

Exhibit: \_\_\_\_\_

Issues: Customary Recovery Method;  
Total Costs to Recover; Discount  
Rate; True-Up

Witness: Ronald A. Klote

Type of Exhibit: Surrebuttal Testimony

Sponsoring Party: Evergy Missouri West

Case No. EF-2022-0155

Date Testimony Prepared: July 22, 2022

**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO:**

**EF-2022-0155**

**SURREBUTTAL TESTIMONY**

**OF**

**RONALD A. KLOTE**

**ON BEHALF OF**

**EVERGY MISSOURI WEST**

**Kansas City, Missouri**

**July 2022**

## Table of Contents

I.	INTRODUCTION .....	1
II.	PURPOSE OF SURREBUTTAL TESTIMONY .....	1
III.	NET PRESENT VALUE BENEFITS TO CUSTOMERS .....	3
A.	Net Present Value Benefits to Customers – Customary Recovery Method .....	3
B.	NPV Benefits to Customers – Total Costs to be Recovered .....	4
1.	<i>Total Costs to be Recovered – NFOM Costs (response to Staff)</i> .....	5
2.	<i>Total Costs to be Recovered – Carrying Costs (response to Staff and OPC)</i> .....	6
3.	<i>Total Costs to be Recovered - 95%/5% (response to Staff and OPC)</i> .....	7
4.	<i>Total Costs to be Recovered – Alleged Extraordinary Excess Revenues</i> .....	10
	<i>(response to Staff)</i> .....	10
5.	<i>Total Costs to be Recovered – Alleged Nucor Costs (response to Staff)</i> .....	11
6.	<i>Total Costs to be Recovered – Upfront Financing Costs</i> .....	12
7.	<i>Total Costs to be recovered – Alleged Imprudence (response to OPC)</i> .....	12
8.	<i>Total Costs to be Recovered – Alleged Income Tax Savings (response to OPC)</i> .....	12
9.	<i>Total Costs to be Recovered – Summary</i> .....	13
C.	NPV Benefits – Discount Rate .....	15
D.	Proposed update to Financing Order related to True-Up .....	18

**SURREBUTTAL TESTIMONY**

**OF**

**RONALD A. KLOTE**

**Case No. EF-2022-0155**

**I. INTRODUCTION**

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

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

4 **Q: Are you the same Ronald A. Klotz who submitted direct testimony in this docket on**  
5 **March 11, 2022?**

6 A: Yes.

7 **Q: On whose behalf are you testifying?**

8 A: I am testifying on behalf of Evergy Missouri West, Inc. d/b/a Evergy Missouri West  
9 (“EMW” or the “Company”).

10 **II. PURPOSE OF SURREBUTTAL TESTIMONY**

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

12 A: The purpose of my surrebuttal testimony is to respond to certain aspects of the rebuttal  
13 testimony of Commission Staff (“Staff”) witnesses Davis, Bolin and Fortson as well as to  
14 certain aspects of the rebuttal testimony of Office of the Public Counsel (“OPC”) witnesses  
15 Murray and Mantle. Broadly, my surrebuttal testimony will address elements of the  
16 calculations demonstrating that recovery Winter Storm Uri costs through securitized bonds  
17 will provide customers with quantifiable net present value (“NPV”) benefits compared to

1 the customary ratemaking method that would otherwise be used for the recovery of such  
2 costs. In this regard, my surrebuttal testimony will address the carrying cost rate necessary  
3 to compensate the Company for its cost of capital between incurrence and recovery of  
4 Winter Storm Uri costs, the customary recovery methods, the total amount of costs to be  
5 recovered by securitization (i.e., responding to various adjustments proposed by Staff and  
6 OPC) and discount rate. I will also propose an update to the proposed Financing Order  
7 included in Company witness Lunde's direct testimony regarding the allocation of the true-  
8 up by customer class.

