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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2024-0189

SURREBUTTAL TESTIMONY

OF

DARRIN R. IVES

ON BEHALF OF

EVERGY MISSOURI WEST

Kansas City, Missouri

September 2024

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1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **DARRIN R. IVES**

4 **CASE No. ER-2024-0189**

5 **I. INTRODUCTION**

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

7 A: My name is Darrin R. Ives. My business address is 1200 Main, Kansas City, Missouri
8 64105.

9 **Q: Are you the same Darrin R. Ives who submitted direct testimony on February 2, 2024**
10 **and rebuttal testimony on August 6, 2024?**

11 A: Yes.

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

13 A: I am testifying on behalf of Evergy Missouri West, Inc. d/b/a Evergy Missouri West
14 (“EMW” or the “Company”).

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

16 A: The purpose of my surrebuttal testimony is to respond to various witnesses from the
17 Missouri Public Service Commission Staff (“Staff”) and the Office of Public Counsel
18 (“OPC”). Specifically, I respond to the following:

Topic	Witness
Response to Public Hearings	Lisa Kremer (OPC)
Cost Tracking Mechanisms Policy and Regulatory Lag	Lyons, Karen (Staff) Majors, Keith (Staff)
Fuel Adjustment Charge Sharing	Lena Mantle (OPC)
Crossroads	Keith Majors (Staff) Lena Mantle (OPC)

1 Please note that the Company has attempted to address all substantive issues raised by Staff
2 and OPC or other parties which the Company contests. If the Company inadvertently failed
3 to address an issue raised by any party, the absence of a response does not constitute
4 agreement by the Company with the party, and the Company may respond on the topic at
5 hearing.

6 II. RESPONSE TO PUBLIC HEARINGS

7 **Q: OPC witness Ms. Kremer expressed her disappointment in your response to a**
8 **customer question at a local public hearing. What is your initial response to her**
9 **testimony?**

10 A: Fundamentally, Ms. Kremer's comments regarding my responses to customers during a
11 local public hearing question and answer ("Q&A") session are simply out of place in this
12 forum. Not only are they not responsive to any direct testimony in this case but, as I
13 understand it, the Q&A sessions are intended to be an informal exchange with customers.
14 Consequently, during the Q&A sessions, no one is sworn in, there is no record created and
15 it is outside the hearing of the commissioners.

16 **Q: Specifically, OPC witness Ms. Kremer took issue with your response to a customer**
17 **question expressing concerns with Time of Use ("TOU") rates at a local public**
18 **hearing and suggested that your responses "bordered on the inappropriate."¹ What**
19 **is your response?**

20 A: Ms. Kremer has provided no basis for her allegation that my responses were inappropriate.
21 In responding to questions, I did my best to offer a substantive explanation of the rationale
22 behind the implementation of TOU rates, offering on the spot customer service support to

¹ Kremmer Rebuttal, at 7.

1 find the best rate for that customer and then, mirroring the responses both Staff and OPC
2 gave, encouraged customers to voice their opinions directly to the Commission during the
3 appropriate portion of the hearing.

4 There were obviously several other points of discussion and more details that I
5 responded to customers with over the local public hearings than identified by Ms. Kremer,
6 however, I recognize that recounting our recollection of customer Q&A at a public hearing
7 in surrebuttal testimony does not advance this case or provide reliable testimony helpful to
8 the Commission in resolving the matters before it.

9 **Q: What is your response to Ms. Kremer’s assertion that your comments “bordered on**
10 **the inappropriate”?**

11 A: I do not have a substantive response to that as Ms. Kremer has provided no basis as a
12 foundation for that claim. Again, my responses to customers offered both substantive
13 explanation and also mirrored the responses both Staff and OPC gave during the Q&A
14 session encouraging customers to voice their opinions directly to the Commission during
15 the appropriate portion of the hearing. Of course I am personally bothered by Ms. Kremer’s
16 attack but, professionally, I am confident in the way, I, at the local public hearings, and our
17 Evergy team, more broadly, has handled the very big job of educating customers about the
18 new rate options. As with any spontaneous question and answer session, I am sure we
19 could all take notes and critique the answers given by others. Fortunately, that’s not the
20 way the process was designed nor how it is, or at least should be, carried out.

1 **III. TRACKING MECHANISM POLICY AND REGULATORY LAG**

2 **Q: What is Staff’s recommendation regarding the Company’s proposed tracking**
3 **mechanisms?**

4 A: Staff witness Karen Lyons opposes EMW’s proposed Critical Infrastructure Program
5 (“CIP”) and Cyber Security expense, Injuries and Damages, Storm Reserve and TOU
6 trackers citing various regulatory and ratemaking policy grounds. Staff witness Keith
7 Majors supports Ms. Lyons’ testimony. Staff witness Sarah Lange also addresses the
8 Company’s proposed trackers in her rebuttal testimony; Company witness Ron Klote
9 responds to Ms. Lange in his surrebuttal testimony and also addresses the appropriateness
10 of the CIP and Cyber Security expense tracker and Storm and Injuries and Damages
11 Reserves in his surrebuttal testimony.

12 **Q: What is your response to Ms. Lyon’s assertion that the Company’s proposal “places**
13 **all risks on EMW’s ratepayers”?**²

14 A: I disagree. This is not a game where one party loses and the other party gains as Staff
15 attempts to have the Commission believe. The Company’s and its customers’ interests are
16 fully aligned – rates should be cost-based, the Company should be afforded the opportunity
17 to earn its allowed return, and, as a result, the financial health of the Company will be
18 maintained to benefit customers through continued access to capital on competitive terms.
19 The proposed CIP and Cyber Security expense and TOU trackers neither advantage nor
20 disadvantage either the Company or customers. Similarly, the establishment and use of
21 storm and injuries and damages reserves create no advantage or disadvantage and the
22 reserves will be trued up and adjusted over time based upon actual expenses. The trackers

² Karen Lyons Rebuttal, at 3.

