Exhibit No. 201

Office of Public Counsel – Exhibit 201
David Murray
Rebuttal Testimony
File No. EU-2020-0350
Aug. 17, 2020

Exhibit No.:	_______________
Issue(s)	Equity Risk Premium
Witness/Type of Exhibit:	Murray/Rebuttal
Sponsoring Party:	Public Counsel
Case No.:	EU-2020-0350

REBUTTAL TESTIMONY

OF

DAVID MURRAY

Submitted on Behalf of the Office of the Public Counsel

EVERGY METRO, INC. D/B/A EVERGY METRO AND EVERGY MISSOURI WEST, INC. D/B/A EVERGY MISSOURI WEST

CASE NO. EU-2020-0350

August 17, 2020

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Evergy Metro, Inc. d/b/a Evergy Missouri Metro and Evergy Missouri West, Inc. d/b/a Evergy Missouri West for an Accounting Authority Order Allowing the Companies to Record and Preserve Costs Related to Covid-19 Expenses	)))))))	File No. EU-2020-0350

VERIFICATION OF DAVID MURRAY

David Murray, under penalty of perjury, states:

1. Attached hereto and made a part hereof for all purposes is my rebuttal testimony in the above-captioned case.

3. My answer to each question in the attached rebuttal testimony is true and correct to the best of my knowledge, information, and belief.

David Murray
Utility Regulatory Manager
Office of the Public Counsel

REBUTTAL TESTIMONY

OF

DAVID MURRAY

EVERGY METRO, INC. D/B/A EVERGY MISSOURI METRO AND EVERGY MISSOURI WEST, INC. D/B/A EVERGY MISSOURI WEST

CASE NO. EU-2020-0350

Q. Please state your name and business address.

A. My name is David Murray and my business address is P.O. Box 2230, Jefferson City, Missouri 65102.

Q. By whom are you employed and in what capacity?

A. I am employed by the Missouri Office of the Public Counsel ("OPC") as a Utility Regulatory Manager.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the OPC.

Q. What is the purpose of your testimony?

A. To explain the equity risk premium reflected in Evergy's existing rates.

Q. What experience, knowledge and education qualify you to sponsor testimony on this issue?

A. Please see the attached Schedule DM-R-1 for my qualifications as well as a summary of the cases in which I have sponsored testimony on cost of capital and other financial issues while employed with the Staff of the Missouri Public Service Commission. Since being employed by the OPC I have sponsored rate of return testimony in the Ameren Missouri rate case, Case No. ER-2019-0355 and The Empire District Electric Company rate case, Case No. ER-2019-0374.

Q. What is your position as to Evergy's requested accounting authority order (AAO) for COVID-19 related impacts?

A. I do not believe that the Commission should approve Evergy's requested AAO, or should at least exclude lost revenues in an approved AAO. Evergy's rates were set in the last rate case to compensate the Companies for the potential risk of an economic downturn, such as the current downturn related to measures taken to mitigate the spread of COVID-19.

Q. Do Evergy Metro's and Evergy Missouri West's current rates allow for shareholder compensation for business risks that may cause a volatility in earnings?

A. Yes. A component of the awarded return on common equity ("ROE") is the "equity risk premium." The equity risk premium allows an additional return over the risk-free rate in order to compensate shareholders for the potential that their earned return may differ from their expected return. The equity risk premium as it relates to the expected return of a broad market index, such as the S&P 500, over the risk-free rate is often identified as the "market risk premium."

Q. Do utility investors expect to receive a risk premium that is equivalent to the market risk premium?

A. No. Due to the fact that utility companies' earnings are more insulated from changes in macroeconomic conditions, utility investors have lower required risk premiums as compared to the market risk premium.

Q. What risk factors are embodied in investors' required risk premium to invest in utility equity?

A. Utility equity investors expect compensation for "business risk" and "financial risk." "Financial risk" refers to a company's use of debt in their capital structure in order to minimize its cost of capital and potentially achieve a higher return on the equity investment. The "business risk" captures a company's sensitivity to factors that may impact the revenues and expenses of the company. This includes, but is not limited to the following: (1) macroeconomic issues, such as economic cycles, (2) industry issues, such as changes in energy resources, energy conservation and technological changes, and (3) company-specific issues, such as regulatory and legislative changes in the service territories in which the company operates.