9 **Q: How will your surrebuttal testimony be organized?**

10 A: Having already provided an Introduction (Section I) and the Purpose of Surrebuttal  
11 Testimony (Section II), the balance of my surrebuttal testimony will be organized as  
12 follows:

13 III. NPV Benefits

14 A. Customary Recovery Method

15 B. Total Costs to Recover

- 16 1. Non-Fuel Operating and Maintenance ("NFOM") Costs (response  
17 to Staff)
- 18 2. Carrying Costs (response to Staff and OPC)
- 19 3. 95/5 (response to Staff and OPC)
- 20 4. Alleged Extraordinary Excess Revenues (response to Staff)
- 21 5. Disallowance of alleged Nucor-related costs (response to Staff)
- 22 6. Upfront Financing Costs (response to Staff)
- 23 7. Alleged Imprudence (response to OPC)

- 1                           8.     Income Tax Savings (response to OPC)
- 2                           9.     Summary of Total Costs to be Recovered
- 3                           C.     Discount Rate
- 4                           D.     Proposed update to Financing Order related to True-Up

5           IV.    Conclusion

6                           **III.    NET PRESENT VALUE BENEFITS TO CUSTOMERS**

7           **A.    Net Present Value Benefits to Customers – Customary Recovery Method**

8   **Q:    Do either Staff or OPC dispute the Company’s position that, absent recovery through**  
9           **securitized bonds, Winter Storm Uri costs would customarily be recovered by means**  
10           **of the Company’s fuel adjustment clause (“FAC”) and deferral under the plant-in-**  
11           **service accounting (“PISA”) statute enacted in 2018 (section 393.1400 RSMo, et seq.)**  
12           **or through deferral to a regulatory asset through a traditional accounting authority**  
13           **order (“AAO”).**

14   **A:**    No. Staff witness Davis expressly acknowledges on pages 2-3 of his rebuttal testimony  
15           the reasonableness of the traditional recovery methods used by the Company for the  
16           comparison needed to demonstrate quantifiable NPV customer benefits of securitization.  
17           No OPC witness offers testimony disputing the traditional recovery methods I used for  
18           purposes of demonstrating the quantifiable NPV benefits of securitization in my direct  
19           testimony.

1                    **B.     NPV Benefits to Customers – Total Costs to be Recovered**

2   **Q:     Please identify the areas of disagreement between the Company and Staff in terms of**  
3   **total Winter Storm Uri costs to be recovered.**

4   **A:**     Staff makes no allegation that EMW was imprudent in regard to the level of Winter Storm  
5   Uri costs incurred but recommends that total costs to be recovered through securitized  
6   bonds be adjusted to:

- 7            1.     Remove non-fuel operating and maintenance (“NFOM”) costs (I will address this  
8                   adjustment in my surrebuttal testimony);
- 9            2.     Reduce carrying costs from the assumed weighted average cost of capital  
10                   (“WACC”) carrying cost rate proposed by the Company (I will address this  
11                   adjustment in my surrebuttal testimony, as will Company witnesses Mr. Jason  
12                   Humphrey and Mr. John Reed);
- 13           3.     Disallow 5% of fuel and purchased power costs, or approximately \$14.8 million,  
14                   arguing that the 95%/5% recovery treatment in the Company’s FAC should be  
15                   applied in determining the total amount of Winter Storm Uri costs to be recovered  
16                   through securitized bonds (I will address this adjustment in my surrebuttal  
17                   testimony, as will Company witness Mr. Darrin Ives);
- 18           4.     Disallow approximately \$8.6 million due to an alleged extraordinary increase in  
19                   revenues EMW as a result of Winter Storm Uri (I will address this adjustment in  
20                   my surrebuttal testimony, as will Company witness Ives);
- 21           5.     Reduce costs Staff alleges were incurred in connection with serving Nucor  
22                   (Company witnesses Mr. Bradley Lutz and Mr. John Carlson will address this  
23                   adjustment in their surrebuttal testimony); and

1 6. Reduce upfront financing costs (Company witness Humphrey will address this  
2 adjustment in his surrebuttal testimony).

3 **Q: Please identify the areas of disagreement between the Company and OPC in terms of**  
4 **total Winter Storm Uri costs to be recovered.**

5 A: Unlike Staff, OPC alleges that the Company was imprudent in the level of Winter Storm  
6 Uri costs that it incurred. OPC witnesses Mantle and Robinette cover this topic and  
7 Company witnesses Mr. John Reed, Mr. Larry Kennedy and Ms. Kayla Messamore address  
8 OPC's imprudence allegations in their surrebuttal testimony. OPC also proposes  
9 adjustments to:

10 1. Reduce the principal amount to be recovered through securitized bonds on account  
11 of income tax savings alleged to result from Winter Storm Uri costs as described  
12 by OPC witness Riley (Company witness Ms. Melissa Hardesty responds to this in  
13 her surrebuttal testimony); and

14 2. Reduce carrying costs from the WACC carrying cost rate proposed by the Company  
15 (I respond to this proposed adjustment in my surrebuttal testimony, as will  
16 Company witnesses Humphrey and Reed).

