

Exhibit No.:

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Center (“Crossroads”); Dogwood;
Critical Infrastructure
Protection/Cybersecurity Tracker
 (“Security Tracker”); Storm Reserve;
Injuries & Damages (“I&D”)
Reserve; TOU; Plant in Service
Accounting (“PISA”)

Witness: Darrin R. Ives

Type of Exhibit: Direct Testimony

Sponsoring Party: Evergy Missouri West

Case No.: ER-2024-0189

Date Testimony Prepared: February 2, 2024

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2024-0189

DIRECT TESTIMONY

OF

DARRIN R. IVES

ON BEHALF OF

EVERGY MISSOURI WEST

**Kansas City, Missouri
February 2024**

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DIRECT TESTIMONY

OF

DARRIN R. IVES

Case No. ER-2024-0189

1 **I. INTRODUCTION**

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

3 A: My name is Darrin R. Ives. My business address is 1200 Main, Kansas City, Missouri
4 64105.

5 **Q: By whom and in what capacity are you employed?**

6 A: I am employed by Evergy Metro, Inc. and serve as Vice President – Regulatory Affairs for
7 Evergy Metro, Inc. d/b/a as Evergy Missouri Metro (“EMM”), Evergy Missouri West, Inc.
8 d/b/a Evergy Missouri West (“EMW”), Evergy Metro, Inc. d/b/a Evergy Kansas Metro
9 (“EKM”), and Evergy Kansas Central, Inc. and Evergy South, Inc., collectively d/b/a as
10 Evergy Kansas Central (“EKC”) the operating utilities of Evergy, Inc.

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

12 A: I am testifying on behalf of EMW. For the purpose of this testimony, I will refer to EMW
13 as “EMW” or “Company”.

14 **Q: What are your responsibilities as the Vice President of Regulatory Affairs?**

15 A: My responsibilities include oversight of the Company’s Regulatory Affairs Department, as
16 well as all aspects of regulatory activities including policy, cost of service, rate design,
17 revenue requirements, regulatory reporting and tariff administration.

1 **Q: Please describe your education, experience and employment history.**

2 A: I graduated from Kansas State University in 1992 with a Bachelor of Science in Business
3 Administration with majors in Accounting and Marketing. I received my Master of
4 Business Administration degree from the University of Missouri-Kansas City in 2001. I
5 am a Certified Public Accountant. From 1992 to 1996, I performed audit services for the
6 public accounting firm Coopers & Lybrand L.L.P. I was first employed by Kansas City
7 Power & Light in 1996 and held positions of progressive responsibility in Accounting
8 Services and was named Assistant Controller in 2007. I served as Assistant Controller until
9 I was named Senior Director – Regulatory Affairs in April 2011. I have held my current
10 position as Vice President – Regulatory Affairs since August 2013.

11 **Q: Have you previously testified in a proceeding at the Missouri Public Service**
12 **Commission (“MPSC” or “Commission”) or before any other utility regulatory**
13 **agency?**

14 A: Yes, I have testified before the Commission and the Kansas Corporation Commission
15 (“KCC”). I have also provided written testimony to the Federal Energy Regulatory
16 Commission (“FERC”) and testified before Missouri and Kansas legislative committees.

17 **Q: What is the purpose of your testimony?**

18 A: The purpose of my testimony is to introduce EMW’s requests in this rate proceeding. I
19 will describe how EMW operates, the drivers of our proposed rate increase, namely
20 investments to increase dispatchable generation capacity, replace aging infrastructure,
21 improve reliability, and enhance customer service. I will also highlight other regulatory
22 proposals we are making, including several mechanisms to align cost recovery with the
23 investments we are making to operate our system, and identify the other witnesses

1 providing testimony on behalf of EMW who address the Company’s individual requests in
 2 more detail.

3 **Q: Please introduce the Company’s other witnesses who support EMW’s rate request.**

4 A: Table 1, below, introduces the Company’s other witnesses and the topics they address.

5 **Table 1: EMW Witnesses**

<u>Witness Name:</u>	<u>Topics:</u>
Kirkland Andrews	Capital Structure; Cost of Debt; Return on Equity (“ROE”) Support
Albert Bass	Weather Normalization; 365-day Year Adjustment; Rate Switchers and Customer Growth; Energy Efficiency Annualization
Ann Bulkley	ROE; Capital Structure; Cost of Debt
Charles Caisley	Time of Use (“TOU”) implementation; Critical Needs Program and Rehousing Pilot Program development; Customer Service Approach; Benefits of Missouri Energy Efficiency Investment Act
John Carlson	Dogwood Energy Facility (“Dogwood”)
Hsin Foo	Energy Price Forecasting; Fuel, Purchased Power and Off-system Sales Normalization; Fuel Adjustment Clause (“FAC”) Requirements
Melissa Hardesty	Excess Deferred Income Taxes; Current and Deferred Income Tax; Accumulated Deferred Income Tax; Potential Federal Tax Increase; Property Tax
Darrin Ives	Policy; Overview; Crossroads Energy Center (“Crossroads”); Dogwood; Critical Infrastructure Protection/Cybersecurity Tracker (“Security Tracker”); Storm Reserve; Injuries & Damages (“I&D”) Reserve; TOU; Plant in Service Accounting (“PISA”)
Ronald Klote	Revenue Requirement Model and Schedules; Test Year; Misc. Accounting Adjustments including Pensions and Other Post Employment Benefits, PISA, Security Tracker, Storm and I&D Reserves; TOU Deferral
Bradley Lutz	Rate Design Studies and Rate Case Commitments; Rate Modernization Plan; Non-Residential Rate Design; Reactive Demand; Misc. Tariff Changes; Municipal Street Lighting; Special Rate for Incremental Load Service

1 **II. EXECUTIVE SUMMARY: OVERVIEW OF EVERGY'S MISSOURI**
2 **OPERATIONS AND PROPOSED RATE INCREASE**

3 **Q: Please describe EMW's operations.**

4 A: EMW is a regulated utility subsidiary of Evergy. EMW serves 345,100 customers, made
5 up of 304,000 residential customers, 40,600 commercial customers and 500 industrials,
6 municipalities and other electric utilities. EMW's electric service territory includes
7 numerous counties in central, western and northwestern Missouri, including the cities of
8 Lee's Summit, St. Joseph and Sedalia.

9 EMW's retail revenues, reflecting service provided to residences and businesses,
10 averaged approximately 92.5 percent of its total operating revenues over the last three
11 years. Wholesale firm power, bulk power sales, and miscellaneous electric revenues
12 accounted for the remainder of EMW's revenues. Like most electric utilities, EMW is
13 significantly impacted by seasonality with approximately one-third of its retail revenues
14 recorded in the third quarter.

