

*Exhibit No.:*  
*Issue(s):* Rate of Return  
*Witness:* Seoung Joun Won, PhD  
*Sponsoring Party:* MoPSC Staff  
*Type of Exhibit:* True-Up Rebuttal Testimony  
*Case Nos.:* ER-2022-0129 and  
ER-2022-0130  
*Date Testimony Prepared:* August 25, 2022

**MISSOURI PUBLIC SERVICE COMMISSION**  
**FINANCIAL AND BUSINESS ANALYSIS DIVISION**  
**FINANCIAL ANALYSIS DEPARTMENT**

**TRUE-UP REBBUTAL 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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1 **TRUE-UP REBUTTAL TESTIMONY**

2 **OF**

3 **SEOUNG JOUN WON, PhD**

4 **Evergy Metro, Inc., d/b/a Evergy Missouri Metro**

5 **Case No. ER-2022-0129**

6  
7 **Evergy Missouri West, Inc., d/b/a Evergy Missouri West**

8 **Case No. ER-2022-0130**

9 Q. Please state your name and business address.

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

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

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

16 Q. Are you the same Seoung Joun Won who filed Direct Testimony on June 8, 2022,  
17 Rebuttal Testimony on July 13, 2022, and Surrebuttal Testimony on August 16, 2022 in this  
18 proceeding?

19 A. Yes, I am.

20 **I. EXECUTIVE SUMMARY**

21 Q. What is the purpose of your true-up rebuttal testimony?

22 A. The purpose of my true-up rebuttal testimony is to update the ratemaking capital  
23 structure and cost of capital of Evergy Metro, Inc., d/b/a Evergy Missouri Metro (“Evergy Metro”  
24 or “EMM”) and Evergy Missouri West, Inc., d/b/a Evergy Missouri West (“Evergy West” or  
25 “EMW”), subsidiaries of Evergy, Inc. (“Evergy Inc.” or “Evergy”) as of May 31, 2022.

**II. CAPITAL STRUCTURE**

1  
2 Q. Did you perform an analysis of Evergy Metro's and Evergy West's capital structure  
3 as of May 31, 2022, the end of the true-up period for this proceeding?

4 A. Yes, I did.

5 Q. What is the result of your analysis?

6 A. As of May 31, 2022, the end of Evergy Metro's and Evergy West's true-up period,  
7 Evergy Metro's standalone capital structure consisted of 51.37% common equity and 48.63%  
8 long-term debt and Evergy West's standalone capital structure consisted of 51.47% common  
9 equity and 48.53% long-term debt.<sup>1</sup>

10 Q. What was Evergy Metro's and Evergy West's witnesses' proposed ratemaking  
11 capital structure for setting ROR in this proceeding?

12 A. In their surrebuttal testimonies, Ms. Ann E. Bulkley and Mr. Darrin R. Ives  
13 continued to support Evergy Metro's projected May 31, 2022 standalone capital structure  
14 consisting of 51.19% common equity and 48.81% long-term debt, and Evergy West's  
15 projected May 31, 2022 standalone capital structure consisting of 51.81% common equity and  
16 48.19% long-term debt.<sup>2</sup>

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

19 A. Yes. Evergy Metro's and Evergy West's projected capital structures as of May 31,  
20 2022 (filed January 7, 2022), are not the same as the actual capital structures as of May 31, 2022,  
21 for Evergy Metro (51.37% common equity and 48.63% long-term debt) and Evergy West

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<sup>1</sup> Staff's Data Request No. 0115, ER-2022-0129 and ER-2022-0130.

<sup>2</sup> Page 96, line 18, Bulkley' Rebuttal Testimony, ER-2022-0129 and ER-2022-0130.

1 (51.47% common equity and 48.53% long-term debt).<sup>3</sup> Staff cannot recommend non-actual  
2 capital structures for the purpose of ratemaking without reasonable justification.