1 and establishment of reserves would "protect both the utility and its customers from over-
2 or-under-recovery in rates of these expenses due to erroneous estimates," the very
3 circumstance when Ms. Lyons herself would find a tracker appropriate.³ Ms. Lyons
4 acknowledges that trackers are appropriate for "new expense for which they have little or
5 no history" or volatile expenses "for which accurate estimation is difficult."⁴ As many
6 Company witnesses have fully explained and supported, the newly imposed TOU rates
7 have "little or no history" and CIP and Cyber Security expenses are outside of the
8 Company's control making "accurate estimation... difficult." Ms. Lyons attempts to
9 distinguish these categories of expenses in order to advocate holding the Company solely
10 responsible for these new and volatile expenses, claiming that this will benefit customers.
11 Trackers are designed to help mitigate volatility for a utility and mitigation of volatility is
12 a customer benefit. As described, there is no way to predict if the Company will under or
13 over recover in these circumstances and that uncertainty increases the Company's business
14 and regulatory risk which is detrimental to the Company's financial health and, in turn, to
15 its customers.

16 **Q: Ms. Lyon's testifies that the use of trackers is "rare."⁴ Do you agree?**

17 A: No. As both Company witness Ann Bulkley and I have testified throughout this
18 proceeding, the use of trackers is not "rare" in cases where the Company's business and
19 regulatory risk is higher than the average risk of similar utilities.⁵

³ Karen Lyons Rebuttal, at 4.

⁴ Karen Lyons Rebuttal, at 2.

⁵ See, e.g., Ann Bulkley Direct, at 63.

1 **Q: Please Elaborate.**

2 A: Ms. Lyons' and Mr. Major's generic opposition to "the excessive use" of trackers on the
3 basis that they eliminate incentives for the utility to control costs between rate cases misses
4 the mark. The Company has not proposed an excessive number of trackers, nor has it
5 proposed trackers for "normal cost of service items."⁶ While it is reasonable to expect a
6 utility to bear the risks associated with prudent financial management, asking the Company
7 to bear additional risk for which it has no control is not advisable. That is clearly the case
8 with both TOU and CIP and Cybersecurity. It is abundantly clear that there is nothing
9 "normal" about CIP and Cybersecurity issues and expenses that have become prominent
10 only in recent years.

11 Both Ms. Lyons and Mr. Majors disregard the facts surrounding the specific
12 trackers proposed by the Company. These trackers do not eliminate the Company's
13 incentives to operate efficiently or create an opportunity for the Company "pocketing for
14 itself any beneficial changes"⁷ as these witnesses have alleged. The transition of all
15 residential customers to a TOU rate was a new effort for the Company and for the state of
16 Missouri. There is no way we can accurately predict the impact of this transition, nor can
17 we control the result. Moreover, one need only consider the myriad of examples in the
18 news regarding cyber-related issues to appreciate that the Company cannot predict nor
19 control these expenses. The proposed trackers would "protect both the utility and its
20 customers from over-or-under-recovery in rates of these expenses due to erroneous
21 estimates."⁸

⁶ Karen Lyons Rebuttal, at 8.

⁷ Karen Lyons Rebuttal, at 7.

⁸ Karen Lyons Rebuttal, at 5.

1 The Company has strong incentives inherent in being a shareholder owned, regulated
2 utility to work hard to manage its costs and create efficiencies. We have demonstrated our
3 ability to do this through savings and efficiencies created by the merger which created
4 Evergy. We have demonstrated our commitment to continue this effort by evaluating more
5 intra-Evergy consolidation as I discussed in my rebuttal testimony.

6 Further, it bears noting that Missouri's use of a historic test year with limited
7 "known and measurable" changes through the true-up period to set rates, creates even more
8 regulatory lag for the Company than exists for many other utilities. As Ms. Bulkley
9 reported in her direct testimony, approximately half of the proxy group companies use a
10 partially or in some cases a fully forecast test year which helps utility credit ratings which
11 in turn impacts a utility's cost of debt. The Company has ample incentive to operate as
12 efficiently as possible. The proposed TOU and CIP and Cybersecurity trackers in no way
13 dilute the Company's incentives or commitment.

14 Finally, regulatory lag is an unfortunate but understandable result of the backward-
15 looking nature of our regulatory rate paradigm. Acknowledgement of that is not
16 controversial. However, suggesting that lag should be encouraged or enhanced and used
17 as a whip necessary to punish the utility into good business behavior is unreasonable --
18 wholly without demonstrable support and far afield of a productive regulatory construct. I
19 elaborate on this below.

1 **Q: Does regulatory lag create a “quasi-competitive environment’ for utilities, similar to**
2 **the environment in which competitive firms operate” as Mr. Majors asserts?⁹**

3 A: No. It is a tortured analogy for a specious argument that enhancing lag creates artificial
4 competition. As stated, in a highly regulated environment, lag is a byproduct of traditional
5 cost of service ratemaking and the time necessary for a Commission to review and rule on
6 rate request. Regulatory lag in no way mimics competition. The premise of Mr. Majors
7 “quasi-competitive” argument is that competitive businesses have fixed prices (costs) and
8 only raise prices after studying the prices of their competitors. However, as we have seen
9 over the last several years, the cost of goods and services in competitive markets can and
10 does change, sometimes rapidly and frequently. Unlike a company operating in an
11 unregulated environment, EMW cannot study its “competition” and decide to raise its rates
12 without first petitioning the Commission, holding public hearings, participating in the
13 entire regulatory review process, and receiving an order from the Commission authorizing
14 a change in its rates. This in no way mimics competition.

