Exhibit No.:	
Issue(s):	*Crossroads, Regulatory Lag*
Witness:	*Keith Majors*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Rebuttal Testimony*
Case No.:	*ER-2024-0189*
Date Testimony Prepared:	*August 6, 2024*

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL AND BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

REBUTTAL TESTIMONY

OF

KEITH MAJORS

EVERGY MISSOURI WEST, INC.,

d/b/a Evergy Missouri West

CASE NO. ER-2024-0189

Jefferson City, Missouri
August 6, 2024

****** Denotes Confidential Information ******

TABLE OF CONTENTS OF

REBUTTAL TESTIMONY OF

KEITH MAJORS

EVERGY MISSOURI WEST, INC.,
d/b/a Evergy Missouri West

CASE NO. ER-2024-0189

REBUTTAL TESTIMONY

OF

KEITH MAJORS

EVERGY MISSOURI WEST, INC.,
d/b/a Evergy Missouri West

CASE NO. ER-2024-0189

Q. Please state your name and business address.

A. Keith Majors, Fletcher Daniels Office Building, 615 East 13th Street, Room 201, Kansas City, Missouri, 64106.

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

A. I am a Utility Regulatory Audit Supervisor employed by the Staff ("Staff") of the Missouri Public Service Commission ("Commission").

Q. Are you the same Keith Majors who previously provided testimony in this case?

A. Yes. I provided direct testimony in this case on June 27, 2024.

<u>EXECUTIVE SUMMARY</u>

Q. What is the purpose of your rebuttal testimony?

A. I will respond to the direct testimony of Evergy Missouri West ("EMW") witnesses Darrin R. Ives and Cody VandeVelde concerning the Crossroads Energy Center ("Crossroads"). I also respond to witness Ives concerning regulatory lag.

My testimony and recommendations responsive to the direct testimony of witnesses Ives and VandeVelde regarding Crossroads are summarized as follows:

- Crossroads was built as a merchant plant in Mississippi, 525 Miles away from EMW. Crossroads was never intended to provide EMW customers capacity on a permanent basis.

- Crossroads was a distressed property prior to being transferred to EMW and was never considered by EMW's prior management to provide EMW customers capacity on a permanent basis.

- The closing and dismantlement of Crossroads is without precedent.

- If EMW's intention was to dismantle and scrap Crossroads at the expiration of the transmission agreement, it should have been preparing to replace the capacity and has failed to take advantage of opportunities to replace the capacity since the 2012 Rate Case.

- If EMW chooses to not renew the transmission service enabling Crossroads capacity, EMW has options to replace the capacity. EMW could also dismantle and relocate the plant.

I will discuss and support each of these conclusions and recommendations in this testimony. I supported both the valuation of Crossroads and the removal of the test year level of transmission costs in my direct testimony filed in this case.

Q. Can you identify and describe the corporate entities and utilities that you discuss in this testimony?

A. Yes.

- **Aquila, Inc. ("Aquila") –** The parent company of Missouri Public Service, St. Joseph Light & Power, and Aquila Merchant Services prior to July 2008. Ceased substantial operations after acquisition by Great Plains Energy in July 2008.

- **Aquila Merchant Services ("Aquila Merchant") –** constructor, owner and operator of Crossroads until sale to Aquila, Inc. on March 31, 2007.

- **Missouri Public Service ("MPS") –** the legacy utility properties surrounding Kansas City, now operating as Evergy Missouri West. Also referred to as "Aquila Networks – MPS".

- **St. Joseph Light and Power ("L&P") –** the legacy utility properties surrounding St. Joseph, now operating as Evergy Missouri West. Also referred to as "Aquila Networks – L&P".

- **Kansas City Power & Light –** the legacy Missouri utility properties, now operating as Evergy Missouri Metro.

- **Kansas City Power & Light – Greater Missouri Operations ("KCPL-GMO", or "GMO") –** the combined operations of Missouri Public Service and St. Joseph Light and Power, now operating as Evergy Missouri West.

- **Great Plains Energy ("GPE") –** Parent company of Kansas City Power & Light. Purchased Aquila Inc. and all subsidiaries in July 2008. Now known as Evergy, Inc.

<u>CROSSROADS</u>

Q. Please summarize your rebuttal testimony as it pertains to Crossroads.

A. Staff continues to support the Commission's decision in EMW's 2010 and 2012 general rate increase case to exclude all transmission costs related to the power generated from Crossroads and inclusion of Crossroads in rate base at a proper valuation.

In Case No. ER-2010-0355 ("2010 Rate Case") and Case No. ER-2012-0175 ("2012 Rate Case"), the Commission determined that transmission costs incurred to transmit power generated by Crossroads should not be recovered in rates. While EMW's customers are located primarily in the metropolitan Kansas City, Missouri area and surrounding communities and in many areas in western Missouri, Crossroads is located in Clarksdale, Mississippi. More importantly, Crossroads is located outside the Southwest Power Pool ("SPP"), of which EMW is a member, in another Regional Transmission Organization ("RTO"), the Midcontinent Independent System Operator ("MISO"). In effect, the Commission's rate decisions in both the 2010 and 2012 Rate Cases effectively assume the cost levels as though Crossroads was built within the SPP, just like every other generating unit operated by EMW and its affiliate, Evergy Missouri Metro.

While EMW states in its direct testimony filed in the current and prior rate cases that it accepts the rate base valuation disallowances ordered by the Commission in the 2010 and 2012 Rate Cases,[1] it requests rate recovery in this case of all Crossroads transmission costs incurred. Staff disagrees with EMW's position. The Commission excluded all transmission costs related to Crossroads in both the 2010 and 2012 Rate Cases resulting in no recovery of any of this power plant's transmission costs. A somewhat condensed version of the "full recital of Aquila's tortured history"[2] is necessary to provide context on why the Commission made these decisions.

To the extent the Commission determines some amount of the Crossroads transmission costs should be allowed rate recovery, then Staff recommends that there be a corresponding review of the rate base investment for Crossroads determined by the Commission in its original decision in the 2010 Rate Case as reaffirmed in the 2012 Rate Case. This rate base amount would be the value of Crossroads at the time of the Aquila acquisition in July 2008, approximately $51.6 million before any depreciation is considered, and would result in a reduction to Crossroads rate base investment as determined by the Commission. Depreciation and related deferred taxes would have to be determined to develop a full rate base value.

<u>HISTORY OF CROSSROADS</u>

Q. What witnesses are you responding to in this section of your testimony?

A. I am responding to the direct filed testimony of EMW witnesses Ives and VandeVelde concerning Crossroads rate base valuation and transmission expense.

Q. What is the Crossroads Energy Center?

[1] EMW Case No. ER-2018-0146 - EFIS #16 - Rush direct at page 26; EFIS #12 - Klote direct at pages 9 and 25-26 and EFIS #9 - Crawford direct at pages 16-17. Case No. ER-2024-0189 – VandeVelde Direct – page 18.
[2] 2012 Rate Case *Report & Order* at 57.

A. Crossroads generating site consists of four 75 megawatt ("MW") natural gas fired combustion turbines with a total capacity of approximately 300 MW (currently accredited 302 MW[3]) located in Clarksdale, Mississippi. These four units are General Electric ("GE") model number 7EA, and were installed in 2002 as a merchant plant for the former Aquila Merchant, a non-regulated wholly-owned subsidiary of Aquila. The generating facility is owned and operated by the City of Clarksdale, Mississippi under an agreement entered into at the time of plant completion in 2002 for property tax abatement purposes. This arrangement continues today. This plant is included as a generating asset providing service to Evergy Missouri West's customers and is included in rate base as a capital lease net of a valuation adjustment established in the 2010 Rate Case and confirmed by the Commission in the 2012 Rate Case.

A non-regulated affiliate of Aquila, Aquila Merchant constructed Crossroads in 2002 as a non-regulated merchant independent power plant ("IPP"), originally built to serve the constrained transmission area in and around Clarksdale, Mississippi as an Exempt Wholesale Generator ("EWG"). Aquila Merchant made a deliberate decision and calculated risk to construct Crossroads in that part of the country to take advantage of the area's transmission constraints. When the merchant power market collapsed in 2002 after the Enron bankruptcy, Aquila, Inc. and its affiliates decided to exit the non-regulated energy market and concentrate on traditional regulated operations, primarily the generation, transmission and distribution of electricity in Missouri.

Q. Did Crossroads operate as a merchant plant?

[3] Evergy, Inc., 2023 Form 10-K, page 32.

A. In a very limited capacity. The 2002 decision by Aquila to exit the non-regulated energy markets as a result of the decline of the power markets coincided with Crossroads' completion. From the time of the completion of Crossroads in 2002 and throughout Aquila's down-sizing to when GPE acquired Aquila's Missouri electric assets, Aquila Merchant attempted to sell Crossroads and other non-regulated assets because they were not considered necessary, nor strategic to Aquila's regulated operations. While Aquila Merchant sold other non-regulated assets, it found no buyers interested in Crossroads even when Aquila offered Crossroads at distressed and deeply discounted plant values. Aquila, Inc. never operated Crossroads to sell electricity into the non-regulated energy power markets. Crossroads did not generate any power in 2003, 2004 or 2006, with the only power generated in 2005 as result of a short-term summer purchased power agreement with Aquila, Inc.'s Missouri regulated operation, MPS.

Q. How did GPE come to own Crossroads?

A. GPE acquired Aquila, Inc. and its remaining affiliates including MPS and L&P in July 2008. When GPE acquired Aquila Inc., it also acquired the non-regulated Crossroads. Because of the unsuccessful attempts to sell Crossroads prior to the acquisition, Crossroads had been transferred from Aquila Merchant to a non-regulated subsidiary of Aquila, Inc., and then ultimately to Aquila, Inc. in March 2007. After GPE acquired Aquila, Inc., it transferred Crossroads to its plant records for MPS in August 2008 with the intent for Crossroads to exclusively serve Missouri customers.

Q. How did the Commission value Crossroads?

A. EMW (then GMO) included Crossroads in Case No. ER-2009-0090 ("2009 Rate Case") and the 2010 Rate Case at its book value on transfer from Aquila Merchant.