17 *1. Total Costs to be Recovered – NFOM Costs (response to Staff)*

18 **Q: Staff witness Bolin proposes, on page 7 of her rebuttal testimony, to remove NFOM**  
19 **costs of approximately \$274,000 resulting from Winter Storm Uri because Staff**  
20 **recommends recovering those NFOM costs through general rates in the Company's**  
21 **ongoing general rate proceeding. How do you respond?**

22 A: I have examined the Staff's proposal on Winter Storm Uri NFOM costs in the Company's  
23 general rate case and am comfortable removing those costs from the amount to be

1 recovered through securitized bonds provided that Staff's proposal in the general rate case  
2 is adopted. On behalf of the Company, I will include this issue in the Company's revenue  
3 requirement in the general rate case to mirror the Staff's proposal for these NFOM costs  
4 resulting from Winter Storm Uri. Consequently, I have made this Staff-recommended  
5 adjustment and removed Winter Storm Uri NFOM costs from the total amount to be  
6 recovered through securitized bonds.

7 **2. Total Costs to be Recovered – Carrying Costs (response to Staff and OPC)**

8 **Q: What is your understanding of Staff's proposal regarding the carrying cost rate to**  
9 **use in determining the total amount of Winter Storm Uri costs to be recovered?**

10 A: Staff witness Bolin recommends (on pages 10-11 of her rebuttal testimony) the application  
11 of the cost of long-term debt ("LTD") as the carrying cost rate from February 2021 through  
12 the date the securitized bonds are issued, and Staff witness Davis makes the same  
13 recommendation (on pages 4-5 of his rebuttal testimony).

14 **Q: What is the Company's position regarding the Staff's LTD rate carrying cost**  
15 **proposal?**

16 A: As discussed in more detail in the surrebuttal testimony of Company witnesses Humphrey  
17 and Reed, the LTD rate proposed by Staff will not fully or fairly compensate the Company  
18 for the capital costs it has incurred for the lengthy period of time between when Winter  
19 Storm Uri costs were incurred in February 2021 and when those costs are recovered  
20 through the issuance of securitized bonds, which could be as early as February of 2023.  
21 Recovery could also be as late as October 2024, which is approximately two years after the  
22 date the financing order is issued (October 2022) assuming no party seeks judicial review  
23 of the financing order issued by the Commission.



1                   Consequently, I have not adjusted the total amount of costs to be recovered to  
2 reflect reduction of the Company's carrying cost rate proposal (WACC).

3 **Q: What is your understanding of OPC's proposal regarding the carrying cost rate to**  
4 **use in determining the total amount of Winter Storm Uri costs to be recovered?**

5 A: OPC witness Murray recommends use of the Company's STD rate for the period of time  
6 between the incurrence of Winter Storm Uri costs in February 2021 and the recovery of  
7 those costs when the securitized bonds are issued.

8 **Q: What is the Company's position regarding OPC's proposal to use the STD rate for**  
9 **purposes of carrying costs?**

10 A: As discussed in more detail by Company witnesses Humphrey and Reed, this OPC carrying  
11 cost proposal will not fully or fairly compensate the Company for the capital costs it has  
12 incurred. Consequently, I have not made this adjustment in determining the total amount  
13 of Winter Storm Uri costs to be recovered.

14                   3.       *Total Costs to be Recovered - 95%/5% (response to Staff and OPC)*

15 **Q: What is your understanding of Staff's proposed adjustment to disallow recovery of**  
16 **5% of Winter Storm Uri costs?**

17 A: On pages 7-14 of his rebuttal testimony, Staff witness Fortson proposes to disallow  
18 approximately \$14.8 million dollars in jurisdictional fuel and purchased power costs  
19 incurred during Winter Storm Uri. He argues that this disallowance should be made  
20 because if these costs had been recovered through the FAC, one of the two customary  
21 recovery methods for extraordinary Winter Storm Uri costs, the operation of the 95%/5%  
22 sharing mechanism would have precluded the Company from recovering \$14.8 million.

