

Public Version

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Witness: John M. Grace
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Case No.: EA-2025-0075
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EA-2025-0075

DIRECT TESTIMONY

OF

JOHN M. GRACE

ON BEHALF OF

EVERGY MISSOURI METRO AND EVERGY MISSOURI WEST

**Kansas City, Missouri
November 2024**

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DIRECT TESTIMONY

OF

JOHN M. GRACE

Case No. EA-2024-0292

1

I. INTRODUCTION

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

3 A: My name is John M. Grace. My business address is 818 S. Kansas Avenue, Topeka,
4 Kansas.

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

6 A: I am employed by Evergy Kansas Central, Inc. and serve as Senior Director,
7 Corporate Planning and Financial Performance for Evergy Metro, Inc. d/b/a as
8 Evergy Missouri Metro (“Evergy Missouri Metro” or “EMM”), Evergy Missouri
9 West, Inc. d/b/a Evergy Missouri West (“Evergy Missouri West” or “EMW”),
10 Evergy Metro, Inc. d/b/a Evergy Kansas Metro (“Evergy Kansas Metro”), and
11 Evergy Kansas Central, Inc. and Evergy Kansas South, Inc., collectively d/b/a as
12 Evergy Kansas Central (“Evergy Kansas Central”) the operating utilities of Evergy,
13 Inc. (“Evergy”).

14 **Q: Who are you testifying for?**

15 A: I am testifying on behalf of Evergy Missouri Metro and Evergy Missouri West (also
16 referred to as “Applicants” or the “Company”).

17 **Q: What are your responsibilities?**

18 A: My responsibilities include directing financial planning activities, including the
19 annual budget and long-term financial plan, performance reporting, energy

1 forecasting, and providing financial support and analysis throughout and on behalf
2 of the Company.

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

4 A: I hold a Bachelor of Business Administration in accounting and finance from
5 Washburn University and an M.B.A from Washburn University. I joined Evergy
6 Kansas Central in 1998. During my career I have served in various financial roles
7 all with increasing responsibility, including accounting, budgets, finance, and
8 financial analysis and modeling.

9 **Q: Have you previously testified in any proceedings before the Missouri Public
10 Service Commission (“Commission” or “PSC”) or before any other utility
11 regulatory agency?**

12 A: Yes. I have previously filed written testimony before the Kansas Corporation
13 Commission and the PSC.

14 **Q: Can you please describe the purpose of your testimony?**

15 A: Yes. The purpose of my testimony is to describe the Company’s plan to finance
16 new generation assets that match the needs identified in the Company’s most recent
17 integrated resource plan (“IRP”), which include Viola Generating Station, McNew
18 Generating Station, and Mullin Creek #1 Generating Station. Specifically, I will
19 discuss the following:

20 1. Financial Ability - Provide an overview of the Company’s current
21 investment grade credit ratings, available liquidity, and access to capital
22 markets available to the Company to finance the projects during

1 construction as well as on-going operations and maintenance of the
2 generating facilities.

3 2. Combined-Cycle and Simple-Cycle Generating Facilities - Discuss the
4 ownership structure of the two combined-cycle and simple-cycle generating
5 facilities and the requested rate treatment described in Ron Klote’s direct
6 testimony.

7 **II. FINANCIAL ABILITY**

8 **Q: Please briefly describe the projects and the anticipated total project costs**
9 **excluding AFUDC.**

10 **A:** The Company is seeking a Certificate of Convenience and Necessity (“CCN”) for
11 three separate generation projects that fulfill the capacity and energy needs
12 identified in the Company’s most recently filed IRP through 2030.

13 The Viola Generating Station is a 710 MW combined-cycle combustion
14 turbine that would be located in Viola, Kansas, co-owned by Evergy Missouri West
15 (“EMW”) and Evergy Kansas Central (“EKC”) (each with a 50% ownership share)
16 with an anticipated total project cost excluding allowance for funds used during
17 construction (“AFUDC”) of ** [REDACTED] **. The McNew Generation Station
18 is also a 710 MW combined-cycle combustion turbine that would be located in
19 Hutchinson, Kansas, potentially jointly owned by either EMW and/or EMM with
20 EKC. Currently, we are planning for EKC to be the sole owner of the McNew
21 Generation Station, but to the extent capacity needs arise at EMW or EMM to serve
22 new load or meet increasing capacity requirements, we may shift ownership share
23 of this facility between/amongst utilities. The McNew Generating Station has an

1 anticipated total project cost excluding AFUDC of **[REDACTED]**. Mullin
2 Creek #1 Generating Station is a 440 MW-simple-cycle gas turbine to be located in
3 Nodaway County, Missouri owned 100% by EMW with an anticipated total project
4 cost excluding AFUDC of **[REDACTED]**. Company witness, Kyle Olson
5 describes these projects in more detail.

