MISSOURI PUBLIC SERVICE COMMISSION

STAFF REPORT

IN THE MATTER OF AN AGREEMENT BETWEEN EVERGY, INC., AND ELLIOTT MANAGEMENT, INC.

CASE NO. EO-2021-0032

FEBRUARY 26, 2021

** Denotes Confidential Information **

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I. Executive Summary

A. Background

The events leading up to the announcement of the Sustainable Transformation Plan ("STP") by Evergy, Inc. ("Evergy") began on January 21, 2020, when a letter from Elliott Management ("Elliott") to Evergy was made public by Elliott. Elliott is an activist investment fund manager that has taken equity stakes in various utility and non-utility companies in order to "increase value" or "manage risk." The January 21, 2020 letter was a follow-up to prior private communications between Evergy and Elliott dating to the fall of 2019. Elliott had purchased an equity stake in Evergy prior to the fall of 2019.

Within the letter, Elliott requested that Evergy investigate the feasibility of two alternative courses of action designed to increase Evergy's shareholder value: (1) under existing management, execute a "standalone" plan to increase rate base investment over time while simultaneously reducing operations and maintenance ("O&M") expenses in order to mitigate customer rate increases, or (2) enter into a strategic merger and acquisition transaction.

On March 2, 2020, Evergy and Elliott announced that an agreement had been reached regarding an investigation into Evergy's future direction. The agreement called for Evergy to analyze the feasibility of either of the two separate courses of action earlier outlined by Elliott in its January 2020 letter to increase future shareholder value. This investigation was to be overseen by a newly formed subcommittee of Evergy's Board of Directors ("BOD"), called the Strategic Review and Operations Committee ("SROC"). The SROC was to consist of two members of Evergy's existing BOD members and two new independent directors to be added to the BOD following the March 2, 2020 announcement. Under the agreement with Elliott, the SROC was to make a recommendation to the Evergy BOD as to which strategic shareholder growth alternative should be implemented, and the BOD was to make a decision to accept or reject the SROC's recommendation by no later than May 31, 2020. Due to the onset of the COVID-19 pandemic later in the spring of 2020, this deadline was later pushed back to July 31, 2020.

On July 23, 2020, the Evergy BOD approved the SROC's recommendation to implement the "standalone" (non-merger) approach to increase shareholder value. The internal approach was referred to as the "Sustainability Transformation Plan" and this decision was publicly announced on August 5, 2020.

On August 6, 2020, the Missouri Public Service Commission Staff ("Staff") requested that the Commission open an investigatory docket into Evergy's STP. The Staff cited several potential concerns regarding the STP, including possible detrimental impacts on Evergy customer rate levels and on the quality of service to customers. Staff also expressed concern regarding Evergy's intentions to maintain the various regulatory commitments to the Missouri Public Service Commission ("Commission") coming from prior merger and acquisition ("M&A") approval cases, most recently Case No. EM-2018-0012, Evergy's acquisition of Westar, Inc. The Commission opened this docket, Case No. EO-2021-0032, on August 12, 2020, and ordered Staff to file its report by October 30, 2020 (later extended several times, ultimately to February 26, 2021).

B. Overview of STP

The STP as announced in August 2020 is essentially a broad plan to guide Evergy's strategic actions for its utility business over an approximate five-year period (2020-2024). The major elements of the plan are as follows:

1) Evergy will increase its construction budget over the five year-period by $1.4 billion, from $7.5 billion in total to $8.9 million. The higher construction totals include additional generation, transmission and distribution expenditures, including enhanced "grid modernization" initiatives.
2) As part of its increased STP construction expenditures, Evergy plans to "decarbonize" by adding additional renewable resources to its generation fleet, and to potentially accelerate planned retirements of its existing coal-fired generation. At least one coal retirement is tentatively scheduled for 2024.
3) Evergy plans to reduce its O&M expense levels by approximately 25% in 2024 compared to 2018 levels. While some of this decrease was already planned as a result of the Evergy-Westar M&A, the STP calls for further enhancement of O&M expense reduction efforts beyond that tied to the Westar transaction.

4) Evergy does not expect the STP to result in any weakening of its credit ratings or other measurements of financial strength.
5) Evergy states that the net rate impacts on customers from the STP would be minimal rate increases over the STP period, less than the rate of inflation.

C. Staff Review

To aid in the production of this Report, Staff submitted data requests ("DR") to Evergy and conducted several meetings with Evergy personnel. In addition, Evergy held three separate workshops for the Commission, the Staff and other interested stakeholders. The workshops dealt with the following topics: (1) Grid Modernization (December 4, 2020); Operational Efficiencies (January 7, 2021); and Customer Experience (February 4, 2021). An additional workshop is anticipated in May 2021.

Detailed information concerning the SROC review process and support for and background materials concerning the STP was reviewed by Staff on Evergy premises in Kansas City, MO and Jefferson City, MO.

D. Kansas STP Investigation

Evergy has extensive utility operations in both Kansas and Missouri, and accordingly the STP could have significant impact on Kansas customers and other stakeholders. An investigation was opened by the Kansas Corporation Commission ("KCC") in the summer of 2020 into customer impacts from the Elliott agreement and, ultimately, the STP. The KCC investigation is still ongoing at this time, with the KCC Staff currently scheduled to file a report with the Commission later in the spring of 2021.

E. Summary of Staff Comments

The concept of the STP is not really unique in that all utilities do have (or should have) long-term strategic plans addressing future needs for capital investment and cost-control initiatives with the aim of minimizing long-term rates for customers. These strategic plans, of course, change over time in response to changes in technology, changes in the competitive status of the utility service in question, general economic conditions and many other factors. In the same manner, Evergy has made clear that the details of STP implementation should still be considered to be preliminary and may be adjusted over time based upon the feedback of stakeholders and unforeseen changes in circumstances.

In essence, Staff views the STP as fundamentally calling for an increase in capital expenditures (rate base) over time to provide more value to Evergy's equity investors, with the rate impact on customers of the rate base increase to be largely offset by planned reductions in O&M expense. Accordingly, Evergy argues that, at the cost of moderately higher rates, Evergy's customers would benefit in various respects from enhancements to the grid and other modernization initiatives.

The STP proposal raises a number of questions from Staff. Some of the major ones are:

1) Are the planned capital expenditures within the STP reasonable and necessary to the provision of safe and adequate electric service to the customers that will ultimately pay for the investment?
2) Are other Missouri electric utilities and peer regional utilities planning to make similar amounts of capital investments to those levels included in the STP by Evergy?
3) Are the planned incremental non-fuel O&M reductions through 2024 reasonable and attainable?
4) Are the planned incremental fuel-related O&M reductions through 2024 reasonable and attainable?
5) If implemented, will the planned incremental O&M reductions have any negative impact on quality of service to customers?
6) Will implementation of the STP have any detrimental impact on Evergy's credit ratings or other financial metrics, and ultimately to its cost of capital?
7) Will the STP have the likely impact of significantly increasing Evergy's customer rates in Missouri?

The remainder of the Staff report will address Staff's investigation into these questions, and present Staff's findings and conclusions.

Staff Expert/Witness: Mark L. Oligschlaeger

II. Analysis of Additional Capital Expenditures

A. Integrated Resource Plan Overview

Evergy states in the STP that, "The STP is part of Evergy's long-term energy plan and aligns with our 20-year Integrated Resource Plan ("IRP") and provides a nearer term view of the actions Evergy will take to continue our work to create a forward-thinking, sustainable energy company." Evergy further states in the STP that, "The STP aligns with our long-term energy plan, including Evergy's IRP. The IRP is a 20-year plan that explores how we will meet the long-term energy, service and reliability needs of our customers. The IRP encapsulates our resource planning process and its supporting assumptions according to the rules of each of the states in which Evergy operates. Ultimately, the result of the IRP is the designation of Evergy's preferred resource plan. The STP is designed to balance the interests of all stakeholders, supports the IRP and provides a clear direction for the next five years."

On April 2, 2018, Evergy filed a triennial IRP compliance filing ("2018 Triennial IRP") in Case Nos. EO-2018-0268 and EO-2018-0269. In these filings, as required by 20 CSR 4240-22, Evergy selected a resource acquisition strategy which includes 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. On August 7, 2019, Evergy was granted a variance from filing a 2019 IRP annual update.[1] On December 16, 2019, Evergy filed a *Notice of Determination of Change* ("2019 Notice") in the 2018 Triennial IRP dockets to change the preferred resource plan to incorporate additional Power Purchase Agreements ("PPA"). On March 10, 2020, the Companies filed a 2020 IRP annual update in Case Nos. EO-2020-0280 and EO-2020-0281. On August 3, 2020, Evergy Missouri West filed a *Notice of Change in Resource Plan* ("2020 Notice") in Case No. EO-2020-0281 to change its preferred resource plan to again incorporate an additional PPA.

