

Exhibit No.:
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Affiliate Transactions,
Tax Savings
Witness: Kimberly K. Bolin
Sponsoring Party: MoPSC Staff
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Case No(s): EF-2022-0155
Date Testimony Prepared: July 22, 2022

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL AND BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

SURREBUTTAL TESTIMONY

OF

KIMBERLY K. BOLIN

**EVERGY MISSOURI WEST, INC.,
d/b/a EVERGY MISSOURI WEST**

CASE NO. EF-2022-0155

*Jefferson City, Missouri
July 2022*

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KIMBERLY K. BOLIN
EVERGY MISSOURI WEST, INC.,
d/b/a EVERGY MISSOURI WEST
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1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **KIMBERLY K. BOLIN**

4 **EVERGY MISSOURI WEST, INC.,**
5 **d/b/a EVERGY MISSOURI WEST**

6 **CASE NO. EF-2022-0155**

7 Q. Please state your name and business address.

8 A. My name is Kimberly K. Bolin. My business address is P.O. Box 360, Suite 440,
9 Jefferson City, MO 65102.

10 Q. Are you the same Kimberly Bolin who filed rebuttal testimony in this case?

11 A. Yes, I am.

12 **EXECUTIVE SUMMARY**

13 Q. What is the purpose of your surrebuttal testimony?

14 A. The purpose of my testimony is to address Evergy Missouri West's request
15 for a waiver of the affiliate transaction rule regarding Evergy Missouri West and its
16 securitization affiliate. In this testimony, I also address Office of the Public Counsel (OPC)
17 witness John S. Riley's rebuttal testimony concerning tax savings associated with Winter
18 Storm Uri. Finally, I provide an updated securitized balance that reflects Staff's updated
19 jurisdictional factors.

20 **AFFILIATE TRANSACTIONS**

21 Q. In your rebuttal testimony you stated that Staff was still reviewing information
22 regarding Evergy Missouri West's request for a waiver of the affiliate transaction rules as it

1 | pertains to transactions between the securitization “special purpose entity” (SPE) and the
2 | utility. Has Staff updated its position on this request?

3 | A. Yes. Staff will not oppose Evergy Missouri West’s request for a waiver of the
4 | section of the affiliate transaction rules pertaining to asymmetrical pricing of the financial
5 | advantage standard requirement. However, Staff reserves the right to examine all costs
6 | associated with transactions between the SPE and the utility for prudence in future general
7 | rate cases.

8 | Q. What is the financial advantage standard requirement or asymmetrical pricing
9 | provision in the Commission’s Affiliate Transaction Rules?

10 | A. Section (2) (A) of Rule 20 CSR 4240-20.015 states that, for purposes of the
11 | Rules, a regulated electrical shall be deemed to provide a financial advantage to an affiliated
12 | entity in either of two ways:

13 | 1) If the utility compensates an affiliate at the higher of fair market price
14 | or the fully distributed cost for the utility to acquire the good or service
15 | for itself; and/or

16 | 2) If the utility transfers information, assets, goods or service of any kind
17 | to an affiliate below the greater of fair market price or the fully
18 | distributed cost to the utility.

19 | The asymmetrical pricing requirement requires a regulated utility to obtain lower than
20 | fair market price (“FMP”) or fully distributed costs (“FDC”) for services provided to them by
21 | affiliates while also receiving the greater of FMP or FDC for services it provides to affiliates.

22 | Q. Why is Staff not opposing the waiver of this section?

23 | A. The services that Evergy Missouri West will be providing are costs that are
24 | solely for the administrative functions of the SPE. Staff understands that the utility will be

1 charging the SPE FDC for these services. In these circumstances, Staff does not believe it
2 necessary for the utility to perform an additional analysis of the FMP related to these services.

3 Q. Why is Staff opposed to a waiver of the entire affiliate transactions rule?

4 A. The remaining applicable sections of the affiliate transactions rule applies to
5 record keeping which should not be waived. Staff will need to review the securitization-related
6 affiliate transactions in a future rate case to ensure that the assignment of costs to the SPE
7 is appropriate. If the records are not retained as required by the rule Staff will not be able to
8 determine if the assignment of costs proposed in future rate cases by Evergy Missouri West
9 is accurate.

10 **TAX SAVINGS**

11 Q. Is Mr. Riley correct in his rebuttal testimony that the securitized utility tariff
12 amount will be a separate line item on Evergy Missouri West customers' bills?

13 A. Yes. However, Mr. Riley's assertion on page 5, lines 15-18 that "taxes will be
14 applied to the line item that ratepayers see on their monthly bill" is incorrect. If Evergy Missouri
15 West's customers were to also be responsible for the taxes, the amount of taxes should be
16 directly built into the securitized amount. This is not how Evergy or Staff has calculated the
17 securitized amount. In a rate case, the amount of taxes associated with the revenue the company
18 will collect is included in the base rates. There is no separate line item on a customer's bill for
19 federal or state income taxes, which the company will have to pay.

