SPP margins from 2015 to 2017 were only approximately $4 million. The future capital investment and O&M required to keep the plant operational was forecasted to be $165 million between 2018 and 2021.[51]

31. The EMW Vice President of Generation Operations sent two internal emails regarding the retirement of Sibley on October 2, 2018.[52]

32. The first internal Evergy email of October 2, 2018, states in pertinent part, "It is our intention to cease burning coal and move to decommissioning activities. Upon receipt of this email Robert Hollinsworth will contact Eric Peterson to notify [Southwest Power Pool (SPP)] and will contact Randy Adams at Local 412. I will forward this email to the rest of the Evergy officer team."[53]

33. The second internal Evergy email of October 2, 2018, states in pertinent part, "This email is to let the Evergy officer team know the direction being taken following a turbine trip due to vibration on Sibley Unit 3. Following a comprehensive evaluation of

[49] Ex. 113, Ives Direct, p. 38.
[50] Ex. 113, Ives Direct, p. 38.
[51] Ex. 56, Messamore Rebuttal, pp. 6-7.
[52] Ex. 134 Data Requests and email string from File No. EC-2019-0200, pp. 4-5 of 15.
[53] Ex. 134 Data Requests and email string from File No. EC-2019-0200, p. 5 of 15.

options we have determined the safest and most economical solution is to cease burning coal at the station and to move the remaining coal currently on the ground to Iatan."[54]

34. An internal reply to the October 2 email was made on October 3, 2018, by **Evergy's chief operating officer** (and supervisor to the sender of the October 2 email).[55] That reply states in pertinent part, **"We will plan to review such recommendation at the** CEO Staff meeting on October 15 in advance of a comparable review with the Evergy **Board at the Operations Committee and full Board meeting later this month. Once we've** reviewed with the Board, we can then circle back with the management team to review any feedback received and make a final decision."[56]

35. On November 1, 2018, EMW held meetings with Staff and OPC to discuss the turbine vibration event and potential retirement later that month.[57]

36. On November 10, 2018, the sender of the October 2 email writes that he has received feedback from recent management and Board meetings. He states his plan to move forward with a formal retirement of Sibley, and asks that any objections be raised by the end of the business day November 12, 2018.

37. On November 13, 2018, EMW retired Sibley.[58]

38. **The manual titled "Public Utility Depreciation Rates" published by the National Association of Regulatory Utility Commissioners (NARUC) states, "Ordinary** retirements are caused by such factors as wear and tear, decay, action of the elements, **inadequacy, obsolescence, changes in the art, and changes in demand."**[59]

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[54] Ex. 134 Data Requests and email string from File No. EC-2019-0200, p. 4 of 15.
[55] Tr. Vol. 8, p. 178.
[56] Ex. 134 Data Requests and email string from File No. EC-2019-0200, p. 3 of 15.
[57] Ex. 113, Ives Direct, p. 33.
[58] Ex. 113, Ives Direct, p. 33.
[59] Ex. 114, Kennedy Direct, p. 18.

39. EMM retired Montrose Unit 1 in 2016 and Montrose Units 2 and 3, including common plant, on December 31, 2018. These retirements were driven by results of the IRP process and were announced on June 2, 2017 (which updated the prior retirement announcement of January 20, 2015). EMW retired Sibley 1 except for the boiler in June 2017 and the remainder of Sibley 1 and Sibley 2 in 2018 when Unit 3 was retired. All of these retirements were considered in IRP filings before retirement and were demonstrated to result in the lowest NPVRR for Missouri customers.[60]

40. Sibley provided service for 50 to 60 years, representing a major portion of the expected life of the assets. At the time of retirement, the majority of remaining net book value (NBV) was related to the 1991 and 2009 environmental retrofits.[61]

41. NBV is the initial plant in service amount less accumulated depreciation.[62]

42. Increasing the accumulated depreciation reserve reduces NBV and return while decreasing the accumulated depreciation reserve would increase NBV and return.[63]

43. The pace of the developments in renewable technology; a decline in the social acceptance of coal-fired generation; and the onset of federal, state, local and customer carbon-free emission targets changed the economics of Sibley for customers.[64]

44. The retirement of Sibley Unit 3 and the Sibley common property in 2018 was the result of a number of factors including, the economics of the plant, the changes in technology providing for the economic development of cleaner generation (for example the introduction of economically feasible solar and wind generation), national

[60] Ex. 114, Kennedy Direct, p. 22.
[61] Ex. 114, Kennedy Direct, p. 23.
[62] Tr. Vol. 8, p. 209.
[63] Tr. Vol. 8, pp. 209-210.
[64] Ex. 114, Kennedy Direct, p. 23.

environmental requirements, and the changes in the social acceptance of coal fired generation. Evergy states that all of these impacts greatly accelerated in the time between the completion of the 2014 Depreciation Study and late 2018.[65]

45. OPC witness Dr. Marke admitted that the Sibley retirement provided clear environmental and health related benefits.[66]

46. Staff does not dispute the prudence of the decision to retire Sibley.[67]

Sibley AAO

47. Since the Sibley Units 2 and 3 were formally retired after the true-up date in **EMW's general rate case,** File No. ER-2018-**0146, EMW's authorized rates from that rate** case would normally include costs, revenues, and investment associated with the Sibley units.[68]