15 To serve its customers, EMW owns approximately 460 mega-watts ("MW") of base
16 load generating capacity and approximately 1,200 MW of peak load capacity and 8 MW
17 of renewable generating capacity. This capacity is diversified with outright or joint
18 ownership in two large coal-fired generating stations with a capacity share of almost 460
19 MW, approximately 1,200 MW of natural gas- and oil-fired capacity and approximately 8
20 MW of renewable generating capacity from solar and landfill gas. In addition, EMW has
21 under contract 110 MW of wind generating capacity under contracts located in Missouri
22 and Kansas.

1 EMW operates and maintains approximately 15,156 circuit miles of distribution
2 lines and approximately 1,332 circuit miles of transmission lines to serve customers across
3 their service territory.

4 Evergy is one of the largest companies in the region, with just under 5,000
5 employees, including approximately 2,600 union employees. These employees are active
6 in the communities we serve, fulfilling our guiding corporate principle of “Improving Life
7 in the Communities We Serve.”

8 **Q: Please describe what EMW is requesting in this case.**

9 A: The purpose of this case is to request authority from the Commission to implement a \$104.5
10 million increase, excluding fuel, in EMW’s general rates for electric service. This increase
11 will support recovery of investments in dispatchable generation capacity, improving
12 reliability and grid modernization and enhancing customer service and customer
13 experience.

14 Our commitment to provide customers with exceptional, safe, reliable and
15 affordable utility service requires that we continue to invest in programs that maintain
16 reliability, enhance our customer service and enable the Company’s transition to cleaner
17 energy resources. To do this, the Company and its shareholders must have a reasonable
18 opportunity to earn the Commission-authorized return so we can attract the capital
19 necessary to support our prudent investments. The plans described in the sections that
20 follow and throughout this filing are designed to achieve these important objectives.

21 **Q: Please provide an overview of EMW’s request to increase its rates and the key drivers**
22 **of that request.**

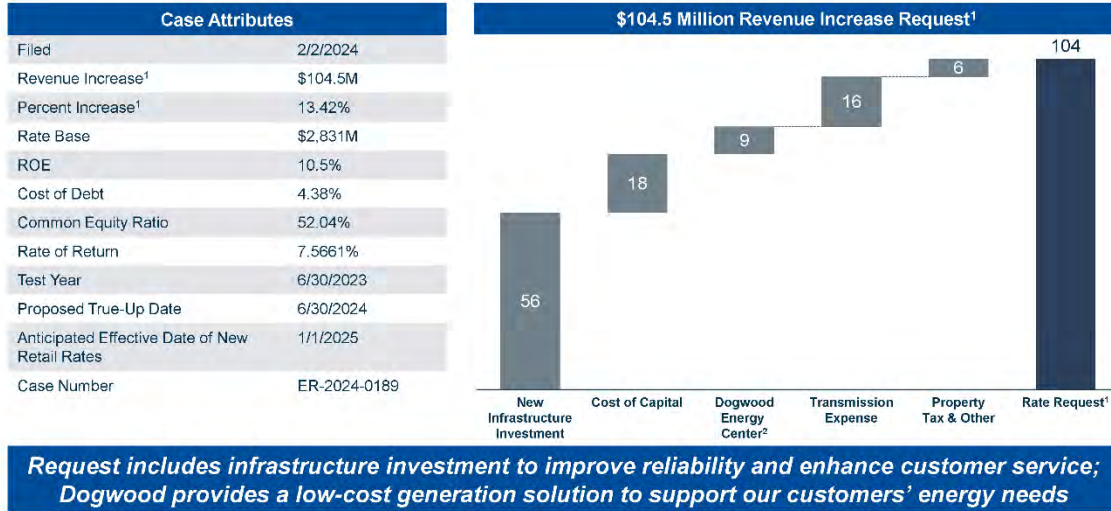
23 A: The request, its major drivers and key attributes of the case are highlighted in Figure 1.

1

Figure 1: Rate Request Highlights; See Schedule DRI-1



Energy Missouri West Rate Request



2

3 **Q: Please expand on how net fuel costs contribute to this rate request.**

4 A: Net fuel costs are not a large contributor to the increase request in this case. EMW is asking
5 for an additional 0.57% increase for in this rate review. EMW witnesses Hsin Foo and
6 Jessica Tucker discuss EMW's fuel costs.

7 EMW is also asking the Commission to continue to allow it to reflect fuel and
8 purchased power cost increases and decreases in its FAC on customer bills. Company
9 witnesses Linda Nunn, Jessica Tucker and Hsin Foo address requirements for continuing
10 our FAC pursuant to the Code of State Regulations.

11 **Q: What ROE, capital structure and cost of debt is EMW requesting in this case?**

12 A: EMW is requesting an ROE of 10.5 percent. EMW witness Ann Bulkley presents in her
13 Direct Testimony the results of her expert analysis of equity costs and recommendations in
14 support of an ROE range of 10.25 to 11.25% for EMW. With the Company's proposed

1 capital structure of 52.04% equity and 47.96% debt and actual EMW cost of debt, this
2 results in a requested rate of return of 7.5661%. The requested ROE, capital structure and
3 cost of debt are supported by the testimony of EMW witness Kirkland Andrews. The
4 requested ROE, as described in the testimony of these two witnesses, reflects among other
5 considerations the impacts of the significant increase in prevailing interest rates that have
6 occurred over the past two years.

7 **Q: What is the magnitude of rate increase EMW is requesting?**

8 A: EMW is requesting a 13.42% increase in base rates before the impact of the FAC rebase.
9 As noted earlier, EMW is asking for an additional 0.57% increase associated with the
10 rebasing of its FAC in this rate review. If the Commission grants EMW's request
11 excluding the FAC rebase this equates to an increase of \$17 per month for the typical
12 residential customer, or a daily increase of \$0.56. The Company's Application and the
13 direct testimony of EMW witnesses filed in support demonstrates that the investments and
14 strategic initiatives this increase will fund will create benefits for customers that justify the
15 increase in electric charges.

16 **Q. What is the effective date of the Company's proposed tariffs filed in this case?**

17 A: The revised tariffs we are filing in this case bear an effective date of March 3, 2024. The
18 Commission may suspend this filing up to an additional ten months beyond this effective
19 date. This would place the expected effective date of new rates on or about January 1,
20 2025.