15 **Q: Can cost decreases “occur over time to offset cost increases” as Mr. Majors testifies?¹⁰**

16 A: Yes. When there are enough cost decreases and/or revenue increases in the aggregate to
17 completely offset cost increases, rate cases can be delayed. However, in today’s
18 inflationary times operating costs more often than not rise over time and cost decreases are
19 few and far between.

⁹ Keith Majors Rebuttal, at 52.

¹⁰ Keith Majors Rebuttal, at 52.

1 **Q: Mr. Majors criticizes the Company’s application as being “one-sided,” stating that**
2 **“EMW points out all the costs that have increased since their last rate case”.¹¹ What**
3 **is your response?**

4 A: The Company presented all of its adjusted test year revenues and costs, not just costs that
5 had significant increases. However, it is entirely logical and reasonable that the Company
6 highlighted certain cost increases as part of its explanation of why a rate increase is
7 necessary at this time. Further all of the Company’s proposed trackers are “two-sided” and
8 will ensure the Company neither over collects nor under collects.

9 IV. FAC SHARING

10 **Q: OPC witness Lena Mantle claims that the Company’s FAC low base fuel factor is an**
11 **attempt to manipulate its requested rate increase, and therefore supports her**
12 **proposal for 75/25% sharing mechanism. Do you agree?**

13 A: No. The suggestion that the Company would be satisfied with understating the base fuel
14 factor, thereby purposely absorbing 5% of *prudently incurred* FAC costs, simply for the
15 optics of lower rate request makes neither common nor business sense.

16 **Q. Does Staff agree with Ms. Mantle’s 75/25% proposal?**

17 A. No. Staff witness Brooke Mastrogiannis recommends keeping the current 95/5% sharing
18 split intact, and specifically notes that, contrary to Ms. Mantle’s arguments, the
19 Commission has never ordered a disallowance on the basis of not acquiring enough
20 generation to meet customers’ energy needs.¹² As described in the surrebuttal testimony of
21 witness Kevin Gunn, Ms. Mantle is attempting to subvert prior Commission decisions
22 around FAC prudence by superimposing a penalty regime in the FAC.

¹¹ Keith Majors Rebuttal, at 52-53.

¹² Mastrogiannis Rebuttal, at 7.

1 **Q. With regard to the base fuel factor, Ms. Mantle also argues that Evergy has**
2 **“manipulated the use of its FAC in this way [rebasing] before.” Is that true?**

3 A. No. Ms. Mantle cites to a 2010 case for Evergy’s predecessor utility, GMO, in which FAC
4 rebasing is discussed. Ms. Mantle claims that GMO manipulated its FAC by not rebasing
5 at that time. As it is clearly noted in the Commission’s Report and Order in Docket ER-
6 2010-0356, GMO’s first rate case after the establishment of the FAC, there is no
7 requirement in Section 386.266 RSMo, nor in the Company’s tariffs, that requires the
8 rebasing of Base Energy Costs. Additionally, the Commission’s previous decisions to that
9 point had not required FAC rebasing.¹³

10 **V. CROSSROADS**

11 **Q: Who are the witnesses who filed rebuttal testimony that opposed EMW’s request to**
12 **recover the transmission costs to that provide Crossroads’ energy and capacity**
13 **benefits to customers?**

14 A: Staff witness Keith Majors and OPC witness Lena Mantle filed rebuttal testimony that
15 discussed their opposition to the recovery of any Crossroads transmission costs. Staff
16 witness Brad Fortson discussed EMW’s analysis of Crossroads in the Company’s 2024
17 Integrated Resource Plan (IRP) Report which EMW witness Cody VandeVelde will
18 respond to. Staff witness Shaun Lange reviewed Crossroads issues related to EMW’s fuel
19 adjustment clause which EMW witness Hsin Foo will address.

¹³ Decision and Order ER-2010-0356, p. 208.

1 **Q: Did the rebuttal of Mr. Majors respond to any of the specific points that you and Mr.**
2 **VandeVelde made in your direct testimony?**

3 A: No. Mr. Majors' rebuttal fails to address any of the points that we made. It focused entirely
4 on past events, some of which occurred over 20 years ago. His rebuttal testimony simply
5 repeats large sections of his direct testimony in the "History of Crossroads" section at pages
6 4 through 10.

7 In addition, his "EMW Capacity History" section quotes multiple paragraphs from
8 prior Commission orders from the Commission's order in the 2010 rate case of EMW's
9 predecessor, as well as portions of an SEC filing that have nothing to do with EMW's
10 request in this case. See Majors Rebuttal at pages 10-23. This section is irrelevant to
11 EMW's request in this case because the Company is not asking for any relief regarding the
12 Commission's valuation of Crossroads. Moreover, the decisions made by Aquila regarding
13 resource adequacy and capacity planning more than 15 years ago have no relevance in this
14 rate case.

15 The sections entitled "Additional Rebuttal to Ives Testimony" (pages 32-34),
16 "Replacement of Crossroads Capacity" (pages 35-40), and "Future of Crossroads" (pages
17 40-50) similarly focus on decisions that occurred many years ago. Mr. Majors provides no
18 critique of EMW's analysis of how critical facts have changed since the 2010 and 2012
19 rate cases.