Q. What is one of the primary considerations when using historical realized returns to estimate investors' required risk premium to invest in equity rather than a risk-free debt instrument?

A. The length of the historical period used to determine the realized risk premium earned over this risk-free rate. Typically, a longer period is preferred because it considers several business and economic cycles, which affect investors' willingness to incur the higher risks related to equity investments. For example, one of the most widely used sources for historical realized spreads between equity returns and debt returns is the annual publication, "Stocks, Bonds, Bills and Inflation Yearbook" (SBBI Yearbook). The SBBI Yearbook provides a comprehensive compilation of return information on United States' securities markets since 1926. Consequently, most practitioners evaluate the difference in returns over a period of almost 100 years in order to estimate the equity risk premium. Although this period captures the Great Depression from 1929 through the 1930s, it also captures the market boom before the Great Depression. While investors hope not to endure another Great Depression, they recognize that this is a risk to investing and therefore require a risk premium to account for such. Using data subsequent to this period until the most recent period in which data is available allows for the capture of significant economic expansions and contractions, which, while these events may not have been expected when they occurred, there should always be some required return built into the risk premium to account for the fact that economic cycles occur.

Q. Did the Commission's last allowed ROE of 9.5% for Evergy Metro allow for an equity risk premium to compensate investors for the possibility that it may not earn its allowed return?

A. Yes. If the Commission intended to ensure that Evergy Metro and Evergy Missouri West earned at or near its awarded return through all economic and business cycles, then it would be logical to reduce the risk premium it allowed for Evergy Metro and Evergy Missouri West. Evergy Metro's allowed ROE of 9.5% in Case No. ER-2016-0285 equated into a 6.5% risk premium over 30-year United States Treasury Yields of around 3% at the time. Evergy Metro's allowed ROE of 9.5% represented an additional risk premium of approximately 5% over an average 'A' to 'BBB' utility bond yield of 4.5% at the time.

Considering a typical required risk premium over a company's bond yields is in the range of 3% to 5%, Evergy has been fairly compensated for the business risks, including that of reduced electricity usage caused by economic repercussions due to COVID-19 mitigation efforts. While the COVID-19 pandemic may be an extraordinary event, a recession is not. In fact, at the end of 2018, the capital markets began to price in the expectation of recession in early 2019, which never occurred.

Q. Did the Commission's determination that a 9.5% allowed ROE was fair and reasonable for Evergy specifically consider cost of equity testimony that specifically relied on equity risk premium methodologies?

A. Yes. The Commission's R&O cited to Missouri Industrial Energy Consumers and Midwest Energy Consumers Group witness, Mr. Michael Gorman's ROE estimate of 9.5% using his risk premium methodology.

Q. Did Mr. Gorman's risk premium study capture multiple economic cycles, including 2007 through 2009, which captured the worst recession since the Great Depression as well as the Great Financial Crisis?

A. Yes. Mr. Gorman's study captured the period 1986 through 2016. This period captured three recessionary periods: 1990-1991, 2001 and 2007-2009.

Q. Did Evergy experience lost revenues during the recession from 2007 to 2009?

A Yes. Great Plains Energy (Evergy's previous parent company) indicated the following in its 2009 SEC Form 10-K Filing:

> KCP&L's retail consumption, on both a nominal and weather-adjusted basis, declined in 2009 compared to 2008. If financial markets or the economy worsen, overall electricity sales volumes may further decline and/or bad debt expense may increase, which could materially affect Great Plains Energy's and KCP&L's results of operations, financial position and cash flows.[1]

Q. Do you believe that investors were expecting the deep and long recession that occurred from 2007 to 2009?

A. No. Although the events that led to the 2007 to 2009 recession could be considered extraordinary, the fact that the U.S. economy experienced a recession was not extraordinary. Equity investors recognize that they are likely to incur much more volatility in their returns as a result of such economic cycles and will discount the price of stock accordingly. The stock market experienced significant declines until they hit their lows in March 2009. Allowed ROEs would have reflected this increased risk aversion and would be captured in Mr. Gorman's risk premium study.