21 **Q: Please describe how EMW rates compare with others in the region?**

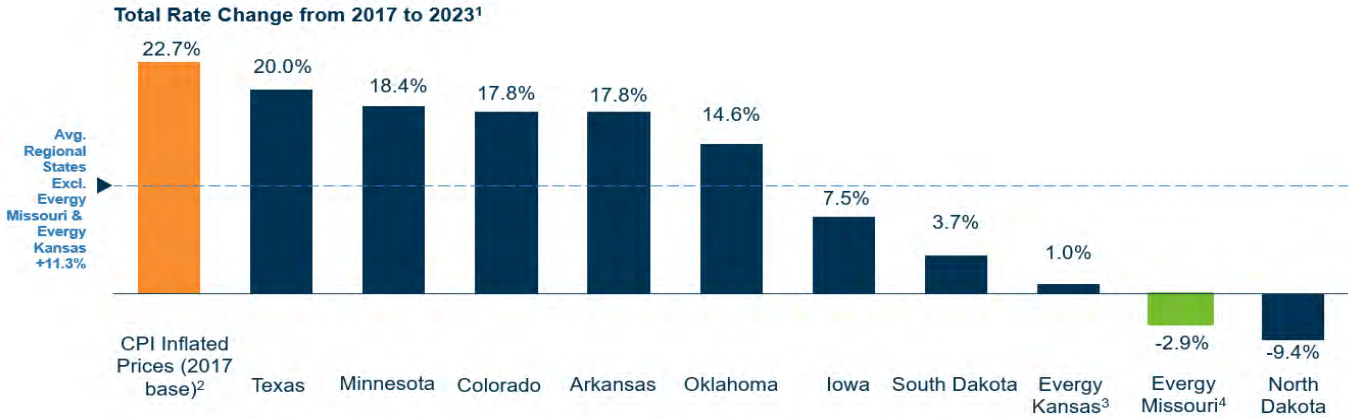
22 A: Achieving and maintaining regional rate competitiveness has been and continues to be a
23 fundamentally important objective for the jurisdictions in which Evergy operates. In

1 addition, it's an objective I believe we share with the Commission, our customers, and the
 2 state. Over the last six years through November 2023, our EMW rates have remained
 3 competitive and rate adjustments have been far below many of our regional state peers and
 4 well below the cost of inflation over that time. As depicted in Figure 2 below, during this
 5 post-merger period our EMW rates have increased a modest 7.9% over this entire period
 6 while regional rates in peer states, on average, have increased by approximately 11% and
 7 rates in Oklahoma and Texas have increased by 14.6% and 20.0% respectively. During
 8 this period, the cumulative change in inflation was nearly 23%.

9 **Figure 2: Regional Rate Comparison; See Schedule DRI-2**

 **Since 2017, Evergy Missouri total rates decreased about 3%**

During same period, regional rates have increased about 11% and inflation was 23%



1) Regional state data is sourced from EIA and is comprised of revenues and sales for all sectors, with 2023 data uses rolling twelve-month average of total revenues and sales ending November 2023. EIA data is preliminary that is subject to change, with 2023 data to be finalized in October 2024. 2) Source: US Bureau of Labor Statistics for historic CPI-U and uses rolling twelve-month average ending November 2023. 3) Evergy pro forma data uses rolling twelve-month average of total revenues and sales ending March 2023 and includes adjustments for the annualized impacts of: ACA/RECA (implemented April 1, 2023); TDC (implemented May 1, 2023); Kansas Income Tax reductions; and Property Tax Surcharge update; outcomes of rate case settlement in docket 23-EKCE-775-RTS. Evergy data is sourced from FERC Form 1 pg. 304 and general ledger and inclusive of customer bill credits. The corresponding change in total rates for Evergy KS Central and Evergy KS Metro were 4.9% and -9.5%, respectively. 4) The corresponding change in total rates for Evergy MO Metro and Evergy MO West were -4.0% and 7.9%, respectively.

10
 11 In recent years, electric utility customers across the country have been impacted by
 12 higher fuel costs including customers of EMW. Yet, EMW rates increases in total have
 13 been able to remain significantly below inflation.

1 **Q: What factors have contributed to EMW rates to continue to remain competitive**
2 **regionally?**

3 A: Although increases in fuel costs have impacted EMW customers over recent years, EMW
4 has continued to maintain competitive rates resulting primarily from the merger savings
5 reflected in both its 2018 and 2022 rate cases. In addition, growth in retail customers and
6 their usage has increased over this time period which has provided revenues to mitigate the
7 rate impact of cost increases and aided in keeping rates competitive over this time period.

8 **III. PROPOSED TRACKER MECHANISMS AND OTHER REQUESTS OF THE**
9 **COMMISSION**

10 **Q: Is the Company proposing tracker mechanisms as part of this case?**

11 A: Yes. EMW is proposing tracker or deferral mechanisms to address changes in the revenue
12 requirement over time that are required to cover (1) Security Tracker, (2) storm and I&D
13 reserves, and (3) TOU impact on retail revenues.

14 For a more comprehensive discussion on the Security Tracker, please see the
15 testimony of EMW witness Ronald Klote. For a more comprehensive discussion of the
16 storm reserve, please see the testimony of EMW witnesses Ryan Mulvany and Ronald
17 Klote. For more detail on the request for an I&D reserve, see the testimony of EMW
18 witness Ronald Klote. For a more comprehensive discussion of the proposed TOU tracker,
19 please see the testimony of EMW witnesses Ronald Klote and Marisol Miller.

20 **Q: Please summarize why EMW believes it is appropriate for the Commission to provide**
21 **the requested tracking mechanisms.**

22 A: As noted in the testimony of EMW witness Ann Bulkley, Evergy competes for investment
23 capital with other investor-owned utilities across the country. It is important that Evergy's
24 risk and regulatory environment is considered to be comparable to and competitiveness with

1 the peer companies with which we compete for investor capital. As a result, Ann Bulkley
2 in this case, and Evergy generally, evaluates rate mechanisms and regulatory environments
3 across the country as well as its current cost and cost recovery treatment. Resulting from
4 our continual assessment we have identified these areas as areas that warrant Commission
5 consideration for tracking mechanisms that would help Evergy to maintain competitiveness
6 in the capital markets.

7 **Q: Is EMW requesting other cost recovery regulatory proposals or other Commission**
8 **action you would like to highlight?**

9 A: Yes. As discussed in the testimony of EMW witness Jessica Tucker, historical price
10 volatility associated with the purchase of fuel and electricity for resale supports the hedging
11 activity incorporated by EMW. In EMW witness Linda Nunn's testimony, the Company
12 makes its request to include the impacts of the Company's hedging activities in the FAC.