20 **Q: Does the Company recommend that the Commission spend time reviewing the issue**
21 **of the valuation of Crossroads in rate base or other historical issues?**

22 A: No, the rate base value of Crossroads is not an issue in this case. However, the Commission
23 should be aware that the history provided by Staff is one-sided and not an accurate

1 reflection of the Company's perspective on several Crossroads issues raised in the 2010
2 and 2012 rate cases (No. ER-2010-0356 and No. ER-2012-0175, respectively).

3 I testified in both of those cases on the Crossroads plant valuation issue. Burton
4 Crawford, then Director of Energy Resource Management who has retired from Evergy,
5 testified on the reasonableness of allowing recovery of Crossroads' transmission costs, as
6 confirmed by Integrated Resource Plans conducted at that time. Wm. Edward Blunk, then
7 Supply Planning Manager, testified regarding the benefits of supply diversity and the
8 Company's ability to take advantage of natural gas price differences between delivery
9 points in western Missouri compared with deliveries to Crossroads in northwestern
10 Mississippi.

11 **Q: Does Staff assert that any of Crossroads' non-transmission operating expenses should**
12 **not be recovered?**

13 A: No. Mr. Majors admits that Staff has included "[a]ll operating costs for Crossroads *other*
14 *than* transmission costs and those identified as related to the physical location of the
15 generating facility [in Mississippi]" (emphasis added). Rather, he advocates the continued
16 disallowance of \$16.1 million in Crossroads' firm point-to-point transmission expense,
17 MISO administrative fees of \$400,000, and the FERC assessment of \$200,000. See Majors
18 Rebuttal at 26-27. Taking this position requires Mr. Majors to ignore the very different
19 situation that EMW is in today. He provides no basis for the Commission to ignore the
20 value provided to customers by Crossroads' capacity and energy today.

1 **Q: Does Staff witness Majors make any recommendation regarding the rate base**
2 **valuation of Crossroads?**

3 A: No, he does not make a direct recommendation. However, he proposes a contingent
4 disallowance of roughly \$10 million “if the Commission allows any transmission costs in
5 rates for Crossroads” See Majors Rebuttal at 34.

6 Mr. Majors recommends that if the Commission allows “any” recovery of
7 Crossroads transmission costs, it “discount the rate base value” of Crossroads from the
8 figure it found appropriate in 2011 (\$61.8 million) to \$51.6 million based on a 17-year-old
9 SEC filing from 2007. See Majors Rebuttal at 35.

10 **Q: Why is Staff taking this position?**

11 A: Mr. Majors provides no explanation of how the plant valuation issue is logically related to
12 the transmission cost expense issue except his unsupported opinion that the “issue of
13 transmission costs and the valuation of the generating plant are interrelated – one decision
14 affects the other.” Id. Thus, the suggestion is more akin to an additional penalty for the
15 Company than a disallowance with a current factual basis.

16 **Q: What was the Company’s position on Crossroad’s valuation in base rates?**

17 A: The Company asserted that the plant be included in rate base at \$82.7 million, which was
18 its net book value at the time of the 2012 Rate Case. This was based on Crossroads’ net
19 book value of \$117 million when it was acquired by Evergy’s predecessor in July 2008.
20 See Rebuttal Testimony of Burton Crawford at 1-8 (Ex. 111, No. ER-2012-0175); Rebuttal
21 Testimony of Darrin Ives at 27-41 (Ex. 125, No. ER-2012-0175).

22 Mr. Majors fails to explain how a Commission decision allowing the recovery of
23 transmission costs in this pending case, in recognition of the benefits of bringing

1 Crossroads' energy and capacity to customers, could rationally support a corresponding
2 de-valuation of the plant which is fully operational today.

3 **Q: What is the purpose of the 122 pages in Mr. Majors' Schedules 1 through 11 to his**
4 **rebuttal testimony?**

5 A: These eleven schedules have no bearing on the issues before the Commission in this case.
6 The most recent documents are in Schedules 1 and 4 which were prepared over 15 years
7 ago in 2008 in a pending Aquila general rate case. They contain no discussion of
8 Crossroads transmission costs. Schedule 6 is a 49-page study prepared by Burns &
9 McDonnell in November 2005 (nearly 20 years ago!) regarding Aquila's South Harper gas-
10 fired combustion turbine facility in Cass County south of Kansas City. The oldest one is
11 Schedule 5, a response by Aquila's predecessor Missouri Public Service and its owner
12 UtiliCorp United to a 2001 data request in a rate case. The response attached a 1999 report
13 from an engineering company regarding the combustion turbines at the Greenwood plant.

14 **Q: How are these materials relevant to this proceeding?**

15 A: They are not. Mr. Majors' rebuttal focuses entirely on irrelevant details from the past.
16 The issue before the Commission is the Company's request for an assessment of the
17 benefits of Crossroads value in light of what SPP calls a "generational challenge" to the
18 reliable operation of the grid. Electric utilities, as well as utility regulators must properly
19 value the available energy resources to meet the ever-rising demand for electricity.