On May 18, 2020, Staff filed its *Staff Report* ("2020 IRP Staff Report") in the 2020 IRP annual update dockets. In its 2020 IRP Staff Report, Staff expressed a number of concerns with

[1] *Order Granting Variance Setting Procedural Schedule and Other Procedural Requirements*, Case Nos. EO-2019-0245 and EO-2019-0246.

the actions taken by Evergy in the 2019 Notice, 2020 IRP annual update, and 2020 Notice.[2] Those concerns included:

1) Failure to achieve the policy objective of 20 CSR 4240-22.010.
2) Failure to achieve the goal of developing a set of alternative resource plans ("ARPs") based on substantively different mixes of supply-side and demand-side resources and variations in the timing of resource acquisitions as set forth in 20 CSR 4240-22.060(3).
3) Failure to provide the depth and detail in the Annual Reports generally commensurate with the magnitude and significance of the changing conditions since the last filed triennial compliance filing or annual update as required in part by 20 CSR 4240-22.080(3)(B).
4) Failure to consider mitigation of risks associated with critical uncertain factors that will affect the actual costs associated with ARPs as required by 20 CSR 4240-22.010(2)(C)1.
5) Failure to consider mitigation of rate increases associated with ARPs as required by 20 CSR 4240-22.010(2)(C)3.
6) Failure to describe and document its assessment of whether, and under what circumstances, other uncertain factors associated with the preferred resource plan could materially affect the performance of the preferred resource plan relative to ARPs as required in part by 20 CSR 4240-22.070(2).

In its 2020 IRP Staff Report, Staff stated that to address the concern of 20 CSR 4240-22.010(2)(C)1 that it is Staff's opinion that in the case where PPAs are entered into when there is not a need for capacity to meet minimum capacity requirements that this risk could be addressed fairly in the Commission-approved fuel adjustment clauses of Evergy to mitigate ratepayer risk and to ensure that rates are fair and the public interest is served. Further, Staff stated that to address the concern of 20 CSR 4240-22.010(2)(C)3 that it is Staff's opinion that this risk could be addressed fairly through risk mitigation or risk sharing in the Commission-approved fuel adjustment clauses of the Companies.

[2] Although the 2020 Notice had not yet been filed at the time Staff's Report was filed, Staff was aware of the need for a 2020 Notice and made note of an additional concern with the 2020 Notice in the Report.

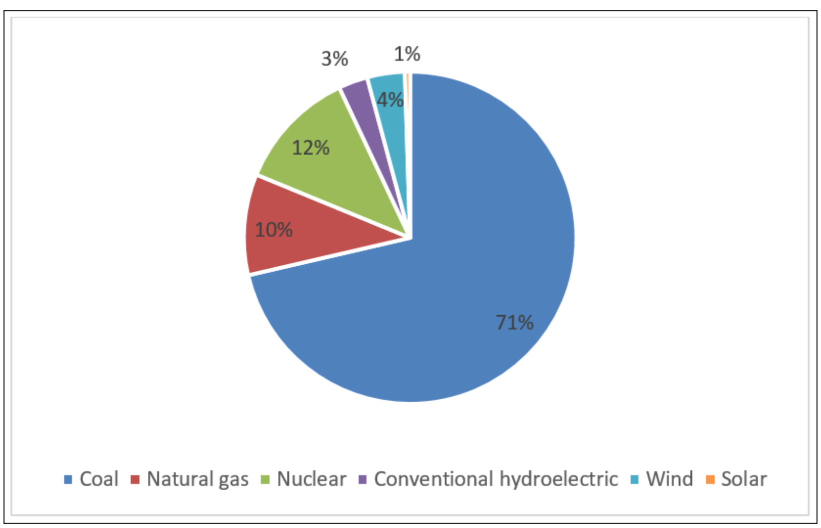
In its 2020 IRP Staff Report, Staff recommended that the Commission order Evergy to address, in its future Chapter 22 filings, Staff's issues and criticisms identified in the 2020 IRP Staff Report. In its *Order Closing Files* ("2020 IRP Commission Order") in the 2020 IRP annual update dockets, the Commission stated that it will not require Evergy to respond to stakeholder concerns at this time, but will expect Evergy to appropriately consider those concerns in future IRP filings.

Evergy's next IRP filing is a triennial compliance filing due on or before April 1, 2021. Evergy has begun a series of meetings that offers stakeholders an early opportunity to provide input and feedback on its resource planning efforts in advance of the upcoming triennial compliance filing. Staff will file a report with the Commission, consistent with 20 CSR 4240-22.080(7), within 150 days of the Companies IRP triennial compliance filing and will offer its opinion of compliance with the 2020 IRP Commission Order, as well as any perceived deficiencies and concerns with the triennial compliance filing.

Staff Expert/Witness: Brad J. Fortson

B. Reasonableness and Need for Planned Additions

It is widely accepted that the electric industry is transforming on several fronts. One major transition that is occurring is transition away from fossil fuel sources. Of the 30 largest electric and gas utilities, 21 have net-zero equivalent targets or are moving to comply with a rigorous state mandate.[3] Although on a national level natural gas has been the dominate energy source for the past decade, Missouri's generation mix continues to be supplied primarily from coal:[4]



[3] Path to net zero: 70% of biggest US utilities have deep decarbonization targets | S&P Global Market Intelligence.

[4] U.S. EIA Net Generation for all sectors: Missouri.

Today, much of the electric system is supported by centralized generating stations located far from load centers but is expected to evolve to a network of interconnected resources. Several factors are driving the push toward decarbonization and decentralization of generation including public policy and customer expectations, technological advances, and economics. Over the coming decades, the physical grid will face challenges in continuing to deliver safe and adequate service. These challenges include supporting two-way communication and energy flow, increased system threats (environmental, electromagnetic, physical and cyber security), and the need to improve system efficiencies.[5]

In responding to these challenges, it is reasonable to assume some level of investment is appropriate for Missouri utilities. Further, Section 393.1400 RSMo requires 25% of a utility's capital investment plan be dedicated to grid modernization efforts when a utility elects plant-in-service accounting ("PISA"). The fundamental mission of the Commission, to ensure that Missourians receive safe and reliable utility services at just, reasonable and affordable rates, is reflected in Chapter 22 as a part of the fundamental objective of resource planning.

Evergy elected to make the deferrals under Section 393.1400 RSMo effective January 1, 2019.[6] Evergy's STP is intended to align with the IRP and "provide a nearer term view of its actions to create a forward-thinking, sustainable energy company."[7]

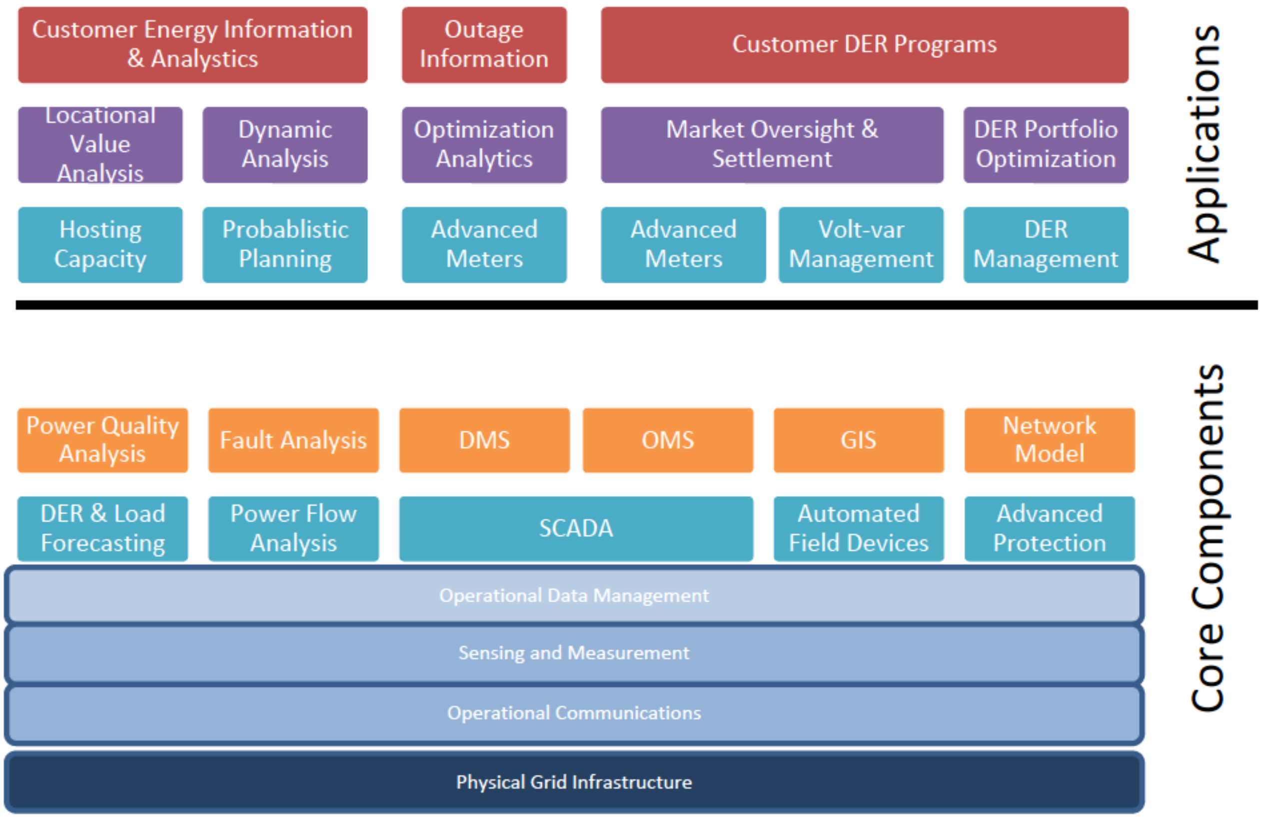
Evergy's STP is divided into two major categories of capital expenditures: transmission and distribution spending and generation transformation. Evergy plans to spend over $5 billion over the next 5 years on transmission and distribution investments (i.e. Grid Enhancement and Technology Plan) in four categories:

- Distribution Grid Resiliency,
- Distribution Automation and Technology,
- Transmission Grid Resiliency, and
- Critical Asset Hardening and Contingency.

[5] Revised DSPX Volume 1, page 16.
[6] Case Nos. EO-2019-0045 and EO-2019-0047.
[7] Evergy STP, page 1.

As demonstrated by the figure below, there are generally two types of grid modernization investments: core components and applications. Core components are the foundational elements necessary for providing modern grid service while applications are single-purpose components that provide additional functionality.

Figure: Technology Stack[8]



Grid modernization components are often interdependent presenting a challenge in reviewing the cost-effectiveness of a utility proposal. Further, benefits of grid modernization are often presented as qualitative benefits, such as improved resiliency, safety, and customer choice. While Evergy's estimate of $2 to $3 billion[9] in economic benefits includes quantitative items, it is important for Evergy to continue to develop metrics to evaluate its plan and to continue to the monitor existing metrics, such as reliability metrics, in accordance with Commission rules and stipulated

[8] Based of Figure 34, page 59. *Modern Distribution Grid: Strategy & Implementation Planning Guidebook.* DOE. June 2020.

[9] Reduce bills through energy efficiencies $270M to $680M; reduced base rates through reduction in capital equipment replacement, up to $120M; reduced operations expense and customer bills, $40M to $70M; reduced carbon emissions with a greener grid, $840M to $1.4B; improved reliability and customer experience, up to $770M.

agreements. Therefore, Staff recommends the Commission consider the following concepts[10] in reviewing distribution grid modernization investments:

- Whether the grid modernization plan has well-articulated objectives conveying the scope and timing,
- Whether grid modernization is occurring as a part of a larger integrated distribution planning process,
- Whether the utility is utilizing a systems engineering approach, and
- Whether the utility is adopting proportional deployment strategies.

The STP generally outlines the types of investments being considered under the Grid Enhancement and Technology Plan but does not give enough detail for Staff to opine on whether any individual investment is needed for safe and adequate service. Staff expects additional details to be available in Evergy's IRP and Evergy's five-year capital investment plan[11], both to be filed in the first half of 2021, and recommends the Commission consider the criteria outlined above in reviewing those plans.

Staff Expert/Witness: Claire M. Eubanks, PE

C. Evergy's Plans to Install Additional Renewable Generation

Evergy's plan to install large amounts of renewable generation in the near future may not be required to meet Missouri's Renewable Energy Standard ("RES"), Southwest Power Pool ("SPP") resource adequacy requirements, or reliability needs. Both Evergy companies already exceed the RES requirements over many years of the IRP planning horizon. In part, Evergy's exceedance of the RES requirements are the result of Evergy's recent decisions to enter into hundreds of megawatts of wind energy through purchased power agreements ("PPAs"). As Staff stated in its report in Case No. EO-2020-0280, the economic feasibility analysis of those PPAs relied upon flawed assumptions and nearly all of the risk that revenues from the resources do not exceed the costs is, or will be, borne by ratepayers through the companies' respective Fuel Adjustment Clauses ("FACs"). While there is not yet enough information readily available regarding the specific renewable assets to be built or acquired through the implementation of

[10] *Modern Distribution Grid: Strategy & Implementation Planning Guidebook.* DOE. June 2020.
[11] Section 393.1400.4 RSMo.

Evergy's STP, Staff is concerned that the STP economic feasibility analysis may include many of the same flaws that Evergy included when deciding to enter into wind generation contracts in recent years.

Due to Evergy's participation in the SPP Integrated Market ("IM"), Evergy purchases all energy necessary to meet its customers' load. Conversely, any net output from Evergy's generating units are sold to SPP at the generation node Locational Marginal Price ("LMP"). According to the 2019 Annual State of the Market Report produced by SPP's Market Monitoring Unit ("MMU"), based on the results of its Net Revenue analysis, "the MMU expects the market to signal the retirement of some coal generation while also not signaling the investment of other types of new generation." The report goes on to state that, "market prices, by themselves, have not been signaling new generation entry for some time."

Traditionally, electric utility resource planning has centered on having enough demand-side and supply-side resources to meet forecasted customer load under all conditions. Adding large amounts of renewable generation that are not required to meet SPP resource adequacy requirements or Missouri statutory or rule requirements, including providing safe and adequate service, may place an undue level of risk on ratepayers based upon the speculation that the market revenues will exceed the overall cost of the assets. Evergy inherently benefits shareholders by adding large investments from which it can seek a return on the investment through rates throughout the life of the asset. Evergy also decides which factors to consider within the IRP process as well as the weight to apply to each critical uncertain factor. When a utility needs a generating asset to fulfill the needs of customers or to comply with mandated requirements, the IRP process provides a decision making tool to optimize the necessary generation additions and minimize the net present value of revenue requirements at a point in time when those assets are necessary to meet the expected retail load needs. However, when a utility does not need to build assets to fulfill the needs of customers or comply with mandated requirements, the results of the decision are inherently uncertain, which introduces risk to ratepayers, while the costs of the generation addition are much more certain. At this point in time Evergy has not demonstrated the need for the proposed additional renewable generation.

Staff Expert/Witness: J Luebbert

D. Evergy's Plans for Generation Retirements

There is not sufficient information to determine if retirement of certain coal generating units is reasonable at this point in time. According to the 2019 Annual State of the Market Report produced by SPP's MMU, based on the results of its Net Revenue analysis, "the MMU expects the market to signal the retirement of some coal generation while also not signaling the investment of other types of new generation." While it is reasonable to assume some coal retirements within the SPP footprint, the decision to retire an existing plant is case specific and many factors should affect the decision. Retirements of generating units are considered and analyzed through the IRP process. Staff suggests some of those factors that should be considered are as listed below:[12]

1) Necessity of costly upgrades to comply with environmental regulations;
2) Economic viability;
3) Outage frequency and costs to bring the unit back online;
4) Potential cost of transmission upgrades resulting from retirement;
5) Decommissioning costs;
6) Undepreciated remaining plant balances;
7) Proximity to load;
8) Capacity factor;
9) Heat rate trends;
10) Economic and engineering feasibility of retrofitting another fuel source;
11) Remaining useful life.

Staff Expert/Witness: J Luebbert

E. Generation Transition

The STP includes the potential retirement of approximately 500 Megawatts ("MW") of coal generation and the development of 700 MW and the purchase of an additional 200 MW of

[12] Staff notes that many other factors may affect the decisions beyond the scope of this list.

renewable energy through 2024. Generation additions being considered are wind, solar, and solar plus storage.

Evergy is currently targeting an 80% reduction in CO_2 emissions by 2050 relative to 2005 levels but intends to explore the pace of decarbonization during the current IRP stakeholder engagement process.

Other regional or peer utilities of Evergy that have announced decarbonization goals include Ameren Missouri, Entergy, and Xcel Energy. All three announced plans to achieve net-zero emissions by 2050. For Ameren Missouri, its planned renewable additions include wind and solar.