The Commission ultimately found the appropriate value was the market-based transactions of the sales of two Aquila Merchant generating facilities in Illinois to AmerenUE. These facilities are Goose Creek and Raccoon Creek.

Q. Would you describe these facilities?

A. Aquila Merchant installed ten GE Model 7EA, 75 MW combustion turbines at two locations in Illinois. Six GE 7EA turbines were installed at Goose Creek Energy Center having a combined capacity of 510 MW. Four 7EAs were installed at Raccoon Creek Energy Center having a combined capacity of 340 MW. EMW (then Aquila) responded to a Request for Proposal ("RFP") to supply turbine capacity issued by AmerenUE in the summer of 2005. The final sale price for both Raccoon Creek and Goose Creek was $175 million for all the generating equipment, substation and transmission costs. The total capacity of these two generating stations is 850 MW resulting in an installed capacity of $205.88 per kW ($175 million divided by 850,000 kW).[4]

Q. Did EWM (then Aquila) lose money on the sale of these units?

A. Yes. Because of the distressed nature of the merchant business at the time, EMW (the Aquila) incurred a pre-tax non-cash impairment charge of approximately $93.6 million for Goose Creek and $65.9 million for Raccoon Creek, or a total after-tax loss of $99.7 million ($58.5 million and $41.2 million).[5]

Q. What was the value of Crossroads as found by the Commission?

A. The Commission stated the following on page 100 of the 2010 Rate Case Report and Order:

[4] Aquila, Inc. SEC Form 8-K filed December 16, 2006.
[5] Ibid.

> The Commission also rejects GMO's inclusion of Crossroads in rate base at its net book value. The Commission determines that given Great Plains' statements to the Securities Exchange Commission shortly before the transfer of the Crossroads unit to the Missouri regulated operations, as well as the arm-length sale of other General Electric combustion turbines by Aquila, that the fair market value of Crossroads at the time of transfer (August 2008) was $61.8 million.

The Commission arrived at that valuation using the $205.88 per kW proxy sale value of Goose Creek and Racoon Creek multiplied by Crossroads' 300 MW capacity.

Q. As noted by EMW witnesses Ives and VandeVelde in their direct testimonies, the primary issue is recovery of Crossroads transmission expense. What has the Commission determined concerning rate recovery of these expenses?

A. On page 86 of its Order in Evergy Missouri West's 2010 Rate Case, the Commission disallowed transmission costs relating to Crossroads, recognizing they were ongoing and indicating that it would not allow them in rate cases, as follows:

> 244. Staff argues that the cost of transmission to move energy from Crossroads in Mississippi to GMO's service territory justifies, in part, removing Crossroads from GMO's cost of service. The Company argues that the cost of transmission is offset by the lower gas reservation costs.
>
> 245. The cost of transmission to move energy from Crossroads to customers served by MPS is a very significant cost that is far greater than the transmission cost for power plants located in the MPS district. The annual energy transmission cost was estimated as $406,000 per month. This is also substantially higher on an annual basis than the transmission plant costs for the Aries site where the three South Harper Turbines were originally planned to be installed.
>
> 246. This higher transmission cost is an ongoing cost that will be paid every year that Crossroads is operating to provide electricity to customers located in and about Kansas City, Missouri. GMO does not incur any transmission costs for its other production facilities that are located in its MPS district that are used to serve its native load customers in that district. This ongoing transmission cost GMO incurs for Crossroads is a cost that it does not incur for South Harper,

> and is the cause of one of the biggest differences in the on-going operating costs between the two facilities.
>
> 247. It is not just and reasonable to require ratepayers to pay for the added transmission costs of electricity generated so far away in a transmission constricted location. Thus, the Commission will exclude the excessive transmission costs from recovery in rates. [footnotes omitted]

More recently, the Commission noted at pages 58-59 of the Order in the 2012 Rate Case:

> 1. Crossroads is 500 miles from GMO's MPS territory.
>
> 2. Between the territory of MPS and Crossroads are the territories of regional transmission organizations ("RTOs"). RTOs collect payment for the transmission of power through their territories. GMO does not belong to all those RTOs so GMO must pay higher fees for transporting power than to an RTO of which GMO is a member.
>
> 3. There are generating facilities closer, including Dogwood's facility and the South Harper plant. Even though Crossroads provides power for GMO only during half of the days in the summer, GMO pays about $5.2 million to transmit power from Crossroads all year round. The high cost of transmission is not outweighed by lower fuel costs in Mississippi.
>
> <u>Discussion, Conclusion of Law, and Ruling</u>
>
> GMO has not carried its burden of proof on transmission costs. GMO alleges that the lower price of fuel in Mississippi outweighs the cost of transmission. The Commission has found that the evidence preponderates otherwise.
>
> ....
>
> Therefore, the Commission concludes that including the Crossroads transmission costs does not support safe and adequate service at just and reasonable rates, and the Commission will deny those costs.

The Commission's Order in both the 2010 and 2012 rate cases prohibited Evergy Missouri West from any recovery of transmission costs related to Crossroads. The Commission stated at page 64 of its 2012 Order with respect to the recovery of Crossroads transmission costs:

> **Crossroads Transmission**. Several parties ask the Commission to order that GMO's FAC tariff sheets state expressly that GMO's FAC excludes transmission costs related to Crossroads. Insofar as the Commission has determined that no transmission costs from Crossroads will enter GMO's MPS rates, there is no further dispute, and no further findings of fact and conclusion of law are required. The Commission will order GMO's FAC clarified to state that GMO's FAC excludes transmission costs related to Crossroads.

EMW CAPACITY HISTORY

Q. At the time Crossroads was included in EMW's generating fleet in 2008, did EMW have a need for capacity?

A. Yes. EMW had not entirely replaced the capacity from the 500 MW purchase power agreement ("PPA") with the Aries Combined Cycle Generating Station ("Aries") that expired May 31, 2005.

Q. Please provide a brief history of EMW capacity planning prior to the Aquila, Inc. acquisition.

A. In my opinion, the Commission detailed clearly and concisely in the 2010 Rate Case Report and Order concerning EMW's capacity planning so I will quote the relevant sections here starting on page 78:

History and Prudence

> 220. The Crossroads issues have their genesis from GMO's (then known as Aquila, Inc.) anticipation in the late 1990's and early 2000's of the deregulation and decoupling of generation from regulated electric utility operations in Missouri and its participation in the energy market in Missouri and other states through a non-regulated subsidiary, Aquila Merchant Services, Inc.
>
> 221. As part of its merchant generation activities, in 2000, Aquila Merchant, with Calpine, built the Aries Plant (now known as Dogwood). The Aries Plant is a natural gas-fired, 585 MW, combined-cycle, intermediate generating facility within Aquila, Inc.'s MPS service area. A five-year PPA with Aquila, Inc. that

expired in May 2005 was used as an anchor for building the facility. [footnote omitted]

222. Aquila Merchant also purchased eighteen 75 MW model 7EA combustion turbines from General Electric and, in 2002, at least three 105 MW model 501D combustion turbines from Siemens-Westinghouse. [footnote omitted]

223. Aquila Merchant used four of the 75 MW combustion turbines at the facility it built near Clarksdale, Mississippi in 2002—Crossroads. [footnote omitted] Aquila Merchant sold, at substantial discounts from its cost, three of the 75 MW combustion turbines to unaffiliated entities in 2003. Aquila Merchant released one of the 75 MW combustion turbines back to the manufacturer, and in 2003 installed six of them at the Goose Creek Energy Center and the other four at the Raccoon Creek Energy Center, both in Illinois. [footnote omitted] Aquila Merchant kept the three 105 MW Siemens-Westinghouse combustion turbines it purchased in 2002 intending to install them at the 585 MW, combined-cycle generating facility for a purchased power agreement with GMO after the 5-year purchased power agreement with GMO expired in May 2005. When it could not sell them, they were stored until 2005 when they were installed as regulated units at South Harper to be used for the MPS service area. [footnote omitted]

226. Although every other investor-owned electric utility in Missouri built generation, Aquila, Inc. had a corporate policy not to build regulated generating units that it followed until it built South Harper in 2005. [footnote omitted] Instead, Aquila, Inc. relied exclusively on purchased power to meet its retail customers‘ increasing demands for electricity.

227. In 2000, Aquila, Inc. entered into the five-year purchased power agreement for power from the Aries Plant. That agreement, which expired in May 2005, provided for 500 MW of capacity in the summer and 320 MW in the winter. [footnote omitted]

228. Aquila, Inc. knew in 2000 when it began taking power under the five-year purchased power agreement that it would have to replace that capacity by June of 2005. [footnote omitted]

229. In 2001, Aquila, Inc. began exploring what options might be available in 2005 to replace the 500 MW of capacity. It did so by issuing a request for proposals (“RFPs”) in the spring of 2001 for delivery of energy beginning in June of 2005. Because of changes

in the industry, Aquila, Inc. reissued those RFPs in early 2003. [footnote omitted]

230. Staff has criticized and challenged GMO's [footnote omitted] capacity planning in rate cases over the past decade. It did so in File Nos. ER-2001-672 and ER-2004-0034, criticizing Aquila, Inc. for entering into the five-year purchased power agreement for power from a 585 MW natural gas-fired combined cycle generating unit built by Calpine and Aquila, Inc.'s affiliate Aquila Merchant Services, Inc., instead of building generation it owned. Staff also criticized Aquila, Inc. in File No. ER-2005-0436, challenging the prudency of how Aquila, Inc. built South Harper in the face of opposition to the siting of that facility and its decision to only install three 105 MW combustion turbines instead of five. And Staff had criticism again in File Nos. ER-2007-0004 and ER-2009-0090, taking issue with the prudency of Aquila, Inc./GMO for installing three 105 MW combustion turbines in 2005 instead of five.