20 The goal of EMW and the Crossroads plant is to provide capacity and energy to
21 customers during winter and summer emergency events when adequate power supplies are
22 at risk. As the President of SPP observed: "Changes in supply, demand, and extreme
23 weather conditions are stressing the limits of energy reliability." See Southwest Power

1 Pool, “Our Generational Challenge: A Reliable Future for Electricity” – A Message from
2 the CEO (Summer 2024).¹⁴ As our IRP shows, if the Commission approves of it,
3 Crossroads can be an important part of Evergy’s plans to reliably serve customers in the
4 future. As reflected by the analysis in the IRP, its total costs -- inclusive of transmission
5 and regulatory costs -- are predicted to be lower than building new replacement generation
6 within our territory. But in order to include Crossroads in its portfolio going forward, the
7 Company requires certainty that it will be recoverable like every other generation asset
8 Evergy operates. Ancient history cannot provide Evergy with that certainty. Only this
9 Commission in this rate case can do that.

10 **Q: Did the Rebuttal of OPC witness Lena Mantle address any of the substantive**
11 **operational and financial issues that the Company raised?**

12 A: No. Like Staff witness Majors, she ignores both the resource planning and the financial
13 issues related to the Company’s failure to recover any transmission expenses since 2011.
14 Instead, she characterizes EMW’s proposed decision regarding the dilemma that it faces
15 with Crossroads as a “threat.”

16 **Q: Is Evergy Missouri West threatening the Commission?**

17 A: No. What Company witness Mr. VandeVelde and I have both explained is that the
18 mounting financial burden on EMW from the lack of cost recovery, now approaching \$137
19 million presents a choice between (1) continuing to own and operate Crossroads in a deficit
20 position in order to retain its capacity and energy benefits, or (2) planning to build or

¹⁴ A copy of SPP’s “Our Generational Challenge” report is provided in a schedule to the surrebuttal testimony of Company witness Cody VandeVelde.

1 acquire a comparable gas unit in the Company’s Missouri service territory that would be
2 operational when the Crossroads transmission path agreements expire in February 2029.

3 Mr. VandeVelde explains in his direct and surrebuttal testimony that the
4 Company’s 2024 IRP analysis favored retaining Crossroads in its generation fleet *with* its
5 transmission costs fully recovered because the alternative of building or acquiring a new
6 gas plant is estimated to be about \$121 million more expensive.

7 While the clear and reasonable choice is for the Commission to allow EMW to keep
8 Crossroads in its fleet and recover its transmission costs, this solution is even more
9 compelling because of the challenge, if not crisis, that Evergy and other utilities in the
10 Midwest face in steering a course that ensures a continuing supply of energy and capacity
11 for its customers.

12 **Q: Does Ms. Mantle accurately describe the Commission’s January 2012 order in the**
13 **rate case of EMW’s predecessor, No. ER-2012-0175, where it indicated that there**
14 **would come a time when issues related to Crossroads would be considered?**

15 A: No, she does not. She speculates that the Commission’s language “demonstrates” its
16 “weariness with dealing with the shortcomings of generation planning for Aquila” on page
17 6 of her Rebuttal. However, in support of this opinion, she quotes a section of the
18 Commission’s order that did not deal with the recovery of transmission expenses, but rather
19 the valuation of the plant – an issue that the Company has not raised in this case.

20 **Q: What did the Commission say?**

21 A: On page 57 of its decision, the Commission said that Crossroads was “a relic of the failed
22 utility Aquila” and that “a full recital of Aquila’s tortured history is unnecessary” to its
23 decision. The Commission declined to review Aquila’s history because it did not want to

1 deal with “the issue of how long the Commission will visit the sins of the predecessor
2 [Aquila] on the successor.” It then acknowledged that while the successor, now EMW, “is
3 the same legal entity as Aquila,” “it is also true that management is different.” Therefore,
4 the question before the Commission is: Has the time finally arrived to end the Company’s
5 obligation to pay for the “sins” of Aquila?

6 Given the transformative and challenging events now facing the electric utility
7 industry, that lengthy period (over 15 years) should come to an end with the effective date
8 of the Commission’s report and order in this case.

9 **Q: The rebuttal testimonies of both Ms. Mantle (at 10) and Mr. Majors (at 5, 28, 33-34)**
10 **allege that Crossroads is in a constrained or congested location which makes its**
11 **transmission expense higher. Is this true?**

12 A: No, congestion at the Crossroads location has no bearing on the transmission price paid
13 under the contract with Entergy. The firm transmission rate that EMW pays to Entergy is
14 the same rate that any transmission customer would pay for firm exports from the Entergy
15 system into SPP. As long as the transmission system has the capacity available for firm
16 service – and the Crossroads path from Mississippi in MISO to SPP does – the price is the
17 same. The price that EMW pays is governed by a tariff approved by the Federal Energy
18 Regulatory Commission (FERC) and has nothing to do with congestion.

19 **Q: Are prudence decisions rendered by the Commission in the past set in stone and**
20 **irrevocable?**

21 A: No. Neither Ms. Mantle nor Staff witness Majors have testified that the Commission is
22 hand-cuffed in this regard. With the passage of time, and the advent of economic,
23 technological, and policy changes, the Commission can, and should, judge the facts that

1 are presented by the parties and decide that it is appropriate for the Company to recover
2 the transmission costs that allow Crossroads to serve customers.

