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Witness:	*Seoung Joun Won, PhD*
Sponsoring Party:	*MoPSC Staff*
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Case Nos.:	*ER-2022-0129 and ER-2022-0130*
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MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL AND BUSINESS ANALYSIS DIVISION

FINANCIAL ANALYSIS DEPARTMENT

SURREBUTTAL TESTIMONY

OF

SEOUNG JOUN WON, PhD

Evergy Metro, Inc., d/b/a Evergy Missouri Metro
Case No. ER-2022-0129

Evergy Missouri West, Inc., d/b/a Evergy Missouri West
Case No. ER-2022-0130

Jefferson City, Missouri
August 2022

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Evergy Missouri West, Inc., d/b/a Evergy Missouri West
Case No. ER-2022-0130

Q. Please state your name and business address.

A. My name is Seoung Joun Won and my business address is P.O. Box 360, Jefferson City, Missouri 65102.

Q. Who is your employer and what is your present position?

A. I am employed by the Missouri Public Service Commission ("Commission") as a member of Commission Staff ("Staff") and my title is Regulatory Compliance Manager for the Financial Analysis Department, in the Financial and Business Analysis Division.

Q. Are you the same Seoung Joun Won who filed Direct Testimony on June 8, 2022 and Rebuttal Testimony filed July 13, 2022, in this proceeding?

A. Yes, I am.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimonies of Ann E. Bulkley, Darrin R. Ives, and David Murray. Ms. Bulkley sponsored return on equity ("ROE") and overall rate of return ("ROR") testimony on behalf of Evergy Metro, Inc., d/b/a Evergy Missouri Metro ("Evergy Metro" or "EMM") and Evergy Missouri West, Inc., d/b/a Evergy Missouri West ("Evergy West" or "EMW"), subsidiaries of Evergy, Inc. ("Evergy Inc." or "Evergy"). Mr. Ives sponsored capital structure testimony on behalf of

Evergy Metro and Evergy West. Mr. Murray sponsored ROE, ROR, and capital structure testimony on behalf of the Missouri Office of the Public Counsel ("OPC"). Within this testimony, Staff will address issues related to a just and reasonable ROR to be applied to Evergy Metro's and Evergy West's electric utility rate base for ratemaking purposes in this proceeding. Staff's analyses and conclusions are supported by the data presented in Staff's rebuttal workpapers.

I. EXECUTIVE SUMMARY

Q. What is the overview of your response to the testimonies of Ms. Bulkley and Mr. Ives?

A. Staff's surrebuttal will focus on the rebuttal testimonies of Ms. Bulkley regarding ROE and capital structure related issues and Mr. Ives regarding Staff's recommended capital structure. For Evergy Metro, Ms. Bulkley continued to propose an ROE of 10.00% within a range of 9.90% to 10.50%,[1] and continued to support Evergy Metro's projected May 31, 2022, standalone capital structure consisting of 51.19% common equity and 48.81% long-term debt.[2] For Evergy West, Ms. Bulkley also continued to propose an ROE of 10.00% within a range of 9.90% to 10.50%,[3] and continued to support Evergy West's projected May 31, 2022, standalone capital structure consisting of 51.81% common equity and 48.19% long-term debt.[4] Ms. Bulkley did not comment on her ROR and cost of debt recommendations in her rebuttal testimony. Mr. Ives responded to Staff's recommended capital structure.

For the authorized ROE issue, in her rebuttal testimony, Ms. Bulkley made incorrect claims about Staff's estimation methodology based on her misunderstandings and erroneous assumptions.

[1] Pages 95-96, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.
[2] Page 96, line 18, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.
[3] Pages 95-96, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.
[4] Page 96, line 19, Bulkley's Rebuttal Testimony, ER-2022-129 and ER-2022-0130.

In this testimony, Staff will recount the reasons why Ms. Bulkley's unreasonable cost of equity ("COE") estimates are still incorrect. Although there are many issues with Ms. Bulkley's rebuttal testimony, Staff will only address major issues related to Ms. Bulkley's disagreement with Staff's COE estimation methods. For the capital structure issue, Ms. Bulkley and Mr. Ives assert fallacious arguments to Staff's recommendation of utilizing a target capital structure of 50% equity and 50% long-term debt for both Evergy Metro and Evergy West. Staff will also respond to Mr. Ives' argument about Staff's recommended capital structure.

Q. What is the overview of your response to the testimony of Mr. Murray?

A. Mr. Murray did not revise any of his recommendations in his rebuttal testimony. Mr. Murray recommended an ROE of 9.0% within a range of 8.5% to 9.5% and a ROR of 6.36% based on his recommended capital structure of 48.0% common equity and 52.0% long-term debt while applying a cost of long-term debt of 3.92% in his direct testimony.[5] Mr. Murray's recommended ROE of 9.0% is even lower than the most recent Commission-authorized ROE for an electric utility of 9.25% in July 2020.[6] Mr. Murray's recommended common equity to total capital ratio ("equity ratio") of 48.0% is more than 300 basis points lower than Evergy Metro's and Evergy West's actual common equity ratios of 51.37% and 51.47% as of May 31, 2022, respectively.[7] Staff will respond to Mr. Murray's argument about Staff's recommended ROE and capital structure.

II. RESPONSE TO TESTIMONY OF EVERGY'S WITNESSES

Q. Please summarize Ms. Bulkley's rebuttal testimony.

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[5] Schedule DM-D-9, Murray's Direct Testimony, ER-2022-0129 and ER-2022-0130.
[6] *Amended Report and Order* issued July 23, 2020, in Case No. ER-2019-0374.
[7] Staff's Data Request No. 0115, ER-2022-0129 and ER-2022-0130.

A. Ms. Bulkley updated her COE analyses based on market data through June 15, 2022, and maintained her recommended ROE of 10.00%, using estimation methods such as the Constant Growth form of the Discounted Cash Flow ("DCF") model, the Capital Asset Pricing Model ("CAPM"), the Empirical Capital Asset Pricing Model ("ECAPM"), and the Bond Yield Plus Risk Premium ("BYPRP") analysis from her direct testimony.[8] Additionally, Ms. Bulkley addressed capital market conditions, the capital attraction and comparable return standards, and Company-specific risks.[9] Ms. Bulkley also responded to Staff's and Mr. Murray's direct testimony regarding the ROE and capital structure issues.

Q. What are Staff's key issues with Ms. Bulkley's rebuttal testimony?

A. Staff's key issues with Ms. Bulkley's rebuttal testimony are the following:

1. Ms. Bulkley does not correctly understand Staff's comparative COE analysis. Based on her misunderstanding of Staff's analysis, Ms. Bulkley proposed logical fallacies such as that Staff must use the exact same methods and input values it used in The Empire District Electric Company's rate case, Case No. ER-2019-0374, ("2019 Empire Case").[10] Ms. Bulkley's arguments ignore the most basic principle of comparative analysis;

2. Ms. Bulkley did not properly use basic financial concepts. For example, because of her erroneous assumption that the market-data-derived COE is equal to the authorized ROE, Ms. Bulkley mischaracterized the relationship between Staff's COE estimation and its authorized ROE recommendation. Although Staff clarified the difference between COE and

[8] Page 9, lines 14-19, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.
[9] Page 2, lines 13-21, Bulkley's Rebuttal Testimony, ER-2022-129 and ER-2022-0130.
[10] Pages 5-6, Bulkley's Rebuttal Testimony, ER-2022-129 and ER-2022-0130.

authorized ROE,[11] Ms. Bulkley made many incorrect arguments based on her confusion of the two concepts; and,

3. Ms. Bulkley did not correctly characterize Staff's methodology and methods. For example, Staff recommended Evergy Metro and Evergy West's target capital structure of 50% equity ratio because their pro forma equity ratios as of May 31, 2022 (filed January 7, 2022), have not matched their actual equity ratios as of May 31, 2022.[12] Staff found the target 50% equity ratio has matched the average capital structure for both Evergy Metro and Evergy West of approximately 50% in 2020 and 2021.[13] Ms. Bulkley mischaracterized the basis of Staff's recommendation and insisted that Staff should include equity ratios from 2018 and 2019 for recommending its capital structure, even though Evergy Metro and Evergy West experienced major structural changes due to a merger with Westar Energy, Inc. ("Westar Merger") during the time period of 2018-2019.

Staff will explain in detail why Ms. Bulkley's assertions are unfounded in the sections below.

Q. What are the specific areas in which Staff is responding to Evergy Metro and Evergy West's witnesses?

A. Staff is responding to the testimonies of Ms. Bulkley and Mr. Ives. The areas in which Staff addresses issues of Ms. Bulkley's rebuttal testimony include:

- Capital Structure,
- COE and Authorized ROE,
- Comparable Return Standard,

[11] Page 3, Footnote No. 4, Won's Direct Testimony, ER-2022-0129 and ER-2022-0130.
[12] Page 25, lines 5-12, Won's Rebuttal Testimony, ER-2022-129 and ER-2022-0130.
[13] Page 22, lines 4-18. Won's Direct Testimony, ER-2022-129 and ER-2022-0130.

- Updated COE,
- Updated Capital Market Conditions,
- Growth Rates and DCF Model,
- Market Risk Premium and CAPM,
- Rule of Thumb Methodology, and
- Authorized Returns in other Jurisdictions.

Also, Staff includes the response to Mr. Ives' rebuttal testimony regarding Staff's recommended capital structure in the next section. Staff will discuss each in turn, below.

1. Capital Structure

Q. What capital structure did Ms. Bulkley support for Evergy Metro and Evergy West in this proceeding?

A. Ms. Bulkley continued to support Evergy Metro and Evergy West's standalone capital structures proposed by Kirkland B. Andrews in his direct testimony.[14] Mr. Andrews proposed a projected capital structure as of May 31, 2022, consisting of 51.19% common equity and 48.81% long-term debt for Evergy Metro,[15] and consisting of 51.81% common equity and 48.19% long-term debt for Evergy West.[16]

Q. Does Staff have concerns with the capital structure proposed by Evergy Metro and Evergy West's witness?

A. Yes. Evergy Metro's and Evergy West's projected capital structures as of May 31, 2022 (filed January 7, 2022), are not the same as the actual capital structures as of May 31, 2022, for Evergy Metro (51.37% common equity and 48.63% long-term debt) and Evergy West (51.47%

[14] Page 96, lines 17-20, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.
[15] Page 4, Table 1, Andrews Direct Testimony, ER-2022-0129.
[16] Page 4, Table 1, Andrews Direct Testimony, ER-2022-0130.

common equity and 48.53% long-term debt).[17] Staff cannot recommend non-actual capital structures for the purpose of ratemaking without reasonable justification.

Q. Does that mean Staff recommends the use of Evergy Metro and Evergy West's actual capital structures as of May 31, 2022?