231. At Aquila, Inc.'s June 26, 2003, resource planning update meeting with Staff and the Office of the Public Counsel, it presented the results of its analysis of the proposals it received. With the exception of one proposal, the proposals were for purchased power agreements, with the source of the capacity and energy varying among wind, coal, combustion turbines, and combined-cycle units. Aquila, Inc. also disclosed then that one bid for 600 MW of capacity which Aquila, Inc. considered to be "excellent" had been made. By September 10, 2003, however, the bid had been withdrawn and not replaced. [footnote omitted]

232. On January 27, 2004, only sixteen months before its 500 MW capacity agreement would expire, Aquila, Inc. met with and informed Staff of Aquila, Inc.'s power acquisition process for the following five years. In that meeting GMO presented its preferred/proposed resource plan to build what became South Harper, and enter into three-to-five year purchased power agreements for the balance of its resource needs based on the responses to the spring 2003 request for proposals. Staff responded it was concerned that Aquila, Inc. would become overly dependent on short-term purchased power agreements and needed to evaluate adding baseload generation. [footnote omitted]

233. At its next resource planning update, on February 9, 2004, Aquila, Inc., based on a twenty-year planning period, disclosed that its least cost resource plan was to build five 105 MW combustion turbines in 2005 and buy a small amount of capacity from the market in 2005, meet load growth with additional market purchases until

2009, when it would build an additional 105 MW combustion turbine and a second in 2010, as well as pursue adding baseload capacity for 2010. Therefore, in February of 2004, about sixteen months before its five-year 500 MW purchased power agreement expired, Aquila, Inc.'s least cost resource plan included building five 105 MW combustion turbines in 2005. [footnote omitted]

234. At its following semi-annual update to Staff and the Office of the Public Counsel, held on July 9, 2004, GMO disclosed it had entered into an agreement to purchase 75 MW of power from NPPD, but that its least cost plan still included building five 105 MW combustion turbines in 2005, although its preferred plan still was to build three 105 MW combustion turbines in 2005 and rely on purchased power for the balance of its needs. Therefore, in July of 2004, about eleven months before its five-year 100 MW purchased power agreement expired, Aquila, Inc.'s least cost resource plan included building five 105 MW combustion turbines in 2005. [footnote omitted]

235. After prudently exploring and planning its capacity needs following the expiration of its five-year 500 MW purchased power agreement in May of 2005, GMO elected not to build five combustion turbines, and instead built three 105 MW combustion turbines at South Harper, a site designed for up to six 105 MW combustion turbines, and entered into PPA that included base load capacity in order to diversify its resource portfolio additions. "GMO concluded that it would be prudent to spread the execution and operating risks from the resource additions between building combustion turbines and adding a PPA that contained some level of base load capacity." [footnote omitted]

236. Staff argues that its adjustments [footnote omitted] "reflect the continuation of Staff's position that GMO should have prudently addressed its capacity needs for MPS to replace the Aires PPA when it expired on May 31, 2005." [footnote omitted] Notably, Staff's conclusion is based on the same analysis as that developed and used by the Company in deciding to pursue the three combustion turbine/system-participation PPA.

237. The difference between Staff's preferred five combustion turbine plan and the Company's three Combustion turbine/system-participation PPA plan is minimal. [footnote omitted] Even Staff witness Lena Mantle testifies that she did not believe the cost difference between the Company's preferred plan and Staff's five combustion turbine option over 20 years was significant, [footnote

> omitted] and that she did not find the Company's decision based on this difference to be imprudent. [footnote omitted]
>
> 238. Ultimately, the Company did not precisely implement its preferred plan. Based on the 2004 analysis, the preferred plan called for three 105 MW combustion turbines and a 200 MW system PPA. The three combustion turbines were completed in the summer of 2005, but the Company was unable to complete the system PPA. Instead, the Company entered into a 9-year 75 MW base load contract with the Nebraska Public Power District ("NPPD") and purchased power from Crossroads short-term for the remaining 200 MW. [footnote omitted]
>
> 239. After a thorough analysis of available options, the Company determined the 300 MW Crossroads Energy Center was the lowest cost option for meeting its requirements.

<u>CROSSROADS WAS A DISTRESSED PROPERTY AT THE TIME OF TRANSFER TO EVERGY WEST</u>

Q. Please summarize this section of your rebuttal testimony.

A. In this section of my testimony, responding to the direct testimony of witnesses Ives and VandeVelde concerning Crossroads transmission, I provide support for the following points:

- Prior to the acquisition, Aquila expected to have a material impairment charge if in the future it sold Crossroads as noted in their Securities Exchange Commission ("SEC") filings.
- Aquila, Inc. documented prior to the acquisition that Crossroads would likely be impaired in value specifically due to transmission constraints, at a value lower than the proxy sales of Racoon Creek and Goose Creek used by the Commission to value Crossroads
- GPE and Aquila, in a joint proxy statement, found the value of Crossroads to be $51.6 million, far below its carrying value of $117.0 million.

Q. For your first point, did Aquila believe Crossroads was distressed?

A. In my opinion, yes. In publicly available SEC filings prior to the acquisition, Aquila noted the following in the March 31, 2007 10-Q, dated May 7, 2007 on pages 39-40:

Earnings Trend and Impact of Changing Business Environment

The merchant energy sector has been negatively impacted by the increase in generation capacity that became operational in 2002 and 2003. This increase in supply has placed downward pressure on power prices and subsequently the value of unsold merchant generation capacity. It is generally expected that the fuel and start-up costs of operating our Crossroads plant will exceed the revenues that would be generated from the power sold. We therefore believe that during the next few years we have limited ability to generate power at the Crossroads facility for a profit. We have assessed the realizability of our investment in this plant and do not believe an impairment has occurred. We will continue to have operating and maintenance costs associated with this plant, whether it is being utilized to generate power or is idle. Additionally, we continue to wind down and terminate our remaining trading positions with various counterparties. However, it will take a number of years to complete the wind-down, and we continue to deliver gas under our remaining long-term gas contracts which expire by early 2008. Because most of our remaining trading positions are hedged, we should experience limited fluctuation in earnings or losses other than the impacts from counterparty credit, the discounting or accretion of interest, and the termination or liquidation of additional trading contracts. As a result of the above factors, we do not expect Merchant Services to be profitable in the next two to three years.

We evaluated the carrying value of the Crossroads plant as of December 31, 2005. We performed this evaluation due to reduced spark spreads and an oversupply of generation that we expect will continue for the next few years. This situation has prevented the plant from producing significant margins and, in turn, has created losses for us. It is forecasted that these losses will continue for the next few years. We separately tested the cash flows for the plant based on estimated margin contributions and forecasted operating expenses over its remaining plant life. The peaking plant was placed into service in 2002 and we depreciate the facility over 35 years. In evaluating future estimated margin contributions, we used external price curves based on four different future price environments. In each environment, we calculated an average margin contribution based on a multi-simulation scenario analysis and then equally weighted each price environment. Based on this analysis and the level of probability we would sell this asset, the undiscounted, probability-weighted cash flows for the plant exceeded its current book value. Therefore, under SFAS 144 no impairment was required as of December 31, 2005. We have evaluated this asset as held and used. If at some future date we determine this asset is held for sale, based on current market values, we would likely record a material impairment charge. As of December 31, 2006, we reviewed market

> conditions and the assumptions used in the 2005 assessment and determined that no significant adverse changes had occurred. Therefore, a full assessment was not required. As of March 31, 2007, the carrying value of this plant was $117.9 million.

Q. What do you interpret from this excerpt of Aquila's 10-Q?

A. Crossroads was the last vestige of Aquila's merchant generation operations. Aquila Merchant would not be profitable, if at all, until at least after 2009 or 2010 on a stand-alone Aquila basis. Although from an accounting perspective, no impairment charge was taken, it is clear that Aquila believed a sale would result in an impairment charge.[6]

Q. Although Aquila, Inc. did not recognize an impairment charge prior to the acquisition, did Aquila quantify a potential amount of impairment?

A. Yes. In accordance with generally accepted accounting principles and Financial Accounting Standard 144.8, "a long-lived asset shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable." Attached as Schedule KM-r1 is the response to Staff Data Request No. 0135 in Case No. ER-2009-0090.[7] This document is an annual internal analysis of a potential impairment charge for Crossroads. This document was created for the period ending December 31, 2007 and published on January 3, 2008. The analysis noted the following concerning the impairment test:

> FAS 144.8 - A long-lived asset shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The following are examples of such events or changes in circumstances:
>
> 144.8.e - A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or

[6] For purposes of Statement of Financial Accounting Standards ("SFAS") 144, impairment is the condition that exists when the carrying amount of a long-lived asset (asset group) exceeds its fair value.
[7] The response provided documents spanning several years; attached are the most recent.

> forecast that demonstrates continuing losses associated with the use of a long-lived asset.
>
> TRUE - Due to market conditions, the prohibitive historical cost of natural gas, and potential transmission constraints, this facility has been unable to produce sufficient profit to cover the idle operating and maintenance costs. It is forecasted that these losses will continue for the next few years.

At the end of the document, a valuation estimate is listed noting the average of four peaker plant asset sales proceeds, two of which were Racoon Creek and Goose Creek sold at substantial losses to Ameren Union Electric.[8] These were the same sales used by the Commission to value Crossroads in the 2010 and 2012 Rate Cases:

Crossroads Energy Center
FAS 144 "What-If Tested" Analysis

$-Thousands	Heat Rate Change	Gross Margin	Operating Expense	Future Cash Flow	%	Weighted Total
As of 12/31/07						
Mercury Rising	14.0%	$ 975,399	$ 118,224	$ 857,175	30.0%	$ 257,153
Global Fissures	1.5%	392,144	118,224	273,920	30.0%	82,176
Asian Phoenix	-7.1%	304,044	118,224	185,820	30.0%	55,746
Sale Value *(MW x $/MW)*		*340*	*148*	50,177	10.0%	5,018
Average Future Cash Flow	2.5%	417,982	88,705	341,773	100%	400,092
Book Value						112,204
Coverage (Below 1.0x = Potential Impairment)						3.57x
As of 12/31/06						
Mercury Rising		$ 849,629	$ 125,128	$ 724,502	22.5%	$ 163,013
Technology (Dropped)		607,035	125,128	481,907	22.5%	108,429
Global Fissures		382,770	125,128	257,643	22.5%	57,970
Asian Phoenix		325,289	125,128	200,161	22.5%	45,036
Sale Value *(MW x $/MW)*		*340*	*148*	50,177	10.0%	5,018
Average Future Cash Flow		433,013	100,132	342,878	100%	379,466
Book Value						118,855
Coverage (Below 1.0x = Potential Impairment)						3.19x

Average Peaker Plant Asset Sales

Buyer	Seller	Facility	MW	Proceeds	$/MW
Ameren	Aquila	Goose	510	$ 105,000	$ 206
Ameren	Aquila	Raccoon	340	70,000	206
Bukeye Power	DPL	Greenville	200	49,200	246
American Electric Power	DPL	Darby	450	102,000	227
Average			375	81,550	221
Crossroads Transmission Constraint Estimated Adjustment			340	(25,000)	(74)
Adjusted Average					$ 148

[8] Now known as Ameren Missouri.