20 Q. Mr. Riley also states on page 7, lines 3 -8 of his rebuttal testimony that Staff will
21 include the additional revenues associated with the bond repayments with the rate revenue to
22 calculate income taxes in a general rate proceeding. Is this statement accurate?

Surrebuttal Testimony of
Kimberly K. Bolin

1 A. No. Staff will not include the bond repayments in revenues for calculating
2 the cost of service in a general rate proceeding. The securitized utility tariff charges will
3 be excluded from revenues just as Staff excludes Infrastructure System Replacement
4 Surcharge (ISRS) revenue, Water and Sewer Infrastructure Rate Adjustment (WSIRA)
5 revenue, Fuel Adjustment Clause (FAC) revenue and Purchased Gas Adjustment (PGA)
6 revenue from the cost of service.

7 Q. On page 5 of OPC witness Riley’s rebuttal testimony he states, “Third, there are
8 no deferred taxes associated with these expenses since there isn’t a timing difference involved.”
9 Has Evergy Missouri West recorded a deferred tax liability for the Winter Storm Uri costs?

10 A. Yes, meaning that there is a timing difference associated with the securitized
11 costs. Evergy Missouri West has recorded a deferred tax liability for the deferred Winter Storm
12 Uri costs in Account 283300, Fuel Clause Deferred Taxes.¹

13 Q. Will the deferred tax liability be included as an offset to rate base in future
14 Evergy Missouri West general rate cases?

15 A. Yes. In this manner, the tax benefits associated with Storm Uri costs will be
16 given to customers in future general rate cases over the life of the securitized bond. To include
17 the benefits in the securitization charges directly would thus double-count the benefits to be
18 passed on to customers.

19 Q. Will taxes have to be paid once any revenue is received by the SPE?

20 A. Yes. Taxes will be paid once any revenue is received by the SPE. The SPE will
21 file a tax return as part of the consolidated income tax return filed by Evergy Inc.² Staff’s

¹ Evergy Missouri West response to Staff Data Request No. 94

² Evergy Missouri West response to Staff Data Request No. 96

1 understanding is that these taxes will not be charged to Evergy Missouri West retail customers
2 in future rate cases or other regulatory proceedings.

3 Q. OPC witness Riley's example on page 4 uses the traditional recovery through
4 the FAC vs. securitization as an example of the claimed tax benefits Evergy Missouri West is
5 receiving. Are FAC revenues included in Staff's cost of service?

6 A. No. As previously stated, for ratemaking purposes, Staff removes the FAC
7 revenue from retail revenues, thus the FAC revenues are not included in the Net Income before
8 Taxes and are not factored into the amount of federal and state income taxes used in setting
9 customer rates.

10 **WINTER STORM URI UPDATED COSTS**

11 Q. Did Staff update its estimated Winter Storm Uri costs?

12 A. Yes. Staff updated its estimated Winter Storm Uri costs to reflect updated
13 jurisdictional allocation factors. Staff applied the updated jurisdictional allocation factors to
14 the fuel and purchased power amount and to all of Staff's adjustments to the total fuel and
15 purchased power costs. Staff witness Brad Fortson provides further explanation of the updated
16 numbers in his surrebuttal testimony in this case.

17 Q. What is Staff's current estimate for costs to be recovered by Evergy Missouri
18 West through the cost of bonds to be issued for Winter Storm Uri?

19 A. Staff's current estimate of costs to recover through the issuance of bonds for
20 Winter Storm Uri is \$302,811,054 as of January 31, 2023. The estimated costs Staff
21 recommends be included in the bond financing are as follows:

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Table 1:
Staff's Current Estimate of Storm Uri Bond Issuance Costs

Description of Cost	Current Estimate
Fuel and Purchased Power	\$ 295,433,153
95%/5% Sharing	\$ (14,771,977)
Excess Revenues	\$ (8,609,978)
Schedule SIL Adjustment	\$ (1,434,960)
Accrued Carrying Costs	\$ 26,169,488
Estimated Up-Front Financing Costs	\$ 6,025,327
Total	\$ 302,811,054

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Q. Does this conclude your surrebuttal testimony?

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) Case No. EF-2022-0155
West for a Financing Order Authorizing the)
Financing of Extraordinary Storm Costs)
Through an Issuance of Securitized Utility)
Tariff Bonds)

AFFIDAVIT OF KIMBERLY K. BOLIN

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

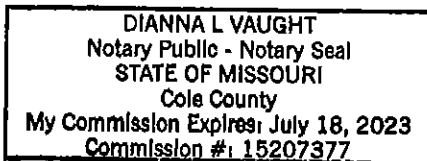
COMES NOW KIMBERLY K. BOLIN and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Surrebuttal Testimony of Kimberly K. Bolin*; and that the same is true and correct according to her best knowledge and belief.

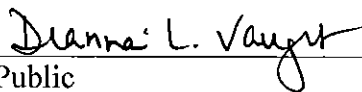
Further the Affiant sayeth not.


KIMBERLY K. BOLIN

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 20th day of July, 2022.




Notary Public