3 **Q: Is the Company asking the Commission to reconsider its two rate case orders issued**
4 **in May 2011 and January 2013¹⁵ that disallowed the Crossroads transmission cost?**

5 A: No. Those decisions were premised on a far different set of facts than are present in this
6 case. The issues then reviewed by the Commission were based on what was known no
7 later than the end of October 2012 when the evidentiary hearings concluded in the second
8 case. This was before Entergy Corp. became a MISO member and integrated its regulated
9 utility transmission assets into the MISO system in December 2013. As I testified in my
10 direct testimony, at the end of 2014 the Crossroads transmission costs increased to \$12.0
11 million from the prior year's \$4.7 million. Every year since then, except for one year,
12 transmission expenses have been at double-digit million-dollar levels, reaching a high of
13 \$17.0 million in 2022.¹⁶

14 EMW had no reason to believe these transmission costs would rise so significantly
15 when Crossroads became a regulated asset of the Company in 2008 or when the 2010 and
16 2012 rate cases were tried. The Company also had no reason to believe then that the
17 electricity industry and the American economy would undergo such a dramatic
18 transformation. At a high level, the causes are many. Among the major new challenges
19 facing the Company are: (a) the retirement of coal and gas plants which are reducing the
20 region's generating capacity to dangerously low levels; (b) the increase in intermittent wind
21 and solar resources that present new reliability challenges; (c) the unexpected number of

¹⁵ Report & Order, In re KCP&L Greater Mo. Operations Co., No. ER-2010-0356 (May 4, 2011); Report & Order, In re KCP&L Greater Mo. Operations Co., No. ER-2012-0175 (Jan. 9, 2013).

¹⁶ Ives Direct Testimony at 18-19. Company witness Cody VandeVelde discusses the effect of Entergy joining MISO in more detail in his surrebuttal testimony.

1 proposals for new generation and transmission assets that are overwhelming the SPP
2 interconnection queue and delaying the construction of new resources; (d) the rise of
3 extreme weather events that threaten human safety as winter and summer peak demands
4 continue to grow; (e) the increase in customer load from new data centers, battery
5 manufacturing, crypto-currency mining, and electrification that are causing a significant
6 growth in demand; and (f) SPP's recent decision to increase its planning reserve margins
7 in 2026 to 16% in the summer and 36% in the winter.¹⁷

8 **Q: Do any Staff or OPC witnesses respond to your testimony on the financial**
9 **implications of a Commission decision that rejects EMW's request that the**
10 **Crossroads transmission expenses be recovered?**

11 A: No. Although Staff witness Majors and OPC witness Mantle argue that all Crossroads
12 transmission costs be denied, they failed to address any of the points that I made on pages
13 19-22 of my direct testimony.

14 **Q: What will be the financial effect on the Company if the Commission fails to allow any**
15 **recovery of transmission costs, as Mr. Majors recommends at pages 34-35 of his**
16 **rebuttal?**

17 A: EMW's inability to recover any of these costs will continue to have a negative effect on
18 the Company's revenues and, as a result, the credit ratings issued by S&P and Moody's.
19 The failure of the Company to recover any Crossroads transmission costs will perpetuate

¹⁷ See Southwest Power Pool, Inc., "Our Generational Challenge: A Reliable Future for Electricity" at 1-2, 4-17 (Summer 2014), <http://www.SPP.org/OurChallenge>; SPP Media Release, "SPP board approves new planning reserve margins to protect against high winter, summer use" (Aug. 6, 2024). The report is attached as a schedule to the Surrebuttal Testimony of EMW witness Cody VandeVelde.

1 the downward financial pressure on EMW and the financial metrics that drive its credit
2 ratings.

3 **Q: What have S&P's reports stated about EMW?**

4 A: On November 29, 2023 S&P Global Ratings (S&P) lowered the Company's credit rating
5 one notch to BBB+. The S&P report stated that as a result of "higher expenses, including
6 interest and capital spending, and lower cost recovery," it expected that EMW's "funds
7 from operations (FFO) to debt will consistently be in the 14%-15% range through 2026."
8 Accordingly, it lowered its issuer credit ratings one notch for EMW. It also lowered the
9 credit rating for Evergy Inc. and its two Kansas subsidiaries to BBB+. This S&P report
10 stated that the "delay in the securitization of extraordinary costs incurred by [EMW] during
11 the winter weather event in 2021 [Winter Storm Uri] has continued to pressure consolidated
12 financial measures." See S&P Nov. 2023 Report at 2, attached as **Schedule DRI-4**.

13 When OPC's appeal was resolved in favor of the Company, S&P stated it expected
14 that when the funds from the securitization are received in 2024, "EMW will use the
15 proceeds to reduce debt leverage, improving financial measures." It noted: "While the
16 company's regulatory construct in Missouri provides avenues for cost recovery, its credit
17 quality will ultimately depend on timely rate recovery and funding access" See S&P
18 Dec. 2023 Report at 2, attached as **Schedule DRI-5**.

19 **Q: What have reports from Moody's Investors Service ("Moody's") stated about EMW's
20 financial condition?**

21 A: Moody's report issued in December 2023 cited the consequences of "a lengthy appeals
22 process" caused by OPC's appeal in EMW's securitization case, noting it "significantly
23 delayed" the issuance of the bonds. Once the appeal was resolved in the Company's favor,

1 Moody's stated that issuing the securitized debt in 2024 "will alleviate the short-term debt
2 burden and carrying costs associated with the fuel deferrals." See Moody's Credit Opinion
3 Report at 1-2 (Dec. 21, 2023), attached as **Schedule DRI-6**.

4 Moody's has given Evergy Missouri West a Baa2 credit rating which is one notch
5 lower than that of the S&P BBB+ rating.

6 In a subsequent rating action in May 2024, Moody's reaffirmed the Baa2 rating for
7 the Company, but revised its outlook from stable to negative.