Q. Have the recessions of 2007 to 2009 and the current recession had favorable impacts to utility companies?

A. Yes. Due to the intervention of the Federal Reserve through monetary policy initiatives, and the Federal Government through fiscal policy initiatives, utility companies, including Evergy Metro and Evergy Missouri, have been able to issue bonds at extraordinarily cheap prices. I expect favorable financing opportunities to continue regardless of whether Evergy receives its requested AAO.

Q. Does this conclude your testimony?

A. Yes.

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[1] Great Plains Energy SEC Form 10-K Filing, December 31, 2009, p. 18.

DAVID MURRAY, CFA

Educational and Employment Background and Credentials

I have been employed as a Utility Regulatory Manager at the Office of the Public Counsel (OPC) since July 1, 2019. Prior to accepting employment with the OPC, I was the Utility Regulatory Manager of the Financial Analysis Department for the Missouri Public Service Commission (Commission) from 2009 through June 30, 2019. I accepted the position of a Public Utility Financial Analyst in June 2000 and my position was reclassified in August 2003 to an Auditor III. I was promoted to the position of Auditor IV, effective July 1, 2006. I was employed by the Missouri Department of Insurance in a regulatory position before I began my employment at the Missouri Public Service Commission.

I was authorized in October 2010 to use the Chartered Financial Analyst (CFA) designation. The use of the CFA designation requires the passage of three rigorous examinations addressing many investment related areas such as valuation analysis, portfolio management, statistical analysis, economic analysis, financial statement analysis and ethical standards. In addition to the passage of the examinations a CFA charterholder must have four years of relevant professional work experience.

In May 1995, I earned a Bachelor of Science degree in Business Administration with an emphasis in Finance and Banking, and Real Estate from the University of Missouri-Columbia. I earned a Masters in Business Administration from Lincoln University in December 2003.

In April 2007 I passed the test required to be awarded the professional designation Certified Rate of Return Analyst (CRRA) by the Society of Utility and Regulatory Financial Analysts (SURFA). I served as a board member on the SURFA Board of Directors from 2008 through 2016. I am not currently an active member of SURFA.

Case Participation

In addition to supervising employees who sponsored rate of return (ROR) testimony as Manager of the Financial Analysis Department of the Missouri Public Service Commission, I directly sponsored ROR testimony in the following electric, gas and water case proceedings (I also filed ROR testimony in several other smaller proceedings that are not listed):

Union Electric	ER-2010-0036, ER-2011-0028, ER-2012-0166, ER-2014-0258, and ER-2016-0179
Empire District Electric Company	ER-2002-424, ER-2004-0570, and ER-2006-0179
Kansas City Power & Light Company	ER-2009-0089, ER-2010-0355, ER-2012-0174, and ER-2016-0285
KCP&L Greater Missouri Operations and Former Aquila Inc. dba Aquila Networks MPS and L&P	ER-2001-672, EC-2002-265, ER-2004-0034, ER-2005-0436, ER-2009-0090, ER-2012-0175, and ER-2016-0156
Spire Missouri West and former Missouri Gas Energy	GR-2001-292, GR-2004-0209, GR-2006-0422, GR-2009-0355, GR-2017-0216
Spire Missouri East (Laclede Gas)	GR-2017-0215
Missouri American Water Company	WR-2003-0500, WR-2007-0216, WR-2010-0131, and WR-2015-0131
Missouri Gas Utility	GR-2008-0060
Summit Natural Gas of Missouri	GR-2014-0086
Liberty Midstates Gas Company	GR-2018-0013

In addition to the above, I have sponsored testimony in other proceedings, such as merger applications, which involve various general financial matters.