48. **The largest component of Sibley's undepreciated investment was the** pollution control equipment installed in 2009 to meet clean air requirements,[69]

49. At the time of retirement, Sibley Unit 3 and the Sibley common property were no longer producing energy or expected to produce energy for Evergy. Sibley was no longer used and useful.[70]

50. Generally, the accounting for removal from plant-in-service upon retirement would be to credit the book value of the asset and debit the accumulated reserve.[71]

51. Subsequent to the completion of the 2018 general rate case, and due to the timing of the Sibley retirement, OPC and MECG filed a request for an Accounting

[65] Ex. 114, Kennedy Direct, p. 28.
[66] Tr. Vol. 8, p. 267.
[67] Ex. 269, Majors Surrebuttal and True-Up Direct, p. 2.
[68] Ex. 400, Meyer Direct, p. 9.
[69] Ex. 114, Kennedy Direct, p. 27.
[70] Ex. 400, Meyer Direct, p. 10.
[71] Ex. 218, Majors Direct, p. 13.

Authority Order (AAO) to create a regulatory deferral account for costs and revenues related to Sibley.[72]

52. The Commission granted the AAO request in File No. EC-2019-0200.[73]

53. The Report and Order in the AAO case, states: "The estimated net book value of each Sibley unit and the common assets at Sibley as of June 30, 2018, as calculated by GMO's witness, is $145.7 million. Public Counsel's witness estimated that net book value at $160 million, while MECG's witness estimated that value at $300 million."[74]

54. In the present case, the parties have presented three amounts representing the unrecovered NBV of Missouri jurisdictional Sibley plant using one of three different Commission cases as starting points: [75]

Evergy	$145.2 million at 6/30/2018	EC-2019-0200
Staff	$145.2 million at 6/30/2018	EC-2019-0200
OPC	$190.8 million at 6/30/2018	ER-2016-0156
MECG	$300 million at 6/30/2018	ER-2018-0146

55. Evergy witness Spanos did not file testimony in the 2018 rate case, File No. ER-2018-0146.[76]

56. The approximate $145.2 million Sibley NBV proposed by Evergy in this rate case has not been used to set rates before.[77]

[72] File No. EC-2019-0200, Petition for an Accounting Order, filed January 2, 2019.
[73] File No. EC-2019-0200, Report and Order, filed October 17, 2019.
[74] EC-2019-0200, Report and Order, page 9.
[75] Ex. 310, Robinett Rebuttal, pp. 14-17; Ex. 261, Cunigan Surrebuttal, p. 10.
[76] Tr. Vol. 8, p. 337.
[77] Tr. Vol. 8, p. 205.

57. **Evergy witness Spanos' unit and locational calculations** filed in File No. EC-2019-0200 would not have impacted the aggregate balances that were used to set rates in the last rate case even if he had filed testimony.[78]

58. **Evergy witness Spanos' testimony in** File No. EC-2019-0200 based accumulated depreciation reserve calculations on an expected retirement of November 2018 for all Sibley units.[79]

59. The reallocation of the accumulated depreciation reserves from other EMW steam plants to Sibley by EMW occurred at the time Sibley was being removed from the account balance.[80]

60. The depreciation rate would be affected by increasing or decreasing the accumulated depreciation reserve balance given the same time frame.[81]

61. Parties in the current rate case stipulated to depreciation rates for the remaining EMW steam plants; latan, Jeffrey Energy Center and Lake Road identical to the depreciation rates previously authorized by the Commission.[82]

62. The True-Up Accounting Schedules in File No. ER-2018-0146 recorded plant in service and accumulated depreciation reserve at June 30, 2018, with Sibley still in service.[83]

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[78] Tr. Vol. 8, p. 222.
[79] Ex. 133, Spanos Rebuttal, EC-2019-0200, p. 3.
[80] Tr. Vol. 8, p. 253-254.
[81] Tr. Vol. 8, p. 255.
[82] *Order Approving Four Partial Stipulations and Agreements*, issued September 22, 2022; and Ex. 252, Staff Accounting Schedules.
[83] Ex. 310, Robinett Rebuttal, p. 15 and Schedule JAR-R-3.

63. Staff and Evergy workpapers are $2 different on plant-in-service (or original cost) and $1 different on accumulated depreciation reserves. Total difference between Staff and Evergy's true-up positions is $3.00.[84]

64. The total Sibley plant-in-service (or original cost) at June 30, 2018 was $478,109,210 with Missouri jurisdictional Sibley plant totaling $476,483,639.[85]

65. Depreciation rates and accumulated depreciation reserves can be calculated many ways. The remaining life technique uses the net plant of surviving plant less book depreciation reserve as the depreciable cost and uses the average remaining service life of the assets. The whole life technique is where the depreciation cost is only the original cost spread out evenly over the average service life of the assets.[86]

66. The 2014 Depreciation Study included Sibley life extensions to 2040.[87]

67. Evergy's calculations resulted in the book reserve (accumulated depreciation) associated with Sibley as of June 30, 2018, as approximately $327.2 million which produced a NBV of approximately $145.7 million.[88]

68. Evergy witness Spanos' assignment of the actual book reserve to the location level in his File No. EC-2019-0200 depreciation analysis is based on the recovery and age of those assets. The only way to calculate book reserve when shifting from the location level to the vintage level is based on theoretically assigning the book reserve to the vintage level based on the age of the dollars (asset).[89]

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[84] Ex. 310, Robinett Rebuttal, p. 16.
[85] Ex.402, Meyer Surrebuttal, Schedule GRM-1, p. 1.
[86] Ex. 209, Cunigan Direct, pp. 4-5.
[87] Tr. Vol. 8, pp. 133-134.
[88] Ex. 72, Spanos Rebuttal, pp. 21-22.
[89] Tr. Vol. 8, p. 325.