A. Not necessarily. Under normal circumstances, the answer would be "yes" because the most recent actual per book capital structures would have the proper information for calculating the cost of capital of Evergy Metro and Evergy West. In this case however, Staff has some unanswered questions to help determine what capital structures are the most proper for the purpose of ratemaking in these proceedings. First, why did Evergy Metro's and Evergy West's witnesses continue to support the projected capital structures as of May 31, 2022, even though the actual capital structures as of May 31, 2022, were already reported?[18] Second, considering the target capital structures and the actual per books capital structures as of May 31, 2022, does Ms. Bulkley's proposed capital structures really reflect the optimal capital structures for Evergy Metro and Evergy West?

Q. Does Staff have any reasons to suspect that the actual per book capital structures as of May 31, 2022, may not reflect the optimal capital structures for Evergy Metro and Evergy West?

A. Yes. First, according to the response to Staff's Data Request No. 0120, Evergy, Inc., Evergy Metro and Evergy West "target a capital structure that approximates 50% Equity and 50% Debt."[19] A target capital structure is expected to optimize the value of a company.[20] Second, Staff

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[17] Staff's Data Request No. 0115, ER-2022-0129 and ER-2022-0130.
[18] Staff's Data Request No. 0115, ER-2022-0129 and ER-2022-0130.
[19] Staff's Data Request No. 0120, ER-2022-0129 and ER-2022-0130.
[20] De Haas, R., & Peeters, M. (2006). The dynamic adjustment towards target capital structures of firms in transition economies. Economics of Transition, 14(1), 133-169.

found differences between the trend of historical capital structures and the May 31, 2022, actual capital structures.

Staff is investigating Evergy Metro and Evergy West's actual true-up capital structures, as of May 31, 2022. The debt-to-equity ratios of Evergy Metro and Evergy West are presented in Table 1.

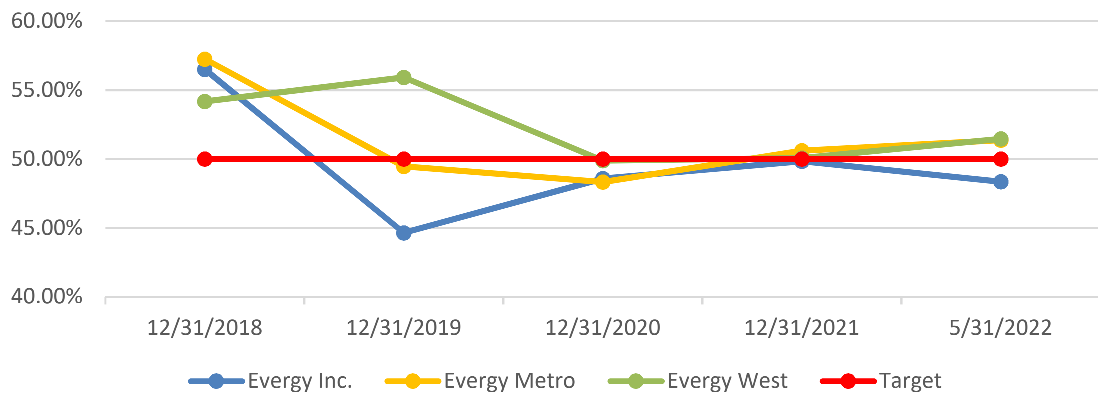
Table 1. Debt-to-Equity Ratio Comparison[21]

	Average of Q1-Q4 2021	As of May 31, 2022
Evergy Metro	50.19 / 49.81	48.63 / 51.37
Evergy West	51.16 / 48.84	48.53 / 51.47

As shown in Table 1, Evergy Metro's average quarterly capital structure in 2021 was approximately 49.81% common equity and 50.19% long-term debt, and Evergy West's capital structure was 48.84% common equity and 51.16% long-term debt.[22] As of May 31, 2022, Evergy Metro's capital structure was 51.37% common equity and 48.63% long-term debt, and Evergy West's capital structure was 51.47% common equity and 48.53% long-term debt.[23]

[21] 8 Capital Structure, Won's Surrebuttal Workpaper, ER-2022-0129 and ER-2022-0130.
[22] Staff's Data Request Nos. 0115 and 0115.1, ER-2022-0129 and ER-2022-0130.
[23] Staff's Data Request No. 0115, ER-2022-0129 and ER-2022-0130.

Figure 1. Capital Structure Comparison[24]



As shown in Figure 1, before and after the merger in 2018, Evergy Inc., Evergy Metro and Evergy West experienced significant equity ratio changes and were converging to a 50% equity ratio of the target capital structure and continued to converge until the end of 2021. However, this trend changed in 2022. There is a clear divergence of equity ratios between the parent company and its operating subsidiaries. Even though there is no definite evidence, a lower parent company equity ratio and a higher subsidiary equity ratio can be an indicator of a double leverage strategy.[25] Also, Staff does not have any clear evidence this sudden trend change is not a manipulation for seeking a higher ROR. After investigating the reason for Evergy Metro's and Evergy West's actual capital structure changes in 2022 to-date, Staff will make a final recommendation of capital structure in its true-up rebuttal testimony filings.

Q. Do you agree with Ms. Bulkley and Mr. Ives that Staff's recommendation is based on a mistaken belief that Evergy Metro's and Evergy West's average capital structure has been approximately 50/50 debt/equity?[26]

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[24] 8 Capital Structure, Won's Surrebuttal Workpaper, ER-2022-0129 and ER-2022-0130.
[25] Rozeff, M. S. (1983). Modified double leverage-A new approach. Public Utilities Fortnightly, 31-36.
[26] Page 30, lines 13-15, Ives' Rebuttal Testimony.

A. No, I do not. Staff does not have a mistaken belief nor does it recommend a capital structure based on the four-year average of approximately 50/50 debt/equity average capital structures of Evergy Metro and Evergy West. Staff's recommended capital structures are based upon its investigation of what is the most proper and efficient capital structure of Evergy Metro and Evergy West for the purpose of ratemaking. This consists of the two-year average capital structures of Evergy Metro and Evergy West in 2020 and 2021.

However, Ms. Bulkley and Mr. Ives insist that Staff mistakenly excluded 2018 and 2019 information in calculating the average capital structures of Evergy Metro and Evergy West.[27] The Commission approved the merger with Westar Energy, Inc., on May 24, 2018,[28] and the names of Kansas City Power & Light Company ("KCP&L") and KCP&L Greater Missouri Operations Company ("GMO") were still used on October 3, 2019.[29] Because a target capital structure is significantly changed in accordance with the new management strategy after a merger and acquisition, the proper ratemaking capital structure can only be actualized after the merger effects are settled. Therefore, Ms. Bulkley's and Mr. Ives's assertion to include the 2018 and 2019 capital structures in this analysis is unreasonable.

Q. Do you agree with Ms. Bulkley and Mr. Ives that Staff should use a 4-year (the reference period 2018-2021 in Schedule SJW-d5-2) average capital structure for Evergy Metro and Evergy West?[30]

A. No, I do not. The reason Staff used the time period 2018-2019 as presented in its direct testimony, was to investigate the trend of capital structure changes before and after the 2018

[27] Staff Data Request Nos. 0513 and 0506, ER-2022-0129 and ER-2022-0130 respectively.
[28] Report and Order, 5/24/2018, EM-2018-0012.
[29] Notice of Communication, 10/3/2019, EM-2018-0012.
[30] Page 30, lines 16-18, Ives' Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.

Westar Merger. As explained above, Staff found the target 50% equity ratio has matched the average capital structure for both Evergy Metro and Evergy West at approximately 50% equity in 2020 and 2021.[31] Ms. Bulkley mischaracterized Staff's capital structure analysis and insisted that Staff should include equity ratios in 2018 and 2019. Ms. Bulkley's and Mr. Ives' assertion to use 2018 and 2019 capital structure data is invalid because the Commission's approval of Westar Merger was May 24, 2018,[32] and the company names of Evergy Metro and Evergy West were not used until late 2019.[33]

Q. What capital structure does Staff recommend for Evergy Metro and Evergy West in this proceeding?

A. Staff continues to recommend the target capital structure of Evergy Metro and Evergy West that is composed of 50.00% common equity and 50.00% long-term debt based on the response to Staff's Data Request No. 0120.[34] Currently, Staff is still investigating the true basis for change in Evergy Metro and Evergy West's actual capital structures and costs of debt through May 31, 2022, the end of the true-up period. Staff will address its final recommended capital structure in true-up rebuttal testimony.

2. COE and Authorized ROE

Q. Do you agree with Ms. Bulkley that Staff disregarded the results of its COE estimation when recommending an authorized ROE?[35]

A. No, I do not. Staff did not disregard its COE estimation results when it recommended an authorized ROE of 9.62% within the range of 9.37% to 9.87%. On the contrary,

[31] Page 11, lines 6-18. Won's Direct Testimony, ER-2022-0129 and ER-2022-0130.
[32] Report and Order, 5/24/2018, EM-2018-0012.
[33] Notice of Communication, 10/3/2019, EM-2018-0012.
[34] Page 5, lines 8-10, Won's Direct Testimony, ER-2022-0129 and ER-2022-0130.
[35] Page 47, lines 3-9, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.

Staff actively utilized its COE estimates to assess a just and reasonable authorized ROE using its comparative COE analysis. Interestingly, Ms. Bulkley actually disregarded the results of her own COE and ROE estimations. For example, Ms. Bulkley excluded her median and mean DCF COE estimates of 9.29% to 9.43% and 9.54% to 9.62%, respectively.[36] These COE estimated ranges are significantly lower than her proposed ROE of 10.00%.

Q. Why did Ms. Bulkley insist that Staff disregarded the results of its COE estimation when it recommended an authorized ROE?

A. According to Ms. Bulkley, Staff does not rely on any of Staff's COE analyses to support its recommendation because Staff's COE estimates are significantly below its recommended ROE of 9.62%.[37] That is true because COE estimates have recently been much lower than authorized ROEs, and the COE is not the same as an ROE.[38]

Ms. Bulkley also insisted that Staff's authorized ROE recommendation is not based on the results of its ROE models because Staff used the comparative analysis results of the COE models that recalculated the 2019 Empire rate case.[39] On page 47 in her rebuttal testimony, Ms. Bulkley stated:

> Dr. Won essentially disregards the results of the majority of his ROE estimation methodologies and establishes his ROE recommendation based entirely on the results of his "comparative analysis," calculating ROEs using the Two-Step DCF model and current data as compared with the ROE resulting from a Two-Step DCF model using data from the time of the 2019 Empire Case.[40]

[36] Schedule AEB-R1, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.
[37] Page 48, lines 13-16, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.
[38] Steve Huntoon, Nice Work If You Can Get It, Public Utility Fortnightly, August 2016 (http://energy-counsel.com/docs/Nice-Work-If-You-Can-Get-It-Fortnightly-August-2016.pdf).
[39] Pages 47-49, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.
[40] Page 47, lines 3-7, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.