This analysis shows that Aquila, without influence from GPE, believed the value of Crossroads was reduced due to transmission constraints and that the value was less than the proxy value used by the Commission. This analysis was identical to the FAS 144 analysis for the period ending December 31, 2006. Using the reduced valuation supported by Aquila, the value of Crossroads is $148.00 per KW versus the $205.88 per KW valuation used by the Commission using the Goose Creek and Raccoon Creek proxy sales. On a total unit basis, the Aquila valuation would result in an even lower $44.4 million versus the $61.8 million as found by the Commission.

Q. How long had Aquila believed an impairment charge would occur if Crossroads were to be sold?

A. Since at least the filing of the September 30, 2006 SEC Form 10-Q. Similar, but not exactly verbatim language appears in that 10-Q, the 2006 Annual Report, Form 10-K, and the June 30, 2007 Form 10-Q. It is only in the September 30, 2007 Form 10-Q and subsequent SEC filings that this language is changed and supplemented with information describing the use of Crossroads for Aquila's Missouri operations.

Q. How did Aquila's evaluation of Crossroads change closer to the completion of GPE's acquisition of Aquila?

A. By the time of the filing of the 2007 Aquila, Inc. 10-K Annual Report[9], Aquila added the following language describing the future of Crossroads on page 31 of that report:

> Combustion Turbine Plant
> We filed an Integrated Resource Plan with the Missouri Commission in February 2007 that included the construction of a combustion turbine plant between 2008 and 2010. The capital expenditures table above includes approximately $186 million to complete this project. We are exploring transmission options for

[9] Dated February 29, 2008.

> delivery of capacity and energy from the Crossroads plant in Mississippi to our utility customers in Missouri. If cost effective for our customers, we intend to add the Crossroads plant to our Missouri rate base in lieu of constructing the new combustion turbine plant. This would eliminate most if not all of the $186 million in capital expenditures that is in the current 2008-2010 forecast for the new combustion turbine project.

Q. What is the significance of this change?

A. The change did not occur until GPE became the acquiror of Aquila, Inc. At the time of the pending acquisition, Aquila would not have had unilateral control over material decision making concerning capacity planning. That would have been the responsibility of GPE.

Q. Why would that have been the responsibility of GPE?

A. Aquila, Inc. was acquired by, not merged with, GPE, although colloquially this combination is referred to as a "merger." Both the evaluation of the pre-acquisition value of Crossroads, which I discuss below, and the ultimate decision to use Crossroads for long-term capacity were decisions made by senior GPE management, not Aquila, Inc. management.

Q. Did GPE recognize the distressed nature of Crossroads prior to including Crossroads in EMW (then MPS) regulated rate base?

A. Yes, it did. Great Plains Energy and Aquila estimated what each thought the market value of Crossroads would be in the spring of 2007 and again in late summer of that same year. It was determined Crossroads had a value of $51.6 million, which was communicated to both Great Plains and Aquila shareholders in a May 8, 2007, Joint Proxy Statement and again in an August 27, 2007, Joint Proxy Statement, both filed with the Securities and Exchange Commission ("SEC").

> D - The pro forma adjustment represents the adjustment of the estimated fair value of certain Adjusted Aquila non-regulated

> tangible assets and reduction of depreciation expense associated with the decreased fair value. The adjustment was determined based on **Great Plains Energy's estimates of fair value based on estimates of proceeds from sale of units to an unrelated party of similar capacity in the current market place. The preliminary internal analysis indicated a fair value estimate of Aquila's non-regulated Crossroads power generating facility of approximately $51.6 million.** This analysis is significantly affected by assumptions regarding the current market for sales of units of similar capacity. The $65.4 million adjustment reflects the difference between the fair value of the combustion turbines at $51.6 million and the $117.0 million book value of the facility at June 30, 2007.
>
> **Great Plains Energy management believes this to be an appropriate estimate of the fair value of the facility.** The adjusted value will be depreciated over the estimated remaining useful lives of the underlying assets and could be materially affected by changes in fair value prior to the closing of the merger. An additional change in the fair value of the facility of $15 million would result in an additional change to annual depreciation expense of approximately $0.5 million.
>
> [Emphasis added; Great Plains Energy & Aquila Joint Proxy Statement/Prospectus the SEC on August 27, 2007, page 194]

Q. How was the $51.6 million valuation determined?

A. As noted by EMW witnesses in the 2010 and 2012 Rate Cases, and by the Commission in the 2010 and 2012 Report and Orders, the $51.6 million was the fair value of the facility. The $51.6 million was determined by the approximate salvage proceeds from the dismantlement and sale of the turbines and equipment at Crossroads. This decision to value Crossroads' fair value at the approximate salvage proceeds was made solely by GPE management.[10]

Q. Why is this point important?

[10] Response to Staff Data Request No. 0128, Case No. ER-2009-0090.

A. It demonstrates that GPE management believed that the only value of Crossroads to Aquila post-acquisition was as salvage value proceeds. At the time of this evaluation, GPE noted that "in particular the uncertainty of the availability of long-term transmission to areas beyond the Entergy interconnection points"[11] influenced the valuation.

Q. Prior to the acquisition of Aquila by GPE, did Aquila consider acquiring Aquila Merchant's generation assets?

A. No. EMW (then Aquila) recognized that location and distance from the service territory would not make ownership practical. I have attached the response to Staff Data Request No. 0299 from Case No. ER-2004-0034 as Schedule KM-r2. The question and response are listed below:

> QUESTION:
> Did MPS or any Aquila entity consider the option of taking over or acquiring the power plant assets that Aquila Merchant once had possession of or had rights to, but chose to sell within the last 12-18 months? If not, why not, and provide any supporting documentation for the decision.
>
> RESPONSE:
> Aquila Networks did review the location and possible use of the facilities to meet the load requirements of our customers, but, except for the Aries plant which is the subject of responses to numerous other data requests, the location and distance from the service territory would not make ownership practical.

Q. Did Great Plains purchase Crossroads with the intention of using it as a regulated Missouri generation plant?

A. No. In Form 425, filed with the SEC on February 8, 2007, GPE included a transcript of a joint webcast call by Great Plains Energy Incorporated, Aquila, Inc. and Black Hills Corporation that on February 7, 2007, Mr. Terry Bassham, Great Plains'

[11] Ibid.

Executive Vice-President and Chief Financial Officer stated that it was Great Plains' intention to "monetize" or sell Crossroads. The relevant portion of this transcript is reflected below:

> **Mike Chesser:** Operator, we'd like to take one more question if we could because you all might expect we have quite a busy schedule ahead of us today.
>
> **Operator:** Michael Lapides of Goldman Sachs.
>
> **Michael Lapides:** Easy one. Mike, Terry, what are your thoughts on the peaking plant, the gas plant that Aquila owns?
>
> **Mike Chesser:** At this stage as you know it is in litigation. And it has been appealed or it has been ruled on and appealed and it's being re-appealed. We have done quite a bit of due diligence around the potential outcomes on that and we have factored that impact into our purchase price.
>
> **Michael Lapides:** I'm thinking not the regulated one but the merchant one.
>
> **Terry Bassham:** Crossroads.
>
> **Michael Lapides:** My apologies for not being –
>
> **Terry Bassham:** That is okay, Michael. As Mike said we looked at (indiscernible) from a Crossroads perspective. We looked at the ability to utilize that or sell it. Our preference would be probably to get value through monetizing it. But if not we've looked at other options as well.

Q. What is the significance of the fact that Great Plains' preference was to sell Crossroads after acquiring Aquila?

A. The significance is because Great Plains intended to sell Crossroads, it included in the amount it paid Aquila's shareholders an amount that it expected to receive from the sale of this asset. The fact that Great Plains did not sell Crossroads, despite being its stated preference, means that like Aquila, it could not find a buyer, or it decided not to sell Crossroads for some other reason.

Q. What are your conclusions concerning the value of Crossroads?

A. Crossroads was a distressed property prior to being transferred to EMW and was never considered by EMW's prior management to provide EMW customers capacity on a permanent basis. The only real solution for GPE was to foist Crossroads and its excessive transmission costs on captive Aquila customers to avoid the difficult reality that Crossroads was unprofitable and unmarketable.

CROSSROADS TRANSMISSION COSTS

Q. What is EMW's position regarding transmission costs related to Crossroads in this rate proceeding?

A. Two EMW witnesses support the inclusion of certain transmission costs relating to Crossroads:

> Mr. Ives testifies on page 23 of his direct testimony "the Company respectfully requests that the full cost of transporting energy from Crossroads to EMW [Evergy Missouri West] customers be included in EMW's cost of service going forward." Throughout his testimony, Mr. Ives identifies several reasons why EMW is petitioning the Commission to reverse itself concerning recovery of Crossroads transmission costs.
>
> Mr. VandeVelde testifies on page 19 of his direct testimony "EMW requests full recovery of the cost of future MISO firm point-to-point transmission path expense to allow EMW customers to continue to benefit from energy being delivered from Crossroads to Missouri." Throughout his testimony, Mr. VandeVelde identifies several reasons why EMW is petitioning the Commission to reverse itself concerning recovery of Crossroads transmission costs.

Q. Does Staff agree with the inclusion of any of EMW's Crossroads transmission costs in EMW's revenue requirement used to set rates?

A. No. Staff excluded all the test year transmission costs for Crossroads in the Accounting Schedules filed with its direct testimony on June 27, 2024. These costs were eliminated consistent with the Commission's treatment of these costs in the 2010 and 2012 Rate Cases.