6 **Q: Does Evergy Missouri West and Evergy Metro have the financial ability to**
7 **acquire, construct, install, own, manage, maintain, and control the Viola,**
8 **McNew, and Mullin Creek generation facilities?**

9 A: Yes. EMW and EMM have proven experience financing the purchase, construction,
10 and operation of generating assets that serve Missouri customers. Evergy Missouri
11 West currently owns or contracts for 2,587 MW of generating capacity. This
12 includes the recently acquired 143 MW of the natural gas combined-cycle
13 Dogwood Energy Facility.¹ Evergy Metro currently owns or contracts for 4,780
14 MW of generating capacity. In total, Evergy's electric utilities own, operate, and/or
15 contract for just under 16,000 MW of generating capacity.²

16 **Q: Does the Company have access to available credit and other liquidity to help**
17 **finance the project?**

18 A: Yes, the Company has adequate short-term liquidity and access to adequate short-
19 term liquidity. In August 2024, Evergy extended its \$2.5 billion master credit
20 facility from 2027 to 2028. EMW and EMM have borrowing capacity under that
21 master credit facility with current sub-limits as of September 30, 2024, of \$400

¹ Case No. EA-2023-0291

² For a list of owned or contracted generation resources, please refer to pages 30-32 of Evergy, Inc.'s 2023 Form 10K, filed with the Securities and Exchange Commission.

1 million and \$450.0 million, respectively. This sub-limit can be adjusted unilaterally
2 by Evergy for each borrower provided the sub-limits remain within the minimum
3 and maximum sub-limits specified by the facility. EWM and EMM have maximum
4 sub-limits under the master credit facility of \$700 million and \$850 million,
5 respectively. As of September 30, 2024, the EMW had \$176 million borrowed
6 under this credit agreement, with \$224 million of remaining liquidity and EMM
7 had \$72 million borrowed with \$377 million of remaining liquidity under the
8 agreement. EMW and EMM have FERC authority to issue up to \$700 million and
9 \$1.25 billion of short-term debt, respectively.

10 The Company also sells an undivided percentage ownership interest in its
11 retail electric accounts receivable to an independent outside investor. These sales
12 are accounted for as a secured borrowing with accounts receivable pledged as
13 collateral and a corresponding short-term, collateralized note payable. Under this
14 account receivable sales facility, EMW has the ability to borrow up to \$50.0 million
15 at any time subject to a borrowing base calculation, and to the extent the Company
16 has qualifying accounts receivable and subject to the bank's discretion, it can
17 borrow up to an additional \$65.0 million at any time. EMM has the ability to borrow
18 up to \$130.0 million at any time subject to a borrowing base calculation, and to the
19 extent the Company has qualifying accounts receivable and subject to the bank's
20 discretion, it can borrow up to an additional \$70 million at any time.

1 **Q: Does the Company also have access to markets to attract capital investment to**
2 **provide additional financing for the projects?**

3 A: Yes, as is evidenced by the \$1.9 billion of long-term debt and \$1.9 billion of
4 shareholders' equity on EMW's balance sheet as of September 30, 2024, and \$3.2
5 billion of long-term debt and \$3.4 billion of shareholders' equity on EMM's
6 balance sheet as of September 30, 2024. Most recently, EMW raised \$300 million
7 of long-term debt capital in late May 2024 and EMM raised \$300 million of long-
8 term debt capital in April 2024.

9 **Q: What is the Company's overall plan for utilizing these components to finance**
10 **the project?**

11 A: The utilities will finance these projects in a responsible manner as it does with any
12 other investment, balancing liquidity, open windows in the capital markets, and
13 maintaining a capital structure indicative of its current credit ratings. As noted on
14 the Company's Quarter 3, Earnings Call (November 7, 2024) and described in
15 associated Investor Relations materials, the Company plans to issue common
16 equity. The common equity issuances will be used to maintain investment grade
17 credit ratings at the operating utilities and at the consolidated Evergy, Inc. level.³

18 **Q: What are EMW and EMM's current credit ratings at Standard and Poor's**
19 **("S&P") and Moody's?**

20 A: EMW and EMM's current credit ratings are solid investment grade. EMM's credit
21 ratings and are on stable outlook at both credit rating agencies, and EMW's credit
22 ratings are on stable outlook at S&P and negative outlook at Moody's. The tables

³ Evergy Third Quarter 2024 Earnings Call, November 7, 2024, Earnings Presentation, slide 16.

1 below reflect the current corporate, senior secured, and commercial paper credit
2 ratings for EMW and EMM.