13 IV. DOGWOOD

14 **Q: What is the relevance of the Company's Operating CCN application for Dogwood**
15 **to this rate case?**

16 A: In November 2023 EMW filed an application to receive an Operating CCN for a share of
17 the 688 MW operational natural gas-fired, combined-cycle Dogwood plant located in
18 Pleasant Hill, Cass County, Missouri in Case No. EA-2023-0291. The application and
19 direct testimonies filed by Company witnesses in that case explain how the Company's
20 purchase of a 22.2% ownership interest in Dogwood meets the requirements set forth in
21 the Commission's CCN rule, as well as the Commission's traditional standards for
22 evaluating and approving CCN requests. Pursuant to Section (2)(C) of the CCN Rule, the
23 Company also requested the Commission make a finding that the Company's decision to

1 purchase and operate Dogwood is prudent. The Company requested that the Commission
2 issue its decision approving the Application by no later than June 14, 2024 to allow for
3 close of the transaction by June 30, 2024, and inclusion in the expected general rate case
4 true-up in the instant rate case. Company witness John Carlson's testimony highlights the
5 Dogwood plant and its operations.

6 **Q: Did the Company request specific language regarding decisional prudence for**
7 **Dogwood in its CCN?**

8 A: Yes. The Company specifically requested that the Commission find in its CCN Report and
9 Order that EMW's decision (a) to acquire a 22.2% interest in the Facility for the final
10 purchase price of approximately \$62,700,000 and (b) to operate the Facility is prudent
11 because EMW has demonstrated that the final purchase price reflects the fair market value
12 of the acquired percentage interest in Dogwood and that the customer benefits resulting
13 from the Company's acquisition of the acquired percentage interest in Dogwood exceed
14 the customer costs related to the acquisition. As I discussed in my direct testimony in the
15 CCN, this specific language is necessary for the Company to close the agreement to
16 purchase its 22.2% interest in Dogwood.

17 **Q: What is the status of Case No: EA-2023-0291?**

18 A: The Commission established a procedural schedule for rebuttal and surrebuttal testimony
19 and hearings from April 9-12. All briefing is scheduled to be complete by May 17, 2024.

1 **Q: What specific ratemaking treatment is the Company seeking for Dogwood?**

2 A: As with any prudent investment in a generating facility to serve its customers, the Company
3 seeks to include the full purchase price for Dogwood in rate base and its depreciation and
4 operating costs in the Company's revenue requirement.

5 **Q: Is the Company's proposed ratemaking treatment for Dogwood predicated on its**
6 **receipt of an acceptable CCN, including the above discussed decisional prudence**
7 **determination?**

8 A: Yes, it is. As I discussed in my direct testimony in the CCN case, the specific language
9 being requested from the Commission is necessary to give the Company a clear finding on
10 decisional prudence so it can determine whether to close this transaction. As I discuss in
11 more detail later, Staff and OPC have taken positions in past cases that have advocated for
12 findings of decisional imprudence. Therefore, the Company needs an acknowledgement
13 from the Commission that its decision to acquire and operate its interest in Dogwood is
14 prudent because the final purchase price reflects the fair market value of the acquired
15 interest in the Facility and that customer benefits from the acquisition exceed the customer
16 costs related to it. Such an acknowledgment regarding this transaction will make clear that
17 EMW will not bear the risk that in future rate cases the prudence of its decision to acquire
18 at the transaction price and operate the facility will be challenged.

19 **Q: Please summarize your thoughts.**

20 A: The Company has requested that the Commission issue an operating CCN for its
21 acquisition of the Dogwood plant and find that the full purchase price paid to acquire an
22 interest in this dispatchable generation plant is prudent. The Company's analysis
23 demonstrates that Dogwood is the best alternative for its customers. If the Commission

1 agrees with the Company that Dogwood is the right resource for customers, the full
2 purchase price and all supported operating costs and rate base costs should be reflected in
3 rates in the true up period in this case.

4 V. PISA

5 **Q: Please explain PISA.**

6 A: Section 393.1400 RSMo. allowed EMW to use PISA, to offset a portion of the negative
7 lag associated with capital investments and also required the Company to limit the growth
8 of its rates to a compound annual growth rate of 3.0%. On January 1, 2019, the Company
9 elected to participate in PISA. Deferrals under PISA continued through December 31,
10 2023. On August 28, 2022, a modification to this PISA legislation was enacted pursuant
11 to 393.1655 RSMo. This law impacts PISA deferrals beginning January 1, 2024. PISA
12 allows deferral into a regulatory asset the depreciation expense and return on investment
13 associated with 85% of qualifying rate base additions between rate cases including carrying
14 costs at the weighted average cost of capital.

15 **Q: What are the benefits associated with PISA?**

16 A: PISA is similar to construction accounting in that it permits the utility to partially recover
17 the cost of investing in capital projects, thus reducing the disincentive to invest created by
18 regulatory lag. The negative lag inherent in capital investments made it difficult for Evergy,
19 as well as other Missouri electric utilities, to invest at the level needed to accelerate
20 modernization of the electric grid for the benefit of customers. Reducing the negative lag
21 has allowed Evergy to increase investment in its distribution system and other plant with
22 the goal of improving the reliability of the system. PISA enabled these investments which

1 are part of the Company's capital plan which was last filed with the Commission in
2 February 2023.¹

3 **Q: Has the Company met or exceeded the cap on the growth in its rates established by**
4 **PISA?**

5 A: No, it has not.

6 VI. CROSSROADS

7 **Q: How has the Commission treated Crossroads in past rate cases?**

8 A: The Commission has consistently found that Crossroads, a 300-MW simple-cycle, gas-
9 fired generation peaking plant located in Clarksdale, Mississippi, was a prudent
10 investment. The Commission first reached this conclusion in a 2011 Report & Order in a
11 general rate case filed by the Company when it was known as KCP&L Greater Missouri
12 Operations Co.² However, the Commission has also consistently denied recovery of the
13 cost of the firm point-to-point transmission agreements under a FERC-approved tariff to
14 bring the benefits of Crossroads to EMW's customers in western Missouri. In 2011 this
15 annual cost was approximately \$4.8 million.³ The Commission placed Crossroads in rate
16 base at a reduced value of \$61.8 million, contrary to the Company's \$104 million request
17 which reflected the plant's net book value (but better than Staff's recommendation that it
18 be entirely disallowed).⁴

¹ *EMW's Report of 2022 Capital Investment*, dated February 28, 2023, Docket No. EO-2019-0045.

² Report & Order at 90-91, 99 *In re KCP&L Greater Mo. Operations Co.*, No. ER-2010-0356 (May 4, 2011)

³ *Id.* at 86. The Commission stated that the "annual energy transmission cost was estimated as \$406,000 per month" or \$4.872 million.