Q. What is the nature of the transmission service Crossroads requires that EMW witness Mr. Ives discusses at page 15 of his direct testimony?

A. Because Crossroads is not located in the Southwest Power Pool (SPP), but rather in MISO, EMW obtained firm transmission service to transmit power back to western Missouri from this generating facility in Mississippi. In 2009, EMW signed a 20-year transmission agreement with Entergy to provide firm transmission service for Crossroads. Mr. Ives states in his direct testimony that the ". . . transmission costs [are] necessary to support EMW's use of the Crossroads capacity to meet Southwest Power Pool (SPP) requirements and to bring power from Crossroads to the Company's customers."

Q. Is the location of this plant the key point supporting Staff's recommendation to disallow recovery of transmission costs?

A. Yes. The Commission decided in EMW's 2010 Rate Case that Crossroads could be included in rate base but at a substantial reduction in value as long as no transmission costs were included in rates.[12]

The Commission stated at page 90 of its Case No. ER-2010-0356 Order:

> **Ultimate Finding Regarding Prudence of Crossroads**
>
> 262. Considering the costs involved, the fact that this was an affiliate transaction rather than an arms-length transaction, the relative reliability of transmission, the excessive costs of that transmission, the reduced costs for natural gas and the alternative

[12] Commission's Order in Case No. ER-2010-0356, pages 90-91, 98-100 - EFIS #1085.

> supply source, the distance of the power location to the customers served, and the other facts set out above, the Commission finds that the decision not to build two more 105 MW combustion turbines at South Harper was not imprudent. In addition, **the decision to include Crossroads in the generation fleet at an appropriate value was prudent with the exception of the additional transmission expense, when other low-cost options were available. Paying the additional transmission costs required to bring energy all the way from Crossroads and including Crossroads at net book value with no disallowances, is not just and reasonable and is discussed in detail below.**
>
> **Conclusions of Law- Crossroads**
>
> 29. In addition to the valuation, the Commission concludes that but for the location of Crossroads customers would not have to pay the excessive cost of transmission. Therefore, **transmission costs from the Crossroads facility, including any related OSS shall be disallowed from expenses in rates and therefore also not recoverable through GMO's fuel adjustment clause ("FAC").**
>
> **Decision – Crossroads**
>
> The Commission further determines that it is not just and reasonable for GMO customers to pay the excessive cost of transmission from Mississippi and it shall be excluded.
> [Emphasis added.]

Q. What is the current level of transmission costs incurred for Crossroads?

A. For the test year ending June 30, 2023, Crossroads actual transmission costs were $16.7 million. This compares with the level of Crossroads transmission expenses incurred at the time of the 2010 Rate Case at $4.9 million. Starting in 2014, Crossroads transmission costs increased substantially over previous levels, to over $12.9 million. The transmission costs for Crossroads continues to increase.

Q. What caused the dramatic increase in transmission costs?

A. Entergy, who supplies transmission service for Crossroads, joined MISO in December 2013. Entergy's move to MISO caused the substantial increase in transmission costs which have continued to escalate.

Q. In prior rate cases, EMW has requested a "cap" of the disallowance to the amount of transmission in the 2010 Rate Case and full recovery of expense above the cap. In Staff's opinion, should the disallowance for Crossroads' transmission costs be capped at the $4.9 million level?

A. No. In both the 2016 and 2018 EMW rate cases, EMW requested Crossroads transmission expense in the cost of service, less the amount of disallowed transmission cost that was identified in the 2010 and 2012 Rate Cases. Evergy Missouri Metro and EMW, as well as Staff, presented extensive information on actual and projected costs for transmission services in every recent rate case, including the 2010 and 2012 Rate Cases, and the 2016 and 2018 Rate Cases. Those proposals were presented and decided by the Commission and there is no reason to believe the Commission intended the disallowed transmission costs of $4.9 million to be the only amount disallowed in the future. Allowing any amount of transmission expense in the cost of service would imply that that amount is prudent and reasonable.

Q. What amount of transmission costs relating to Crossroads has been removed from this case?

A. Staff removed the entire amount of transmission costs identified for the twelve months ending June 30, 2023 test year of approximately $16.7 million. The transmission costs are primarily charged to FERC Account 565 which represents the vast majority of those costs.

Nevertheless, other accounts contain Crossroads related transmission costs that needed to be adjusted, identified in the following table:

Crossroads Point To Point Expense	$16.1 million
Crossroads MISO Administrative Fees	0.4 million
Crossroads FERC Assessment	0.2 million
Total	$16.7 million

Q. Have all costs relating to Crossroads been removed from the test year?

A. No. All operating costs for Crossroads other than transmission costs and those identified as related to the physical location of the generating facility have been included in EMW's cost of service. Costs associated with operating Crossroads by the City of Clarksdale have been included. Other costs for maintenance of Crossroads have been included in costs for recovery from EMW's customers. Amounts for insurance and property taxes, or its equivalent Payments In-Lieu Of Taxes ("PILOT") payments, have been included as well. Any costs to operate the power plant that would normally be incurred if located in EMW's service area were included in GMO's cost structure.

Q. EMW witness Ives states at page 15 of his direct testimony that "the Commission has also consistently denied recovery of the cost of the firm point-to-point transmission agreements under a FERC-approved tariff to bring the benefits of Crossroads to EMW's customers in western Missouri." Does Staff view the dispute relating to Crossroads as primarily involving a FERC-approved transmission rate issue?

A. No. The dispute with Crossroads transmission costs has nothing to do with FERC authorized and approved transmission tariff rates but the incurrence of transmission costs based on the facility being located outside of EMW's RTO.

Crossroads transmission costs relate only to the location of the generating facility which causes EMW to be charged for the transmission of electricity to serve its customers in western

Missouri. If the Crossroads facility were located in the SPP, no incremental transmission costs would be recognized under network services since SPP allows its members to transmit power throughout its RTO area without incurring additional transmission costs. There would not be an issue regarding transmission costs because those costs would be "zero."

Q. Does that mean transmission service is free?

A. No. EMW pays for network integrated transmission service ("NITS") from SPP. Most of the charges are credited back to EMW since the generating units are primarily on EMW transmission lines within EMW service territory. The cost of these transmission lines is in the cost of service and is primarily paid for by EMW retail customers.

Q. As a merchant plant, was Crossroads geographically located specifically to take advantage of transmission constraints and volatile pricing?

A. Yes, that was the reason it was located in Clarksdale, Mississippi.

In 2005, Staff interviewed Dave Kreimer, Director of Engineering of Aquila Networks. Mr. Kreimer was directly involved with the establishment of Aquila Merchant Services who constructed Crossroads. I have attached the interview notes as Confidential Schedule KM-r3, as verified by Aquila as a response to a Staff Data Request No. 0056.1 in Case No. EO-2005-0156. Of note is his statement concerning the potential Aries II power plant:

** [redacted] **

Q. Did Aquila Merchant have a purchased power agreement with MPS for Aries II?

A. ** [redacted] ** The second "Aries II" was to be the three Siemens 501D turbines purchased by Aquila Merchant and stored prior to being installed by Aquila at South Harper.

<u>LOCATION OF POWER PLANTS</u>

Q. As noted by witnesses Ives and VandeVelde in their direct testimonies, Crossroads is located in Clarksdale, Mississippi. It is not unprecedented in Missouri for recovery of transmission costs related to an out-of-state generating facility to be allowed. Why is Crossroads different?

A. There are many examples of power plants that are located in another state or even outside the service territory of a utility. Evergy Missouri Metro itself has several examples of its power plants located in areas not served by it. Iatan 1 and 2, LaCygne 1 and 2, and Wolf Creek are all examples of generating facilities located outside of the utility's service territory. However, the difference is Evergy Missouri Metro does not incur millions of dollars of transmission costs to benefit from the electricity generated from these power units. While these units may be located in regions outside those served by Evergy Missouri Metro, all the units are within the SPP footprint. None of the units incur any incremental transmission costs to move power generated to Evergy Missouri Metro's customers.

Q. Is it common for a utility to pay for transmission service to receive power from its own generating facilities?

A. No. None of EMW's other generating units and none of Evergy Missouri Metro's power plants incur incremental transmission costs because all those generating units are located within the SPP RTO.

Q. Liberty Utilities' ("Liberty") Plum Point generating unit is an example of a power plant being located in another state where Liberty is able to get this plant's transmission costs in rates. What is Plum Point?

A. Plum Point is a 665 MW coal-fired generating unit located near Osceola, Arkansas that went into commercial operation on September 1, 2010, with combination ownership. Liberty has 50 MW of ownership with the option to purchase another 50 MW, pursuant to a long-term purchased power agreement.

Q. Why does Liberty receive rate treatment for Plum Point transmission costs, when the Commission determined it was not appropriate for Crossroads to receive rate treatment for its transmission costs?

A. There are several reasons why Liberty has successfully obtained rate recovery of Plum Point transmission costs:

- Liberty's ownership share of Plum Point was always intended to be a regulated facility. As such, during the economic decision-making process with regulators and stakeholders, all costs of Plum Point, including its transmission costs, were considered. When Liberty considered investing in Plum Point, it approached the Commission, Staff, and various stakeholders to fully examine the merits and economic consequences of participating in Plum Point. Extensive analysis and review took place before Liberty, and ultimately stakeholders, agreed to Liberty's investment in this base load facility. Ultimately, Liberty and the various stakeholders agreed to a Regulatory Plan in Case No. EO-2005-0263, very similar to the plan parties agreed to with Evergy Missouri Metro's Regulatory Plan (Case No. EO-2005-0329). It was during this extensive evaluation where all the cost estimates, including transmission costs, were considered. Crossroads, as a merchant plant, was never intended to be part of regulated utilities operations. Consequently, there was never an assessment and evaluation by a regulatory body and the various stakeholders that considered Crossroads costs, and especially its transmission costs.

- Crossroads is used very little while Plum Point is a base load unit that generates a significant amount of Liberty's energy needs. Crossroads' limited usage drives up the transmission costs on a per megawatt-hour basis compared to the base load generation of Plum Point. Plum Point's output is simply more critical to Liberty than Crossroads generation.