This statement displays Ms. Bulkley's misunderstanding and confusion of Staff's comparative COE analysis. Staff's methodology is based on the following financial basics. First, a market COE and an authorized ROE are different concepts. Second, an authorized ROE cannot be directly calculated using a formula or some specific model. Third, a COE can be estimated using financial models and proper input values for a given time period. Fourth, the change in investors' expected market returns can be estimated by a comparative COE analysis. Fifth, the change in authorized ROEs can be determined by the changes in the market participants' expected returns.

Staff used the results of its 2019 Q4 COE estimates and compared those results to the 2022 Q1 COE estimates to discern a change in COE. Considering Evergy Metro's and Evergy West's unique risk profiles and capital market conditions, such as the Fed interest rate hike, Staff adjusted the Commission's authorized ROE from the 2019 Empire Case upward by 37 basis points from 9.25% to 9.62%. In other words, the intent of Staff's current COE estimates is not to directly or mechanically determine Staff's recommended authorized ROE of 9.62%.

Q. Did Ms. Bulkley, not Staff, disregard the results of her COE estimates when recommending an authorized ROE?

A. Yes, Ms. Bulkley estimated her recommended ROE directly from her COE estimates but recommended a range of authorized ROE that excludes some of her COE estimates. For example, Ms. Bulkley excluded her median and mean DCF COE estimates of 9.29% to 9.43% and 9.54% to 9.62%, respectively,[41] when her recommended ROE is 10.00%, in a range of 9.90% to 10.50%.[42] Ms. Bulkley claims that COE and ROE are the same. If that is the case, then the

[41] Schedule AEB-R1, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.
[42] Page 7, lines 5-9, Bulkley's Direct Testimony, ER-2022-0129 and ER-2022-0130.

recommended range of her authorized ROE should include all of her COE estimates. However, Ms. Bulkley clearly disregarded her average and median DCF COE estimates.

In contrast, as explained in my Direct Testimony, Staff recognizes that market-based COE is different from authorized ROE.[43] COE is the return required by investors; authorized ROE is the return set by a regulatory utility commission. Staff's position is that COE is not the same as authorized ROE. It is well known that estimated COEs have, in recent years, been much lower than authorized ROEs. Staff's recommended authorized ROE is a function of the relative change in COE between time periods. Therefore, Ms. Bulkley's claim that Staff disregarded the results of its COE estimates when recommending an authorized ROE is simply wrong.

Q. Why is Ms. Bulkley's assumption that the market-based COE estimate is equal to the authorized ROE wrong?

A. Ms. Bulkley's assumption that a market-based COE and a regulatory authorized ROE are equal is not supported by theoretical or recent empirical evidence. First of all, COE is defined as a stock market value-based concept.[44] In contrast, an authorized ROE is an accounting book value-based concept.[45] Therefore, a simple calculation of COE does not produce a just and reasonable authorized ROE.

Q. Why is the market-based concept of COE not the same as the book-based concept of an authorized ROE?

A. COE is the return required by investors and an authorized ROE is the return set by a regulatory utility commission. Although some experts contend that COE and ROE are synonymous, Staff's position is that they need not be. Observed utility COEs have been, generally,

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[43] Page 3, Footnote No. 4, Won's Direct Testimony, ER-2022-0129 and ER-2022-0130.
[44] Page 378, CFA Program Curriculum, 2020, Level I, Volume 4.
[45] Page 389, CFA Program Curriculum, 2020, Level I, Volume 4.

significantly lower than ROEs in recent years.[46] Because observed COEs have been significantly lower lately, instead of directly recommending the estimated COEs, Staff recommends the authorized ROE be based on the change in COE from one period to the next period.

The easiest way to understand the difference between COE and authorized ROE is to consider how the two return measures are used in practice. When investors buy common equity stock of a company, they want to know the expected rate of return and compare it to their required rate of return from their investment. The COE can be thought of as the minimum expected rate of return that a company must offer its investors to induce the purchase of its shares in the primary market and to maintain its share price in the secondary market.[47] The important point here is that investors pay their money based on the market value of the common equity stock and not just based on the book value of the equity of a company. To calculate the expected minimum rate of return of common equity, investors estimate COE using the stock valuation of models such as the DCF or the CAPM.[48] Investors' expected return from their common stock can be easily calculated by multiplying the COE by the market value of a common stock.

In contrast, an authorized ROE has a very different financial context. The purpose of an authorized ROE is to calculate just and reasonable rates for utility companies. In utility rate cases, rates are decided by the revenue requirement determined by the Commission. The revenue requirement is calculated by multiplying its rate base by the allowed ROR. The allowed ROR is the weighted average cost of capital, which includes the authorized ROE and cost of debt. The rate base calculation is based on the book value of the utility's regulatory assets. The book value

[46] Steve Huntoon, Nice Work If You Can Get It, Public Utility Fortnightly, August 2016 (http://energy-counsel.com/docs/Nice-Work-If-You-Can-Get-It-Fortnightly-August-2016.pdf).
[47] Page 378, CFA Program Curriculum, 2020, Level I, Volume 4.
[48] Page 379, CFA Program Curriculum, 2020, Level I, Volume 4.

of equity is calculated by subtracting a company's total liabilities from its total assets. Clearly, the two concepts, COE and ROE, are different; therefore, there is no reason market COE estimates and recommended authorized ROEs should be the same.

Q. How do investors consider the Commission's authorized ROE differently from the market value COE?

A. The book value of common equity is not as volatile as stock prices. Since COE is associated with the market value of common stock, which can have a volatile value, if the COE is directly used to set an authorized ROE value and to calculate the revenue requirement, an authorized ROE would be as volatile as the stock market. With an authorized ROE as volatile as the stock market, the overall revenue requirement would be just as volatile. Investors of utility common stock expect and require a reliable revenue stream based on just and reasonable utility rates. Investors know that utility rates higher or lower than just and reasonable amounts are unsustainable and are eventually harmful to both ratepayers and investors. Therefore, for ratemaking purposes, a reliable and stable earning multiplier associated with the rate base, based on utility book value, needs to be produced. To properly meet the expectations and requirements of investors when they choose to invest in or lend their money to a utility company, rather than in some other investment opportunity, just and reasonable rates are required.

Q. Does this mean that COE estimation procedures are useless in the ratemaking process?

A. No, it does not. COE estimates provide valuable equity financial market information including investors' expected minimum rates of return based on the market value of stocks. Specifically, the comparison of COE estimates for two different rate cases provides important information to calculate and recommend a just and reasonable authorized ROE. In many rate cases, Staff found that the changes in the COE over time, say between rate case periods, provide essential information on whether to increase or decrease authorized ROE recommendations considering financial market changes. However, simply equating COE estimates with ROE recommendations is often not appropriate.

Q. Why does a simple calculation of COE estimates not produce a just and reasonable authorized ROE?

A. In its Amended Report and Order in the Spire Missouri rate cases, Case Nos. GR-2017-0215 and GR-2017-0216, the Commission stated:

> To determine a return on equity, the Commission must consider the expectations and requirements of investors when they choose to invest their money in Spire Missouri rather than in some other investment opportunity. As a result, the Commission cannot simply find a rate of return on equity that is unassailably scientifically, mathematically, or legally correct. Such a "correct" rate does not exist. Instead, the Commission must use its judgment to establish a rate of return on equity attractive enough to investors to allow the utility to fairly compete for the investors' dollar in the capital market without permitting an excessive rate of return on equity that would drive up rates for Spire's ratepayers.[49]

As the Commission explained above, setting authorized ROEs is not a purely mathematical exercise where the results of COE estimation models are simply accepted from the results of a mathematical formula. Setting fair and reasonable ROEs involves judgement, which means that in some cases the results of COE estimates are adjusted to account for what is considered just and fair. As explained earlier, the COE and the authorized ROE are developed in different financial contexts. If COE estimates determined by market value based methods such as the DCF and the CAPM are simply quoted for the authorized ROE, the result would be neither just nor reasonable to investors or ratepayers.

[49] Page 28, Amended Report and Order, Case No. GR-2017-0215.

More importantly, finding a just and reasonable authorized ROE in utility rate regulation is a long-term iterative procedure. After a utility rate case a set of new utility rates go into effect based on an authorized ROE determined by the Commission. Under the new rates, the utility company will soon have its performance results. If the new rates are overpriced, ratepayers will overpay and the company and its stock price will generally outperform. If the new rates are underpriced, the company will have a lower net income than the market expected. Because of the disappointing earnings report, investors would not be attracted to the company's stock and its stock price will underperform the total stock market. Therefore, the company may file its next rate case sooner or later than originally expected based upon the performance results of the current set of rates.

3. Comparable Return Standard

Q. Do you agree with Ms. Bulkley that the equity return recommendation of Staff is not consistent with the comparable return standard?

A. No, I do not. Staff's recommended authorized ROE is consistent with the comparable return standard established by the Court in *Hope* and *Bluefield*.[50] Ms. Bulkley recognized that Staff considers a rising interest rate, high inflationary market, and recently authorized ROEs for electric utilities in other jurisdictions across the U.S.[51] Even while acknowledging these evidences, Ms. Bulkley asserted that Staff is not consistent with the comparable return standard.

Q. Why did Ms. Bulkley insist Staff is not consistent with the comparable return standard?

[50] Pages 6-8, Won's Direct Testimony, ER-2022-0129 and ER-2022-0130.
[51] Page 25, lines 17-19, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.

A. Ms. Bulkley listed several reasons why she thinks Staff did not consider the comparability. In her rebuttal testimony, Ms. Bulkley stated:

> Dr. Won simply takes the average of all recently authorized ROEs for electric utilities. He does not consider the risk profile of the companies, nor does he research the returns to determine whether the final return includes adjustments, such as penalties. Finally, he does not distinguish the formula rate determinations, which are based on a methodology that is inconsistent with the data presented by any witness in this proceeding or the methodologies used by the Commission in its prior ROE determinations.[52]

Ms. Bulkley's statement is not true. First, Staff considered the risk profile of the companies by using Regulatory Research Associates ("RRA") of S&P Capital IQ Pro.[53] Staff considered the credit ratings of electric utilities including Evergy Inc., Evergy Metro and Evergy West in my direct testimony.[54] Credit ratings are determined by the risk profile of the company. Second, contrary to Ms. Bulkley's concerns, Staff did not make a negative adjustment in its proxy group even though Evergy Metro's and Evergy West's credit ratings are higher than the average credit rating of 'BBB' of Staff's electric proxy group. Currently, S&P assigned credit ratings of 'A' and 'A-' to Evergy Metro and Evergy West, respectively.[55] The electric proxy utilities and Empire have average bond ratings of 'BBB+' and 'BBB' as provided by S&P.[56] If Staff considered the risk profiles of Evergy Metro and Evergy West with other comparable companies', the recommended authorized ROE in this case should be lower than 9.62%. However, because Staff considered current financial and economic market conditions, Staff did not make such a negative adjustment on Staff's recommended authorized ROE. Third, even if the authorized

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[52] Page 26, lines 6-11, Bulkley's Direct Testimony, ER-2022-0129 and ER-2022-0130.
[53] RRA Regulatory Focus, S&P Capital IQ Pro, (https://www.capitaliq.spglobal.com/web/client?auth=inherit#news/feature?id=116.
[54] Pages 20-21, Won's Direct Testimony, ER-2022-0129 and ER-2022-0130.
[55] S&P Rating Report.
[56] S&P Capital IQ Pro.