⁴ *Id.* at 91-96, 100.

1 **Q: Since 2011, has the Commission allowed EMW to recover any amount of Crossroads’**
2 **transmission expense to provide power from Mississippi to Missouri, even when it is**
3 **critically needed during times of extreme weather?**

4 A: No; there has been zero recovery of Crossroads’ transmission expense.

5 **Q: Did the Company ask the Commission to review the Crossroads’ transmission issue**
6 **in its next rate case?**

7 A: Yes. In its 2012 general rate case, which was decided in January 2013, EMW asked the
8 Commission to reconsider its ruling. The Company provided additional testimony from
9 witnesses who testified that the cost of transmission, which had increased to \$5.2 million
10 annually, was outweighed by lower natural gas fuel costs in Mississippi, however, Staff
11 and others continued to disagree. The Commission declined to change its previous
12 rulings.⁵

13 **Q: Did the Commission indicate how long it would continue to deny EMW all of its**
14 **transmission expenses related to Crossroads?**

15 A: No, it did not. However, the Commission acknowledged that its decisions regarding
16 Crossroads were a product of its unhappiness with the plant’s previous owner, “the failed
17 utility Aquila.”⁶ The Commission stated: “A full recital of Aquila’s tortured history is
18 unnecessary to the Commission’s rulings because it only raises the issue of how long the
19 Commission will visit the sins of the predecessor on the successor. It is true that GMO is
20 the same legal entity as Aquila, but it is also true that management is different.”⁷

⁵ Report & Order at 51-59, In re KCP&L Greater Mo. Operations Co., No. ER-2012-0175 (Jan. 9, 2013) (“2013 Report & Order”). See KCP&L Greater Mo. Operations Co. v. PSC, 432 S.W.2d 207 (Mo. App. W.D. 2014); Memorandum Providing Reasons for Order Affirming Judgment (Mar. 4, 2014).

⁶ 2013 Report & Order at 57.

⁷ Id.

1 **Q: Is now the time for the Commission to stop visiting the sins of Aquila upon successor,**
2 **Evergy Missouri West?**

3 A: Yes, the time has come for the Commission to take a fresh look at the benefits that
4 Crossroads provides as the energy industry in particular, and the American economy in
5 general, undergoes a transformation of historic proportions as older resources retired,
6 renewable resources are constructed, as weather events are more frequent and volatile, and
7 as electrification advances.

8 First, I will note that I discussed Crossroads in EMW's recent FAC audit in Case
9 No. EO-2023-0277 noting that in its integrated resource planning process in Case No. EO-
10 2007-0298, the Company identified the need for additional peaking capacity. Crossroads,
11 which is located in Mississippi, was identified as the least cost and preferred option through
12 a request for proposal process. In Case No. ER-2009-0090, the Company sought
13 ratemaking treatment for Crossroads. The Staff took a strong position and argued that it
14 raised the issue of imprudent resource planning decisions in 2005 (when the Company
15 presented the three combustion turbine ("CT") South Harper power plant for inclusion in
16 rates, Staff argued the Company, then Aquila, should have built five CTs and proposed to
17 remove all costs related to Crossroads from the revenue requirement. This case was
18 settled.⁸

19 In Case No. ER-2010-0356, Staff continued to oppose including Crossroads in rate
20 base and instead continued to argue the hypothetical five South Harper CTs should be
21 reflected in rates. In this litigated case, the Commission found that the decision not to build

⁸ *Order Approving Non-Unanimous Stipulations And Agreements And Authorizing Tariff Filing, Re Application of KCP&L Greater Missouri Operations Company for Approval to Make Changes in its Charges for Electric Service, File No. ER-2009-0090 (issued June 10, 2009).*

1 five CTs at South Harper was not imprudent. The Commission also found that the decision
2 to include Crossroads in the Company's generation fleet was prudent. The Commission,
3 however, disallowed a substantial amount of the rate base cost and also did not allow
4 recovery of the transmission costs necessary to support EMW's use of the Crossroads
5 capacity to meet Southwest Power Pool (SPP) requirements and to bring power from
6 Crossroads to the Company's customers which reduced the Company's revenue
7 requirement in that case by approximately \$11.5 million.⁹ In subsequent cases, Staff
8 continued to argue that the Company should have built five CTs at South Harper and to
9 disallow Crossroad's transmission costs. Some of these cases were black box settlements.

10 What started as a \$4.8 million transmission cost haircut to revenue requirement
11 funded by the Company's shareholders, has grown to an approximate \$16.5 million annual
12 transmission disallowance and accumulated to an approximately \$137 million transmission
13 disallowance. Overall, with the impact to date of approximately \$52 million from the rate
14 base disallowance an aggregate disallowance of \$189 million represents a substantial
15 shareholder funded resource which has made it impossible for the Company to earn its
16 allowed return on equity.

⁹ Report and Order, p. 87, Re Application of KCP&L Greater Missouri Operations Company for Approval to Make Changes in its Charges for Electric Service, File No. ER-2010-0356 (issued May 4, 2011).