- Crossroads' transmission costs are substantial as a peaking unit. For base load unit, Plum Point's total transmission costs are significantly less than the transmission cost amounts incurred by Crossroads.

- Plum Point serves customers for each state Liberty operates in, including the state of Arkansas where this generating facility is located.

- Unlike combustion turbine peaking units, Plum Point is a base load unit requiring large amounts of land and water to operate the generating unit. It is far more difficult to find suitable sites for large-scale base load units compared to peaking stations. While it is typical for base load units to be further away from utility service areas, peaking units are generally much closer to customers, and, with the exception of Crossroads, are within the utilities' RTO.

- Liberty was too small of a utility to be able to build a base load unit like Plum Point or Iatan 2 on its own and, therefore, had to partner with others to participate in these large scale generating units. With such a small share of Plum Point, Liberty was at the mercy of where these plants are built such as where Evergy Metro's Iatan 1 and 2 power plants and the Plum Point station are located. Both Iatan and Plum Point facilities are well outside the service areas of Liberty. But those circumstances were well known at the time of decisional-prudence reviews by regulators and taken into consideration. There were no such decisional reviews conducted for Crossroads, as that power plant was developed as a merchant plant and did not have to go through the scrutiny of state regulation.

ADDITIONAL REBUTTAL TO IVES TESTIMONY

Q. On page 15 of his direct testimony, Mr. Ives notes that the Commission placed Crossroads at a reduced value of $61.8 million contrary to EMW's $104 million request. Have customers benefited from Crossroads at its reduced value?

A. When the Commission assessed all the evidence in the 2010 Rate Case, and again in the 2012 Rate Case, it determined that EMW's utilization of Crossroads was reasonable and prudent *only* if the plant value was substantially reduced and no rate recovery for transmission costs was included. The Commission recognized the fact GPE acquired this generating facility at a much lesser value than what was on the books of Aquila Merchant, and reflected such in its original rate decision in 2010 and again in 2012. Thus, the inclusion of Crossroads was not a "bargain" price, but reflected a fair market price a willing buyer would pay for the Crossroads generating units.

Q. On page 18 of his direct testimony, Mr. Ives claims that EMW has realized a $52 million impact from the "rate base disallowance." Do you agree with this claim?

A. No. GPE did not pay net book value for Crossroads, which is what this claim is based upon. GPE did not purchase Crossroads for the $117 million as listed in the 2007 SEC filing, or the net book value requested in the 2010 Rate Case of $104 million. The Commission correctly found that a valuation based on market arms-length transactions of similar generating facilities was the price GPE paid for Crossroads at a value of $61.8 million

The Commission found the following on page 94 of its Report and Order:

> 271. When conducting its due diligence review of Aquila's assets for determining its offer price for Aquila, GPE would have considered the transmission constraints and other problems associated with Crossroads. [footnote omitted] It is incomprehensible that GPE would pay book value for generating facilities in Mississippi to serve retail customers in and about Kansas City, Missouri. And, it is a virtual

> certainty that GPE management was able to negotiate a price for Aquila that considered the distressed nature of Crossroads as a merchant plant which Aquila Merchant was unable to sell despite trying for several years. Further, it is equally likely that GPE was in as good a position to negotiate a price for Crossroads as AmerenUE was when it negotiated the purchases of Raccoon Creek and Goose Creek, both located in Illinois, from Aquila Merchant in 2006.

Q. On pages 16-17 of his direct testimony, Mr. Ives urges the Commission to "stop visiting the sins of Aquila upon successor, Evergy Missouri West." How do you respond?

A. First, GPE had the ultimate authority and made the decision to include Crossroads in EMW's generation fleet, not Aquila management. As I explain in this testimony, Aquila management intended to continue development of the ** [redacted] **

Second, the impact of Aquila and GPE decision-making for more than two decades go far beyond just "the sins of Aquila." Utilizing Crossroads through 2028 and simply abandoning it as EMW is now planning to do will make EMW's customers pay even more for whatever replacement capacity is built. In my opinion, standalone Aquila would never have utilized Crossroads on a permanent basis to provide service to Missouri customers. Crossroads was constructed in 2002, sat idle for several years, and was only utilized by Aquila for Missouri customers for a short term 2005 summer PPA when there were few alternatives. It is incomprehensible that Aquila, after the February 2007 IRP, "out of the blue" made its own decision to use Crossroads, a distressed, transmission constrained merchant plant 525 miles away to serve Missouri customers. GPE (now Evergy), not Aquila, made these decisions, and current management has done nothing to prepare for replacing Crossroads capacity. It is now

EMW's responsibility to solve these problems prospectively and hold customers harmless from EMW's poor decision making.

Q. On page 20 of his direct testimony, Mr. Ives notes increased costs of borrowing for EMW as compared to Evergy Metro and Evergy Kansas Central. How do you respond?

A. First, the increased cost of borrowing is not absorbed by EMW, it is passed on its customers. Second, if Mr. Ives is now linking increased costs of debt to GPE's decision to include Crossroads in regulated rate base, then this is yet another detriment of GPE's decision to include a distressed, transmission constrained merchant plant 525 miles away to serve Missouri customers.

STAFF RECOMMENDATION ON CROSSROADS TRANSMISSION

Q. What is Staff's recommendation on Crossroads transmission?

A. Staff recommends the Commission maintain its decisions in the 2010 and 2012 rate cases and deny recovery of Crossroads transmission costs in rates. EMW has agreed to the rate base valuation of Crossroads determined by the Commission in the 2010 and 2012 rate cases, and both the Company and Staff have made the necessary adjustments to reflect the proper levels for plant and reserve.

Q. Does Staff have a recommendation if the Commission allows any transmission costs in rates for Crossroads?

A. Yes. If the Commission were to include any level of transmission costs for Crossroads, as EMW has suggested in this proceeding, then Staff recommends the Commission further discount the rate base value of this plant, by reducing the value of Crossroads from the levels found in the 2010 and 2012 rate cases to at least the level identified by Great Plains and

Aquila in 2007. The issue of transmission costs and the valuation of the generating plant are interrelated - one decision affects the other.

Q. Does Staff have a recommendation as to how to determine the rate base value should the Commission allow transmission costs for Crossroads?

A. Yes. Staff recommends an amount determined in a Joint Proxy Statement issued by Great Plains Energy and Aquila in August 2007 that found a value of $51.6 million for Crossroads to be appropriate.[13] This same value was also communicated to each company's shareholders in May 2007, so it is logical that Great Plains paid no more than this $51.6 million amount when it determined the appropriate and fair price to pay for Aquila as a whole in July 2008.

REPLACEMENT OF CROSSROADS CAPACITY

Q. If EMW's intention was to abandon, dismantle and scrap Crossroads at the expiration of the transmission agreement, should it have been preparing to replace the capacity?

A. Yes, absolutely. Other than increased transmission costs due to Entergy's move to MISO in 2013, the only change that has occurred is senior management. Since the inclusion of Crossroads in the 2010 Rate Case, the first indication that Crossroads would be abandoned was February 2, 2024 with the filing of EMW direct testimony in this rate case. If EMW is going to abandon Crossroads so far in advance of its projected retirement date, EMW has failed to take advantage of opportunities to replace the capacity since the 2010 Rate Case.

Q. When EMW included Crossroads in its generating fleet, do you believe Staff or the Commission thought it would be on a temporary basis?

[13] August 27, 2007 Joint Proxy/ Prospectus issued by Great Plains Energy and Aquila - page 194.

A. No. Abandoning Crossroads would be without precedent. Greenwood is comprised of GE 7B turbines, similar to Crossroads 7EA turbines. The current projected retirement date of Greenwood is 2035,[14] which would mean Greenwood 1 would be in service for 60 years. The current projected retirement date of Crossroads is 2047, for a service life of 45 years. If abandoned, EMW customers would be deprived of at least 18 years of useful life of Crossroads, or 33 years of useful life if the service life of Greenwood 1 is assumed.

Q. What capacity opportunities has EMW failed to take advantage of?

A. Staff is aware of at least three missed opportunities since 2010 to replace Crossroads firm dispatchable capacity, which I will discuss below:

- Merchant portion of Jeffrey Energy Center ("JEC")
- Dogwood
- Sibley 3

Q. What is the merchant portion of JEC?

A. JEC is a three-unit coal-fired baseload generating facility totaling 2,186 MW built between 1978 and 1983. EMW has owned 8% of plant from its inception with the balance either leased or owned by Evergy Kansas Central, so the addition of the 8% formerly leased portion owned by Evergy Kansas Central (discussed below) would be a natural fit.

The merchant portion of Jeffrey became available when the Kansas Corporation Commission ("KCC") rejected its inclusion in Evergy Kansas Central ("EKC") rates, as noted in the 2019 Evergy, Inc. 10-K:

> Evergy Kansas Central Fuel Recovery Mechanism Recovery of 8% of Jeffrey Energy Center (JEC)
>
> As part of the non-unanimous stipulation and agreement approved by the KCC in September 2018 in Evergy Kansas Central's 2018 rate case, it was agreed that in the event that Evergy Kansas Central

[14] Direct testimony of EMW witness John Spanos, Case No. ER-2022-0130.

purchased the 8% ownership interest in JEC that it had historically leased from a trust it would be entitled to file a request with the KCC to recover operating and maintenance and capital costs associated with the 8% ownership through its fuel recovery mechanism as these amounts were not reflected in Evergy Kansas Central's rates established as part of the 2018 rate case.

In the first quarter of 2019, Evergy Kansas Central entered into an agreement with the trust to extend its lease of the 8% interest in JEC from the previous expiration date of January 2019 to August 2019 and to then purchase the 8% ownership interest from the trust at the time the lease expired. Pursuant to the agreement, Evergy Kansas Central's purchase of the 8% ownership interest of JEC closed in August 2019.