ROE was determined by a formula rate, other utilities' authorized ROE determination results would still support Staff's recommendation of 9.62%, not Ms. Bulkley's 10.00%. Ms. Bulkley recognized that the average of fully-litigated, vertically-integrated electric utility authorized ROEs is 9.50%. Therefore, Staff is not sure why Ms. Bulkley asserted unreasonable arguments that Staff is not consistent with the comparable return standard.

Q. Do you agree with Ms. Bulkley that the majority of the weighted authorized equity returns ("WAER") for vertically-integrated electric companies from 2018 through June 15, 2022, have been above Staff's recommendation of 4.81%?

A. No, I do not. Ms. Bulkley's description regarding WAER produced false impressions about the true distribution of recent WAER for vertically-integrated electric companies. Because Ms. Bulkley's WAER includes distorted information, Staff recalculated WAER from January 1, 2018, to June 30, 2022, based on the RRA data.[57] Staff's recalculated WAER contradicts Ms. Buckley's assertions. First, Staff found comparable authorized ROEs for vertically-integrated electric utilities. In those cases, the WAER ranged from 3.19% to 5.88%, with an average of 4.75% that is 6 basis points lower than Staff's recommended WAER of 4.81%.[58] Second, Ms. Bulkley's recommended WAERs of 5.12% for Evergy Metro and 5.18% for Evergy West are 37 and 43 basis points higher than the average WAER of 4.75%.[59] Third, the majority of WAERs for vertically-integrated electric companies (70%, or 65 out of 93 decisions) have been below Ms. Bulkley's average recommendation of 5.15%.[60] Therefore, considering the listed facts,

[57] RRA, S&P Capital IQ Pro.
[58] Page 28, lines 4-6, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.
[59] 12 WAER, Won's Surrebuttal Workpaper. In addition, Bulkley Rebuttal (page 28, lines 4-6) says they ranged from 3.75 to 5.88 with an average of 4.87; these numbers are incorrect.
[60] Staff's Surrebuttal Workpaper.

Ms. Bulkley's proposed ROE is unsubstantiated and inconsistent with the comparable return standard provided in *Hope* and *Bluefield*.

4. Updated COE

Q. Did Ms. Bulkley change her recommended ROE and capital structure based on her updated analysis using market data through June 15, 2022?

A. No, she did not. Ms. Bulkley maintained her recommended ROE of 10.00% in a range of 9.90% to 10.50% and continued support for a proposed capital structure of 51.19% common equity, 48.81% long-term debt for Evergy Metro and 51.81% equity and 48.19% long-term debt for Evergy West.[61]

Q. What did Ms. Bulkley change in her updated COE analysis?

A. Ms. Bulkley's COE estimation models and input variables estimation methods remained the same except for the time period of the data values and the proxy group.[62] Ms. Bulkley's updated COE analysis is now based on data as of June 15, 2022, instead of March 30, 2021, in her original COE analysis for her direct testimony.[63] Ms. Bulkley used 15 and 16 electric utility companies for her proxy group in her direct testimony and rebuttal testimony, respectively. Ms. Bulkley added CMS Energy Corporation to her original electric utility proxy group. Table 2 presents the list of Ms. Bulkley's electric utility proxy group and associated Ticker symbols and S&P credit ratings:

[61] Page 96, lines 17-20, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.
[62] Staff Data Request No. 0514, ER-2022-0129.
[63] Page 9, lines 14-19, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.

Table 2. Bulkley Proxy Group and S&P Credit Rating[64]

	Company	Ticker	Credit Rating
1	ALLETE, Inc.	ALE	BBB
2	Alliant Energy Corporation	LNT	A -
3	Ameren Corporation	AEE	BBB+
4	American Electric Power Company, Inc.	AEP	A -
5	Avista Corporation	AVA	BBB
6	CMS Energy Corporation	CMS	BBB +
7	Duke Energy Corporation	DUK	BBB +
8	Entergy Corporation	ETR	BBB +
9	IDACORP, Inc.	IDA	BBB
10	MGE Energy, Inc.	MGEE	AA -
11	NextEra Energy, Inc.	NEE	A-
12	NorthWestern Corporation	NWE	BBB
13	Otter Tail Corporation	OTTR	BBB
14	Portland General Electric Company	POR	BBB +
15	Southern Company	SO	BBB +
16	Xcel Energy Inc.	XEL	A -
	Evergy Metro, Inc. d/b/a Evergy Missouri Metro		A
	Evergy Missouri West, Inc. d/b/a Evergy Missouri West		A -

The approximately 15-month time difference shows mixed directional changes in her COE estimates. In her updated COE analysis, Ms. Bulkley indicated lower DCF COE estimates and higher CAPM and BYPRP COE estimates compared to the COE estimates in her direct testimony. The summary of Ms. Bulkley's updated COE estimates are presented in Table 3:

Table 3. Bulkley's COE estimates Comparison[65]

	Direct As of March 30, 2021			Rebuttal As of June 15, 2022		
	Low	Average	High	Low	Average	High
Constant Growth DCF	8.81%	9.43%	10.05%	8.39%	9.22%	9.91%
CAPM	9.60%	10.81%	11.80%	10.09%	10.91%	11.62%
ECAPM	10.43%	11.34%	12.09%	10.80%	11.42%	11.95%
Bond Yield Plus Risk Premium	9.49%	9.64%	9.70%	10.00%	10.15%	10.29%

[64] S&P and AEB-R2 Proxy Selection, Bulkley's Rebuttal Workpaper, ER-2022-0129 and ER-2022-0130.
[65] 1 Summary, Won's Surrebuttal Workpaper, ER-2022-0129 and ER-2022-0130.

Because Ms. Bulkley did not change her estimation models and input variables, Staff's concerns with her recommended COE remains the same as expressed in my rebuttal testimony. Staff will not repeat here all of its explanation of its concerns with Ms. Bulkley's estimation models and input data. For a detailed explanation of Staff's concerns with Ms. Bulkley's COE estimation models and input data, please see my rebuttal testimony.

Q. Please summarize Staff's concerns with Ms. Bulkley's COE estimation models and input data.

A. The list of Ms. Bulkley's flawed COE estimation procedures with brief summaries and updated analysis results, and the page numbers of the associated explanation in my rebuttal testimony, are as follows:

A. Overstated Recommended ROE (Pages 5-6, Won's Rebuttal Testimony)

Ms. Bulkley's recommended ROE of 10.00% is much higher than the average authorized ROE of 9.47% in vertically-integrated electric utility rate cases completed in the first half of 2022.[66] Ms. Bulkley's recommended ROE is based on overstated COE estimates using upwardly-biased input variables such as projected growth rates for the DCF model, market risk premium ("MRP") for the CAPM method, and projected risk-free rates for the BYPRP analysis.

B. Inadequate Proxy Group Selection (Pages 7-8, Ibid)

Ms. Bulkley's COE estimates are unreasonably upwardly biased due to her unreasonable proxy group selection. For example, Ms. Bulkley excluded Pinnacle West Capital Corporation ("PNW") from her electric utility proxy group because the stock price of PNW decreased temporarily.[67] Also, for her DCF analysis, Ms. Bulkley excluded individual companies' DCF COE

[66] S&P Global Market Intelligence, Retrieved in July 1, 2022.
[67] Page 26, lines 7-13, ER-2022-0129, and Page 27, lines 2-8, ER-2022-0130, Bulkley's Direct Testimony.

results in her calculation of DCF COE estimates if a company's DCF COE estimate was lower than 7%.[68] Ms. Bulkley's COE estimates are unreasonably upwardly biased due to her one-sided selection. Bulkley's inappropriate screening of the results of her DCF analysis from her proxy group serves to overstate her recommended ROE.

C. Excessive Growth Rate for DCF (Pages 8-11, Ibid)

Ms. Bulkley used an excessively high growth rate for her DCF COE estimates. Ms. Bulkley exclusively used analysts' projected earnings growth rates, which she erroneously called long-term earnings growth rates.[69] Ms. Bulkley's DCF COE estimates would be reasonable if she would use a combination of commonly-used growth rates of earnings per share ("EPS"), dividend per share ("DPS"), book value per share ("BVPS") and GDP.[70] Analysts' projected growth rates are for periods of three to five years,[71] which is considered short-term given the infinite investment horizon assumed in the DCF. Analysts are of the consensus that long-term growth rates for utilities will eventually converge to the level of the long-term gross domestic product ("GDP") growth rate.[72] Because of her overstated growth rates, Ms. Bulkley's DCF COE estimates are unreasonably upwardly biased. If Ms. Bulkley had used a more reasonable 3.90% as her projected GDP growth rate in the DCF model, her DCF COE estimate would be 8.79%.[73]

D. Inflated Market Risk Premium in the CAPM (Pages 11-15, Ibid)

Ms. Bulkley employed the CAPM and the ECAPM using Value Line Beta, Bloomberg Beta and Value Line Long-Term (2012-2021) Average Beta with three different updated risk-free

[68] Page 36 and 37, Bulkley's Direct Testimony, ER-2022-0129 and ER-2022-0130, respectively.
[69] Page 35, Bulkley's Direct Testimony, ER-2022-0129 and ER-2022-0130.
[70] Howe, Keith M. and Eugene F. Rasmussen. Public Utility Economics and Finance, Prentice Hall, Inc., Englewood Cliffs, New Jersey, 1982.
[71] Value Line, Value Line - Value Line University, retrieved in July 15, 2022.
[72] Morin, R. A. (2006). New Regulatory Finance. Public Utilities Reports, page 302.
[73] 3 Constant DCF 1, Won's Surrebuttal Workpaper.

rates of 3.12%, 3.48% and 3.80% and an updated total market return of 12.96%, resulting in three different MRP of 9.84%, 9.48% and 9.16%.[74] Ms. Bulkley's MRPs are much higher than the regular U.S. financial services industry's MRP estimates of around 4.00% to 7.00%.[75] When she calculated her MRP, Ms. Bulkley included companies not having dividend payment information.[76] With more reasonable assumptions, such as a MRP of 5.57% and a risk-free rate of 3.12%,[77] Ms. Bulkley's average CAPM COE estimate would be 7.87%.[78]

E. **Unreliable Empirical Capital Asset Pricing Model** (Pages 15-16, Ibid)

Ms. Bulkley's adjusted ECAPM COE estimate of 12.05% is unreliable.[79] Ms. Bulkley used Dr. Roger Morin's adjustment factor of 25% in the ECAPM analysis.[80] Dr. Morin's adjustment factor of 25% was estimated using data from 1926 to 1984 under the assumption that CAPM underestimated COE.[81] However, there is no evidence Dr. Morin's finding would be consistent with data after 1984. Furthermore, Dr. Morin also cited other studies that found that CAPM produced returns between −9.61% and 13.56%, meaning that the CAPM can actually overestimate COE in some instances.[82] Such variations in findings do not lend credibility to Ms. Bulkley's use of the ECAPM.