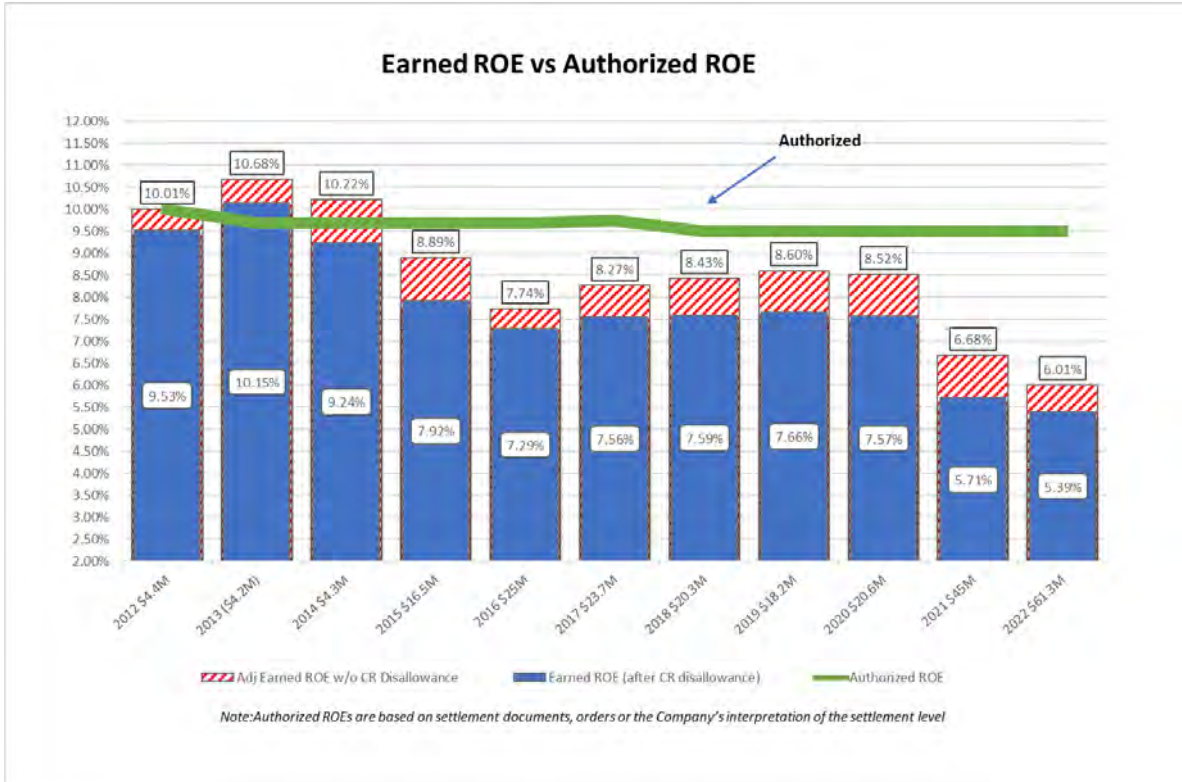
Annual Crossroads Disallowance	
Year	Transmission Disallowed (Millions)
2011 (half)	4.7
2012	3.7
2013	4.7
2014	12.0
2015	12.5
2016	5.8
2017	11.2
2018	10.7
2019	11.5
2020	12.6
2021	14.8
2022	17.0
2023	15.7
Total	136.9

1 **Q: What has the impact of this substantial annual under-recovery been on the**
2 **Company?**

3 A: EMW is consistently one of the lower earning utilities in the nation. Under the current
4 ratemaking treatment for Crossroads, EMW does not have any reasonable opportunity to
5 earn its allowed ROE. As shown below and on Schedule DRI-1, EMW persistently and
6 significantly underearns relative to its allowed ROE simply because rates are not set to
7 provide the Company with the opportunity to recover its cost of service, with the primary
8 driver being the transmission costs necessary to utilize the capacity from Crossroads.

1

Figure 3 Earned ROE vs Authorized ROE; See Schedule DRI-3



2

3 **Q: How does being one of the lower earning utilities in the nation impact EMW and its**
4 **customers?**

5 **A:** It makes running the utility significantly more challenging. EMW's access to capital is
6 more challenging and costly. EMW's credit ratings at S&P and Moody's are both a notch
7 below EMM credit ratings. The lower credit ratings and increased risk are reflected in
8 current higher market cost of debt for EMW's customers. Table 1 below shows first
9 mortgage bonds with similar maturity dates between EMW and EMM and EMW and EKC.
10 In both cases, EMW's bonds have a higher yield, since investors require a higher return for
11 the higher risk associated with EMW.

1

Table 1

	<u>Yield</u>
Everg Metro; 2023 FMB 4.95% Coupon; Due 2033	6.19%
Everg MO West; 2022 FMB 3.75% Coupon; due 2032	6.50%
Everg MO West increased cost of borrowing	0.31%
Everg KS Central; 2017 FMB 3.10% Coupon; due 2027	5.70%
Everg MO West; 2022 FMB 5.15% Coupon; due 2027	6.29%
Everg MO West increased cost of borrowing	0.59%

2

Source: Bloomberg, as of 10/31/2023

3

EMW is continually resource constrained, requiring it to file frequent rate cases.

4

Despite rate case orders providing EMW with returns that are intended to meet the

5

standards of Hope and Bluefield, the annual disallowance of Crossroads’ FERC-approved

6

transmission tariff expenses creates a situation in which the Company has consistently been

7

denied the *opportunity* to earn its allowed return effectively undermining consistency with

8

Hope and Bluefield standards.

9

Q: What is the relevance of cases like Hope to the recovery of Crossroads’ transmission expenses?

10

11

A: My understanding is that these cases say that the ratemaking process must result in just and

12

reasonable rates, and that there must be a balancing of investor interests with consumer

13

interests. The Hope case recognizes that investors have a legitimate concern with the

14

financial integrity of their company, including that “it is important that there be enough

15

revenue not only for operating expenses but also for the capital costs of business.”¹⁰ Yet,

16

for over the past dozen years, the Company has been subject to disallowance resulting in

¹⁰ Federal Power Comm’n v. Hope Natural Gas Co., 320 U.S. 591, 603 (1944).

1 no cost recovery for the transmission expense that brings the benefits of Crossroads' low-
2 cost capacity and energy to customers in Missouri.

3 **Q: How do you recommend the parties move forward?**

4 A: We need to move beyond the cycle of zero transmission cost recovery, and advance to a
5 position where EMW and other stakeholders work together for the benefit of current and
6 future customers. When we do that, we can focus on the upcoming generation supply
7 transition and meeting the evolving needs of customers. If the Commission believed in the
8 past that Company shareholders should be penalized for deficiencies in management's
9 resource planning decision-making before and when the Crossroads facility was acquired,
10 it is clear that shareholders have paid that penalty.

11 It is time to turn the page on Crossroads and focus on its future role in the EMW
12 generation portfolio. The Company's shareholders have absorbed more than \$189 million
13 since 2010. Evergy has accepted the outcome and financial consequences of prior
14 Commission decisions and the Company is not seeking any recovery of these past
15 disallowances. However, in the present day, and in the context of a significantly changed
16 EMW and regional generation context relative to 2011 and the ongoing transformation of
17 the electric power sector, the costs to bring Crossroads power and capacity to our customers
18 – including the transmission costs - are reasonable and prudent relative to alternatives.

19 As described by Evergy witness Cody VandeVelde, the decision by the
20 Commission on Crossroads transmission costs is timely in this case, as it will inform
21 whether or not to extend the firm transmission contract for Crossroads when current
22 contracts expire in 2029, and will also inform the development of upcoming Integrated
23 Resource Plans for EMW.

1 benefits including realizing the cost savings from initial generation retirements leading our
2 responsible energy transition.

3 As described in the Company's direct testimony, we continue to make investments
4 in programs and initiatives that are intended to maintain and improve reliability and
5 enhance customer service, while continuing to ensure that the Company's generation fleet
6 balances affordability, reliability, and sustainability. In this proceeding, proactive and
7 thoughtful Commission resolution of the Dogwood and Crossroads issues will set us all on
8 a path to move forward to meet the future resource needs of EMW's customers.