In March 2019, Evergy Kansas Central filed an application with the KCC to request recovery through its fuel recovery mechanism of deferred lease expense and operating and maintenance expense incurred during the lease extension and future operating and maintenance expense subsequent to the purchase of the 8% ownership interest in JEC. In September 2019, the KCC issued an order finding that the lease extension and subsequent purchase of the 8% ownership interest by Evergy Kansas Central were not prudent and disallowed the recovery from retail customers of all associated capital and operating costs that were incurred during the lease extension and will be incurred in the future. The KCC order also provided that Evergy Kansas Central be allowed to retain any wholesale electricity sales associated with the 8% ownership interest of JEC.

As a result of the KCC order in September 2019, Evergy and Evergy Kansas Central recorded an $8.4 million pre-tax loss to operating and maintenance expense in their consolidated statements of income and comprehensive income in 2019 associated with the write-off of a regulatory asset for the deferred lease expense and other operating expenses.

Q. ** [redacted] **

A. ** [redacted]

[redacted] **

Q. Is the merchant portion of EMW still available?

A. No. EKC sought to include the merchant portion of JEC in its rate base in Docket No. 23-EKCE-775-RTS before the KCC. EKC and the other parties to that rate case agreed to a Unanimous Settlement Agreement dated September 29, 2023 and approved by the KCC on November 21, 2023. In that agreement, the parties agreed that the merchant portion of JEC would be included in rate base and reflected in EKC's revenue requirement.

Q. Please describe missed opportunities to purchase capacity at Dogwood.

A. Starting in 2012, Kelson Energy, who wholly owned Dogwood, began selling ownership portions of the plant to interested parties. Independence Power & Light ("IPL"), a municipal utility serving the City of Independence, Missouri, bought 75 MW (12.3%) of Dogwood on April 1, 2012 for $45.8 million, or $611.80/KW. The offer to IPL was up to 100 MW of Dogwood capacity. The Board of Public Utilities ("BPU"), a municipal utility serving Wyandotte and Johnson Counties in Kansas bought 110 MW (17%) of Dogwood on December 18, 2012 for approximately $75 million, or approximately $681.81/KW. Kansas Municipal Energy Agency ("KMEA") bought 62 MW in 2017. The Kansas Power Pool bought 42 MW in 2012 and another 20 MW in 2015 for a total of 10.3%. Missouri Joint Municipal Electric Utility Commission ("MJMEUC") bought an aggregate share of 16.4% starting in 2012. ** [redacted]

[redacted] **

Q. These prices are much higher than the Crossroads valuation of $205.88/kW. Why would EMW have considered buying a portion of Dogwood?

A. Firm, dispatchable, reliable capacity is not cheap. Kelson Energy purchased Aries (now Dogwood) from Calpine post-bankruptcy for $233.6 million, or $395.93/kW in December 2006.[15] Aquila, Inc. bid in the bankruptcy auction but was not the winning bidder. EMW recently purchased 143 MW of the facility for approximately ** [redacted]. ** Dogwood has many advantages over comparable peaking facilities:

- It is served by two gas pipelines with firm transportation: Southern Star Central Gas Pipeline ("SSCG") and the Panhandle Eastern Pipeline ("PEPL");
- Dogwood's average heat rate from 2018-2022 was 7,725 Btu/kWh, compared to the average heat rate for the EMW combustion turbine fleet in 2022 of approximately 14,000 Btu/kWh, which means Dogwood is almost twice as efficient when in full combined-cycle operation;
- The plant is adjacent to EMW's substation; and
- The plant is in the SPP footprint and does not incur similar firm transmission costs as Crossroads.

Like the JEC merchant facility, the additional ** [redacted] ** purchased by MJMEUC could have been just as easily purchased by EMW considering EMW's plans to abandon Crossroads.

Q. How is Sibley 3 a missed opportunity?

A. Sibley 3 was a 420 MW coal-fired generation unit constructed in 1969. ** [redacted]

[15] At the time it was purchased out of bankruptcy, Aries (now Dogwood) was rated at 590 MW. It is now rated at 643 MW summer rated capacity.

[redacted] **

Q. Is it your opinion the retirement of Sibley 3 was imprudent?

A. No. The continued operation of Sibley 3 was not realistic given the realities of tightening environmental restrictions and retirements of coal-fired units across the industry. But losing both Sibley 3 and Crossroads within the same decade will put EMW in an even shorter capacity position.

<u>FUTURE OF CROSSROADS</u>

Q. If EMW chooses to not renew the transmission service enabling Crossroads to be used for Missouri capacity, what options does EWM have, other than scrapping the plant for salvage?

A. EMW could sell the plant and use the proceeds to purchase or construct capacity, or EMW could dismantle the plant and move it to an appropriate site within SPP. I will discuss these options in detail below.

Q. Has EMW tried to sell Crossroads?

A. Yes. ** [redacted] **[16] In the nearer term, since 2016, EMW has not actively marketed Crossroads

[16] Response to Staff Data Request No. 0180, Case No. ER-2009-0090.

but has surveyed the marketplace to understand whether a sale of the Crossroads assets would benefit EMW or its customers.[17]

Q. If EMW chooses to abandon and dismantle Crossroads, can it be relocated?

A. Yes. Turbines, generators, transformers, and related equipment are heavy pieces of machinery requiring special transportation and hauling, but they are moved from the manufacturer and from different locations. Moving such equipment in the electric industry is not particularly unique. I have identified several examples of the actual or planned relocation of generating facilities:

- Greenwood turbine potential relocation
- Offer from Rolls Royce to Aquila for turbines in Houston and Germany
- South Harper equipment move from Ralph Green and Richards-Gebauer Air Station
- ** [redacted] **
- Turbine relocation from Grand Avenue Station in Kansas City to Lake Road in St. Joseph
- ** [redacted] **

Q. What is the Greenwood turbine potential relocation?

A. Greenwood is a four-unit site with four GE 7B dual fuel combustion turbines and associated equipment. EMW (then MPS) initially had a sale-leaseback agreement after the units were constructed starting in 1975. The lease agreement required MPS to disconnect and prepare for shipping, at its expense, and ship the generating units at the end of the lease to a destination designated by the owner of Greenwood, which at that time was an unaffiliated entity.

[17] Response to Staff Data Request No. 0428, Case No. ER-2024-0189.

Below is the relevant language from the lease agreement for Greenwood 1 and 2:

SECTION 16. DISPOSITION OF UNITS.

> (a) Condition Upon Return. Except in the case of Units with respect to which a Casualty Occurrence has occurred, Lessee will return each Unit to Lessor at the end of the term of this Restated Lease for such Unit by delivering such Unit to Lessor at a place of storage selected by Lessee pursuant to Section 16(b)(i) hereof or at such other place as may be designated by Lessor for delivery thereof in accordance with the provisions of this Section 16. At the time of such return such Unit shall be free and clear of all liens and rights of others (except the rights of Lessor) and shall be in the condition and repair required to be maintained for such Unit hereunder. Delivery of any Unit to Lessor at a place of storage shall be deemed complete as soon as such Unit shall be physically located in such place and Lessee shall have given Lessor at least five business days' notice of the return thereof, specifying the place of storage.
>
> (b) Units Located on Lessee's Premises. If any Unit to be so returned is located on the Lessee's premises within the State of Missouri, at the end of the term of this Restated Lease for such Unit, Lessee will promptly at its expense and risk completely disconnect such Unit from Lessee's system and, to the extent requested in writing by Lessor, will (i) provide free storage for such Unit for a period of not exceeding ninety days on Lessee's premises within the State of Missouri selected by Lessee for the purpose, (ii) at its expense disassemble and prepare such Unit for shipment, or permit persons designated by Lessor to do so, and (iii) at Lessor's expense deliver such disassembled Unit to a carrier for shipment at any point of shipment reasonable designated by Lessor, provided that Lessee shall not be liable for any damage or loss to such Unit in connection with such storage, disassemble, preparation for shipment or delivery except damages or loss cause by the willful misconduct of Lessee, its employees or its agents.

Q. Did EMW (then MPS) plan on moving the Greenwood turbines?

A. No. MPS did not evaluate the cost or schedule. It did hire an engineering firm for an appraisal as MPS sought to transfer the turbines to an affiliate and continue to lease instead of own them. I have attached the engineering report as Schedule KM-r5.[18]

[18] Response to Staff Data Request No. 0236, Case No. ER-2001-672.

The appraisal is noteworthy as it did note that the market value of used turbines was inflated due to the shortage of generating capacity at the time (1999) and used turbine suppliers were procuring equipment as far flung as Korea. The engineer's findings would suggest that moving and reinstalling used equipment, albeit expensive, can be done successfully and is not uncommon.

Q. What is the Rolls-Royce turbine offer?

A. In 2004, Rolls-Royce Power Ventures (Rolls-Royce) offered to sell EMW (then Aquila) two new Siemens 501D5A natural gas-fired turbines that were manufactured in 2001 and placed in storage in Houston and Germany.[19] Although transportation costs would be significant, this is yet another example of turbines potentially being moved long distances.

Q. What is the South Harper equipment relocation?

A. Aquila Merchant owned three Siemens 501D 105 MW turbines that were being stored at MPS's Ralph Green Generating Facility and at the former Richards-Gebauer Air Station near Belton, Missouri. Aquila Merchant transferred those turbines to Aquila to be constructed at South Harper. This required a move of roughly 18 miles.

Q. What is the ** [redacted] ? **

A. ** [redacted][20] [redacted]

[19] Response to Staff Data Request No. 0005, Case No. EO-2005-0156.
[20] Response to Staff Data Request No. 0483, Case No. ER-2005-0436.

[redacted] **

Q. What is the Grand Avenue Station turbine relocation?

A. Lake Road Turbine 3 was relocated from Grand Avenue Station in downtown Kansas City and installed at Lake Road in St. Joseph, Missouri. The installation was complete in 1963 and its accredited net capacity is 7.3 MW.