While the other electric investor owned utilities ("IOU") in Missouri have included additional renewable resources as part of their respective preferred resource plans, Staff notes that Evergy is the only Missouri IOU proposing to invest in large amounts of additional renewable resources shortly after entering long-term agreements for hundreds of MWs of renewable generation that are neither necessary to meet Missouri's Renewable Energy Standard nor SPP resource adequacy requirements.

Staff Expert/Witness: Claire M. Eubanks, PE

F. Types of Investments

<u>Transmission and Distribution</u>

Evergy plans to spend over $5 billion over the next 5 years on its Grid Enhancement and Technology Plan in four categories:

- Distribution Grid Resiliency ($3,023 M),
- Distribution Automation and Technology ($331 M),
- Transmission Grid Resiliency ($1,867 M), and
- Critical Asset Hardening and Contingency ($243 M).

The types of distribution and transmission technologies that Evergy is planning under the STP are generally the types of investments being made nationally by other utilities. The following sections provide additional detail regarding Evergy's plans for transmission and distribution investment.

Distribution Grid Resiliency

Over half the Grid Enhancement and Technology Plan is planned for Distribution Grid Resiliency. It appears the focus for this category of spending is replacement and upgrade of aging assets such as poles, conductors, distribution transformers, circuit breakers and reclosers, and voltage regulators and capacitors.

Page 14 of the STP states:

> A significant portion of our distribution infrastructure is nearing end of life and will become less reliable, expensive to repair, and more expensive to maintain. Large portions of our substation transformers, circuit breakers, distribution poles, and other grid infrastructure are more than 30 years old, with some equipment nearing or reaching maximum design capacity during on-peak times.

The service life of these assets varies, but is estimated using survivor curves. The transmission and distribution plant accounts have average service lives ranging from 10 to 70 years. In response to Staff DR No. 0040.1, Evergy provided a list of Transmission and Distribution assets at or above 80 percent of their depreciated value. Distribution assets accounted for approximately $426 million in original book cost. However, when tracking the assets against their estimated service lives instead of value depreciated, only $206 million of assets is expected to retire within the next 5 years or has already passed its estimated life. It should be noted that original book cost may vary widely from current replacement costs with some of the longer lived assets due to inflation and change in cost of labor and materials. The Grid Enhancement plan appears to be a much larger investment than is necessary to maintain service at the current levels, though more study is needed to determine how much investment is actually needed at this time. This issue should be addressed by Evergy in its next depreciation study which is to be filed later this year.

Distribution Automation and Technology

Evergy plans to expand its use of Distribution Automation and Technology, which is an area Staff investigated in the Emerging Issues Working Docket (EW-2017-0245). The Staff Report filed on April 5, 2018, in that docket summarized the maturity of each of the Missouri electric utilities' existing distribution grid based on the technology categories described in the

U.S. Department of Energy ("DOE") report Modern Distribution Grid: Volume II.[13] Since filing of the Staff Report, DOE has updated the Modern Distribution Grid: Volume II for more recent assessment of the maturity of technology adoption.

The STP plan does not provide specific distribution system capital investments, but rather provides a listing of the types of investments which may be made (see Figure 3 of the STP). In general, the maturity of the grid enhancement technologies included in the STP are characterized as either in early commercial deployment or mature commercial deployment,[14] as shown in the table below:

continued on next page

[13] Missouri Public Service Commission Staff Report on Distributed Energy Resources, pages 26-28.

[14] Early Commercial Deployment: This stage represents the initial operational deployment of commercially available technology. For any technology category, this will often represent fewer than five operational deployments and fewer than three vendors offering commercially available technology products.

Mature Deployment: This stage is reached when multiple vendors start supplying their respective commercially available technology products and support to multiple customers. Planning for technology replacement cycles begins as the prospect of obsolescence and entrance of new technologies into research and development and pilots brings the likelihood of replacement into typical planning horizons.

Category	**Types**	**Maturity Assessment**[15]
Grid Devices	Sensors Smart Meters Relays Switches & Reclosers Capacitors Voltage Regulators	Early – Mature Mature - Early - -
Systems	SCADA ADMS DERMS FDIR VVO	Early (Distribution) – Mature (Substation) Early Early Early[16] Early
Telecommunications	Fiber-optic Wireless Network Conf. AMI Dist. Auto. Voice/Data	- Early/Mature[17] - - -
Data Models and Analysis Tools	Geospatial Model Connectivity Impedance DER models Load models Forecasts	Early Early - Early Early

Although, many of Evergy's planned technologies are currently in early stages of deployment (i.e. the initial operational deployment of commercially available technology), it appears Evergy's plans for distribution automation are consistent with focus area for major and mid-size electric utilities spending during 2020-2021.[18]

[15] U.S. Department of Energy-Office of Electricity Delivery and Energy Reliability. 2020. Modern Distribution Grid, Volume II: Advanced Technology Maturity Assessment Version 2.0. https://gridarchitecture.pnnl.gov/moderngrid-distribution-project.aspx.

[16] Fault Detection, Isolation, and Restoration ("FDIR"). These applications accomplish distribution automation operations by coordinating operation of field devices, software, and dedicated communications networks to automatically determine the location of a fault, and rapidly reconfigure the flow of electricity so that some or all customers can avoid experiencing outages. Assumed to be similar maturity to Advanced switches and ADMS.

[17] Private LTE is categorized as early commercial deployment. "The development of the STP considered a need to standardize Evergy's communication networks where possible while also preparing it for the continued expansion of communicating Grid Devices across the system. This will likely be achieved through some mix of fiber, cellular (potentially including Private LTE), and mesh network technology, but the ongoing roadmap effort will define the ultimate path forward." Response to Staff DR No. 0045.

[18] U.S. Electric Power Utility Capital Investment in Grid Modernization: Effects of COVID-19 Pandemic on Near-Term and Mid-Term Outlook - Newton-Evans Research Company, Inc. (newton-evans.com).

Transmission Resiliency

The second largest category of planned investment in the Grid Enhancement and Technology Plan is Transmission Resiliency ($1,867 M). ** **

Transmission assets accounted for approximately $87 million in original book cost. However, when tracking the assets against their estimated service lives instead of value depreciated, only $48 million of assets is expected to retire within the next 5 years or has already passed its estimated life. As noted earlier, original book cost may vary widely from current replacement costs with some of the longer lived assets due to inflation and change in cost of labor and materials.

Critical Asset Hardening and Contingency

Finally, Evergy's planned investment in Critical Asset Hardening and Contingency is $243 M. ** **

Staff Experts/Witnesses: Claire M. Eubanks, PE and Cedric E. Cunigan

Solar Requirements of Section 393.1665 RSMo

The solar additions included in the STP would contribute to Evergy's minimum spending requirement under Section 393.1665 RSMo.[19] The amount of additional capacity in the plan is likely to cost more than the $8 million. Staff has seen nothing in the plan that would affect solar rebates.

Staff Expert/Witness: Cedric E. Cunigan

[19] RSMo 393.1665.2 states in part: "An electrical corporation with less than one million but more than two-hundred thousand Missouri electric customers shall invest in the aggregate no less than four million dollars in utility-owned solar facilities located in Missouri or in an adjacent state during the period between August 28, 2018, and December 31, 2023."

III. Analysis of O&M Reductions

A. STP Operations & Maintenance (O&M) Savings Initiatives

Integral to the STP are a wide variety of identified cost saving categories, both non-fuel O&M ("NFOM") and fuel and purchased power expense savings opportunities over the 2020-2024 time period. Evergy estimates that the 2024 NFOM cost structure will reflect $330 million in savings compared to 2018[20], including previously identified merger savings associated with the Westar acquisition. In developing its new cost reduction goals, Evergy engaged Boston Consulting Group ("BCG") to perform rigorous analyses of Evergy's existing operating performance and benchmark that performance level against industry high performers and best practices. Using the information provided from BCG, Evergy developed specific savings initiatives referred to as "charters". These charters are similar to the synergy charters developed in the Aquila, Inc. acquisition by Great Plains Energy ("GPE")[21] in 2008 and the Westar, Inc.-GPE merger in 2018. Charters detail the baseline 2019 costs incurred for each category, describe the savings and how they will be achieved, and project the total savings over the 2020-2024 time period.

Merger synergies are separate from and enabled differently than non-merger savings campaigns like the STP. The primary difference between STP savings charters and merger synergy charters is that STP charters are far more process driven to extract efficiencies. The synergy charter savings largely resulted from the combination of two businesses and elimination of redundancies. For example, merging utilities with contiguous service territories can consolidate truck fleets and extract labor savings by consolidating service routes. The STP required deeper analysis to change processes to best industry practices to achieve savings. Detailed savings charters provide readily identifiable and trackable savings targets to compare to actual achieved results to determine if there are execution problems.