3 *Table 1*

Evergy Missouri West		
Rating	Standard & Poor's	Moody's
Outlook	Stable	Negative
Corporate Credit Rating	BBB+	Baa2
Senior Secured Debt	A	A3
Commercial Paper	A-2	P-2

4
5 *Table 2*

Evergy Metro		
Rating	Standard & Poor's	Moody's
Outlook	Stable	Stable
Corporate Credit Rating	A-	Baa1
Senior Secured Debt	A	A2
Commercial Paper	A-2	P-2

6
7 **Q: Why is EMW's credit on negative outlook from Moody's?**

8 A: In Moody's most recent ratings report on EMW issued on May 3, 2024, the Ratings
9 Action report stated: "Missouri West's negative outlook reflects credit metrics that
10 have deteriorated over the last few years and are expected to be sustained at levels
11 that are weak for its current Baa2 rating."⁴

12 Moody's stated: "[Evergy] Missouri West's credit metrics have been weak
13 since a material decline in financial metrics in 2021 due to severe winter storm
14 impacts. Missouri West securitized the excess fuel and purchased power costs
15 associated with the storm in February 2024, however the securitized debt issuance

⁴ "Rating Action: Moody's Ratings affirms ratings of Evergy Missouri West, revised outlook to negative" at 1, Moody's Investors Service, Inc. (May 3, 2024). See Schedule JMG-1.

1 was significantly delayed due to a lengthy appeals process that followed the
2 [MPSC’s] October 2022 original initial financing order. The delayed fuel and
3 purchased power cost recovery put additional pressure on [Eversource] Missouri
4 West’s credit profile for a longer period of time than expected due to the short-term
5 debt burden and carrying costs associated with the fuel deferrals.”⁵

6 In addition, Moody’s observed that Eversource “Missouri West lacks the type
7 of timely and automatic investment and operating cost recovery mechanisms seen
8 in other states, resulting in a weaker financial profile than that of its peers.”⁶

9 Nonetheless, EMW has still been able to access the long-term debt capital
10 markets with success, as discussed above. In addition, as previously noted the
11 Company plans to issue common equity to maintain investment grade credit ratings
12 at the operating utilities and at the consolidated Eversource, Inc. level.

13 **III. COMBINED-CYCLE AND SIMPLE-CYCLE GENERATING FACILITIES**

14 **Q: Please describe the planned legal structure for ownership and operation of the**
15 **combined-cycle projects?**

16 A: The first combined-cycle unit, Viola Generating Station will be co-owned and
17 operated by EMW and EKC. EMW and EKC will each own 50% of the generating
18 station. The second combined-cycle unit, the McNew Generating Station, is
19 currently planned to be 100% owned and operated by EKC, but to the extent
20 capacity needs arise at EMW or EMM to serve new load or meet increasing
21 capacity requirements, we may shift ownership share of this facility
22 between/amongst utilities. Mr. Klote describes in detail the Joint Ownership and

⁵ Id. at 2.
⁶ Id. at 1-2.

1 Operating Agreement of Viola Generating Station, which would be a similar
2 agreement for the McNew Generating Station if not fully owned by EKC. Both
3 combined-cycle facilities will be operated by EKC.

4 **Q: Are there benefits to Missouri customers related to co-owning the combined-**
5 **cycle facilities?**

6 A: Yes. The primary benefit will be that EMW or EMM will not be saddled with the
7 cost pressures of constructing an entire combined-cycle unit, and instead will be
8 able to have an equity ownership stake in a proven, advanced, and efficient
9 generation technology, as described in Mr. Olson’s direct testimony, to help meet
10 Missouri customers’ capacity and energy needs for decades into the future.

11 **Q: Please describe the planned legal structure for ownership and operation of the**
12 **Mullin Creek Generating Station?**

13 A: The Mullin Creek #1 Generating Station will be 100% owned and operated by
14 EMW.

15 **Q: Which Company will finance these projects?**

16 A: Each joint-owner will finance their proportionate share of each project during
17 construction and accrue AFUDC based on each joint-owner’s AFUDC rate and
18 applicable CWIP balance. This will ensure each utility’s customers pay for only the
19 portion of the facilities they are receiving energy and capacity benefits from.