9 Making appropriate investments to achieve these goals requires that EMW has
10 adequate access to capital. The regulatory mechanisms proposed in this case are
11 specifically designed to provide such access. These mechanisms include a reasonable ROE
12 and capital structure, as well as tracker mechanisms that will reduce the regulatory lag
13 between when EMW incurs certain costs and when those costs are recovered. These
14 mechanisms will provide a foundation on which EMW will execute its strategic plans for
15 the future.

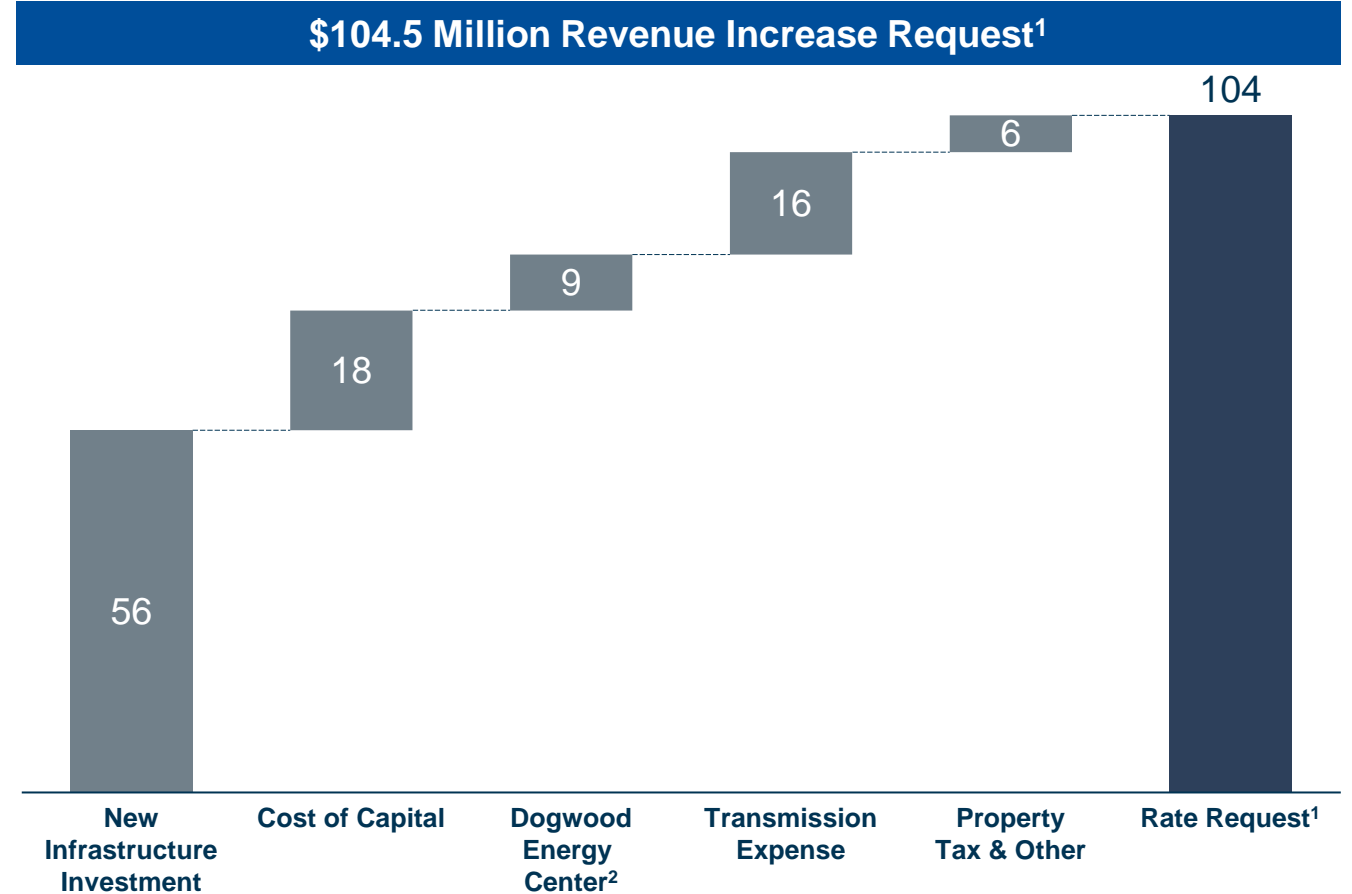
16 **Q: Does that conclude your testimony?**

17 **A:** Yes, it does.



Evergy Missouri West Rate Request

Case Attributes	
Filed	2/2/2024
Revenue Increase ¹	\$104.5M
Percent Increase ¹	13.42%
Rate Base	\$2,831M
ROE	10.5%
Cost of Debt	4.38%
Common Equity Ratio	52.04%
Rate of Return	7.5661%
Test Year	6/30/2023
Proposed True-Up Date	6/30/2024
Anticipated Effective Date of New Retail Rates	1/1/2025
Case Number	ER-2024-0189



Request includes infrastructure investment to improve reliability and enhance customer service; Dogwood provides a low-cost generation solution to support our customers' energy needs

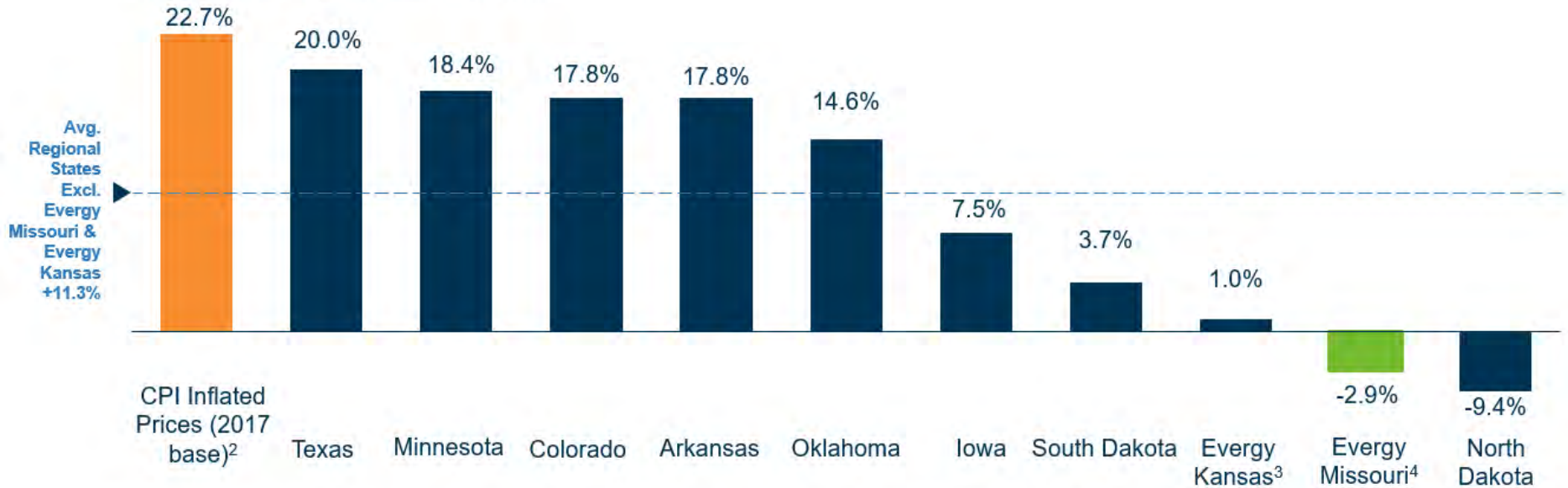
¹Excludes 95% of change in net fuel costs, or \$4.4 million; unlike other elements of base rates, fuel costs will be subject to adjustment through a fuel recovery mechanism every six months based on incurred costs. Numbers may not sum due to rounding. ²Pending acquisition of a 22.2% interest (or 148MW) in the Dogwood natural gas plant