Staff requested and examined the preliminary 148 STP savings charters. These charters will be updated with final details and savings will be monitored and refined through the normal course of budgeting over the duration of the STP.

These are the categories of savings identified in the project charters:

[20] Evergy STP Report, dated August 13, 2020, page 3.

[21] Great Plains Energy and Westar were the former names of Evergy, Inc.

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A relatively small portion of the STP charters concern Westar-GPE merger efficiencies that are yet to be realized and primarily consist of information technology synergies that had not yet come to fruition in the first two years post-merger.

Evergy has presented evidence in past cases that it achieved a greater level of synergies versus planned synergies subsequent to the acquisition of Aquila, Inc. in 2008 and is currently on track to achieve or exceed the targeted synergies in the five-year post-merger period following the Westar-GPE merger.

In examination of the documentation Evergy provided supporting its O&M reduction efforts, at a very preliminary level Staff is satisfied that the STP savings charters are appropriately detailed and supported, and that the savings targets contained within appear to be reasonable. Staff has no immediate concerns that the identified savings initiatives will result in detriment to customers or threaten the provision of safe and adequate service in any way.

Staff Expert/Witness: Keith Majors

B. Analysis of O&M Reductions on Customer Service Quality

Evergy's STP contemplates "savings in information technology and customer and community solutions include a comprehensive digital transformation and the completion of numerous streamlining initiatives. The comprehensive customer digital transformation will significantly improve the customer experience by creating a true omni-channel customer engagement platform which increases customer self-service and lowers NFOM [Non-Fuel O&M]. The digital transformation will also automate the five core customer touchpoints including: account opening or account transfer, bill payment, bill inquiry, outage management, and usage management, allowing customers to interact with the Company in a more personalized and customized way."[22]

Staff submitted DR No. 0039 requesting an explanation and description on what new digital platforms will be introduced to customers and how the digital platforms will provide new benefits to customers. Evergy provided the following response:

> We are still working on specific longer-term plans around new digital platforms. With the Customer Forward project, we are extending some digital capabilities that legacy Westar customers had to our MO customers. For the web portal, we are adding additional or improved capabilities around long-term arrangements and improved start service automation. We are adding capabilities for proactive outage communications which include a significant digital component. Customer will be able to sign up for proactive outage communications through the web, IVR or a customer service representative. The customer can elect to receive either SMS or email alerts. Once we know that an outage has occurred at the customer's address the customer will receive an initial notice of the outage, an estimated restoration time, updates to restoration time, a confirmation that power is restored and the reason for the outage.[23]

Evergy states that it is still working on specific longer-term plans around new digital platforms. Additionally, when asked in DR No. 0037 about specifics on current and planned self-service options that will allow the Company to be more responsive to customers, the Company provided the following response:

> Evergy is still working on specific longer-term plans around both the web site and IVR. With the Customer Forward project, we are extending some capabilities that legacy Westar customers had to our MO customers on both web portals and IVR. Some new IVR capabilities which have the potential benefit MO customers are Spanish, long-term pay arrangements, outage estimated restoration times, and ability to sign up for proactive outage notification texts. For the web portal, we are adding additional or improved capabilities around long-term arrangements, improved start service automation, and the ability to sign up for outage communications.[24]

[22] EO-2021-0032, *Evergy Notice of Filing of Sustainability Transformation Plan*, STP Report, page 11 of 54, August 26, 2020.

[23] DR No. 0039.

[24] DR No. 0037.

Based on Staff's analysis of available information it is not clear what level of overall customer benefit will result from Evergy's plan to develop a comprehensive customer digital transformation with a focus on an omni-channel customer engagement approach. However, at this time, Staff does not have serious reservations regarding Evergy's planned initiatives to respond to customers' growing expectations by personalizing the customer experience and providing more customer options.

Evergy is a monopoly that provides an essential service. Unlike consumers of Apple, Amazon, and Samsung, Evergy customers do not have a choice in service provider. As Evergy focuses on its initiative to provide an omni-channel customer experience, it is important that customer education and communication efforts do not diminish, particularly in the self-service space. For example, customers that choose to establish a Cold Weather Rule ("CWR") payment plan via self-service options should understand as best as possible how a CWR payment plan works and the consequences of defaulting. Traditionally, a call center representative educates the customer on CWR and the importance of maintaining the payment arrangement in order to avoid discontinuance of service; thereby, allowing the customer to make informed decisions regarding payment plans. Staff is hopeful that Evergy keeps customer education and the conveyance of pertinent information to customers in mind when designing various self-service and automated customer options.

In DR No. 0038, Staff inquired about anticipated changes to Evergy's call center. Evergy provided the following response:

> Evergy continues to implement new technologies to help meet the customer's expectation. As we deploy the new functionality to enable the customer, we will also evaluate appropriate levels of staffing for Contact Center operations. In addition, Evergy will continue to communicate and report changes to staffing as required by merger commitments.[25]

During Evergy's presentation on Enhanced Customer Experience, on February 4, 2021, Senior Vice President, Marketing, Public Affairs & Chief Customer Officer, Mr. Chuck Caisley mentioned how the STP omni-channel approach includes human interaction via the call center and the walk-in Evergy Connect building. Maintaining or creating new platforms that include human interaction will provide customers that expect to interact with a human for information or to resolve complex problems an opportunity to do so. Staff agrees with this approach.

[25] DR No. 0038.

As the STP progresses, it is important that Evergy constantly monitor the level of service quality provided to customers, and react quickly to any negative trends. Staff will also monitor issues affecting Evergy's service quality to customers, and provide feedback to Evergy as appropriate.

Staff Expert/Witness: Contessa King

IV. Analysis of Financial Impacts

Staff of the Financial Analysis Department assessed the likely impact of the STP on Evergy's cost of capital. To accomplish this, Staff used projected financial data provided by Evergy, a published credit opinion from a credit rating agency ("Moody's Investor Service", or "Moody's") and equity analysis reports from equity analysts. Staff used the credit opinion together with data provided by Evergy to forecast the changes in credit metrics. Changes in credit metrics such as Cash Flow from Operations Pre-WC/Debt ("CFO pre-WC/Debt"), indicate changes over time in credit worthiness and ultimately, change in cost of debt. Staff's analysis concluded that Evergy's credit worthiness is unlikely not be impaired by the STP and, consequently, is not likely raise debt cost. Bank of America Securities, EverCore, Goldman Sachs, and Guggenheim provided the equity analysis opinions and assessments on Evergy's projected financial data. Staff used the opinion of the equity analysts together with Evergy's projected financial data to forecast the possible changes in the price of Evergy's stock. With all else the same, changes in stock price are inversely related to changes in cost of equity. Staff's analysis concluded that the STP will more likely than not cause Evergy's stock price to increase and, consequently, it is not likely to cause equity cost to rise.

Cost of capital is composed of debt and equity costs. Debt cost is in the form of interest paid to creditors. Equity cost is in the form of return the market demands in exchange for owning and bearing the risk of a stock of a company. Debt cost is determined by the ability to pay interest and principal at agreed time. The ability to pay interest and principal is determined, among other factors, by the profitability and riskiness, current and expected, of the business or projects that a company or utility engages in. Similarly, the return the market demands from a company or utility is determined, among other factors, by the profitability and riskiness, current and expected, of the business or projects that a company or utility engages in. The riskier and less profitable a business is, the higher the interest rate charged to and the return required by a business will be, and vice versa. Rating agency and equity analyst opinions have considerable influence on the interest rates paid by utilities and the return paid to utility investors, respectively.

While Moody's credit opinion does not take into account the STP, it offers a baseline from which to analyze the likely impact of the STP on Evergy's debt cost. Evergy's debt cost is determined by its credit profile. Its credit profile reflects its business risk and financial risk profiles as a holding company of fully regulated and integrated utility subsidiaries, which include Evergy Kansas Central, Inc. (Kansas Central Baa1, stable) and its affiliate Evergy Kansas South, Inc. (Kansas South, Baa1 stable), Evergy Metro, Inc. (Evergy Metro, Baa1 stable) and Evergy Missouri West, Inc. (Missouri West, Baa2 stable).[26]

In its Credit Opinion dated July 22, 2020, Moody's stated, "[a] rating downgrade could be considered for Evergy if the credit quality of its operating companies declines, operating or environmental risks become elevated or if there is a deterioration in consolidated key credit metrics such that [the ratio of cash flow from operations pre-working capital to debt] ("CFO pre-WC to debt") falls below 15% on a sustained basis. In addition, Evergy could be downgraded if holding company debt was to increase to above 20% of consolidated debt on a sustained basis."[27] CFO pre-WC to debt is, basically, cash flow before working capital divided by long-term debt – a credit metric that measures a company's ability to pay its debts with cash flow from operations. As of December 31, 2020, the corporate credit ratings assigned to Evergy, Inc. by Moody's and S&P are 'Baa2' and 'A-', respectively; both investment grade ratings. A rating downgrade causes cost of debt to go up.