69. A theoretical reserve calculation is a snapshot in time that does not trace any collection of depreciation expense on any asset. The calculation assumes that all the prior depreciation expense was adequate, but it does not look at what was actually collected in rates.[90]

70. Evergy witness Spanos agreed that a theoretical reserve calculation should not be the basis of calculating depreciation reserve; however, it should be a basis of how to assign the depreciation reserve to the vintage level based on the ages of the asset.[91]

71. Staff first recommended a remaining NBV of $145.6 million, but subsequently recommended $300 million if no additional evidence supportive of the $145.6 million was presented.[92]

72. Staff witness Majors testified that although Mr. Spanos briefly explains the theoretical reserve method of calculating this amount ($145.6 million), there is no clear reasoning why this method is superior to the allocated reserve amount included in the 2018 rate case.[93]

73. Staff witness Majors did a high-level analysis of Sibley plant and accumulated depreciation reserve going back to 2004 (File No. ER-2004-0034) calculating an approximate NBV of $234 million using approved depreciation rates and Staff accounting schedules plant in service amounts. His analysis ended at the 2018 rate case.[94]

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[90] Tr. Vol. 8, pp. 314-315.
[91] Tr. Vol. 8, p. 325.
[92] Ex. 254, Majors Rebuttal, p. 4.
[93] Ex. 254, Majors Rebuttal, p. 5.
[94] Tr. Vol. 8, p. 216.

74. Staff witness Majors was unable to independently calculate the approximate $145 million NBV proposed by EMW.[95]

75. The $145.7 million Sibley units net book value put forth by Evergy through Mr. Spanos calculation was determined outside of the 2018 rate case and was never contemplated when setting Evergy's rates.[96]

76. OPC witness Robinett calculated the NBV of Sibley based on the 2014 Depreciation Study to be approximately $190.8 million at June 30, 2018.[97] Under the 2014 Depreciation Study, the unrecovered balance of Sibley was approximately $227.1 million at December 31, 2014. Reducing that number by 3.5 years of depreciation expense (approximately $36.2 million) results in an NBV of $190.8 million at June 30, 2018.[98]

77. The 2014 Depreciation Study was the last time a depreciation study was performed that included Sibley prior to the Sibley retirement in late 2018.[99]

78. The Commission previously ordered the adoption of the life span method dating back to File Nos. ER-2010-0355 and ER-2010-0356. Under the life span method, the generating units should not be looked at as a fleet but as individual units with individual lives, not as (or similar to) a mass asset. However, EMW continues to apply a mass asset depreciation methodology for book purposes. Because of this depreciation treatment both EMW's and Staff's depreciation analyses in this case have led to a reduction of the accumulated depreciation reserve directly tied to the Sibley property retirement.[100]

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[95] Tr. Vol. 8, p. 216.
[96] Ex. 402, Meyer Surrebuttal, p. 7.
[97] Ex. 310, Robinett Rebuttal, p. 16.
[98] Ex. 310, Robinett Rebuttal, p. 18.
[99] Ex. 310, Robinett Rebuttal, pp. 14-15.
[100] Ex. 311, Robinett Surrebuttal, pp. 7-8.

79. Evergy has decreased the accumulated depreciation reserve balances for the Jeffrey Energy Center, Iatan 1 and 2, and Lake Road steam generating units to account for a portion of the undepreciated balance from the Sibley unit retirements.[101]

80. The Commission has set depreciation rates on the principle that only known and measurable costs should be included in rates. The historical interim net salvage experienced has been included into the depreciation rates that have previously been ordered by this Commission and are in the depreciation rates currently being recommended by Staff. Only costs that are known and measurable should be included in depreciation expense.[102]

81. Evergy maintains depreciation reserve by account and by type of plant (*i.e.* steam production, nuclear production, other production, transmission, distribution, and general plant) not by generating unit. Mr. Spanos performed an allocation of depreciation reserves from a pool of all dollars for steam generation in the complaint case to arrive at his net book value of $145.7 million. Mr. Spanos assigned reserves to each of the steam generating units for the first time in the complaint case.[103]

82. **Evergy witness Spanos' work papers provided in the** complaint case, File No. EC-2019-0200, identify through the five major steam production plant accounts, approximately $599 million of theoretical reserve. The difference in amounts between the accumulated depreciation reserve collected in rates through June 30, 2018, and the theoretical reserve, approximately $175 million, would not have been collected from customers through rates.[104]

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[101] Ex. 400, Meyer Direct, p. 14.
[102] Ex. 311, Robinett Surrebuttal, pp. 8-9.
[103] Ex. 311, Robinett Surrebuttal, p. 10.
[104] Tr. Vol. 8, p. 322.