8 **Q: Why did Moody's revise its outlook for the Company from stable to negative?**

9 A: Moody's stated that the negative outlook "reflects Missouri West's persistently weak credit
10 metrics that are less likely to improve due to [1] increased capital expenditures, [2] higher
11 debt issuance, and [3] the lack of cost recovery mechanisms to expedite cash flow
12 recovery." See Moody's Report at 2 (May 3, 2024), attached as **Schedule DRI-7**.

13 **Q: Regarding cost recovery mechanisms, what did the Moody's report state?**

14 A: The Moody's report observed that although Missouri's legislative and regulatory
15 environment is "improving after some challenges historically," the Baa2 credit rating "is
16 constrained by the regulatory lag associated with [EMW's] growing capital expenditures
17 over the next five years because" it "lacks the type of timely and automatic investment and
18 operating cost recovery mechanisms seen in other states, resulting in a financial profile that

1 has been weaker than that of its peers.” See Moody’s Report at 1-2 (May 3, 2024), attached
2 as **Schedule DRI-7**.

3 **Q: Did this May 2024 report by Moody’s mention the Company’s request for cost**
4 **recovery in this rate case regarding the Crossroads plant?**

5 A: Yes. Moody’s stated that in its opinion this case “is largely driven by the recovery of
6 reliability-related infrastructure investments and costs related to the Dogwood Energy
7 Center and the Crossroads Energy Center, two natural gas plants.” See Moody’s Report at
8 2 (May 3, 2024), attached as **Schedule DRI-7**.

9 **Q: What are the key credit metrics that S&P and Moody’s have relied upon in these**
10 **reports?**

11 A: The key credit metric relied on by S&P is Funds from Operations (“FFO”) and its
12 comparison to the Company’s debt. Moody’s describes this as the ratio of cash flow from
13 operations before changes in working capital (“CFO pre-WC”) to debt. S&P and Moody’s
14 place an emphasis on these two metrics because they are an indicator of the cash generating
15 ability of the utility compared to its total debt.

16 **Q: What do you conclude from these reports by S&P and Moody’s, and the failure of**
17 **Staff and OPC to discuss these issues in their rebuttal?**

18 A: The reports from S&P and Moody’s show why the Company is so troubled by its inability
19 to recover its costs and to earn its authorized return on equity, and the consistent failure of
20 Staff and OPC to recognize these facts. This inability to recover costs and achieve
21 authorized returns is significantly impacted by the disallowance of Crossroads transmission
22 costs which today amounts to over \$137 million, which the Company has had to fund with
23 compounding interest charges over time. The Company is not asking to recover historical

1 costs; rather, the Company is focused on the recovery of transmission costs going forward
2 given the importance of a strong credit profile for EMW. In this regard, the Company's
3 forward-year CFO pre-WC credit rating metrics which reflect the level of investment called
4 for by EMW's 2024 IRP are an area of concern; the Company's expected CFO pre-WC
5 revenues do not currently support the existing Baa2 rating from Moody's, as reflected by
6 the negative outlook issued by Moody's in May 2024.

7 A ratings downgrade from Moody's would put EMW's credit rating at Baa3, the
8 lowest investment grade credit rating of Moody's. A Baa3 credit rating would not only
9 increase the cost of raising new long-term debt capital, but it would put additional pressure
10 on EMW's ability to access the low-cost short-term commercial paper markets which is
11 primarily used to finance EMW's construction work-in-progress.

12 **Q: What are the causes of this situation?**

13 A: As S&P and Moody's recognized, EMW's historical problems with cost recovery were
14 heightened by the significant delay in securitizing the \$300 million debt caused by Winter
15 Storm Uri in February 2021. OPC's appeal of the Commission's Amended Financing Order
16 in late 2022 to the Court of Appeals delayed the offering of the securitized bonds. Although
17 the Court of Appeals decision denying OPC's claims was issued Sept. 26, 2023, it did not
18 become final until after OPC's motion for rehearing and application for transfer were
19 denied on October 24 and the Court's mandate was issued Nov. 15, 2023.

20 The process of marketing and selling the securitized bonds, EMW's submission of
21 the Issuance Advice Letter to the Commission, and the filing of the Securitized Utility
22 Tariff Rider were not completed until the tariff became effective on February 26, 2024. As

1 Moody's recognized, the issuance of the securitized utility tariff bonds has begun to
2 address the Company's short-term debt issues.

3 **Q: How did the resolution of the Dogwood CCN case, No. EA-2023-0219, in March 2024**
4 **affect EMW's financial outlook?**

5 A: The settlement in the Dogwood CCN case was a positive development which will allow
6 the Company to earn a return and recover costs related to the Dogwood combined-cycle
7 plant of which it owns a 22% interest. However, those decisions regarding rate of return
8 and cost recovery will be made in this pending rate case.

9 **Q: How does Crossroads fit into EMW's credit rating future?**

10 A: A decision by the Commission that allows EMW to charge customers for the costs that
11 allow the benefits of Crossroads to be brought to them would be the third major positive
12 development in 2024, following the successful offering of securitized bonds and a
13 favorable decision on Dogwood in this case.

14 Such a decision will turn the page on the Company's historic cost recovery issues
15 and address the financial issues cited by S&P and Moody's, as well as the resource
16 adequacy issues that EMW has faced for many years.