Using Goldman Sachs Evergy's most recent projected financial statements[28] for Evergy, Staff calculated the projected CFO pre-WC to debt from 2020 to 2022. The projected CFO pre-WC to debt is about 17.45% in 2020; and will be about 16.20% and 15.32% in 2021 and 2022, respectively. Goldman Sachs did not provide Evergy's projected financial statements for 2023 or 2024 (the STP covers a period of five years ending in 2024), but provided data and financial metrics that cover the period up to 2024. The data and metrics provided can reasonably be used to estimate the direction of the CFO pre-WC to debt beyond 2022. Firstly, the data shows that as capital expenditures increase, CFO pre-WC to debt decreases between 2020 and 2022.

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[26] DR No. 0028, Moody's Credit Opinion, page 1.
[27] DR No. 0028, Moody's Investor Report, page 3.
[28] Evergy did not provide its own projected financial statements (DR No. 0013.1).

Under the STP, capital expenditures peak in 2022 at $2.24 billion and then falls to $1.85 billion and $1.50 billion in 2023 and 2024, respectively. Data also shows that earnings per share steadily increase from $2.97 in 2020 to $4.04 in 2024.[29] All else the same, a scenario where earnings are increasing (earnings increase cash flows) and capital expenditures (debts) are decreasing causes CFO pre-WC to debt to increase.[30] Therefore, it is reasonable to conclude that CFO pre-WC to debt will increase and not decrease in 2023 and 2024, from its 2022 level of 15.32%. A CFO pre-WC to debt above 15.0% will not trigger a rating downgrade, according to Moody's. Based on this projection, the STP should not cause debt cost to rise.

On environmental risk, pointed out by Moody's as a possible business risk that might cause a ratings downgrade, the STP's projected capital expenditure of $675[31] million on renewables is a positive step towards mitigating this business risk. Based on this projected spending on renewables, it is Staff's opinion that the STP will tend to reduce, rather than increase, Evergy's business risk, and subsequently, at the least, not cause debt cost to increase.

Moody's stated that a downgrade could also happen 'if holding company debt was to increase to above 20% of consolidated debt on a sustained basis [emphasis].' As of September 30, 2020, holding company debt to consolidated debt ratio was 16.7%.[32] I n total about $2.5 billion in debt will be raised between 2020 and 2022.[33] ** ____ ________________________ **[34] Although there is no estimate of how much more debt will be raised in 2023 and 2024 for the remainder of the capital expenditures, Staff projects that a substantial amount will be raised for Evergy's subsidiaries.

Based on this information, Staff finds no evidence to conclude that holding company debt will rise above the 20% threshold and cause a ratings downgrade

For equity cost analysis, Staff relied on the equity research reports provided by Bank of America Securities, EverCore, Goldman Sachs, and Guggenheim. To begin with, the STP calls for capital expenditure investment of about $8.9 billion to drive rate base growth by 5% to 6% between 2020 and 2024. Within the same period, the STP envisions reduction in O&M costs by about

[29] Exibit A of the STP Report, page 63.
[30] Evergy stated that it is going to fund its capital expenditure with debt and internally generated funds.
[31] Exhibit 1 of the STP Report, pages 26, 65 and 81.
[32] Response to DR No. 0042.
[33] Goldman Sachs Equity Research Report, page 2.
[34] Response to DR No. 0041.

$330 million, and fuel and purchased power ("FPP") costs by about $145 million. The result of the rate base growth and expense savings is earnings growth of about 6.0% to 8.0% between 2020 and 2024.[35]

Goldman Sachs estimates that the STP will lead to earnings per share growth of about 6.9%, well within the range of the 6.0% to 8.0% estimate by Evergy. Goldman Sachs noted that Evergy faces challenges that include regulatory risks, with rate case filing prohibition being the major one. For various reasons, Evergy is precluded from filing new general case filings until 2022 in Missouri and 2023 in Kansas. EverCore forecasts a 6.0% earnings per share growth for the period of 2019 through 2022. It pointed out that earnings growth is expected to accelerate in 2023 and 2024 as new rates go into effect in Missouri and Kansas, respectively. Bank of America Securities expressed optimism that "higher spend [is] looking more credible given the recent filings".[36] Guggenheim, in its September 8, 2020 analysis also expressed a positive sentiment about Evergy's proposed capital expenditures.

As part of the result of their research, equity research companies give ratings to stocks. A stock rating is a measure of the expected performance of a stock in a given time period. The ratings designations or classifications vary across the spectrum of equity research companies but they convey, generally, the same sentiments about the stock in question. Goldman Sachs and Bank of America gave Evergy stock a rating of "Neutral". Neutral means that a security or stock is expected to neither increase nor decrease in value in the near future. Guggenheim gave a rating of "Buy" and EverCore, a rating of "Outperform". A "Buy" rating implies that a security or stock is undervalued. In other words, it means the stock's current price will rise because of good business prospects. "Outperform" rating means that a stock or security's price is expected to increase because of good business prospects. In aggregate, the sentiment expressed by equity research companies about the STP is positive, meaning that the STP is generally expected to cause Evergy's stock price to rise. A rising stock price means that, all else being equal, the cost of equity is falling.

Based on Staff's analysis of Evergy's projected financial data, current credit opinion and equity analysis reports, it is reasonable at this time to expect that the STP as currently envisioned should not have a materially negative impact on Evergy's stock price and credit profile.

[35] Exhibit A of the STP Report, page 68.
[36] DR No. 0010, BoFa Global Research.

Accordingly, Staff concludes that current evidence shows that it is unlikely that the STP will have a material detrimental impact on Evergy's overall cost of capital.

Staff Expert/Witness: Peter Chari

V. Analysis of Customer Rate Impacts

A. Compound Annual Growth Rate Analyses

A compound annual growth rate ("CAGR") is a statistical measurement that is used to evaluate the growth rate for a metric that may fluctuate over a certain period of time. For example, it can be used to represent the consistent rate at which an investment or financial result grows over a defined period of time. Evergy calculated various financial CAGRs for the STP five-year period (2020-2024) on a total Company basis to evaluate the estimated financial impacts of the STP. Staff evaluated the CAGRs identified in the STP and on a selective basis compared the projected CAGRs to what has occurred historically for Evergy on a Missouri Jurisdictional basis. In this Report, Staff focused its CAGR analysis on rate base, revenues and retail rates.

B. Rate Base

Prior to Evergy's announcement of the STP in August 2020, Evergy's Long Term Energy Plan ("LTEP") reflected targeted rate base growth of 3% to 4% annually over a five year period (2019-2024).[37] Evergy revised its targeted rate base growth CAGR to 5% to 6% in the STP. The driver of the higher rate base growth for the STP is an additional projection of $1.4 billion of capital investment above the projected level of capital investment in the LTEP.

C. Rate Base Peer Comparison

Evergy filed a STP Report with the Commission on August 26, 2020. In its report, Evergy provided the long term rate base growth CAGR for twenty five utilities and stated that prior to the STP Evergy's "rate base growth is among the lowest of our peers".[38] The range of the rate base CAGR growth for the twenty file utilities is 3.9% to 11%. With the additional $1.4 billion in capital investment, Evergy's targeted rate base growth of 5%-6% continues to be lower than the average for the 25 utilities but lessons that gap. Of the twenty-five utilities included in the report, Staff considers two, Ameren Missouri and Oklahoma Gas and Electric ("OGE"), to be regional utilities.

[37] Evergy First Quarter 2020 Earnings Presentation, May 7, 2020, page 17.

[38] Case No. EO-2021-0032, Evergy STP Report filed August 26, 2020, page 31-32 of 54.

Ameren Missouri's stated long term rate base growth is 8.7% and OGE's is 5%. When compared to the two regional utilities, Evergy's STP targeted rate base growth of 5% to 6% is consistent with OGE's and is significantly lower than Ameren Missouri.

Additional information regarding the 25-utility rate base comparison can be found in Section I of the Report, "Comparison to Missouri and Regional Peers."