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

5 A. Not necessarily. Under normal circumstances, the answer would be "yes" because  
6 the most recent actual per book capital structures would have the proper information for calculating  
7 the cost of capital of Evergy Metro and Evergy West. In this case however, Staff has concerns  
8 that neither the actual capital structures nor the projected capital structures as of May 31, 2022, are  
9 reflective of the optimal capital structures for Evergy Metro and Evergy West.

10 Q. Why does Staff have concerns that the actual capital structures and projected capital  
11 structures as of May 31, 2022, are not reflective of the optimal capital structures for Evergy Metro  
12 and Evergy West?

13 A. There are some signals that the actual capital structures as of May 31, 2022, are not  
14 reflective of the optimal capital structures for Evergy Metro and Evergy West. First, recently the  
15 actual per books capital structures deviated from the target capital structures of Evergy Metro and  
16 Evergy West. Second, Evergy Metro's and Evergy West's witnesses continue to support the  
17 projected capital structures as of May 31, 2022, even though the actual capital structures as of  
18 May 31, 2022, have been reported.<sup>4</sup> Third, the historical trend of equity ratios changed in 2022  
19 and deviated from the target capital structures of Evergy Metro and Evergy West. Fourth, the  
20 reason for the deviation of actual capital structures from the target capital structures is suspicious.

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<sup>3</sup> Staff's Data Request No. 0115, ER-2022-0129 and ER-2022-0130.

<sup>4</sup> Staff's Data Request No. 0115, ER-2022-0129 and ER-2022-0130.

1 Evergy Metro and Evergy West have avoided providing clear answers in response to Staff's data  
2 requests about capital structure issues regarding changes of equity ratios.

3 Q. Did Evergy Metro's and Evergy West's witnesses explain why they do not propose  
4 the actual capital structures as of May 31, 2022, but instead continue to propose non-actual capital  
5 structures equal to the previously projected capital structures as of May 31, 2022?

6 A. No, they did not. Interestingly, Evergy Metro's and Evergy West's witnesses  
7 responded as if they had proposed actual capital structures. For example, in his surrebuttal  
8 testimony, Mr. Ives stated that:

9 Further, proposed actual capital structure of 51.19 percent common equity,  
10 48.81 percent long-term debt for Evergy Missouri Metro, and 51.81 percent  
11 equity and 48.19 percent long-term debt for Evergy Missouri West are  
12 reasonable and appropriate.<sup>5</sup>

13 Also, in her surrebuttal testimony, Ms Bulkley stated that

14 The Evergy Missouri West capitalization which includes 51.81 percent  
15 equity and 48.19 percent long-term debt and the Evergy Missouri Metro  
16 capital structure which includes 51.19 percent equity and 48.81 percent  
17 long-term debt are consistent with the Commission's long-standing use of  
18 the "stand-alone" operating company capital structure that I discussed in my  
19 Rebuttal Testimony.<sup>6</sup>

20 Staff inquired why Evergy Metro's and Evergy West's witnesses claimed to use actual  
21 capital structures, even though they recognized that the true-up actual capital structures as of  
22 May 31, 2022, are different from the projected capital structures using the past projections in their  
23 direct testimony, but Evergy Metro and Evergy West avoided responding to Staff's data requests  
24 and provided unclear answers.<sup>7</sup>

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<sup>5</sup> Page 29, lines 19-22, Darrin Ives' Surrebuttal Testimony.