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[74] Schedule AEB-R4, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.
[75] See Figure 2. "MRP and corresponding COE" on page 14, Won's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.
[76] Schedule AEB-R6, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.
[77] The assumption of the estimated MRP of 5.57% is the average of the seven MRP in 4 CAPM, Won's surrebuttal workpaper. The risk free rate of 3.126% is an average of 30-year Treasury bond at yields of 30 day Bloomberg Professional, as of June 15, 2022. See AEB-R4 CAPM, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.
[78] 4 CAPM, Won's Surrebuttal Workpaper, ER-2022-0129 and ER-2022-0130.
[79] Schedule AEB-R4, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.
[80] 1 Summary, Won's Surrebuttal Workpaper, ER-2022-0129 and ER-2022-0130.
[81] Page 17, Footnote 55. Won's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.
[82] Morin, R. A. (2006). New Regulatory Finance. Public Utilities Reports, Page 190.

F. Inappropriate Bond Yield Plus Risk Premium Analysis (Pages 16-18, Ibid)

Ms. Bulkley's updated BYPRP ROE estimates range from 10.00% to 10.29% with a mean of 10.15%.[83] Ms. Bulkley's BYPRP using a regression analysis is different from the conventional BYPRP.[84] Because Ms. Bulkley's BYPRP relies on a single independent input value of 30-year treasury bonds yield,[85] it is unavoidable that her BYPRP COE estimates are unreasonably excessive under the current Fed's monetary policy increasing interest rates with unusual speed. As the Federal Energy Regulatory Commission ("FERC") discerned, the BYPRP is likely to provide a less accurate current COE estimate than the DCF or CAPM models because it relies on previous ROE determinations, whose resulting ROE may not necessarily be directly determined by a market-based method. Staff recommends the Commission not consider Ms. Bulkley's BYPRP COE estimate to determine a just and reasonable authorized ROE.

G. Mischaracterization of Regulatory and Business Risks (Pages 19-24, Ibid)

Ms. Bulkley considered business risk and regulatory risk to determine where Evergy Metro and Evergy West's required ROE falls within the range of her analytic results.[86] Ms. Bulkley continued to insist that the risk level for Evergy Metro and Evergy West is greater than her peer group companies because of their capital expenditure requirements.[87] However, Ms. Bulkley admitted that the implementation in Missouri of Plant in Service Accounting ("PISA") "positions Evergy Metro and Evergy West closer to the risk profile of the operating utilities of the proxy group companies."[88] According to S&P, Missouri is classified in the category of "Very Credit

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[83] Schedule AEB-R4, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.
[84] Pages 16-17, Won's Direct Testimony, ER-2022-0129 and ER-2022-0130.
[85] Page 17, lines 1-11, Won's Direct Testimony, ER-2022-0129 and ER-2022-0130.
[86] Page 4, lines 4-6, Bulkley's Direct Testimony, ER-2022-0129 and ER-2022-0130.
[87] Pages 20-23, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.
[88] Page 22, lines 7-9, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.

Supportive," with a "Strong and Adequate" utility regulatory environment in jurisdictions among U.S. states and Canadian provinces.[89]

The credit ratings of Evergy Metro and Evergy West are not lower than the average credit rating of any proxy group companies considered in these proceedings.[90] S&P has assigned the corporate credit ratings of Evergy Metro and Evergy West as 'A' and 'A-', respectively, and Moody's has assigned 'Baa1' and 'Baa2', respectively.[91] It is a well-known fact that the corporate credit rating is determined by credit agencies' assessment of corporate risks, including financial, business and regulatory risk profiles.[92] As shown in Table 2, of the 16 electric utility proxy group companies, only MGE Energy, Inc., has a higher credit rating of "AA-" than the credit ratings of Evergy Metro and Evergy West of 'A' and 'A-', respectively. Eleven of the 16 companies have lower credit ratings such as BBB or BBB +. Therefore, Ms. Bulkley's assertion that the risk level for Evergy Metro and Evergy West is greater than that of her peer group companies is baseless.

5. Updated Capital Market Conditions

Q. Do you agree with Ms. Bulkley that Staff does not consider that the Fed has clearly indicated the expectation for additional rate increases over the remainder of 2022 and into 2023 in order to address persistently high inflation?[93]

A. No, I do not. As I explained in my direct testimony, Staff recognized that the Fed anticipates that ongoing increases to the target range will be appropriate in the future,[94] and Staff

[89] S&P Global Ratings, Updated Views On North American Utility Regulatory Jurisdictions - June 2021, (https://www.spglobal.com/ratings/en/research/articles/210629-updated-views-on-north-american-utility-regulatory-jurisdictions-june-2021-11998892).
[90] Schedule SJW-d9, Won's Direct Testimony, ER-2022-0129 and ER-2022-0130.
[91] S&P Rating Report.
[92] Page 15, Guide to Credit Rating Essentials - S&P Global, retrieved on July 17, 2022. https://www.spglobal.com/ratings/_division-assets/pdfs/guide_to_credit_rating_essentials_digital.pdf.
[93] Page 36, lines 9-12, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.
[94] Page 9, lines 10-11, Won's Direct Testimony, ER-2022-0129 and ER-2022-0130.

considered the Fed's expectation of interest rates increasing with Evergy Metro and Evergy West's unique risk profiles.[95]

Q. How does Staff consider market conditions with expected increases to interest rates?

A. Staff considered ongoing interest rate hikes in many ways in its analysis for recommending an authorized ROE. As explained in the above sections, there are many reasons Staff's comparative COE analysis could be adjusted to a lower authorized ROE; however, Staff chose not to adjust to a lower authorized ROE. Here are some examples. First, Staff did not make any negative adjustments of COE even though Staff's proxy group's average credit ratings are lower than Evergy Metro and Evergy West. Second, Staff did not make a negative adjustment even though the reference case electric utility company, Empire District Electric Company, had a credit rating in 2019 lower than Evergy Metro and Evergy West currently have.[96] It is common sense that a lower risk company requires a lower return than a higher risk company. Third, Staff did not make any negative adjustments even though Staff's recommended authorized ROE is higher than the average of recent comparable authorized decisions in other utilities. Considering all of the above information that Staff has reviewed, Staff continues to recommend the Commission authorize an ROE of 9.62% for Evergy Metro and Evergy West in this proceeding.

6. Growth Rates and DCF Model

Q. Do you agree with Ms. Bulkley that Staff should use a GDP growth rate of 4.10% to 4.40% in Staff's DCF COE comparative analysis?[97]

[95] Page 30, lines 13-20, Won's Direct Testimony, ER-2022-0129 and ER-2022-0130.
[96] 11 Electric Credit Rating, Won's Surrebuttal Workpaper, ER-2022-0129 and ER-2022-0130.
[97] Page 49, lines 8-11, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.

A. No, I do not. Ms. Bulkley insisted that Staff's analysis is flawed because Staff applied the same GDP growth rate assumption to Staff's comparative COE analysis.[98] This assertion is incorrect because if Staff applied a different GDP growth rate assumption than the comparative analysis, it would be an apples-to-oranges comparison. In that case, a proper measure of changes in market investors' expected returns for the two time periods would be impossible. In this proceeding, Staff used the same longer term projected nominal GDP growth rate estimated and published by the Congressional Budget Office ("CBO") of 3.90% for estimating the growth rate of both time periods of the 2019 Empire rate case and the current Evergy Metro and Evergy West rate cases. The reason Staff used the same GDP growth rate is that the CBO published the same projected nominal GDP growth rate in both 2019 and 2022.[99]

Ms. Bulkley insisted that Staff should use a GDP growth rate of 4.10% to 4.40% as proposed by Staff witness Peter Chari in the 2019 Empire rate case.[100] This assertion is also wrong for multiple reasons. First, Ms. Bulkley insisted that Mr. Chari relied upon a GDP growth rate of 4.10% to 4.40% on page 7 in his direct testimony,[101] but he never did. In his direct testimony contained within Staff's report in Case No. ER-2019-0374, Mr. Chari stated that "Long-run projections for real GDP is about 1.9% according to the Federal Open Market Committee ("FOMC")."[102] Second, Ms. Bulkley insisted that Mr. Chari relied upon GDP growth rate of 4.10%

[98] Page 48, 18-19, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.
[99] Page 40, Table 2-3, An Update to the Budget and Economic Outlook: 2019 to 2029, CBO, https://www.cbo.gov/system/files?file=2019-08/55551-CBO-outlook-update_0.pdf.
Page 134, Table C-2, The Budget and Economic Outlook: 2022 to 2032, CBO https://www.cbo.gov/system/files?file=2022-05/57950-Outlook.pdf.
[100] Page 49, lines 8-11 and Footnote No. 71, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.
[101] Page 49, Footnote No. 71, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.
[102] Page 7, line 24-25, Staff's Cost of Service Report, ER-2019-0374.

to 4.40% on page 7 in Exhibit 108 of his rebuttal testimony for his DCF analysis,[103] but he never did. In his rebuttal testimony, Mr. Chari stated that:

> Mr. Hevert assumes, in his constant growth DCF model, that his electric proxy group's dividends will grow perpetually, at an average of 5.80%, a growth rate that is about 170 bps[7] higher than the estimated long-term growth rate for the general economy.[104]

And, in Footnote No. 7, Mr. Chari stated that:

> Long-term GDP growth rate estimate is about 4.1%, nominally.[105]

Reading this statement and footnote within the appropriate context, Mr. Chari simply stated Mr. Hevert's growth rate of 5.80%, is too high compared to the 4.1% long-term GDP growth rate estimate in a general sense. Therefore, if Ms. Bulkley correctly understood her referenced statements from Mr. Chari, she would know that Mr. Chari never insisted that normal GDP growth rates of 4.10% to 4.40% should be used in Staff's comparative analysis. Third, Ms. Bulkley indicated that her assertion that Mr. Chari relied upon a GDP growth rate of 4.10% to 4.40% is supported by the Amended Report and Order filed on July 23, 2020 in the 2019 Empire rate case. However, the actual statement in Amended Report and Order is that:

> 35. The long-term nominal GDP growth rate estimate is 4.1 percent (unadjusted for inflation). A higher estimate of nominal GDP growth of 4.4 percent would also be reasonable.[106]

In other words, there is no Commission language in any order that a nominal GDP growth rate of 4.10% to 4.40% should be used in Staff's comparative COE analysis for all utility rate cases. In conclusion, Ms. Bulkley's assertion is based on her distorted fact finding and there is no reason

[103] Page 49, Footnote No. 71, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.
[104] Page 7, lines 8-10, Chari's Rebuttal Testimony, ER-2019-0374.
[105] Page 7, Footnote No. 7, Chari's Rebuttal Testimony, ER-2019-0374.
[106] Page 29, Paragraph 35, Amended Report and Order, ER-2019-0374.