Q. What is the ** [redacted] ?**

A. ** [redacted] **

Q. What are the potential sites where these turbines could be relocated and reinstalled?

A. Staff has identified several sites that have been explored by EMW or its predecessor utilities in the distant past:

- Sedalia, Missouri
- South Harper
- ** [redacted] **
- ** [redacted] **
- ** [redacted] **
- ** [redacted] **

Q. Please describe the Sedalia location.

A. The Sedalia location was a planned $152 million 300 MW generating station publicly announced on April 18, 2007. ** [redacted][21] [redacted] **

Q. Does Staff have any other information concerning the Sedalia site?

A. Staff received a document titled ** [redacted] ** on April 12, 2007 from Denny Williams of Aquila. I have attached this document as Confidential Schedule KM-r8. The document lists several aspects of the project:

**

- [redacted]
- [redacted]
- [redacted]
- [redacted]

**

Q. Has EMW invested any money into developing this site?

[21] Attached to EMW witness Burton Crawford Rebuttal Testimony, Case No. ER-2010-0356.

A. Yes. EMW has invested at least $2 million in engineering, preliminary land purchases, and legal costs. This has never been included in the cost of service as is recorded to Account 105 – Plant Held for Future Use.[22]

EMW has acquired 327 acres of property in Sedalia that is buffered by 236 acres of land owned by the City of Sedalia.[23] It is interesting to note that 123 of the acres was purchased by Aquila, Inc. prior to being acquired by GPE, which would indicate Aquila was acting in earnest to develop the site. The remaining acreage was purchased as KCPL-GMO, indicating it was purchased 2018 or earlier.

Q. The document you attached refers to a ** [redacted] ** that would have to be built to supply natural gas to the facility. Is it normal to have to construct miles of gas infrastructure to a generating station?

A. It is not uncommon, and EMW has acted as constructor and owner of that infrastructure. In 1996, EMW (then MPS) constructed a 5-mile 12-inch diameter natural gas pipeline to connect the Greenwood Generating Station to an interconnection with Williams Natural Gas Company ("WNG"). This pipeline was integral to the conversion of Greenwood to dual-fuel capability. MPS constructed the pipeline due to Spire Missouri West's (then Missouri Gas Energy's) labor dispute and inability to construct the pipeline in a timely fashion. MPS subsequently sold the pipeline to WNG as it desired to avoid additional investment and operations expense associated with the pipeline. At that time, MPS had some firm and interruptible transportation for natural gas. The Commission authorized the sale in Case No. GM-97-435.

[22] Source: Staff Data Request No. 0246, Case No. ER-2009-0090.
[23] Publicly available real estate parcel data, Pettis County, Missouri.

Q. The Sedalia site would also have ** [redacted] **

A. Fuel Oil (#2 Diesel) and dual fuel capability partially or completely obviates the need for firm natural gas transportation capacity.[24] Although the initial investment and inventory balances are expensive, firm natural gas capacity can be even more expensive.

Q. Please describe the South Harper location.

A. South Harper is a three-unit 315 MW natural gas generating facility. The Commission discussed South Harper at length in the 2010 Report and Order that I quoted earlier in this testimony. South Harper has three Siemens 501D turbines and can accommodate three additional units for a total of six. It is served by both the Southern Star Central Gas Pipeline and Panhandle Eastern Pipeline.

Q. Has EMW estimated the cost of expanding pipeline capacity to serve additional units at South Harper?

A. Yes. EMW obtained an "informal" estimate in 2012 of additional capacity, depending on the nature of the service and the supplier of a range of ** [redacted] **[25] on an annual basis. These were informal estimates that were 12 years ago; it is unknown to Staff what an estimate would be today.

Q. Please describe the ** [redacted] ** location.

A. This location was identified in the response to Staff Data Request No. 0038 in Case No. EO-2005-0156. This case was initiated by EMW (then Aquila) to transfer three Siemens 501D 105 MW turbines from Aquila Equipment, LLC an unregulated Aquila, Inc.

[24] EMW witness WM. Edward Blunk Surrebuttal testimony, Case No. ER-2012-0175.
[25] EMW witness WM. Edward Blunk Direct testimony, Case No. ER-2012-0175.

subsidiary to be installed at South Harper. The turbines were under control of Aquila Merchant prior to the filing of the transfer case. Aquila Merchant had attempted to market these turbines to Evergy Metro (then KCPL). ** [redacted] **

Q. Please describe the ** [redacted] ** location.

A. This location was identified in a November 14, 2003 meeting with Terry Hedrick, then Aquila (MPS) Generation Services Manager and Denny Williams who worked in the Aquila Regulatory affairs department. I have attached notes from the meeting that were verified in response to Staff Data Request No. 0616.1, Case No. ER-2004-0034 as Confidential Schedule KM-r10. The relevant portion of the notes identify the site:

> ** [redacted]
>
> [redacted]

[redacted] **

Q. Please describe the ** [redacted] ** location.

A. ** [redacted] **

Q. Please describe the ** [redacted] ** location.

A. ** [redacted][26] [redacted]

[26] EMW witness Burton Crawford Rebuttal Testimony, Case No. ER-2010-0356.

[redacted] **

Q. If Crossroads is dismantled and relocated, who should pay for the cost?

A. That would depend on the magnitude of the expenditures and the analyses, facts, and circumstances to be evaluated in the near future. At this time, Staff is unaware of any feasibility study, although from the examples I have given it seems feasible, albeit with substantial cost. There is a strong argument that EMW should be responsible for the costs given the fact that Crossroads was transferred to EMW by GPE with the knowledge that transmission would be a significant barrier given Crossroads' location in Mississippi. Certainly, given the economic impact of $16.7 million of transmission expense per year, a relocation would seem warranted.

Q. Can you summarize your rebuttal testimony concerning Crossroads?

A. The Commission correctly found that Crossroads transmission should not be recovered through the cost of service, and the Commission should reaffirm that finding. Crossroads was built as a merchant plant in Mississippi, 525 miles away from EMW. Crossroads was never intended to provide EMW customers capacity on a permanent basis. Crossroads was a distressed property prior to being transferred to EMW and was never considered by EMW's prior management to provide EMW customers capacity on a permanent basis. If EMW's intention was to dismantle and scrap Crossroads at the expiration of the transmission agreement, it should have been preparing to replace the capacity and has failed to take advantage of opportunities to replace the capacity since the 2012 Rate Case. If EMW chooses to not renew the transmission service enabling Crossroads capacity, EMW has options to replace the capacity. EMW could also dismantle and relocate the plant.

REGULATORY LAG

Q. Please describe the concept of “regulatory lag”.

A. Regulatory lag is the period of time that elapses between the time of an event and when its related consequences occur and the time the event and its related consequences are reflected in the utility’s rates.

Q. How does EMW seek to address regulatory lag concerns in this proceeding?

A. EMW is seeking a storm restoration expense reserve, an injuries and damages reserve, a cyber security tracker, and a revenue tracker specifically related to the transition to time-of-use (“TOU”) rates.

Q. Are there public policy benefits associated with the existence of regulatory lag as part of cost of service rate regulation?

A. Yes. Utilities in Missouri have been granted exclusive rights to provide their services within their designated service territories, allowing them to act as monopolies free from competition. Regulatory lag creates the "quasi-competitive environment" for utilities, similar to the environment in which competitive firms operate. Without trackers and other types of single-issue ratemaking mechanisms to rely upon, utility managers have a strong incentive to keep costs as low as possible once rates are set to maintain their earnings as close to a reasonable return as possible.

This is the same incentive encountered by any manager of a business who strives to operate the business more efficiently and profitably. Just as competitive firms cannot raise prices of their goods and services at will without considering the prices of their competitors, regulatory lag places this same constraint on utilities. Due to the existence of regulatory lag, utility managers must work under the constraint of a "fixed price" or regulatory lag for a period of time.

The existence of this fixed price incentive, or regulatory lag incentive, causes utility managers to work like managers of competitive businesses. Utility managers working with regulatory lag, much like managers of competitive businesses working with fixed prices of goods and services, seek to find ways to operate the business more efficiently to counteract expense or rate base increases or potential revenue decreases during the period of time of when prices are fixed, or regulatory lag. Conversely, utilities benefit from regulatory lag when expenses or rate base decrease or when revenues increase while rates remain unchanged. This is exactly why regulatory lag is a critical ingredient in cost of service rate regulation.

Q. In his direct testimony, EMW witness Ives identifies security costs, storm recovery expenses, injuries and damages as examples of costs that have increased in recent years, and that these expenses have impacted the Company’s ability to earn returns reasonably close to returns authorized by this Commission. Do you agree?

A. No. While in Missouri actual historical costs are used as the starting point for determining a utility’s future cost to serve its retail customers, those historical costs are normalized and annualized when appropriate to reflect the most current information available. Mr. Ives does not specifically identify any cost decreases that can and do occur over time to offset cost increases.

Q. Are there any single-issue ratemaking mechanisms available to EMW to reduce regulatory lag?

A. There are several mechanisms that EMW have used or are available for them to use to reduce its regulatory lag:

- Fuel Adjustment Clause ("FAC")
- Missouri Energy Efficiency Investment Act ("MEEIA") surcharge
- Renewable Energy Standard Rate Adjustment Mechanism ("RESRAM")
- Environmental Cost Recovery Mechanism ("ECRM")
- Plant in Service Accounting ("PISA") authorized by SB 564
- Securitization authorized by SB 734
- Property Tax Tracker authorized by SB 745

These mechanisms are independent of any other trackers authorized in the regulatory process such as pension and OPEB trackers and other utility specific deferrals.

Q. What conclusions should be drawn from your testimony on regulatory lag?

A. EMW has presented a very limited and one-sided analysis respecting its view of regulatory lag in its direct testimony. EMW points out all the costs that have increased since their last rate case, but do not mention any cost reductions that have occurred since the rates determined in EMW's 2022 rate cases have been in effect or any cost reductions or revenue increases that will occur in the near future.

Q. Does that conclude your rebuttal testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

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-2024-0189

AFFIDAVIT OF KEITH MAJORS

STATE OF MISSOURI)
) ss.
COUNTY OF Jackson)

COMES NOW KEITH MAJORS and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Rebuttal Testimony of Keith Majors*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

Keith Majors
KEITH MAJORS

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this 5th day of August 2024.

CHERYL LEVERETTE
MY COMMISSION EXPIRES 9-7-2027
NOTARY SEAL
#01404338
JACKSON COUNTY
NOTARY PUBLIC, STATE OF MISSOURI

Cheryl Leverette
Notary Public