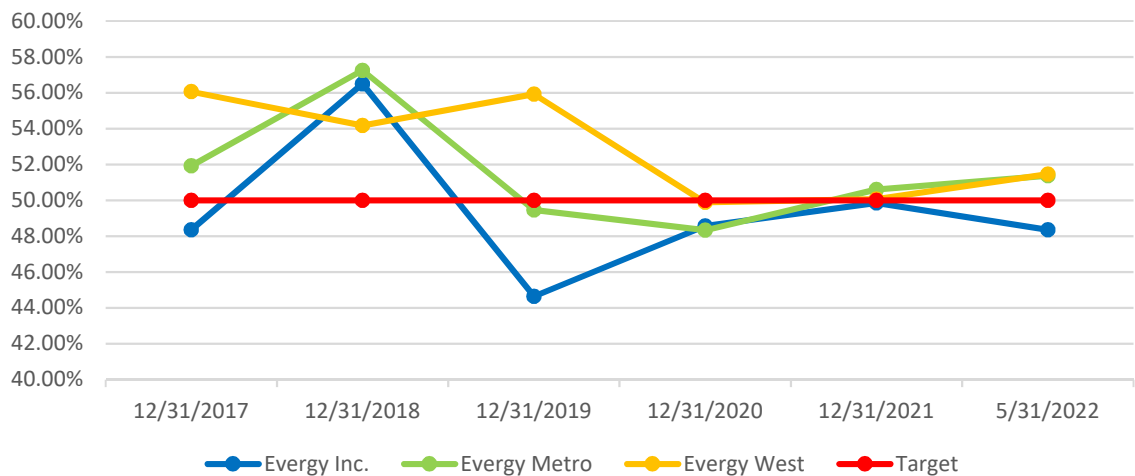
<sup>6</sup> Page 34, lines 13-17, Ann Bulkley's Surrebuttal Testimony.

<sup>7</sup> Staff's Data Request Nos. 0115.2 to 0115.5.

1 Q. Did Staff discover any justification for the deviation of the actual per book capital  
2 structures from Evergy Metro's and Evergy West's target capital structure?

3 A. According to the response to Staff's Data Request No. 0120, Evergy, Inc., Evergy  
4 Metro and Evergy West "target a capital structure that approximates 50% Equity and 50% Debt."<sup>8</sup>  
5 Staff found that Evergy Metro's and Evergy West's actual capital structures converged to the target  
6 capital structure of 50% equity ratio before 2022.

7 **Figure 1. Capital Structure Comparison<sup>9</sup>**



8  
9 Staff is investigating the historical capital structures of Evergy Inc., Evergy Metro and  
10 Evergy West for the period from December 31, 2017, to the true-up date of May 31, 2022. As  
11 shown in Figure 1, before and after the merger in 2018, Evergy Inc., Evergy Metro and Evergy  
12 West experienced significant equity ratio changes and were converging to a 50% equity ratio --  
13 the target capital structure -- and continued to converge until the end of 2021. However, this trend  
14 changed in 2022. There is a clear divergence of equity ratios between the parent company and its  
15 operating subsidiaries.

<sup>8</sup> Staff's Data Request No. 0120, ER-2022-0129 and ER-2022-0130.

<sup>9</sup> 8 Capital Structure, Won's Surrebuttal Workpaper, ER-2022-0129 and ER-2022-0130.

1 Q. Why is the deviation from the target capital structure a concern when determining  
2 Evergy Metro's and Evergy West's ratemaking capital structures?

3 A. Generally, a target capital structure is expected to optimize the value of a  
4 company.<sup>10</sup> Also, in many cases, a lower parent company equity ratio and a higher subsidiary  
5 equity ratio is considered an indicator of a double leverage strategy.<sup>11</sup> Double leverage is the  
6 circumstance in which the parent company issues debt and acquires shares in the equity of its own  
7 subsidiary.<sup>12</sup> Evergy Inc.'s double leverage could be detrimental to Evergy Metro's and  
8 Evergy West's ratepayers because it could hurt credit quality across Evergy Inc. and its  
9 subsidiaries, including Evergy Metro and Evergy West.<sup>13</sup> In actuality, Evergy Inc.'s equity ratio  
10 decreased 51 basis points in the first half of 2022, while Evergy Metro's and Evergy West's equity  
11 ratios increased 75 and 140 basis points, respectively.<sup>14</sup> Without clear and concise explanations,  
12 this kind of change during a rate case filing could be considered as a manipulation for seeking a  
13 higher ROR and a double leverage strategy of the holding company.