Staff should use a GDP growth rate of 4.10% to 4.40% in Staff's DCF COE comparative analysis in this proceeding.

Q. Do you agree with Ms. Bulkley that Staff relied on a single model in developing its specific ROE recommendation?

A. No, I do not. Staff's recommended authorized ROE did not rely on a single model. Staff utilized the DCF, CAPM and BYPRP models in Staff's COE analysis and for checking the reasonableness thereof.[107] Staff also considers other electric utilities' authorized ROE and recent economic and financial market conditions. Based on her lack of understanding of Staff's methodologies and the principles of rate of return analysis, Ms. Bulkley mischaracterized Staff's recommendation.[108]

Q. Do you agree with Ms. Bulkley's assertion that "consistent with FERC's recent determinations in Opinion No. 569-A, 171 FERC ¶ 61,154 (May 21, 2020) I believe it is important to give some weight to the results of many financial models to estimate the cost of equity for the Companies"?

A. No, I do not. In Opinion No. 569-A, FERC's determinations are more complicated than Ms. Bulkley's description. For example, the Expected Earnings model did not accurately measure the returns that investors require to invest in utilities because the current market values of utility stocks substantially exceed utilities' book values.[109] In other words, FERC did not give weight to the results of some financial models. Considering the market conditions and model

[107] Page 3, Won's Direct Testimony, ER-2022-0129 and ER-2022-0130.
[108] Page 48, lines 3-9, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.
[109] Paragraph No. 129, *Ass'n of Bus. Advocating Tariff Equity v. Midcontinent Indep. Sys. Operator*, Inc., Opinion No. 569-A, 171 FERC ¶ 61,154 (2020).

characteristics, the use of some models to determine a just and reasonable authorized ROE is rejected by FERC.

Staff never assumes a single model and/or formula can determine a just and reasonable rate of return in and of itself. Also, Staff respects the "end result" doctrine of the *Hope* case in that how the rate of return and rate base are determined is not important as long as the end result is reasonable.[110] Staff's comparative DCF COE analysis is a numerical presentation to explain how Staff's recommended authorized ROE is developed. Therefore, Staff disagrees with Ms. Bulkley's mischaracterization of Staff's method to use the DCF model in Staff's comparative COE analysis.

Q. Do you agree with Ms. Bulkley that Staff does not actually rely on any of Staff's analyses to support its recommendation?[111]

A. No, I do not. As I explained above, Staff relies on its DCF COE estimates to assess a just and reasonable authorized ROE using its comparative COE analysis. Staff used the results of its 2019 Q4 COE estimates and compared the results to the 2022 Q1 COE estimates to discern a change in COE. Considering Evergy Metro's and Evergy West's unique risk profiles and capital market conditions, such as the Fed interest rate hike, Staff adjusted the Commission's authorized ROE from the 2019 Empire Case upward by 37 basis points from 9.25% to 9.62%.

Q. Do you agree with Ms. Bulkley that Staff should solely use the earnings per share ("EPS") growth rate and should not use the dividend per share ("DPS") or book value per share ("BVPS") growth rate within its DCF calculations?[112]

[110] Page 30, The Cost of Capital – A Practitioner's Guide, David C. Parcell, 2020 Edition.
[111] Page 48, lines 13-14, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.
[112] Page 51, 2-10, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.

A. No, I do not. EPS, DPS, and BVPS are acceptable measures of growth rate.[113] Analysts occasionally use these measures of growth rates in the DCF model. Staff has considered EPS growth rate for calculating the perpetual growth rate for the DCF model in past rate cases. At the same time, there are many publications that support the use of projected DPS and BVPS growth rates for use in a DCF model. First, Howe and Rasmussen stated that the three most commonly-used financial indicators of growth are DPS, EPS, and BVPS.[114] Second, when Parcell introduced the DCF model in his Cost of Capital Manual, which is the training manual for the Society of Utility and Regulatory Financial Analysts, he clearly, multiple times, indicated that the growth rate for DCF models is the "constant growth rate in DPS in the future."[115] I could cite additional publications, but the most important point is that using the DPS growth rate in DCF is an acceptable method.

To justify her assertion, Ms. Bulkley referenced four articles in her Footnote Nos. 76 through 79. However, these articles do not support Ms. Bulkley's assertion that "solely" the EPS growth rate should be used within the DCF model. According to Ms. Bulkley's response to Staff's data request, the actual citations and summaries for the articles are the following:

(1) Brigham and Houston,[116]

> Growth in dividends occurs primarily as a result of growth in earnings per share (EPS). Earnings growth, in turn, results from a number of factors, including (1) inflation, (2) the amount of earnings the company retains and invests, and (3) the rate of return the company earns on its equity (ROE);[117]

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[113] Page 139, The Cost of Capital – A Practitioner's Guide, David C. Parcell, 2020 Edition.
[114] Howe, Keith M. and Eugene F. Rasmussen. Public Utility Economics and Finance, Prentice Hall, Inc., Englewood Cliffs, New Jersey, 1982.
[115] Pages 130-134, The Cost of Capital – A Practitioner's Guide, David C. Parcell, 2020 Edition.
[116] Footnote No. 76, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130, Eugene F. Brigham and Joel F. Houston, Fundamentals of Financial Management, at 317 (Concise Fourth Edition, Thomson South-Western, 2004).
[117] Staff's Data Request Nos. 0522 and 0525, ER-2022-0129 and ER-2022-0130, respectively.

(2) Stanley Block,[118]

> The majority of the survey respondents ranked earnings as the most important variable in valuing a security;[119]

(3) Jing Liu,[120]

> "Forward earnings explained stock prices remarkably well" and were generally superior to other value drivers analyzed;[121] and

(4) C.A. Gleason,[122]

> Sell-side analysts with the most accurate stock price targets were those whom the researchers found to have more accurate earnings forecasts.[123]

Staff completely agrees with all four referenced statements to the effect that EPS is important and useful information in various financial analyses. Staff also used EPS growth rate in Staff's DCF model.[124] However, there is no statement that only the EPS growth rate should be used, and that DPS or BVPS growth rates should not be used for the DCF model. Therefore, the articles Ms. Bulkley referenced do not support Ms. Bulkley's arguments.

Q. Do you agree with Ms. Bulkley that reliance on Value Line's projected DPS, BVPS, and EPS growth rates unnecessarily introduces "sole source" bias into its calculations?

A. No, I do not. The Value Line EPS, DPS, and BVPS growth rates relied upon by Staff in its comparative COE analysis is one of the most reliable sources of financial information. Ms. Bulkley also relied on the Value Line projected EPS growth rate in her DCF model. There is

[118] Footnote No. 77, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130, Block, Stanley B., "A Study of Financial Analysts: Practice and Theory," Financial Analysts Journal (July/August 1999).
[119] Staff's Data Request Nos. 0533 and 0526, ER-2022-0129 and ER-2022-0130, respectively.
[120] Footnote No. 78, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130, Liu, Jing, et al., "Equity Valuation Using Multiples," Journal of Accounting Research, Vol. 40 No. 1, March 2002.
[121] Staff's Data Request Nos. 0533 and 0526, ER-2022-0129 and ER-2022-0130, respectively.
[122] Footnote No. 79, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130, Gleason, C.A., et al., "Valuation Model Use and the Price Target Performance of Sell-Side Equity Analysts," Contemporary Accounting Research.
[123] Staff's Data Request Nos. 0533 and 0526, ER-2022-0129 and ER-2022-0130, respectively.
[124] Page 26, lines 10-12, Won's Direct Testimony, ER-2022-0129 and ER-2022-0130.

no evidence the Value Line EPS, DPS, and BVPS growth rates introduced single source bias. Ms. Bulkley also used sources in addition to Value Line, including Zack's and Yahoo! Finance.[125] For purposes of examining single source bias, Staff requested Ms. Bulkley to provide EPS growth rates of the Staff's and Ms. Bulkley's proxy group published by Zack's and Yahoo! Finance.[126] According to Ms. Bulkley's response to Staff's data requests, she does not have the requested information available because her analyses use growth rates based on the analytical periods ending September 30, 2021, and June 15, 2022. Based on her response, Ms. Bulkley also does not have any evidence of single source bias of Staff's DCF analysis.

Q. Do you agree with Ms. Bulkley that Staff did not follow FERC's current methodology to calculate DCF COE estimates?[127]

A. Yes, I agree. Staff did not intend to follow the FERC methodology. Staff considers FERC's decisions, but FERC's decisions are changed very often, so Staff does not rely on the FERC methodology. Following Karl Popper's theory of falsification, there is no guarantee that FERC's specific procedure is perfectly correct, but, in many cases, FERC's decision to reject something is very useful information to consider in rate cases. Staff used growth rates in its DCF model estimated by combining analysts' short-term estimated growth rates and long-term GDP growth rates at two-thirds and one-third weightings, respectively. This is an approach that FERC used before it was changed in its May 2020 order.[128] Staff is not bound to change its approach simply because FERC's approach changed. Staff is under no obligation to follow FERC's methodology on this point.

[125] Page 54, lines 7-9, Bulkley's Rebuttal Testimony. ER-2022-0129 and ER-2022-0130.
[126] Ibid.
[127] Pages 56-57, Bulkley's Rebuttal Testimony. ER-2022-0129 and ER-2022-0130.
[128] FERC Opinion 569-A.