Since 2017, Evergy Missouri total rates decreased about 3%

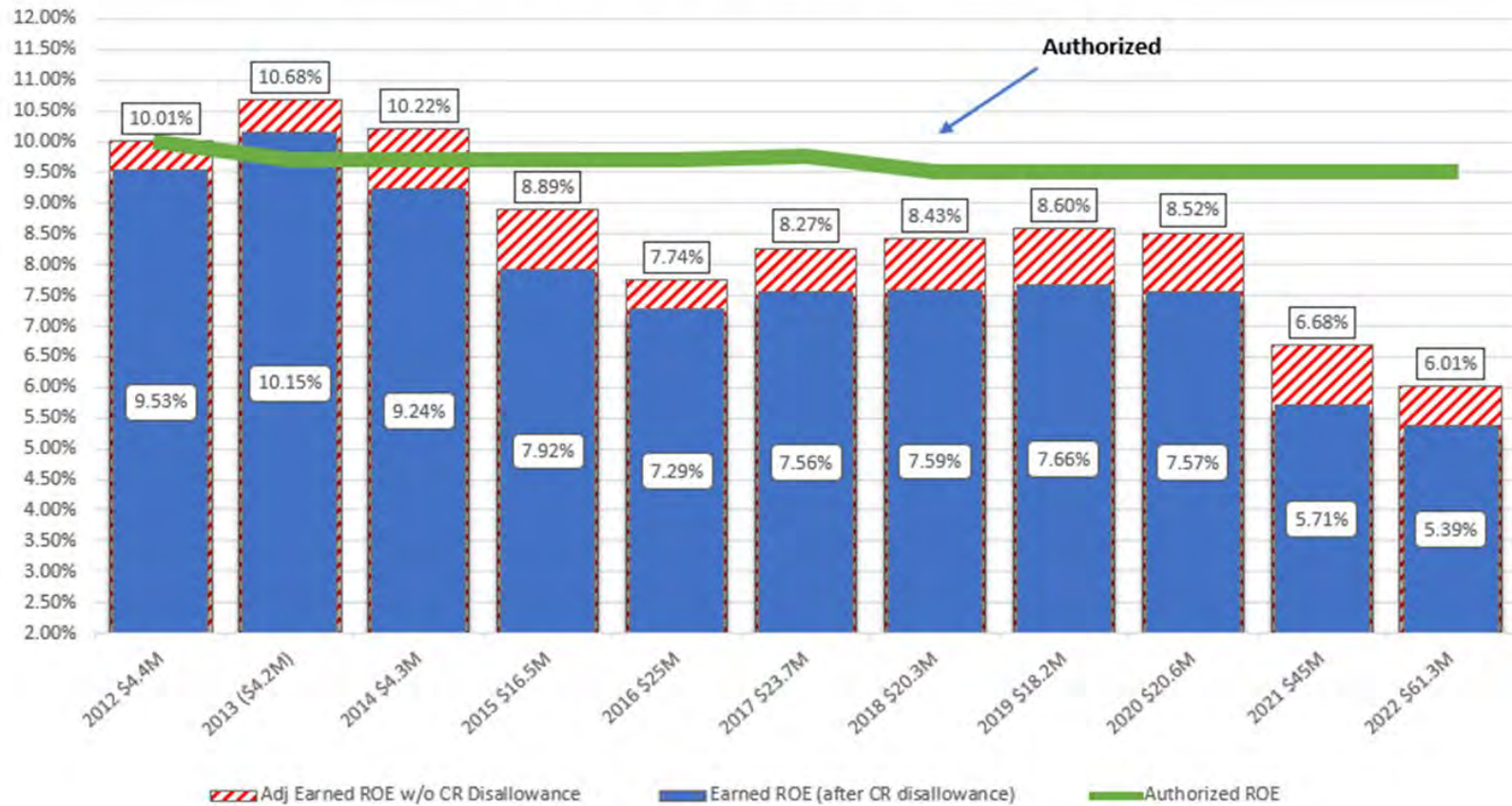
During same period, regional rates have increased about 11% and inflation was 23%

Total Rate Change from 2017 to 2023¹



1) Regional state data is sourced from EIA and is comprised of revenues and sales for all sectors, with 2023 data uses rolling twelve-month average of total revenues and sales ending November 2023. EIA data is preliminary that is subject to change, with 2023 data to be finalized in October 2024. 2) Source: US Bureau of Labor Statistics for historic CPI-U and uses rolling twelve-month average ending November 2023. 3) Evergy pro forma data uses rolling twelve-month average of total revenues and sales ending March 2023 and includes adjustments for the annualized impacts of: ACA/RECA (implemented April 1, 2023); TDC (implemented May 1, 2023); Kansas Income Tax reductions; and Property Tax Surcharge update; outcomes of rate case settlement in docket 23-EKCE-775-RTS. Evergy data is sourced from FERC Form 1 pg. 304 and general ledger and inclusive of customer bill credits. The corresponding change in total rates for Evergy KS Central and Evergy KS Metro were 4.9% and -9.5%, respectively. 4) The corresponding change in total rates for Evergy MO Metro and Evergy MO West were -4.0% and 7.9%, respectively.

Earned ROE vs Authorized ROE



Note: Authorized ROEs are based on settlement documents, orders or the Company's interpretation of the settlement level