1 **Q: Do you agree with Staff witness Fortson's \$14.8 million disallowance?**

2 A: No, the Company opposes this adjustment. First, as Mr. Fortson candidly acknowledges  
3 on page 7 of his rebuttal testimony, this disallowance is not based on any allegation of  
4 imprudence on the part of the Company. The significant magnitude of his proposed  
5 disallowance does not seem to register to Staff witness Fortson as he makes no effort to  
6 ascertain the impact this substantial disallowance might have on the Company's earnings.  
7 Second, Staff witness Fortson's argument (on pages 13-14 of his rebuttal testimony) that  
8 application of the 95%/5% sharing mechanism to EMW's Winter Storm Uri costs is  
9 necessary to maintain consistency with the treatment of Evergy Missouri Metro's  
10 extraordinary revenues in Case No. ER-2022-0025 is not persuasive and should be rejected  
11 by the Commission. Case No. ER-2022-0025 was an Evergy Missouri Metro FAC filing.  
12 As such the 95%/5% provision of Evergy Missouri Metro's tariff applied to the filing, and  
13 the Commission adopted the 95%/5% treatment of revenues in that proceeding as a result.  
14 Unlike the Evergy Missouri Metro filing in Case No. ER-2022-0025, this proceeding does  
15 not involve a request by EMW to recover fuel and purchased power costs by way of its  
16 FAC. Consequently, the FAC, including the 95%/5% mechanism, does not apply to this  
17 proceeding.

18 There are a number of policy reasons for rejecting the disallowance proposed by  
19 Mr. Fortson and these are discussed by Company witness Ives in his surrebuttal testimony.

20 **Q: What is your understanding of OPC witness Mantle's proposal that is based on the**  
21 **95%/5% sharing mechanism in the Company's FAC?**

22 A: On pages 27-31 of her rebuttal testimony, OPC witness Mantle proposes to disallow 5%  
23 of the balance of the Company's Winter Storm Uri-related deferred costs that remain after

1 accounting for the disallowances OPC recommends. She advances three reasons in  
2 support of this 5% disallowance:

- 3 1. Absent the 5% disallowance the Company would have no incentive “. . . to plan  
4 for and to efficiently manage extraordinary events that impact its biggest cost – fuel  
5 and purchased power”;
- 6 2. The Company should have exercised control of its load by curtailing customer  
7 usage during Winter Storm Uri; and
- 8 3. Adoption of the 5% disallowance here will maintain consistency with the treatment  
9 of Evergy Missouri Metro’s revenues resulting from Winter Storm Uri.

10 **Q: Do you agree with the 5% disallowance proposed by OPC witness Mantle?**

11 A: No. Her incentive-based argument is basically the same argument advanced by Staff  
12 witness Fortson in his rebuttal testimony on the basis of the 95%/5% mechanism in the  
13 FAC. Company witness Ives discusses policy-based reasons that support rejection of this  
14 disallowance recommendation by OPC witness Mantle.

15 **Q: Please briefly summarize the Company’s position regarding the 5% disallowance  
16 proposed by Staff witness Fortson and OPC witness Mantle?**

17 A: Those proposals should be rejected. Consequently, I have not made those adjustments to  
18 the total Winter Storm Uri costs to be recovered through securitized bonds.

1           4.       ***Total Costs to be Recovered – Alleged Extraordinary Excess Revenues***  
2                                    ***(response to Staff)***

3 **Q:   On pages 12-13 of her rebuttal testimony, Staff witness Bolin proposes to reduce the**  
4       **Winter Storm Uri costs to be recovered by EMW through securitized bonds because**  
5       **the Company allegedly realized excess revenues of approximately \$8.6 million in**  
6       **February 2021 due to Winter Storm Uri. Does the Company dispute this adjustment?**

7 A:   Yes, it is totally inappropriate and should be rejected by the Commission for a number of  
8       reasons. Although the Company agrees that Winter Storm Uri was an extraordinary and  
9       unique event as to the level of FAC-related costs (primarily for fuel and purchased power)  
10      incurred by EMW, Staff has made no showing that Winter Storm Uri had a similar  
11      extraordinary and unique effect on EMW’s revenues. The failure of Staff to provide any  
12      evidence whatsoever demonstrating that Winter Storm Uri had an extraordinary and unique  
13      effect on the Company’s revenues, justifies rejection of this proposed Staff adjustment.