83. Staff agrees that the O&M deferral in the AAO is approximately $39 million.[105]

84. MECG agrees that the O&M deferral in the AAO is approximately $39 million.[106]

85. The O&M deferral was updated from Evergy's direct filing to $39,020,260 based on new information from EMW.[107]

86. The return deferral should be based on the NBV calculated at June 30, 2018.[108]

87. The average filed rate of return recommendation in File Nos. ER-2018-0145 and ER-2018-0146 (EMM and EMW's most recent general rate cases, respectively) was 8.73%.[109]

88. OPC witness Robinett calculates that the return collected since Evergy's last rate case is approximately $66.6 million. This calculation relies on an NBV of Sibley based on the 2014 Depreciation Study of approximately $190.8 million at June 30, 2018, and the average filed rate of return recommendation from Evergy's 2018 rate cases of 8.73% multiplied by four years.[110]

89. MECG witness Meyer calculated the return to be approximately $102.9 million based on an 8.576 percent rate of return derived from a 9.5 percent return on equity, and a $300 million NBV over four years.[111]

90. EMW elected PISA accounting on December 31, 2018.[112]

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[105] Tr. Vol. 8, p. 196.
[106] Tr. Vol. 8, p. 197.
[107] Tr. Vol. 8, p. 196.
[108] Tr. Vol. 8, p. 196.
[109] Ex. 310, Robinett Rebuttal, p. 18.
[110] Ex. 310, Robinett Rebuttal, p. 18.
[111] Ex. 400, Meyer Direct, p. 11.
[112] Ex. 308, Marke Surrebuttal, p. 42.

91. EMW witness Kennedy forecasted the Sibley AAO costs through November 30, 2022. EMW's return component was calculated with a rate of return of 9.87 percent. The rate base component includes a deduction for Accumulated Deferred Income Taxes (ADIT), Excess Deferred Income Taxes (EDIT), and Net Operating Losses (NOLs) and additions for materials and supplies, and fuel inventory. The subtotal rate base was calculated to be $125,483,489. When the subtotal rate base is multiplied by the 9.87 percent rate of return and calculated out to November 30, 2022, the return component totals $49,540,308.[113]

92. If the net book value of Sibley is calculated using the methods proposed by Mr. Greg Meyer or Mr. John Robinett, then the remaining steam production plant accounts would need to be rebalanced using the same method.[114]

93. The signatories to the *Stipulation and Agreement* in File No. ER-2018-0146 agreed to defer as a regulatory liability the amounts of depreciation expense included in the cost of service for the Sibley plant from the date of retirement until new customer rates are established in the current rate case. These deferrals reduce the NBV of Sibley by increasing the depreciation reserve. The Missouri jurisdictional balance of this deferral will be $41.4 million through November 2022.[115]

94. Evergy requests authority for recovery of and to earn a return on the incurred costs of the final decommissioning of Sibley.[116] Evergy argues the net salvage

[113] Ex. 114, Kennedy Direct, p. 35.
[114] Ex. 261, Cunigan Surrebuttal, p. 9.
[115] Ex. 254, Majors Rebuttal, p. 9.
[116] Ex. 114, Kennedy Direct, p. 7, and 32.

value is part of the service value of the asset, thus the decommissioning costs should be charged to the accumulated depreciation account.[117]

95. The amount of labor and non-labor O&M in the Sibley AAO is $39,020,260, as of November 30, 2022.[118]

96. The total Sibley depreciation deferred was calculated by EMW to be $41,448,308, as of November 30, 2022.[119]

Amortization Period

97. Staff witness Keith Majors supports netting the regulatory liability against the unrecovered investment in the Sibley Units and amortizing the balance over five years.[120]

98. **MECG's witness, Greg Meyer, recommended a** 10-year amortization period for the regulatory liability and a 20-year amortization period with no return on the unamortized balance for the unrecovered investment in the Sibley Units.[121]

99. The funds in the regulatory liability account were collected from customers over approximately four years.[122]

100. If the Commission authorizes recovery of any unrecovered investment in the Sibley Units, OPC witness Dr. Marke recommended that the amortization period match to the 2040 scheduled retirement date of Sibley Unit 3, which is seventeen years from when rates will go into effect in this case.[123]

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[117] Ex. 114, Kennedy Direct, p. 33.
[118] Ex. 46, Klote Surrebuttal, p. 9
[119] Ex. 114, Kennedy Direct, p. 35.
[120] Ex. 218, Majors Direct, p.141.
[121] Ex. 400, Meyer Direct, pp. 14-15.
[122] Ex. 129, Kennedy Rebuttal, p. 13.
[123] Ex. 306 - EMW, Marke Direct, p. 10

101. A utility's authorized ROE is to allow the utility an opportunity to earn just and reasonable compensation for their investment in rate base.[124]

Conclusions of Law:

O. In determining whether a utility's conduct was prudent, the Commission will judge that conduct by:

> asking whether the conduct was reasonable at the time, under all the circumstances, considering that the company had to solve its problem prospectively rather than in reliance on hindsight. In effect, [the Commission's] responsibility is to determine how reasonable people would have performed the tasks that confronted the company.[125]