17 **Q: Given your responses to the rebuttal testimony of Staff and OPC, what are the key**
18 **findings and decisions that the Commission should make regarding Crossroads?**

19 A: First, given that so much has changed since Crossroads became a regulated asset of the
20 Company in 2008 and its transmission costs were denied recovery in 2011 and 2013,
21 today's circumstances require a new approach to valuing the capacity, energy, and
22 transmission expenses that are required to bring the benefits of Crossroads to EMW's
23 customers. The Company's 2024 Integrated Resource Plan provides a roadmap to reach a

1 solution that will preserve the Company’s ability to provide customers with safe and
2 reliable service. It is the most comprehensive assessment of what EMW should do. The
3 2024 IRP found that maintaining Crossroads in EMW’s generation portfolio, including *all*
4 related costs, is the most economical way to ensure that adequate capacity and energy are
5 brought to the Company’s customers. The alternatives that the 2024 IRP studied were all
6 significantly more expensive, with the next best solution (a new gas plant in EMW’s
7 service territory) projected to be over \$120 million more costly than keeping the plant in
8 EMW’s generation portfolio with all of its transmission costs.¹⁸

9 Second, given the starkly different facts that exist today, the Company requests that
10 the Commission acknowledge that the time has come to end the ban on Crossroads
11 transmission cost recovery. Commissioners recognized in 2013 that there would come a
12 time to determine “how long the Commission will visit the sins of the predecessor on the
13 successor.”¹⁹ Given the far different risks that EMW and its customers face today, that
14 time is now. The capacity and energy benefits of Crossroads, located in MISO, are worth
15 every penny of the transmission costs charged under the firm point-to-point transmission
16 service agreement with Entergy that brings these benefits to Missouri for EMW’s
17 customers in SPP.

18 This is especially true as extreme summer and winter weather events are becoming
19 more common. It is also true that allowing EMW to recover these costs will allow the
20 Company to improve its financial position. This will enable it to maintain and potentially
21 improve its financial metrics and credit ratings, and to lower its borrowing costs. Given

¹⁸ 2024 Integrated Resource Plan, Ch. 6 at pp. 17, 21, 24, 57-58 (potential Crossroads retirement), In re Evergy Mo. West, Inc. 2024 Triennial Compliance Filing pursuant 20 CSR 4240-22, No. EO-2024-0154 (April 1, 2024).

¹⁹ Report & Order at 57, In re KCP&L Greater Mo. Operations Co., No. ER-2012-0175 (Jan. 9, 2013).

1 EMW's estimate that the average cost increase to residential customers would be
2 \$0.00239/kWh per month if Crossroads transmission costs were recovered, such a rate
3 adjustment is reasonable. While this is not insignificant, I note above that the next least
4 cost option in the 2024 IRP was over \$120 million more costly, which would increase this
5 cost of service for customers.

6 Third, to reassure the Company and its customers that this reliable source of
7 capacity and energy will be maintained, the Commission should find that it would be
8 reasonable and prudent for Evergy Missouri West to renew the firm point-to-point
9 transmission service agreement with Entergy before it expires in February 2029. As
10 discussed in both my direct testimony and that of EMW witness Mr. VandeVelde, the
11 transmission costs to bring Crossroad's capacity and energy from MISO to SPP are subject
12 to a tariff that has been approved by FERC. Without clarity from the Commission on the
13 decisional prudence to negotiate a new Crossroads transmission contract, EMW will need
14 to initiate plans and actions to find replacement capacity for Crossroads.

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

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

**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) Case No. ER-2024-0189
Implement A General Rate Increase for Electric)
Service)

AFFIDAVIT OF DARRIN R. IVES


STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Darrin R. Ives, being first duly sworn on his oath, states:

1. My name is Darrin R. Ives. I work in Kansas City, Missouri, and I am employed by Evergy Metro, Inc. as Vice President – Regulatory Affairs.

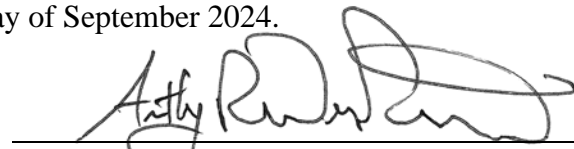
2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Evergy Missouri West consisting of twenty-six (26) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.



Darrin R. Ives

Subscribed and sworn before me this 10th day of September 2024.



Notary Public

My commission expires: 4/26/2025



**SCHEDULES DRI-4 – DRI-7
CONTAINS CONFIDENTIAL
INFORMATION
NOT AVAILABLE TO THE PUBLIC.**

ORIGINAL FILED UNDER SEAL.

**Evergy Metro, Inc. d/b/a Evergy Missouri Metro and
Evergy Missouri West, Inc. d/b/a Evergy Missouri West**

Docket No.: ER-2024-0189

Date: September 10, 2024

CONFIDENTIAL INFORMATION

The following information is provided to the Missouri Public Service Commission under CONFIDENTIAL SEAL:

Document/Page	Reason for Confidentiality from List Below
Schedule DRI-4	3, 4, and 5
Schedule DRI-5	3, 4, and 5
Schedule DRI-6	3, 4, and 5
Schedule DRI-7	3, 4, and 5

Rationale for the “confidential” designation pursuant to 20 CSR 4240-2.135 is documented below:

1. Customer-specific information;
2. Employee-sensitive personnel information;
3. Marketing analysis or other market-specific information relating to services offered in competition with others;
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5. Reports, work papers, or other documentation related to work produced by internal or external auditors, consultants, or attorneys, except that total amounts billed by each external auditor, consultant, or attorney for services related to general rate proceedings shall always be public;
6. Strategies employed, to be employed, or under consideration in contract negotiations;
7. Relating to the security of a company's facilities; or
8. Concerning trade secrets, as defined in section 417.453, RSMo.
9. Other (specify) _____.

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