14 **Q:   Is there another good reason why the Commission should reject the adjustment Staff**  
15       **has proposed to reduce Winter Storm Uri costs due to alleged extraordinary excess**  
16       **revenues?**

17 A:   Yes. The Staff has failed to demonstrate that the level of revenues realized by the Company  
18       in February 2021 during Winter Storm Uri caused EMW to achieve excessive earnings in  
19       2021. In fact, the actual return on equity (“ROE”) earned by EMW for calendar year 2021  
20       was less than 7%. In the Company’s view, the authorized ROE implicit in the settlement  
21       agreement approved by the Commission in its last general rate proceeding is 9.5%. Given  
22       that EMW’s actual earnings for calendar year 2021 fell well below the ROE implicit in the  
23       settlement agreement approved by the Commission to resolve the Company’s most recent

1 general rate proceeding, the Commission should reject Staff’s allegation that EMW had  
2 “excess” revenues in 2021.

3 **Q: Do you have any further comments regarding Staff’s proposal to reduce the total**  
4 **amount of Winter Storm Uri costs to be recovered by approximately \$8.6 million on**  
5 **account of allegedly extraordinary excess revenues resulting from Winter Storm Uri?**

6 A: Yes, the Staff has proposed to disallow \$8.6 million on the basis of a single question and  
7 answer consisting of a total of six sentences that are completely devoid of evidence  
8 showing that Winter Storm Uri had an extraordinary and unique effect on EMW’s revenues  
9 or that EMW’s earnings for 2021 were excessive. The facts on the record simply do not  
10 support such an adjustment.

11 Beyond the complete absence of factual support, however, there are a host of additional  
12 reasons for rejection of this Staff proposal for reasons based on policy and Commission  
13 precedent. Company witness Ives addresses these topics in response to Staff’s adjustment  
14 based on alleged extraordinary excess revenues in his surrebuttal testimony.

15 **5. Total Costs to be Recovered – Alleged Nucor Costs (response to Staff)**

16 **Q: Does the Company dispute Staff’s proposal to adjust the amount of Winter Storm Uri**  
17 **costs to be recovered through securitized bonds due to the allegation that costs related**  
18 **to the service provided by EMW to Nucor have been included in the total amount of**  
19 **costs the Company seeks to securitize?**

20 A: Yes, the Company disagrees with this adjustment proposed by Staff as discussed in the  
21 surrebuttal testimony of Company witnesses Lutz and Carlson. Consequently, I have not  
22 made this Staff-recommended adjustment.

1                   6.       *Total Costs to be Recovered – Upfront Financing Costs*

2   **Q:   Does the Company dispute the adjustment to upfront financing costs recommended**  
3       **by Staff?**

4   A:   Yes, the Company disagrees with Staff’s recommended adjustment (discussed by Staff  
5       witness Davis on pages 7-8 of his rebuttal testimony) to reduce upfront financing costs as  
6       discussed in more detail in the surrebuttal testimony of Company witness Humphrey.  
7       Consequently, I have not made this Staff-recommended adjustment.

8                   7.       *Total Costs to be recovered – Alleged Imprudence (response to OPC)*

9   **Q:   Does the Company dispute OPC’s allegation that the level of Winter Storm Uri costs**  
10       **was driven by Company imprudence and that adjustments to reduce the level of**  
11       **Winter Storm Uri costs included in the amount to be recovered through securitized**  
12       **bonds should be reduced accordingly?**

13 A:   Yes, the Company disputes these OPC allegations as discussed in the direct testimony of  
14       Company witness Mr. John Bridson and in the surrebuttal testimony of Company witnesses  
15       Reed, Kennedy and Messamore. Consequently, I have not made these OPC-recommended  
16       adjustments.