20 **Q: Are there any property tax benefits associated with these projects?**

21 A: Yes. Section 2 of Kansas Senate Bill 410, passed in 2024, provides a 10-year
22 exemption from property taxes for any “new electric generation facility,” which is

1 defined in the statute to include dispatchable natural gas generation facilities.⁷
2 Therefore, the two combined-cycle natural gas generation facilities would likely be
3 exempt from ad valorem taxation for 10 years after completion of construction. This
4 will help reduce the overall cost of service related to the combined-cycle units that
5 Missouri customers will benefit from. The Company will negotiate a payment-in-
6 lieu-of-tax payment (“PILOT”) with the appropriate taxing jurisdictions during the
7 exemption period. This PILOT payment is generally lower than the property taxes
8 that would be due if not for the exemption. The full amount of property taxes would
9 be due starting in year eleven after the exemption expires.

10 **Q: Are there any property tax benefits associated with the Mullin Creek #1**
11 **Generating Station that will be located in Nodaway County, Missouri?**

12 A: Missouri does not have an exemption from property taxes for new natural gas
13 generating facilities, however, it is possible to structure a transaction for a project
14 located in Missouri where the project is also exempt from property taxes. Under
15 this structure, the taxing jurisdiction where the project is located issues Chapter 100
16 Bonds to finance the construction of the facility and then leases it back to the entity
17 that purchased Chapter 100 financing bonds (EMW). This structure is commonly
18 referred to as a “Chapter 100 Bond Lease.” If this structure is used, the project
19 would be exempt from property taxes in Missouri since it is owned by a tax-exempt
20 entity. The property tax exemption would apply for the term of the lease agreement.
21 A PILOT payment would then be negotiated with the taxing jurisdiction in this
22 scenario, which would retain the full benefit of the PILOT. The negotiated PILOT’s

⁷ See Kansas 2024 Laws, Ch. 81 (S.B. 410), New Sec. 2.

1 would be lower than the property taxes that would be otherwise due, keeping the
2 on-going cost of the project lower for Missouri retail customers.

3 **Q: How will the Company seek cost recovery of these projects?**

4 A: The Company plans to seek cost recovery of these new generating assets in a
5 general rate proceeding through the Commission's traditional ratemaking and cost
6 of capital procedures.

7 **Q: Will the Company be requesting any other rate treatment for these three new
8 generating facilities?**

9 A: Yes. As further described in Ron Klote's direct testimony, the Company is requesting
10 construction accounting pursuant to Section 393.140(4) to be permitted to continue to
11 accrue AFUDC and defer depreciation expense for the projects during the period
12 commencing when the costs of the projects are booked to plant in-service and ending
13 the effective date of new rates that include the recovery of the new generating facilities.

14 In the event the PISA statute is amended so that it applies to the natural gas
15 facilities proposed in this Application or any other statute applies to those facilities
16 that results in deferral and recovery of return on and of investment from the in-
17 service date to the effective date of new rates, then no Construction Accounting
18 will be applied.

19 **Q: Does this conclude your testimony?**

20 A: Yes.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Application of Evergy)
Missouri West, Inc. d/b/a Evergy Missouri)
West and Evergy Metro, Inc. d/b/a Evergy)
Missouri Metro for Permission and Approval)
of a Certificate of Public Convenience and)
Necessity For Natural Gas Electrical)
Production Facilities)

Case No. EA-2025-0075

AFFIDAVIT OF JOHN M. GRACE

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

John M. Grace, being first duly sworn on his oath, states:

1. My name is John M. Grace and I am employed by Evergy Metro, Inc. as Senior Director, Corporate Planning and Financial Performance.

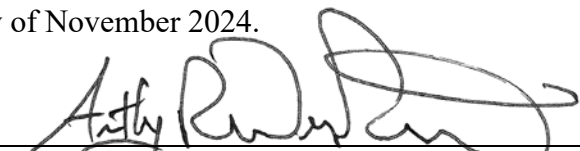
2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Evergy Missouri Metro and Evergy Missouri West consisting of eleven (11) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

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.



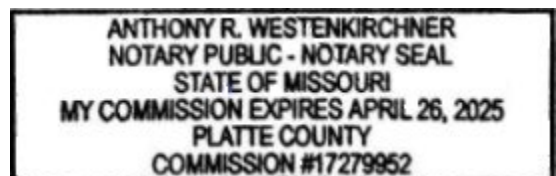
John M. Grace

Subscribed and sworn before me this 15th day of November 2024.



Notary Public

My commission expires: 4/26/2025



**SCHEDULE JMG-1
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.: EA-2025-0075

Date: October 25, 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
Direct, p. 3, ln. 17	4 and 6
Direct, p. 4, lns. 1 and 4	4 and 6
Schedule JMG-1	3, 4, 5, and 6

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;
4. Marketing analysis or other market-specific information relating to goods or services purchased or acquired for use by a company in providing services to customers;
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) _____.

Should any party challenge the Company’s assertion of confidentiality with respect to the above information, the Company reserves the right to supplement the rationale contained herein with additional factual or legal information.