14 Q. Has Staff investigated how Evergy Metro's and Evergy West's equity ratios  
15 changed in the first half of 2022?

16 A. Yes. According to responses to Staff's data requests, long-term debt increased at a  
17 consolidated Evergy level due to a long term debt issuance in the first half of 2022 at Missouri  
18 West.<sup>15</sup> This answer is very interesting because Evergy West's long-term debt ratio decreased  
19 from 49.93% as of December 31, 2021, to 48.53% as of May 31, 2022.<sup>16</sup> This means there was a

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<sup>10</sup> 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.

<sup>11</sup> Rozeff, M. S. (1983). Modified double leverage-A new approach. *Public Utilities Fortnightly*, 31-36.

<sup>12</sup> Board of Governors of the Federal Reserve System, Division of Banking Supervision and Regulation, 2012, "Bank Holding Company Supervision Manual," <http://www.federalreserve.gov/boarddocs/SupManual/default.htm>.

<sup>13</sup> Moody's Investor's Service, High Leverage at the Parent Often Hurts the Whole Family.

<sup>14</sup> Won's True-up Rebuttal Workpaper.

<sup>15</sup> Staff's Data Request No. 0115.4, ER-2022-0130.

<sup>16</sup> Staff's Data Request No. 0115, ER-0222-0129 and ER-2022-0130.



1 significant equity infusion from Evergy Inc. in 2022. Between December 31, 2021, and May 31,  
2 2022, Staff found Evergy Metro's and Evergy West's common equity, excluding goodwill,  
3 increased by approximately \$92 million and \$225 million, respectively.<sup>17</sup>

### 4 **III. COST OF CAPITAL**

5 Q. What is Evergy Metro's and Evergy West's true-up cost of capital?

6 A. Evergy Metro and Evergy West both reported a 3.96% embedded cost of debt, as  
7 of May 31, 2021.<sup>18</sup> Staff does not have concerns with Evergy Metro's and Evergy West's true-up  
8 cost of capital data.

### 9 **IV. SUMMARY AND CONCLUSIONS**

10 Q. Please summarize the conclusion of your true-up rebuttal testimony.

11 A. Even though Staff inquired in many data requests whether the recent equity  
12 changes in 2022 are manipulations seeking higher RORs and a double leverage strategy,  
13 Evergy Metro and Evergy West have not provided sufficient evidence as confirmation either way.  
14 Therefore, Staff continues to recommend the target capital structure consisting of 50.00% equity  
15 and 50.00% long-term debt.

16 For Evergy Metro, Staff recommends an ROR of 6.79% based on Evergy Metro's targeted  
17 capital structure consisting of 50.00% long-term debt and 50.00% common equity with a 3.96%  
18 cost of debt, as of May 31, 2021.

19 For Evergy West, Staff's recommends an ROR of 6.79% based on Evergy Metro's targeted  
20 stand-alone capital structure consisting of 50.00% long-term debt and 50.00% common equity with  
21 a 3.96% cost of debt, as of May 31, 2021.

22 Q. Does this conclude your true-up rebuttal testimony?

23 A. Yes.

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<sup>17</sup> Won's True-up Rebuttal Workpaper.

<sup>18</sup> Staff's Data Request No. 0116.

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 ) Case No. ER-2022-0129  
Implement a General Rate Increase for Electric )  
Service )

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

**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 *True-Up Rebuttal Testimony of Seoung Joun Won, PhD*; and that the same is true and correct according to his best knowledge and belief.

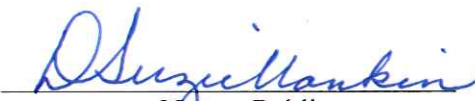
Further the Affiant sayeth not.

  
SEOUNG JOUN WON, 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 25<sup>th</sup> 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

  
Notary Public