17                  8.       *Total Costs to be Recovered – Alleged Income Tax Savings (response to OPC)*

18 **Q:   Does the Company dispute OPC’s allegation that the total amount of Winter Storm**  
19       **Uri costs should be reduced to reflect income tax savings due to Winter Storm Uri?**

20 A:   Yes, the Company disputes this adjustment proposed by OPC witness Riley in his rebuttal  
21       testimony as discussed in the surrebuttal testimony of Company witness Hardesty.  
22       Consequently, I have not made this OPC-recommended adjustment.

1                                    **9.        *Total Costs to be Recovered – Summary***

2    **Q:    Please summarize the adjustments you have made to the total amounts to be**  
3                                    **recovered in response to the rebuttal testimony of Staff and OPC.**

4    A:    The Company has agreed with Staff’s proposed adjustment to remove NFOM costs from  
5                                    the total amount to be recovered through securitized bonds and will instead recover those  
6                                    NFOM amounts resulting from Winter Storm Uri in EMW’s ongoing general rate case.

7    **Q:    Was there an additional adjustment that was made to the Company’s total fuel and**  
8                                    **purchase power expense due to a SPP resettlement that occurred in February 2022?**

9    A:    Yes. As stated in my direct testimony, the Company would continue to monitor for any  
10                                    additional SPP resettlements that have occurred post December 31, 2021 which was the  
11                                    date my original fuel clause analysis accounting schedule RAK – 1 was based on. In  
12                                    February 2022 there was an additional small SPP resettlement that occurred that increased  
13                                    MO West’s Winter Storm Uri costs by approximately \$187,626. I have included that  
14                                    adjustment in my revised analysis RAK-5 Updated Fuel Clause Analysis for Winter Storm  
15                                    Uri.

16   **Q:    Please summarize the total amount of Winter Storm Uri costs the Company**  
17                                    **recommends to be recovered through securitized bonds.**

18   A:    At this time the Company recommends recovery of Winter Storm Uri costs totaling  
19                                    \$356,720,636. This total amount is comprised of the following elements:

1

Table 1

Description	Amount
Total Winter Storm Uri Costs - Fuel and Purchase Power - Included in Direct Filing	\$ 296,451,293
Non-Fuel Operation and Maintenance Cost - Direct Filing	274,934
Total Winter Storm Uri Cost - Direct Filing	\$ 296,726,227
Add: February 2022 SPP Resettlement Adjustment	187,626
Remove: Non-Fuel Operation and Maintenance Cost	(274,934)
Total Current Winter Storm Uri Costs	\$ 296,638,919
Retail Allocation	99.620%
Total Current Winter Storm Uri Costs - Retail	\$ 295,511,691
Total Carrying Costs as of January 31, 2023	54,569,187
Upfront Financing Costs	6,639,758
Total Costs To Be Financed By Securitized Utility Tariff Bonds	\$ 356,720,636

2

3 **Q: Has the Company updated and recalculated schedules RAK-1-4 presented in your**  
4 **direct testimony?**

5 A: Yes. Please see the updated schedules RAK 5 – 8. They include the following:

- 6           ▪ Schedule RAK-5: Updated Fuel Clause Analysis for Winter Storm Uri
- 7           ▪ Schedule RAK-6: Updated Winter Storm Uri Reconciliation to AAO Filing
- 8           ▪ Schedule RAK-7: Updated Evergy Missouri West Total Revenue
- 9           Requirement for Winter Storm Uri Charges
- 10          ▪ Schedule RAK-8: Updated Winter Storm Uri Securitization Benefits
- 11          Analysis



1                                    **C.      NPV Benefits – Discount Rate**

2    **Q:    Does Staff dispute the discount rate you used for the Company – the Commission-**  
3                                    **authorized WACC to determine the NPV of the benefits to customers resulting from**  
4                                    **recovery of Winter Storm Uri costs through securitization compared to traditional**  
5                                    **recovery methods?**

6    A:    No, Staff witness Davis discusses the possible use of alternative discount rates on pages 4-  
7                                    5 of his rebuttal testimony, but although he suggests that additional discount rates have  
8                                    been analyzed in other instances, he does not assert that the Company’s use of the WACC  
9                                    as the discount rate is inappropriate for this purpose.