D. Historical Missouri Rate Base Growth

Evergy's STP focuses on projected future rate base growth. For comparison purposes, Staff analyzed Evergy's historical rate base growth, specifically for Evergy Missouri Metro ("Evergy Metro"), formerly Kansas City Power & Light ("KCP&L") and Evergy Missouri West ("Evergy West"), formerly KCPL Greater Missouri Operations ("GMO"). To determine the historical CAGRs, Staff utilized the rate base values for Evergy Metro and Evergy West general rate cases from 2009 through 2018.[39] The following table reflects the rate base value taken each of these rate cases:

Evergy Missouri Historical Rate Base			
Utility	Case Number	Effective Date of Rates	Rate Base
Evergy Metro	Case No. ER-2009-0089	9/1/2009	1,493,934,826
Evergy Metro	Case No. ER-2010-0355	5/4/2011	2,035,817,968
Evergy Metro	Case No. ER-2012-0174	1/26/2013	2,051,747,213
Evergy Metro	Case No. ER-2014-0370	9/29/2015	2,580,074,221
Evergy Metro	Case No. ER-2016-0285	6/8/2017	2,525,954,938
Evergy Metro	Case No. ER-2018-0145	12/6/2018	2,681,025,813
Evergy West	Case No. ER-2009-0090	9/1/2009	1,114,057,220
Evergy West	Case No. ER-2010-0356	6/25/2011	1,758,914,857
Evergy West	Case No. ER-2012-0175	1/26/2013	1,830,062,509
Evergy West	Case No. ER-2016-0156	2/22/2017	1,888,557,900
Evergy West	Case No. ER-2018-0146	12/6/2018	1,909,517,867

[39] Case No. EO-2021-0032, Staff DR No. 0043.

Using the rate values list above, Staff calculated the following five and ten year historical rate base CAGRs:

Historical Rate Base CAGR		
	Evergy Metro	Evergy West
2014-2018	6.92%	1.07%
2009-2018	6.71%	6.17%

As can be seen in the table above, Evergy Metro and Evergy West rate base CAGRs over a ten year period and the five year CAGR for Evergy Metro slightly exceeds the range of Evergy's STP targeted rate base CAGR of 5% to 6%. The completion of the Iatan 2 power plant and environmental upgrades at Iatan 1 and La Cygne 1 and 2 generating facilities are contributing factors for the CAGRs during this period. In comparison to Evergy Metro, Evergy West did not have the same level of construction during the more recent five-year period which explains its CAGR of 1.07%.

The estimated rate base CAGRs for Evergy Metro and Evergy West during the STP is consistent with and slightly below its recent long-term historical rate base growth.

E. Revenue-Rate Case

Under Evergy's STP, the overall targeted CAGR from 2020 to 2024 for customer rate increases on a dollar per kWh basis is expected to be 1.6% on a total Company basis.[40] Evergy also calculated the projected retail general rate case increase CAGR separately for its Kansas and Missouri jurisdictions as part of its STP analysis. ** ____

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____ [41]. **

continued on next page

[40] Case No. EO-2021-0032, Evergy STP Report filed August 26, 2020, page 12 of 54.
[41] Case No. EO-2021-0032, Staff DR No. 0021.

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Consistent with Staff's analysis of Evergy's historical rate base CAGRs, Staff also analyzed Evergy Missouri historical rate case increases. To determine the historical CAGRs, Staff utilized the ordered revenue increases/decreases for Evergy Metro and Evergy West general rate cases from 2009 through 2018. The following table reflects the revenue increase/decrease for each of these rate cases[42]:

Evergy Missouri Historical Base Rate Increase/(Decrease)				
Utility	Case Number	Effective Date of Rates	Authorized Revenue Increase/(Decrease) $ in millions	Percentage Increase/(Decrease
Evergy Metro	Case No. ER-2009-0089	9/1/2009	$ 95.0	16.46%
Evergy Metro	Case No. ER-2010-0355	5/4/2011	$ 34.8	5.21%
Evergy Metro	Case No. ER-2012-0174	1/26/2013	$ 67.4	9.69%
Evergy Metro	Case No. ER-2014-0370	9/29/2015	$ 89.6	11.67%
Evergy Metro	Case No. ER-2016-0285	6/8/2017	$ 32.5	3.90%
Evergy Metro	Case No. ER-2018-0145	12/6/2018	$ (21.1)	(2.42)%
Evergy West	Case No. ER-2009-0090	9/1/2009	$ 63.0	10.79%
Evergy West	Case No. ER-2010-0356	6/25/2011	$ 57.0	9.09%
Evergy West	Case No. ER-2012-0175	1/26/2013	$ 47.9	6.75%
Evergy West	Case No. ER-2016-0156	2/22/2017	$ 3.0	0.41%
Evergy West	Case No. ER-2018-0146	12/6/2018	$ (24.0)	(3.22)%

[42] The Evergy West revenue increases for the 2009, 2010 and 2012 general rate cases includes the authorized revenue increases for the MPS and L&P service territories. The MPS and L&P had separate rates during these rate cases. The MPS and L&P service territories were consolidated in Case No. ER-2016-0156.

The negative values reflected in the table represents rate refunds as a result of the Tax Cut and Jobs Act ("TCJA").

The following table reflects the five and ten-year historical rate case increase CAGRs for Evergy Metro and Evergy West:

Historical Base Rate Increase/(Decrease) CAGR		
	Evergy Metro	Evergy West
2014-2018	3.15%	-0.71%
2009-2018	3.02%	1.38%

As reflected in the table above, the historical rate increase CAGR for Evergy Metro is generally higher than Evergy's targeted 1.6% CAGR (total company) identified in the STP and

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F. **Retail Rates**

Evergy analyzed projected retail rates for the period of 2020-2024 using projected revenues, including riders and surcharges, and dividing the total revenues by the projected KWhs.

The following table reflects the projected retail rates for Evergy Metro and Evergy West.[43]

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[43] Case No. EO-2021-0032, Staff DR No. 0021.

Staff analyzed Evergy Missouri's historical retail rates for the period of 2009-2019. The historical retail rate CAGR for Evergy Missouri for this metric during this period is 2.85%. ** **

Staff Expert/Witness: Karen Lyons

G. Retail Revenues and Average Rate

Staff reviewed Evergy's Financial Model Workpapers. Below is presented Evergy Metro's and Evergy West's projected STP Retail Revenues and Average Rate.

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** [44] [45] **

Evergy did not perform an analysis for the rate impact for the individual rate classes and cost allocation to each individual rate class. Evergy states that the financial projection process is limited to an overall direction indicator and is not available at an individual rate class. Rate impact for individual rate classes and cost allocation to each individual rate class is determined during rate design as new rates are negotiated under existing and/or new tariffs.

Staff Expert/Witness: Kim Cox

H. PISA Rate Caps

Overall, Evergy has stated that the projected annual rate increase percentage during the STP period will be below the PISA rate cap percentages, set at a 3.0% CAGR. However, based on the information provided by Evergy, it has not addressed impacts of the STP on specific rate

[44] ** **

[45] ** **

classes and the impacts that the PISA rate caps may or may not have for the large industrial customers as compared to all other rate classes.

Evergy did not consider the 2.0% CAGR Large Power class PISA rate cap in its rate impact calculation. Evergy states the rate impact calculation is intended to be a directional indication of overall rates. Impacts on specific rates will be determined in actual future rate cases during rate design.

Staff Expert/Witness: Kim Cox

I. Economic Development Riders

If the STP disproportionately impacts the large industrial rate classes, then the change in rates could impact a customer's ability to meet the marginal revenue requirements of economic development riders ("EDRs"). However, since Evergy does not provide any analysis on a rate class specific basis, this cannot be determined at this time.

Evergy states that investments in renewable energy and grid modernization will help attract companies to Evergy's service area. By doing so, it may result in more customers on the EDR, but it is not a known phenomenon at this time.

Staff Expert/Witness: Kim Cox

J. Comparison to Missouri and Regional Peers

Staff asked DR No. 0031: Please provide (in excel format) the support for the following statements in the Evergy STP Report: Page 46 of 88, As shown in Section 6, Figure 9, our rate base growth is in the bottom quartile of our peers. Page 82 of 88, Targeting five year rate base CAGR of 5% to 6% from 2019-2024. Previously 3-4% CAGR from 2019-2024.

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Evergy's response:

Ticker	Long Term Rate Base CAGR
NI	11.0%
NEE	9.6%
AGR	9.0%
SRE	9.0%
AEE	8.7%
ETR	8.4%
PCG	8.0%
AEP	7.9%
CNP	7.5%
EIX	7.5%
EXC	7.3%
PSEG	7.3%
CMS	7.0%
WEC	7.0%
ES	6.9%
XEL	6.7%
PNW	6.5%
D	6.0%
DUK	6.0%
FE	5.9%
SO	5.8%
EVRG	5.5%
ED	5.4%
OGE	5.0%
PPL	3.9%
LNT	N/A

Further discussion of the STP projections for customer rate impact and rate base growth can be found in the CAGR section of this Report.