7. Market Risk Premium and CAPM

Q. Do you agree with Ms. Bulkley that Staff should use a projected risk-free rate estimated by Blue Chip for purposes of the CAPM analysis?[129]

A. No, I do not. In CAPM applications, current 30-year Treasury security yields are universally recognized as appropriate for use as the risk-free rate.[130] Dr. Morin stated the yield on very long-term government bonds, such as the yield on 30-year Treasury bonds, is the best measure of the risk-free rate for use in the CAPM.[131] Ms. Bulkley's insistence that the estimation of COE being a forward-looking analysis was for her own convenience.[132] This assertion reveals that Ms. Bulkley may not fully understand the characteristics of CAPM analysis. The major input variables of CAPM are a risk-free rate, Beta (risk measure), and the MRP. These three variables represent the current market condition and should be used to produce a current market-required cost of equity. Therefore, a projected risk-free rate is not proper because Beta and MRP would also have to be projected, just like the risk-free rate.[133]

Q. Do you agree with Ms. Bulkley that Staff's incorrect use of the historical MRP given current market conditions is the primary reason its CAPM analysis produced estimates of the COE that are below the vast majority of authorized ROEs for vertically-integrated electric utilities in the last 40 years?[134]

A. No, I do not. Ms. Bulkley's argument is based on her false assumptions. Ms. Bulkley falsely assumed that because of the inverse relationship between interest rates and the

[129] Page 66, lines 1-14, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.
[130] Page 107, David C. Parcell, Cost of Capital Manual, Society of Utility and Regulatory Financial Analysts, 2010 Edition.
[131] Morin, R. A. (2006). New Regulatory Finance. Public Utilities Reports, page 151.
[132] Page 66, line 3, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.
[133] Even though projected Beta and MRP are used, the problem is not resolved. First, to estimate projected Beta and MRP is not easy. Second, to use projected COE estimate for determining authorized ROE is a highly arguable issue.
[134] Page 68, lines 3-6, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.

MRP, the MRP should be well above the long-term historical averages of 4.61% to 6.71% that Staff calculated.[135] This assumption includes many flaws. First, if the inverse relationship between interest rates and the MRP is true, then the MRP should be lower because of current interest hikes. Second, the MRP estimation of 4.61% to 6.71% is not just Staff's calculations but is also estimated and supported by reliable sources such as Kroll (formerly Duff & Phelps) and Dr. Damodaran, a professor of Finance at the Stern School of Business at New York University. In addition, Ms. Bulkley assumed that the market-based COE and the authorized ROE are the same concepts and that those values should be the same. Staff explained why this assumption is incorrect in Section 2, "COE and Authorized ROE."

8. Rule of Thumb Methodology

Q. Do you agree with Ms. Bulkley that Staff has changed the assumptions used in the "Rule of Thumb" method from its recent prior testimony?[136]

A. No, I do not. Staff has not changed any assumptions used in the "Rule of Thumb" method from its recent prior testimony. It is true that Staff used an estimated equity risk premium ("ERP") range for the "Rule of Thumb" that was 4.00% to 6.00% in Case No. WR-2020-0334 for Missouri-American Water Company ("MAWC") and 3.50% to 5.50% in the current Evergy Metro and Evergy West rate cases. But Staff did not change any assumptions of Staff's risk premium approach. Since the risk profiles of MAWC, and Evergy Metro and Evergy West are different, it is reasonable to use different risk premiums for different rate cases. According to S&P, MAWC has not supported its bond rating and no official credit ratings are reported by major credit agencies

[135] Page 68, lines 1-3, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.
[136] Page 69, lines 13-14, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.

such as Moody's or S&P.[137] In contrast, Evergy Metro and Evergy West independently support their bond ratings.[138] The corporate credit ratings assigned to Evergy Metro by Moody's and S&P are 'Baa1' and 'A', respectively.[139] The corporate credit ratings assigned to Evergy West by Moody's and S&P are 'Baa2' and 'A-', respectively.[140] The ERP range of 3.5% to 5.5% is reasonable considering the corporate credit ratings. In general, the general ERP range of 3.5% to 5.5% is consistent with criteria contained within the Chartered Financial Analyst ("CFA") program.[141] It is reasonable that Staff used a higher ERP range of 4% to 6% in Case No. WR-2020-0334 for MAWC because MAWC does not have an independent credit rating. Actually, a high-risk company's ERP could be greater than 5% because of a higher risk premium, as explained by Dr. Morin.[142] Therefore, Staff assigned a higher ERP range in Case No. WR-2020-0334 considering MAWC's higher company-specific risk, consistent with financial industry standards.

Q. Do you agree with Ms. Bulkley that Staff used MRP in the "Rule of Thumb" instead of ERP?[143]

A. No, I do not. Staff did not use MRP in the Rule of Thumb risk premium approach. Staff clearly stated in the Cost of Service ("COS") Report that Staff's rule of thumb is an original form of the bond yield-plus risk premium method that uses an ERP.[144] MRP is estimated as the difference between the total return of stock market and the government bond yield. In contrast,

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[137] S&P Capital IQ Pro.
[138] Rating Direct, S&P Capital IQ.
[139] S&P Rating Report - Evergy Metro, Inc.
[140] S&P Rating Report - Evergy Missouri West, Inc.
[141] CFA® Program Curriculum, 2020, Level I, Volume 4, p. 93, CFA Institute, retrieved on March 18, 2021 (https://www.cfainstitute.org/en/programs/cfa/policies).
[142] Morin, R. A. (2006). New Regulatory Finance. Public Utilities Reports, page 129.
[143] Page 69-70, Bulkley's Direct Testimony, ER-2022-0129 and ER-2022-0130.
[144] Page 29, line 12, Won's Direct Testimony, ER-2022-0129 and ER-2022-0130.

ERP is a company or industry specific risk premium measured by the difference between its equity return and bond yield.[145] Ms. Bulkley might have inadvertently misread Staff's COS report on this point because the conceptual differences between MRP and ERP are too basic for financial analysts to otherwise confuse.

9. Authorized Returns in other Jurisdictions

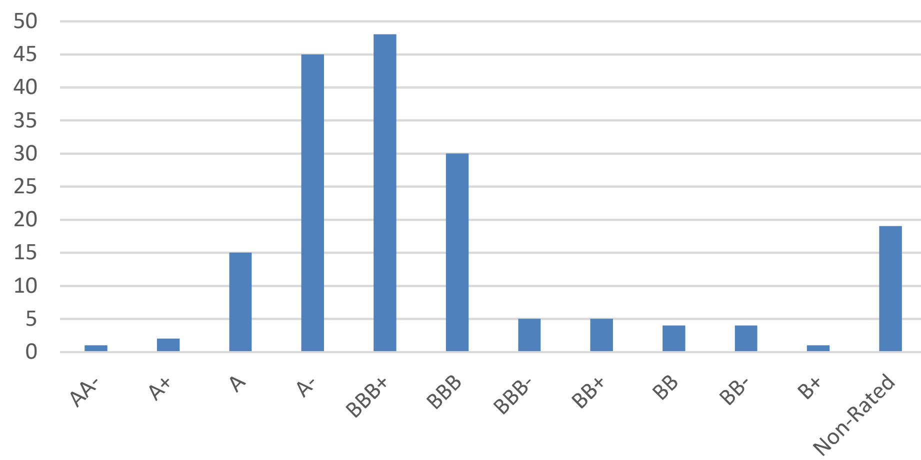
Q. Do you agree with Ms. Bulkley that Staff's analysis is flawed in that it considered authorized ROEs for utilities that are not risk-comparable to Evergy Metro and Evergy West?[146]

A. No, I do not. Staff provided the Commission the average fully litigated and settled authorized ROEs from Commissions around the U.S. in the years 2010 - 2022 along with the number of cases considered.[147] Ms. Bulkley's assertion does not make sense because the 13-years of electric rate cases' information is from the reliable data source of RRA. Furthermore, the rating of Evergy Metro of 'A' and Evergy West of 'A-' is higher than the average electric utility credit rating of 'BBB'.[148] The distribution of credit ratings of the US electric utilities reported by S&P in 2021 are presented in Figure 2:

continued on next page

[145] Morin, R. A. (2006). New Regulatory Finance. Public Utilities Reports, pages 121-123.
[146] Page 72, lines 2-3, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.
[147] Page 31, Table 3, Won's Direct Testimony, ER-2022-0129 and ER-2022-0130.
[148] 11 Electric Credit Rating, Won's Surrebuttal Workpaper.

Figure 2. Electric Utility Credit Rating Distribution 2021[149]



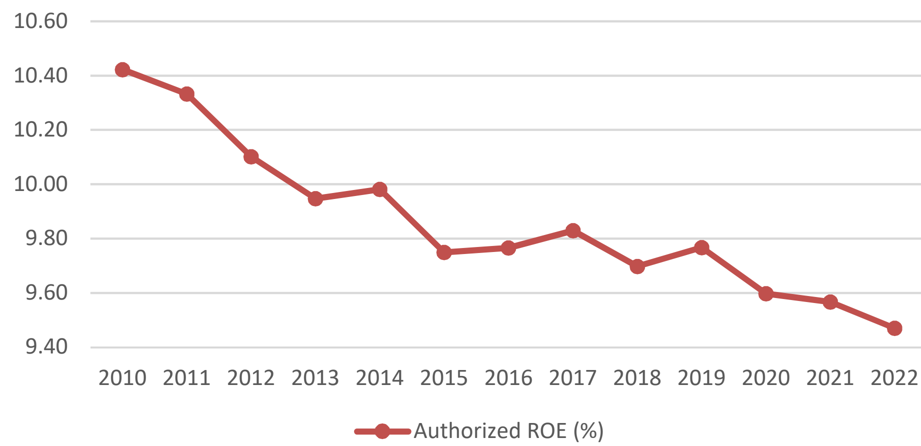
Q. Do you agree with Ms. Bulkley that Staff's recommended ROE of 9.62% is 21 basis points below the average 9.83% authorized ROE of vertically-integrated electric utilities over the period that Staff analyzed, from 2010-2022?[150]

A. No, I do not. The reason Staff analyzed authorized ROEs over the period from 2010-2022 is to provide proper information to the Commission about the trend of authorized ROEs. A 13-year arithmetic average of authorized ROEs of 9.83% cannot be a proper reference value of a current just and reasonable authorized ROE for Evergy Metro and Evergy West. Authorized ROEs depend on economic and market conditions. Figure 3 shows annual average authorized ROEs of vertically integrated electric utilities, excluding ROEs determined solely by a formula rate, in the period between 2010 and 2022:[151]

continued on next page

[149] S&P Capital IQ Pro.
[150] Page 72, lines 4-6, Bulkley's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.
[151] S&P Capital IQ. 2022 data as of July 2, 2022 and excludes ROEs of formula rate states (Illinois and Vermont).