10 **Q:    What is your response to Staff witness Davis’s discussion of possible alternative**  
11 **discount rates?**

12 A:    Because Staff witness Davis does not recommend the use of a different discount rate than  
13                                    the WACC used by the Company, and because he acknowledges that no single discount  
14                                    rate applies uniformly to all customers and that individual customer capital costs could  
15                                    range from low single digits to 20%, the use of the Company’s WACC strikes a reasonable  
16                                    balance.    The WACC represents the cost of capital embedded in rates paid by the  
17                                    Company’s customers for utility service and is not within the direct control of EMW as it  
18                                    is established by the Commission through the general rate case process.    In this regard it is  
19                                    important to remember that utility ratemaking necessarily involves the use of generalized  
20                                    cost of service indicators that produce average rates applicable to broadly defined customer  
21                                    classes rather than multitudes of customer-specific rates based on cost of service factors  
22                                    specific to individual customers.    It is simply not feasible to use individual customer-  
23                                    specific discount rates for purposes of demonstrating that recovering Winter Storm Uri

1 costs through securitized bonds provides quantifiable net present value benefits to  
2 customers as a whole compared to customary methods of recovering those costs. In  
3 addition, had a different discount rate than the Company's WACC been used across the  
4 recovery scenarios, the securitization scenario would continue to provide benefits greater  
5 than the other traditional cost recovery scenarios - the magnitude of benefits would just be  
6 different. This is driven by the combination of no equity return being included in  
7 securitization and the benefit of lower interest rates obtainable from the SPE in  
8 securitization as compared to interest rates obtainable by EMW.

9 **Q: On pages 11-15 of his rebuttal testimony, OPC witness Murray disputes the**  
10 **Company's use of the WACC as the discount rate, arguing that the 4.7% mid-point**  
11 **of the discount rate range used by the Company's financial advisors in assessing the**  
12 **Sustainability Transformation Plan ("STP") should be used to determine the NPV of**  
13 **the customary method of recovering Winter Storm Uri costs (through either a**  
14 **traditional AAO or deferral and recovery through a PISA regulatory asset) and that**  
15 **the cost of the securitized bonds should be used as the discount rate to determine the**  
16 **NPV of the securitization scenario. What is your response?**

17 A: I disagree. The primary basis for OPC witness Murray's proposal to use different discount  
18 rates under the securitization recovery method scenario and the customary recovery method  
19 scenarios appears to be his belief, as stated on page 12 of his rebuttal testimony, that "[T]he  
20 discount rate should be commensurate with the risk and term of the investment[.]" coupled  
21 with his observation (on pages 13-14 of his rebuttal testimony) that investment risk under  
22 the securitization recovery method scenario is lower than investment risk under the  
23 alternative customary method of recovery scenarios. The fundamental problem with OPC

1 witness Murray's argument is that the discount rates he alleges are appropriate are based  
2 on the investment risk (and resultant cost of capital) to the Company (under the customary  
3 recovery methods) and the investment risk of the securitized bondholders (under the  
4 securitization recovery method), but the statutory standard under section 393.1700.2(3)(c)b  
5 requires a Commission finding that securitized bonds ". . . are expected to provide  
6 quantifiable net present value benefits to customers as compared to recovery" (emphasis  
7 supplied) absent securitization. As a result, OPC witness Murray's assertions regarding  
8 the difference in investment risk under different recovery scenarios (i.e., to the Company  
9 under traditional or customary recovery methods, and to securitized bondholders under the  
10 securitization recovery method) are simply irrelevant to determining that quantifiable NPV  
11 benefits to customers are produced under the securitization recovery method scenario  
12 compared to the customary method of recovery.

13 In addition, the net present values of differing cash flow streams are only comparable if  
14 the discount rate is held constant between all scenarios. Using different discount rates on  
15 different cash flow streams to do a comparison is illogical. Doing so may fit a story or a  
16 narrative witness Murray would like to craft but it is not a valid analysis. Please see the  
17 surrebuttal testimony of Company witness Reed for additional discussion on this point.