P. The Missouri Supreme Court further affirmed the Commission's rationale in stating,

> [t]he PSC ordinarily applies a presumption of prudence in determining whether a utility reasonably incurred its expenses. This presumption of prudence will not survive a showing of inefficiency or improvidence that creates serious doubt as to the prudence of an expenditure. If such a showing is made, the presumption drops out and the applicant has the burden of dispelling these doubts and proving the questioned expenditure to have been prudent.[126]

Q. In order to disallow a utility's recovery of costs from its ratepayers, a regulatory agency must find both that the utility acted imprudently and that such imprudence resulted in harm to the utility's ratepayers.[127]

R. Commission Rule 20 CSR 4240-22.010 states:

> The fundamental objective of the resource planning process at electric utilities shall be to provide the public with energy services that are safe, reliable, and efficient, at just and reasonable rates, in compliance with all legal mandates, and in a manner that serves the public interest and is consistent with state energy and environmental policies.

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[124] Ex. 223, Won Direct, p. 7.
[125] *State ex rel. Associated Natural Gas Co. v. Pub. Serv. Comm'n,* 954 S.W.2d 520, 529 (Mo. App. W.D. 1997).
[126] *Spire Missouri, Inc. v. Pub. Serv. Comm'n*, 618 S.W.3d 225, 232 (Mo. banc 2021) (internal citations and quotation marks omitted).
[127] *State ex rel. Associated Natural Gas Co. v. Pub. Serv. Comm'n,* 954 S.W.2d 520, 530 (Mo. App. W.D. 1997).

S. Resource planning is defined as the process by which an electric utility evaluates and chooses the appropriate mix and schedule of supply-side, demand-side, and distribution and transmission resource additions and retirements to provide the public with an adequate level, quality, and variety of end-use energy services.[128]

T. Resource plan means a particular combination of demand-side and supply-side resources to be acquired according to a specified schedule over the planning horizon, which is at least 20 years' duration.[129]

U. Resource acquisition strategy means a preferred resource plan, an implementation plan, a set of contingency resource plans, and the events or circumstances that would result in the utility moving to each contingency resource plan. It includes the type, estimated size, and timing of resources that the utility plans to achieve in its preferred resource plan.[130]

V. A preferred resource plan is the resource plan contained in the resource acquisition strategy most recently adopted by the utility.[131]

W. *Depreciation,* as applied to depreciable electric plant, means the loss in service value not restored by current maintenance, incurred in connection with the consumption or prospective retirement of electric plant in the course of service from causes which are known to be in current operation and against which the utility is not protected by insurance. Among the causes to be given consideration are wear and tear,

[128] 20 CSR 4240-22.020(53).
[129] 20 CSR 4240-22.020(43 and 52).
[130] 20 CSR 4240-22.020(51).
[131] 20 CSR 4240-22.020(46).

decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand and requirements of public authorities.[132]

X. *Retirement units* means those items of electric plant which, when retired, with or without replacement, are accounted for by crediting the book cost thereof to the electric plant account in which included.[133]

Y. 12. *Records for Each Plant (Major Utility).*

> Separate records shall be maintained by electric plant accounts of the book cost of each plant owned, including additions by the utility to plant leased from others, and of the cost of operating and maintaining each plant owned or operated. The term *plant* as here used means each generating station and each transmission line or appropriate group of transmission lines.[134]

Z. 22. *Depreciation Accounting.*

> A. *Method.* Utilities must use a method of depreciation that allocates in a systematic and rational manner the service value of depreciable property over the service life of the property.
> B. *Service lives.* Estimated useful service lives of depreciable property must be supported by engineering, economic, or other depreciation studies.
> C. *Rate.* Utilities must use percentage rates of depreciation that are based on a method of depreciation that allocates in a systematic and rational manner the service value of depreciable property to the service life of the property. Where composite depreciation rates are used, they should be based on the weighted average estimated useful service lives of the depreciable property comprising the composite group.[135]

AA. *Additions and Retirements of Electric Plant.*

> A. For the purpose of avoiding undue refinement in accounting for additions to and retirements and replacements of electric plant, all property will be considered as consisting of (1) retirement units and (2) minor items of property. Each utility shall maintain a written property units listing for use in accounting for additions and retirements of electric plant and apply the listing consistently.

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[132] CFR 18, Part 101, *Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act,* Definitions.
[133] CFR 18, Part 101, *Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act,* Definitions.
[134] CFR 18, Part 101, *Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act,* General Instructions.
[135] CFR 18, Part 101, *Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act,* General Instructions.