Figure 3. Vertically-Integrated Authorized ROEs (2010-2022)[152]



As presented in Figure 3, the average authorized ROE in 2010 was 10.42% as compared to an average authorized ROE of 9.47% in 2022. There is a clear downward trend in authorized ROEs for vertically-integrated electric utilities from 2010-2022. Therefore, Staff's recommended authorized ROE of 9.62% is more credible for a just and reasonable authorized ROE than Ms. Bulkley's 10.00%.

Q. Do you agree with Ms. Bulkley that 149 of the 173 vertically-integrated electric utility WAERs awarded since 2018 were greater than Staff's recommendation of 4.81%?

A. No, I do not. As explained in section 3, "Comparable Return Standard," Ms. Bulkley's analysis of vertically-integrated electric utility WAER values is flawed. The truth is, only 93 vertically-integrated electric utility WAERs have been awarded since 2018. Of these cases 47, or 50.54%, were greater than Staff's recommended WAER of 4.81%.[153] In other words Staff's recommended WAER is approximately in the median of vertically-integrated electric utility WAERs. The average WAER of vertically-integrated electric utilities since 2018 is 4.75%, which

[152] 13 Authorized ROE, Won's Surrebuttal Workpaper, ER-2022-0129 and ER-2022-0130.
[153] 10 Audit AEB WP-8, Won's Surrebuttal Workpaper, ER-2022-0129 and ER-2022-0130.

is 6 basis points lower than Staff's recommended WAER of 4.81%.[154] Therefore, WAER analysis results support Staff's recommendation, not Ms. Bulkley's.

III. RESPONSE TO TESTIMONY OF OPC WITNESS

Q. What are the specific areas in which Staff is responding to OPC's witness?

A. Staff is responding to the rebuttal testimony of Mr. Murray. The areas in which Staff addresses issues of Mr. Murray's rebuttal testimony include:

- Capital Structure, and
- Recommended ROE.

Staff will discuss each in turn, below.

1. Capital Structure

Q. What capital structure did Mr. Murray support for Evergy Metro and Evergy West in this proceeding?

A. Mr. Murray continued to support capital structures of 48% common equity and 52% long-term debt for Evergy Metro and Evergy West.[155] In his direct testimony, Mr. Murray recommended capital structures that consist of approximately 48% common equity and 52% long-term debt based on his analysis of Evergy Inc.'s, Evergy Metro's and Evergy West's quarterly capital structures from the beginning of the test year (July 1, 2020) through the end of the update period (December 31, 2021).[156] Mr. Murray added one condition that, if Evergy West is allowed to charge carrying costs in its securitization case (Case No. EF-2022-0155) based on its

[154] 12 WAER, Won's Surrebuttal Workpaper, ER-2022-0129 and ER-2022-0130.
[155] Page 30, lines 13-15, and Page 32, lines 13-14, Murray's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130, respectively.
[156] Page 31, lines 18-24, Murray's Direct Testimony, ER-2022-0129 and ER-2022-0130.

composite cost of capital or long-term debt, short-term debt should be included in its ratemaking capital structure.[157]

Q. What is Mr. Murray's response to Staff's recommended capital structure?

A. Mr. Murray stated that "I agreed with Staff's approach of simplifying the argument by focusing on targeted capital structure ratios rather than obscure and conflicting methods in which to calculate a ratemaking capital structure."[158] While Mr. Murray considers Staff's recommendation to use a target capital structure a step of right direction,[159] he continued to recommend the use of the parent company Evergy's capital structure for the purpose of ratemaking for Evergy Metro and Evergy West. Mr. Murray recommended that "the Commission go further and look to the company ultimately responsible to shareholders and held accountable through all third-party investors, Evergy."[160]

Q. What is Staff's concern with Mr. Murray's capital structure recommendation?

A. Staff has one major concern with Mr. Murray's recommendation. Mr. Murray's recommended capital structure was developed based on Evergy Inc.'s consolidated capital structure, instead of Evergy Metro's and Evergy West's. Staff did not find any critical reason to avoid Evergy Metro's and Evergy West's standalone capital structures for the purpose of ratemaking. Also, Mr. Murray's recommended hypothetical equity ratio of 48% is 250 basis points

[157] Page 30, lines 15-17, and Page 32, lines 15-17, Murray's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130, respectively.
[158] Page 2, lines 14-16, and Page 4, lines 18-20, Murray's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130, respectively.
[159] Page 30, line 11, and Page 32, line 11, Murray's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130, respectively.
[160] Page 30, lines 11-13, and Page 32, lines 11-13, Murray's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130, respectively.

lower than the recent average equity ratio for other electric utility companies throughout the U.S., which is approximately 50.5%.[161]

Q. Do you agree with Mr. Murray that short-term debt should be included in Evergy West's ratemaking capital structure if the Commission allows Evergy West to charge carrying costs in its securitization case based on its composite cost of capital or long-term debt rate?

A. No, I do not. Staff's position is that the amount of short-term debt included in capital structure is determined by how much short-term debt is used to support the company's long-term assets without any conditions. Mr. Murray did not provide proper reasoning on how and why short-term debt should be included in Evergy West's ratemaking capital structure if the Commission allows Evergy West to charge carrying costs in its securitization case based on its composite cost of capital or long-term debt rate. Staff found no direct relationship between carrying costs in the securitization case, Case No. EF-2022-0155, and short-term debt included in the ratemaking capital structure in this proceeding.

2. Recommended ROE

Q. What ROE did Mr. Murray support for Evergy Metro and Evergy West in this proceeding?

A. Mr. Murray continued to support that the Commission set Evergy Metro's and Evergy West's authorized ROE at 9.00%.[162] In his direct testimony, Mr. Murray recommended 9.0% based on a range of 8.5% to 9.5%.[163]

Q. What is Mr. Murray's response to Staff's recommended ROE?

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[161] 9 Equity Ratio, Won's Surrebuttal Workpaper.
[162] Page 28, lines 13-15, and Page 30, lines 13-15, Murray's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130, respectively.
[163] Page 2, lines 15-16, Murray's Direct Testimony, ER-2022-0129 and ER-2022-0130.

A. Mr. Murray disagreed with Staff's recommended ROE of 9.62% in a range of 9.37% to 9.87% because it is not logical to consider an ROE any higher than the 9.50% authorized for Evergy Metro in its 2014 & 2016 rate cases, Case Nos. ER-2014-0370 and ER-2016-0285, respectively.[164] Mr. Murray insisted that Staff's assessment does not consider the longer-term trend since the Commission previously deemed 9.50% ROEs as being reasonable starting in 2015 because interest rates are now lower and utility stock valuation levels are higher than they were seven years ago.[165]

Q. What is Staff's concerns regarding Mr. Murray's response to Staff's recommended ROE?

A. Staff's concerns are that Mr. Murray's benchmark cases of Case Nos. ER-2014-0370 and ER-2016-0285 are too old to utilize for the purpose of ratemaking in 2022. Staff considered more than 10 years of rate case history for Evergy to understand the trend of decisions, not to directly use in recommending current ROEs for Evergy Metro and Evergy West. The comparison of cases from 7 years ago (or older) would be unfair or invalid because economic and financial market conditions have changed too much since that time and are not comparable. While Staff agrees with Mr. Murray that interest rates are lower and utility stock valuation levels are higher than they were seven years ago, Staff is concerned about the uniqueness of current market conditions, including that the 40-year record high inflation rate following the COVID-19 pandemic, will likely force the Fed to raise interest rates several more times in the coming months.

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[164] Page 24, lines 9-12, and Page 28, lines 11-14, Murray's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130, respectively.

[165] Page 30, lines 24-27, and Page 32, lines 24-27, Murray's Rebuttal Testimony, ER-2022-0129 and ER-2022-0130, respectively.

IV. SUMMARY AND CONCLUSIONS

Q. Please summarize the conclusions of your rebuttal testimony.

A. Ms. Bulkley and Staff disagree over the appropriate ROE for Evergy Metro and Evergy West. Ms. Bulkley's proposed ROE of 10.00% is not just and reasonable considering her inappropriate reliance on unreasonable inputs to her COE analyses. Ms. Bulkley's belief that the COE and the authorized ROE are equivalent defies basic financial logic and, more importantly, market evidence. Staff disagrees with Mr. Murray's recommended ROE of 9.00% based on his comparison to cases more than 7 years old. Considering the current trend of interest rate hikes,[166] Staff continues to recommend an authorized ROE of 9.62%, in a reasonable range of 9.37% to 9.87%.

Ms. Bulkley and Mr. Ives continued to support Mr. Andrew's projected standalone capital structures as of May 31, 2022, consisting of 51.19% common equity and 48.81% long-term debt for Evergy Metro,[167] and consisting of 51.81% common equity and 48.19% long-term debt for Evergy West,[168] despite the fact that the projections are different from the actual capital structures as of May 31, 2022. Ms. Bulkley and Mr. Ives also asserted fallacious arguments to Staff's recommendation to utilize the target capital structure of 50% equity ratio and 50% long-term debt for both Evergy Metro and Evergy West. Currently, Staff is reviewing Evergy Metro's and Evergy West's true-up actual capital structure as of May 31, 2022. Staff will make a final recommendation

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[166] Forbes Advisor, July FOMC Meeting: Fed delivers another 75 bps Rate Hike, Retrieved August 8, 2022, https://www.forbes.com/advisor/investing/fomc-meeting-federal-reserve/#:~:text=The%20June%2075%20bps%20rate%20increase%20was%20the,and%20fell%20to%20%248.9%20trillion%20in%20late%20July.
[167] Page 4, Table 1, Andrews Direct Testimony, ER-2022-0129.
[168] Page 4, Table 1, Andrews Direct Testimony, ER-2022-0130.

of capital structure, cost of debt and ROR in its true-up rebuttal testimony filings after investigating the reason for Evergy Metro and Evergy West's actual capital structure changes.

Staff disagrees with Mr. Murray's recommended parent company's hypothetical capital structure consisting of 48% common equity and 52% long-term debt.

Q. Does this conclude your rebuttal testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Evergy Metro, Inc. d/b/a Evergy Missouri Metro's Request for Authority to Implement a General Rate Increase for Electric Service	))))	Case No. ER-2022-0129
In the Matter of Evergy Missouri West, Inc. d/b/a Evergy Missouri West's Request for Authority to Implement a General Rate Increase for Electric Service	))))	Case No. ER-2022-0130

AFFIDAVIT OF SEOUNG JOUN WON, PhD

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW SEOUNG JOUN WON, PhD and on his oath declares that he is of mind and lawful age; that he contributed to the foregoing *Surrebuttal Testimony of Seoung Joun Won, PhD*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

Seoung Joun Won

SEOUNG JOUN WON, PhD

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 11th day of August 2022.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: April 04, 2025
Commission Number: 12412070

D Suzie Mankin
Notary Public