18 **Q: Have either Staff witness Davis or OPC witness Murray provided any reasonable**  
19 **basis to use a discount rate different than the Company's WACC for purposes of**  
20 **determining quantifiable NPV benefits of securitization compared to the customary**  
21 **recovery method that would be used in the absence of securitization?**

22 A: No.

1                   **D. Proposed update to Financing Order related to True-Up**

2   **Q: You addressed in your direct testimony that for the true-up process, over- or under-**  
3   **recoveries would not be tracked on a class-by-class basis for determining future**  
4   **charges. Do you have any updates to the proposed financing order regarding the**  
5   **true-up procedure?**

6   **A:** Yes, I do. With regard to the true-up procedure, finding of fact 62 on page 37, of Company  
7   witness Lunde’s Proposed Financing Order Schedule SL-2 contradicts his direct testimony  
8   where he states:

9                   “the rating agencies may evaluate the potential impact of some or all  
10                  customers in a given rate class leaving the system, leaving a certain amount  
11                  of securitized costs to be recovered under a true-up procedure from other  
12                  rate classes. If recovery were not assured, the rating agencies may, in that  
13                  instance, require additional credit enhancement. Shortfalls in collections  
14                  from one particular customer rate class must be readily allocated among all  
15                  customer rate classes as part of the true-up process to provide the broadest  
16                  possible customer base against which to adjust securitization charges.”

17                 I propose to replace the existing Proposed Financing Order language in finding of  
18                 fact 62 (on page 37 of Schedule SL-2 attached to Company witness Lunde’s direct  
19                 testimony) with the following:

20                   62. The servicer will make true-up adjustments in the following manner,  
21                   known as the standard true-up procedure:

22                   (a) allocate the upcoming period’s periodic revenue requirement based  
23                   on the customer rate classes approved in this Financing Order;

24                   (b) calculate under-collections or over-collections, including without  
25                   limitation any caused by defaults, from the preceding period by  
26                   subtracting the previous period’s securitized utility tariff charge  
27                   revenues collected from the revenue requirement determined for the  
28                   same period;

29                   (c) sum the amounts in steps (a) and (b) to determine an adjusted revenue  
30                   requirement; and

1 (d) divide the amount in step (c) above by the appropriate forecasted  
2 billing units to determine the securitized utility tariff charge rate for  
3 the upcoming period.

4 **Q: Why are you proposing to make this update in the proposed Financing Order?**

5 A: The current language as written in finding of fact 62 of the proposed Financing Order is  
6 inconsistent with the Company's proposal as described in my direct testimony as well as  
7 the direct testimony of Company witness Lunde. My proposal simply corrects the  
8 Company's proposed Financing Order filed in Direct Testimony to match our intent as  
9 discussed in Direct Testimony. Any over- or under-recoveries for any prior period will  
10 simply be used to adjust the periodic revenue requirement for the next period as stated in  
11 my direct testimony. As further described by Company witness Lunde, this proposal  
12 results in "cross-collateralization" which will strengthen the security for the Securitization  
13 Bonds.

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

15 A: Yes, it does.

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

In the Matter of the Application of Evergy )  
Missouri West, Inc. d/b/a Evergy Missouri )  
West for a Financing Order Authorizing the ) Case No. EF-2022-0155  
Financing of Extraordinary Storm Costs )  
Through an Issuance of Securitized Utility )  
Tariff Bonds. )

**AFFIDAVIT OF RONALD A. KLOTE**


**STATE OF MISSOURI** )  
 ) ss  
**COUNTY OF JACKSON** )

Ronald A. Klotz, being first duly sworn on his oath, states:

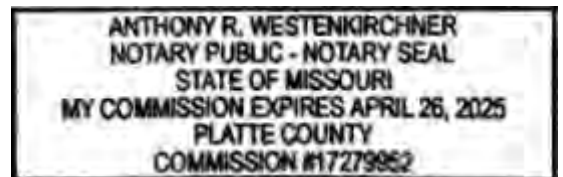
1. My name is Ronald A. Klotz. I work in Kansas City, Missouri, and I am employed by Evergy Metro, Inc. as Senior Director – Regulatory Affairs.
2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Evergy Missouri West consisting of nineteen (19) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.
3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

  
\_\_\_\_\_  
Ronald A. Klotz

Subscribed and sworn before me this 22<sup>nd</sup> day of July 2022.

  
\_\_\_\_\_  
Notary Public

My commission expires: 4/26/2025



**Schedules RAK-5 through RAK-8  
ARE CONFIDENTIAL IN THEIR  
ENTIRETY**

**THEY CONTAIN INFORMATION  
NOT AVAILABLE TO THE PUBLIC.**

**ORIGINALS FILED UNDER SEAL**