B. The addition and retirement of retirement units shall be accounted for as follows:
(1) When a retirement unit is added to electric plant, the cost thereof shall be added to the appropriate electric plant account, except that when units are acquired in the acquisition of any electric plant constituting an operating system, they shall be accounted for as provided in electric plant instruction 5.
(2) When a retirement unit is retired from electric plant, with or without replacement, the book cost thereof shall be credited to the electric plant account in which it is included, determined in the manner set forth in paragraph D, below. If the retirement unit is of a depreciable class, the book cost of the unit retired and credited to electric plant shall be charged to the accumulated provision for depreciation applicable to such property. The cost of removal and the salvage shall be charged or credited, as appropriate, to such depreciation account.[136]

BB. 403 *Depreciation expense.*

A. This account shall include the amount of depreciation expense for all classes of depreciable electric plant in service except such depreciation expense as is chargeable to clearing accounts or to account 416, Costs and Expenses of Merchandising, Jobbing and Contract Work.[137]

Issues Presented by the Parties:

A. Was the retirement of the Sibley generating facility before the end of its useful life prudent?
1. If no, what if any disallowance should the Commission order?

B. What is the appropriate value for the regulatory liability from Case No. EC-2019-0200?

C. What is the amount of unrecovered investment associated with the Sibley Unit Retirements?

D. What reserve balances should be used for purposes of determining depreciation expense for EMW steam production units, consistent with the **Commission's determination of Sibley's unrecovered investment?**

E. What is the proper amortization period for the regulatory liability related to Sibley?

[136] CFR 18, Part 101, *Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act,* Electric Plant Instructions.
[137] CFR 18, Part 101, *Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act,* Income Accounts.

F. What is the proper amortization period for the unrecovered depreciation investment from the Sibley retirement?

G. Should the net book value be included in rate base?

H. Should the Regulatory liability for Sibley include a rate of return on the undepreciated balance from the time of retirement through the rates effective in this rate case?

I. Should the unrecovered investment in Sibley earn a weighted average cost of capital return on a going forward basis?

Decision:

Sibley Retirement Prudence

The proffered evidence purportedly showing Evergy "**gamed**" the system are two emails, the timing of the retirement during a rate case, and the amount of undepreciated life remaining.

Both emails of October 2 refer to being sent to the Evergy officer team. This clearly indicates a higher level of approval was necessary. The mention of contacting the SPP and the local labor union can be interpreted as either giving them a heads-up or as official notice of retirement – neither view is conclusive based on the evidence. And, only inference was offered in opposition to the idea that the October 3 email outlined a more formal retirement decision-making process. The Commission does not find the emails to be persuasive evidence that the retirement occurred on or around October 2, 2018, or that Evergy was attempting to game the system.

The planned retirement of Sibley was December 2018. The actual retirement occurred November 13, 2018, but began with the turbine vibration event of September 5, 2018. The true-up date of June 30, 2018, was the cut-off to include assets in rate base during the previous rate case, File No. ER-2018-0146. Generally, all assets used and useful as of that date were included in rate base. The turbine vibration event

occurred after the applicable true-up date. EMW got estimates to fix Sibley and subsequently the repair versus retirement decision was reviewed by upper management. EMW also announced the likely retirement of Sibley Unit 3 in its 2017 IRP Annual Update. The Commission finds no persuasive evidence that EMW acted to game the system by purportedly delaying its decision to retire Sibley.

At the time of retirement, Sibley Unit 3 had a depreciation retirement date of 2040. The majority of the undepreciated investment at issue is due to the environmental upgrades occurring in 2009. However, the prudence of those investments is not at issue. Rather, the question is if the retirement of those investments with approximately 20 years of remaining depreciable life was prudent?

Sibley's retirement was the catalyst for OPC and MECG's request for an AAO in File No. EC-2019-0200. In that case, the prudence of the retirement decision was deferred until this rate case. OPC is the only party challenging the prudence of the decision to retire Sibley. OPC questions the prudency of retiring a dispatchable generating unit that was, in one recent time period, contributing approximately one third **of EMW's total generation load.** OPC argues this transferred too much risk to ratepayers as EMW, without Sibley, has to purchase power in order to meet customer load, which will result in higher customer rates. **The Commission does not find OPC's arguments** persuasive.

It is undeniable that there is financial risk in predicting power generation and some of that risk will be borne by ratepayers which can reasonably be counted as a detriment. However, in making a decision whether to close Sibley there were also significant definitive detriments to be considered, namely the cost to repair and keep Sibley operational. The estimated cost to repair Sibley Unit 3 was $2.21 million and an estimated

capital investment of $54 million would have been needed to keep Sibley operational. Additionally, the $28 million in annual operations and maintenance costs to keep a 60-year-old coal-fired generation plant running had to be considered.

Even without factoring in the cost of repairing Sibley Unit 3, the information and analysis **presented** in **Evergy's** 2017 IRP plan showed that the lowest cost from a net present value of revenue requirement perspective was to retire Sibley by end of 2019. Further, even OPC acknowledged there are additional unquantifiable environmental and health benefits to reducing coal fired generation. The Commission does not find the decision to retire Sibley to be imprudent.

Sibley AAO

Regulatory Liability Account

The Commission authorized the deferral of Sibley related costs in File No. EC-2019-0200. The Commission now must decide the amount of regulatory liability resulting from the Sibley deferrals it will allow to flow back to customers.

The deferrals quantify the Sibley related costs that were included in rates from File No. ER-2018-0146 effective December 6, 2018, through the date rates will become effective in this rate case. The parties to the current case agree that the deferral of Sibley labor and non-labor O&M costs to be included in the regulatory liability is $39,020,260.