Staff Expert/Witness: Kim Cox

VI. Merger Commitments

A. Prior Merger Commitments

In Case Nos. EM-2007-0374 (Acquisition of Aquila, Inc. by Great Plains Energy) and EM-2018-0012 (Acquisition of Westar, Inc. by Great Plains Energy), the Commission conditioned approval of those transactions by imposing certain commitments on Great Plains Energy (now Evergy) to take certain actions and refrain from taking other actions in order to protect customers from possible merger detriment. In its motion asking for the Commission to open an investigatory docket regarding the STP, Staff expressed the concern that the new initiative may call into question Evergy's ability to meet those commitments on an ongoing basis.

In response, Evergy provided Staff with information regarding its prior merger commitments, and reaffirmed that it fully intended to comply with each condition that is still applicable for as long as it is binding. Staff at this time has no reason to believe that Evergy intends to or will unable to comply with all merger conditions applicable to the Missouri jurisdiction.
Staff Expert/Witness: Mark L. Oligschlaeger

B. Merger savings update

In the Stipulation and Agreement approved by the Commission on May 24, 2018 in Case No. EM-2018-0012, concerning the Evergy merger with Westar, Evergy committed to providing updates on the integration implementation to Staff for a period of two years after the closing of the merger[46]. Evergy has since met the commitments outlined in the Stipulation and Agreement.

As part of the review of Evergy's STP, Staff received an update of the actual savings through December 2020 and projected savings for the period of 2021-2022. The following table reflects the latest merger savings update:

continued on next page

[46] Case No. EM-2018-0012, Merger of Great Plains Energy, Inc. and Westar Energy, Inc., Stipulation and Agreement, Commitment 37a.

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[redacted]

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Staff understands, based on discussions with Evergy personnel, that the non-fuel O&M ("NFOM") and fuel and purchased power ("F&PP") savings identified in the STP are not exclusive of the merger projected savings during the period of 2021-2022. In other words, some of the savings reflected in the table above during this period 2021-2022 may also be reflected in the projected NFOM savings of $210 million and to F&PP projected savings of $145 million of the STP. However, Staff is unable to break down the STP planned O&M reductions between those associated with the Westar merger and new savings targets.

Staff Expert/Witness: Karen Lyons

VII. Summary, Conclusions and Recommendations

A. Summary/Conclusions

Recognizing that the STP was more of a broad conceptual plan when it was announced than a detailed plan of action, Staff had a number of preliminary concerns with the proposal. These included concerns regarding potential overbuilding of rate base in order to increase shareholder returns; the ability of Evergy to achieve further significant O&M reduction targets to offset the customer rate impact of its investment increases; the potential for O&M reduction efforts in particular to negatively impact the quality of customer service; and the possibility of the STP resulting in weakened credit quality and an increase in Evergy's cost of capital. Staff conducted its investigation so as to gain further insight as to the potential likelihood of each of these potential negative customer impacts resulting from the STP.

Staff's overall conclusions regarding each of the above concerns follows:

B. Rate Base

It can be argued that utilities have an inherent incentive to over-invest in rate base beyond levels necessary for provision of safe and adequate service in order to increase overall returns to shareholders. This issue was raised directly by Evergy's proposal as part of the STP to significantly increase its construction budget over the five-year STP period after receiving public pressure from Elliott.

To address this, Staff reviewed both Evergy's past rate base growth percentages and the current rate base growth projections of Evergy's utility peers. Evergy's STP projection of annual rate base growth of 5% - 6% was found to be generally consistent with Evergy's long-term rate base growth CAGR for the past ten years. Looking forward, Evergy's rate base CAGR projection also appears to place it below an average of 25 utilities in a comparison that Evergy earlier filed with the Commission. Evergy's Missouri neighbor, Ameren Missouri, has publicly announced plans to achieve a rate base CAGR value of greater than 8.0% in the next few years. These comparisons provide evidence that Evergy's plans to grow rate base in the next four to five years at a rate of 5.0% to 6.0% is not an outlier compared to the plans of other peer and neighboring utilities, and also is not inconsistent with its recent historical experience.

Regarding the specific areas in which Evergy plans greater investment through the STP, certain reservations regarding the degree of support for Evergy's plans to significantly increase its renewable investment in the coming years and to potentially accelerate the pace of its coal unit retirements were expressed earlier in this report. However, concerning the concepts of "grid modernization," "asset hardening," and other initiatives that are part of the STP rate base plans, Staff is generally supportive of these initiatives, provided the initiatives are well planned and executed, and notes that the recent PISA legislation in Missouri appears to provide a policy encouragement of such expenditures in this jurisdiction to at least some degree.

C. O&M Reductions

Evergy's claim that the STP will only have a modest impact on customer utility bills is largely dependent upon the utility's ability to generate significant reductions in its expense levels in order to offset, in part, the increase in rates that will occur due to projected rate base growth. Because the level of O&M expenses incurred over time is arguably subject to a somewhat lesser degree of direct control by utilities than its construction plans and rate base levels, the ability of Evergy to reduce its O&M expenditures even beyond the levels planned for in the aftermath of the Westar merger raised concerns regarding their attainability.

In response, Staff asked for all available information and support regarding Evergy's specific cost savings opportunities to be pursued as part of the STP. As discussed earlier in this Report, Staff reviewed "charter" information providing quantification and support for the planned STP savings. Staff found the STP savings charter information to be of sufficient quality to demonstrate a reasonable opportunity for Evergy to attain the projected O&M reductions.

In addition, the evidence available to Staff shows that Evergy has a good track record of meeting and exceeding its project expense savings levels associated with the prior Aquila and Westar merger transactions. It should be noted that "charters" were also employed by Evergy in these earlier cost reduction initiatives.

Staff emphasizes again that the importance of the O&M reduction efforts to maintaining reasonable rates for Evergy customers in the future. To the extent that Evergy later determines that its savings projections within the STP were materially overstated for any reason, or that unanticipated and significant increases in overall O&M occur in the near future unrelated to the STP, Staff encourages Evergy to consider the need for adjustments to its planned growth in rate base in order to maintain reasonably low customer rates consistent with the projections within the STP.

D. Customer Rate Levels

As discussed in the Report, Evergy estimates that Missouri rates will increase during the STP period at a rate slightly below 2.0% annually, which Evergy states is below the prevailing rate of inflation.

Staff believes the projected increase in rates under the STP for Missouri customers to be an acceptable consequence at this time of its efforts to modernize its generation, transmission and distribution systems in various ways. Staff examined Evergy Metro's and Evergy West's historical experience over the last five and ten years in regard to rate increases, and found that the planned rate of increase for Evergy Metro under the STP to be below its recent experience in Missouri. Evergy West has experienced a much lower level of rate escalation in the last few years in Missouri than its Evergy Metro neighbor and, accordingly, its recent CAGR values are lower than those expected under the STP.

Staff again emphasizes that Evergy's commitment to keeping the rate impacts of the STP as low as projected is key to its preliminary evaluation of the STP at this time.

E. Cost of Capital

Based in part on Staff's own analysis, as well as upon review of credit rating agency and equity analyst comments regarding the STP, Staff's opinion is that it is unlikely that the STP in its current formulation should result in a materially higher cost of capital for Evergy, all other things being held constant.

F. Customer Service Quality

While this area should continuously be monitored carefully, Staff is not aware that any component of the STP, including planned O&M reductions, can be reasonably foreseen to result in an overall lower quality of service to customers.

G. Conclusions

Based upon the above discussion, Staff recommends that Evergy continue its work to develop the Sustainability Transformation Plan. However, Staff emphasizes that while it is expected and important for Evergy to work towards the goal of achieving greater shareholder value over time, that objective must be balanced with an overriding concern for customer impact, both in rates and in service quality.

The STP is clearly still a work in progress at this point. Evergy has emphasized a continuing commitment to update its various stakeholders on the status of the STP, and obtain and act upon feedback received. Staff is pleased with Evergy's actions in the respect so far, and encourages it to maintain this approach going forward.

Given the ongoing nature of the STP, Staff recommends that this docket remain open at this time to receive periodic updates regarding the STP. In that regard, Staff recommends that the Commission order Evergy to file status reports with the Commission at least through the remainder of calendar year 2021, with such reports to include information concerning any material changes to Evergy's STP. Staff suggests that these updates be filed quarterly by Evergy, with the first report due at the end of May 2021. Staff will also file with the Commission notice of any additional concerns it may have regarding further revisions to the STP. In addition, Staff may also provide further comments regarding certain aspects of the STP in the current IRP dockets for Evergy before the Commission.

Staff Expert/Witness: Mark L. Oligschlaeger