Establishing the NBV of the Sibley properties at June 30, 2018, is required for the determination of the return paid by customers in rates. There is generally no dispute as to the original in-service cost of the Sibley plant (total Sibley plant-$478,109,210, Missouri jurisdictional-$476,483,639). The original cost of plant in service less the applicable depreciation expense accumulated over time in the accumulated depreciation reserve equals the NBV. The NBV also represents the unrecovered depreciation expense. It is

the quantification of the accumulated depreciation reserve balance that creates the NBV difference between the parties. Determining that figure is key to answering many of the other issues presented.

Parties often use the total Sibley original in-service cost, accumulated depreciation reserve amount and NBV, however for purposes of this rate case these amounts will ultimately need to be converted to Missouri jurisdictional exact dollar amounts. The use of approximate amounts and rounding was also used frequently in testimony and during the hearing.

OPC witness Robinett's calculation of the Sibley NBV at June 30, 2018, is the only approach that included the allocation of accumulated depreciation reserve balance between EMW's steam properties as determined by Spanos' 2014 Depreciation Study, which was the most recent depreciation study at the time of the 2018 rate case. The 2019 theoretical reserve analysis performed by Mr. Spanos addresses the Sibley retirement by allocating reserve dollars previously allocated to other EMW steam properties to Sibley, thus reducing Sibley's June 30, 2018, NBV and increasing the NBV of the other steam properties. Once Sibley was retired on November 13, 2018, it was no longer eligible to be included in rate base. Using the 2014 Depreciation Study as a basis to estimate the remaining unrecovered NBV gives consideration to reserve allocation changes prior to Sibley's retirement. Therefore, the Commission finds OPC witness Robinett's calculation to be the most credible of the NBV estimates.

MECG argues that the NBV was last established in the 2018 case, File No. ER-2018-0146, and that valuation should remain at $300 million at June 30, 2018, as it represents the amount used to calculate rates. MECG's NBV position does not consider the 2014 Depreciation Study accumulated depreciation reserve allocations. While the

overall return on net rate base was charged to customers through rates set in the 2018 case, no specific amount was assigned to any individual plant. The 2014 Depreciation Study provides a more precise allocation of the accumulated depreciation reserve between EMW's steam properties of which the amounts allocated to Sibley are to be included in determining the return on Sibley's NBV.

Evergy's depreciation expert argues for a NBV of $145.7 million. However, Evergy's NBV proposal starts with the amount calculated in File No. EC-2019-0200, which is based on the new-in-2018 individual retirement values that were derived using a theoretical reserve. Typically, a theoretical reserve is not used when other information is available.

The Commission is not convinced that once Sibley was retired on November 13, 2018, it was appropriate for EMW to shift Sibley's unrecovered depreciation to other steam properties. The effect of the reallocation proposed by EMW is to allow future return on Sibley stranded costs that resulted from the early retirement of the properties to be included in future customer rates. The Commission finds the appropriate NBV at June 30, 2018, for the Sibley Units is $190,833,490.

Next, the appropriate rate of return to use in calculating the return portion of the regulatory liability must be determined. OPC proposes using 8.73 percent which is the average of the rate of return proposed by parties in EMW's last rate case. MECG proposes a 8.576 percent rate of return by using a 9.5 percent return on equity which is based on the PISA statute default rate of return that would not have been applicable in EMW's 2018 rate case since that treatment was not requested by EMW until after the effective date of rates in that rate case. EMW's proposed rate of return is 9.87 percent

but they provide no support or explanation of how this seemingly high percentage was derived.

The Commission will calculate the return portion of the regulatory liability based on OPC's June 30, 2018, Sibley NBV of $190,833,490 multiplied by an 8.73 percent rate of return over the period rate payers have been paying the current rates, December 6, 2018, through November 30, 2022.

The regulatory liability represents costs paid by customers since the 2018 rate case for Sibley related costs that ended upon its retirement in November 2018 that are now being credited to customers. The regulatory liability includes $39,020,260 of labor and non-labor O&M costs and a return of $66,639,055 for a total of $105,659,315.

The Stipulation and Agreement in the 2018 rate case provided for specific treatment of depreciation expense collected after Sibley's retirement. The depreciation amounts would accumulate in a regulatory liability until new customer rates were established in a subsequent rate case. The regulatory liability account would then be closed into accumulated depreciation. This treatment eliminates the need to have the depreciation expense that was included in rates included in and amortized with the other components of the regulatory liability. This increases the accumulated depreciation reserve and reduces the Sibley NBV at November 30, 2022.

Regulatory Asset

The NBV of the Sibley properties at November 30, 2022, represents the unrecovered depreciation expense or EMW's unrecovered investment. Since the Commission has found the appropriate NBV for the Sibley properties at June 30, 2018, to be $190,833,490, the NBV at November 30, 2022, can be determined by reducing the June 30, 2018, NBV by the depreciation expense closed to the accumulated depreciation

reserve through November 30, 2022 (53 months of depreciation expense). This includes the recognition of depreciation expense of Sibley between June 30, 2018 and the retirement date, November 13, 2018 and the deferral provision of the. Stipulation and Agreement in the 2018 rate case. The NBV at November 30, 2022, is $145,067,295.

The Commission will also allow EMW to recover a return of its investment in decommissioning and dismantling costs associated with the retirement of the Sibley properties that were not reflected in the June 30, 2018, plant in-service balances. These costs are $37,186,380. Including the return of these costs in EMW's NBV supports the Commission's practice of not allowing terminal net salvage values in depreciation rates. Therefore, the total regulatory asset is $182,253,675.

Even though Sibley retired in November 2018, the accumulated depreciation reserve increased from July 1, 2018, and must be included in determining the NBV to be used for amortization of the return of the remaining Sibley investment. The regulatory asset being established in this case allows EMW to recover its undepreciated investment in Sibley that resulted from its early retirement.

Evergy also requests a return on the undepreciated amount of Sibley plant, acknowledging that it is no longer used and useful, and cites an academic treatise in support. Evergy also argues it should earn a return on and return of the NBV of Sibley as there is no authoritative reason not to permit it. Staff, MECG, and OPC argue against any authorized return on the undepreciated amount of Sibley.

Historically, the Commission has distinguished between recovery based on prudent investment and recovery based on the asset being used and useful. The Commission is not persuaded by Evergy's argument and sees no reason to change its prior decisions. While it is appropriate to allow a utility to recover amounts prudently

invested in plant, allow it a return of amounts spent, the fact that an initial investment may have been prudent when made does not support authorizing the Company to continue earning a profit/return on that investment when the plant in question is no longer used and useful. The Commission will allow recovery of the undepreciated amount of Sibley plant as the prudency of the investment in Sibley, including the 1991 and 2009 environmental retrofits, is unchallenged. The Commission will not authorize a return on that amount as none of that investment is now used and useful. Since the Commission is not allowing a return on the undepreciated amount of Sibley plant the issue on whether to use a weighted average cost of capital return on a going forward basis is moot.

The Commission's denial of Evergy's request for a return on the undepreciated amount of Sibley plant coincides with its decision that the Sibley NBV should not continue to be included in rate base. This is not based on a judgement of imprudence but a determination that as retired plant Sibley should be removed from Evergy's books. Only the regulatory liability and asset associated with Sibley should be reflected in Evergy's rates going forward.

To avoid having the theoretical reserve developed in File No. EC-2019-0200 applied in the allocation of the accumulated depreciation reserve between EMW's steam properties, the Commission will instruct Staff to work with EMW and OPC to have the EMW steam properties accumulated depreciation reserve amounts going forward from this case correspond to the 2014 Depreciation Study analysis that led to OPC's formulation of its $190,833,490 NBV at June 30, 2018. The accumulated depreciation reserve balances for other EMW property besides the steam properties will not be affected since the reserve issue in this case applied only in the determination of the 2018

retired Sibley NBV which also then impacted the accumulated depreciation reserve of the other steam properties.

Amortization period

One Amortization or Two

The Commission does not agree with Staff that the unrecovered investment in the Sibley Units should be reduced by the regulatory liability and the balance addressed in a single amortization. It is more appropriate and transparent to keep the two accounts distinct and amortize them separately. The regulatory liability represents Sibley costs included in rates after its retirement in November 2018 that were paid by customers. The regulatory asset represents the undepreciated Sibley plant investment or NBV that the Commission will allow EMW to recover from customers.

Regulatory Liability Amortization

Next the Commission must determine the amortization period over which the regulatory liability should be returned to customers. The regulatory liability was collected from rate payers over approximately four years. MECG and Staff both support an amortization period greater than four years. MECG argued the size of the regulatory liability warrants a longer period. The Commission does not see any justification to delay rate payer recovery – that is for rate payers to recover over a longer time frame than the four years in which the amount of the regulatory liability was collected from customers. Accordingly, the Commission finds the proper amortization period over which the revenue liability should be credited to customers is the same period over which it was collected from customers, four years.

Regulatory Asset Amortization

Next, we must determine the appropriate amortization period for the regulatory asset. The length of an amortization is typically driven by how large an amount is being amortized, because of its impact on rates, and/or it may be tied to another factor, such as the regulatory liability amortization in this case being set at four years to mirror the period over which those amounts were included in rates.

Evergy, OPC and MECG all propose that the amortization period for recovery of the unrecovered investment in the Sibley Units be based upon the projected remaining life of the plant had it not been closed. While the timeframes they recommend vary only based upon their estimates of that remaining useful life, their proposals are vastly different. Evergy seeks recovery over a 20-year amortization period with the assumption it will be earning a return on the unamortized balance over that time frame. OPC and MECG would have recovery over a 17 or 20 year period, without allowing a return on the unamortized balance.

As previously addressed it is not appropriate to allow Evergy to continue to earn a return on plant that is no longer in service, no longer used and useful. So, the question before the Commission is whether it is appropriate to make Evergy wait 17 to 20 years for a full return of its unrecovered investment absent any return on those amounts. The Commission does not find this result reasonable. Evergy should be allowed a return of these amounts as quickly as practicable.

The only other party taking a position on this issue was Staff, who recommended first netting the asset and liability accounts before amortizing the resulting unrecovered asset balance over a five-year period. The Commission has determined it is more appropriate and transparent to treat the regulatory liability and asset accounts