Exhibit No.:	
Issue:	Construction Accounting and Cost Allocation
Witness:	Ronald A. Klote
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Evergy Missouri West
Case No.:	EA-2025-0075
Date Testimony Prepared:	November 15, 2024

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EA-2025-0075

DIRECT TESTIMONY

OF

RONALD A. KLOTE

ON BEHALF OF

EVERGY MISSOURI METRO AND EVERGY MISSOURI WEST

Kansas City, Missouri
November 2024

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DIRECT TESTIMONY

OF

RONALD A. KLOTE

I. INTRODUCTION AND PURPOSE

Q: Please state your name and business address.

A: My name is Ronald A. Klote. My business address is 1200 Main, Kansas City, Missouri 64105.

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

A: I am employed by Evergy Metro, Inc. I serve as Senior Director – Regulatory Affairs for Evergy Metro, Inc. d/b/a Evergy Kansas Metro ("EKM"), Evergy Kansas Central, Inc. and Evergy South, Inc., collectively d/b/a as Evergy Kansas Central ("EKC"), Evergy Metro, Inc. d/b/a as Evergy Missouri Metro ("EMM"), and Evergy Missouri West, Inc. d/b/a Evergy Missouri West ("EMW"), the operating utilities of Evergy, Inc.

Q: On whose behalf are you testifying?

A: I am testifying on behalf of EMW and EMM (together as "Evergy" or "the Company.")

Q: What are your responsibilities?

A: My responsibilities include the coordination, preparation and review of financial information and schedules associated with rate case filings, compliance filings and other regulatory filings.

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

A: In 1992 I received a Bachelor of Science Degree in Accountancy from the University of Missouri-Columbia. In May 2016, I completed my Master of Business Administration Degree from the University of Missouri – Kansas City. I am a Certified Public Accountant holding a certificate in the State of Missouri. In 1992 I joined Arthur Andersen, LLP holding various positions of increasing responsibilities in the auditing division. I conducted and led various auditing engagements of company financial statements. In 1995 I joined Water District No. 1 of Johnson County as a Senior Accountant. This position involved operational and financial analysis of water operations. In 1998 I joined Overland Consulting, Inc. as a Senior Consultant. This position involved special accounting and auditing projects in the electric, gas, telecommunications and cable industries.

In 2002 I joined Aquila, Inc. ("Aquila") holding various positions within the Regulatory Department until 2004 when I became Director of Regulatory Accounting Services. This position was primarily responsible for the planning and preparation of all accounting adjustments associated with regulatory filings in the electric jurisdictions. As a result of the acquisition of Aquila by Great Plains Energy Incorporated ("GPE"), I began my employment with Kansas City Power & Light Company ("KCP&L") as Senior Manager, Regulatory Accounting in July 2008. In April 2013 I joined the Regulatory Affairs Department as a Senior Manager remaining in charge of Regulatory Accounting responsibilities. In December 2015, I became Director, Regulatory Affairs continuing my Regulatory Accounting responsibilities. In addition, I was responsible for the coordination, preparation and filing of rate cases and rider filings in our electric jurisdictions. In October 2021, I became Senior Director of Regulatory Affairs and continue in that position today with Evergy.

Q: Have you previously testified in any proceedings before the Missouri Public Service Commission ("Commission" or "MoPSC") or before any other utility regulatory agency?

A: Yes. I have testified before the MoPSC, the Kansas Corporation Commission ("KCC"), the California Public Utilities Commission, and the Public Utilities Commission of Colorado.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is (1) to request approval of construction accounting that would allow the Company to continue to accrue Allowance for Funds used During Construction ("AFUDC"), given the regulatory lag that the Company will suffer regarding the new gas generating projects proposed in this case and to defer depreciation expense for the projects during the Regulatory Loss Period (defined below), a deferral that has been approved by the Commission in past cases involving other generation facilities; and (2) to discuss the accounting process the Company will implement for the jointly owned natural gas facilities in order to ensure costs are appropriately allocated according to each affiliate's ownership interest.

Q: What are the new natural gas generating facilities that are described in the Application?

A: The Company is seeking certificates of convenience and necessity ("CCNs") related to two separate generation projects intended to assist in fulfilling the Company's capacity and energy needs through 2030. The first project is the Viola Generating Station, a 710 MW combined-cycle combustion gas ("CCGT") turbine plant to be located in Sumner County, Kansas that will be co-owned by EMW with EKC (each with a 50% ownership share) with an anticipated total project cost excluding AFUDC of **[redacted]**. The second project is the Mullin Creek #1 Generation Station, a 440 MW simple-cycle gas turbine ("SCGT") plant to be located in Nodaway County, Missouri with an anticipated total project cost excluding AFUDC of **[redacted]**.

As Evergy witness Kevin Gunn explains, we are also requesting flexibility for 50% of a third plant: the McNew Generating Station, a 710 MW CCGT that would be located in Reno County, Kansas. The ownership of the 50% share of the plant will potentially be allocated to EMW or to EMM pursuant to the framework outlined in Mr. Gunn's direct testimony.

II. REQUEST FOR CONSTRUCTION ACCOUNTING TREATMENT, GIVEN THE REGULATORY LOSS ON THE GENERATING FACILITIES

Q: When will the Company's rates reflect a return of and on its investment in these generating facilities?

A: Rates will not reflect a return on or of these investments until they are included in new base rates after the plants are deemed to be in service. These projects have expected in-service dates in 2029 and 2030. The Company cannot perfectly align a rate review with the date when these new investments will go into service. The minimum time period between the true-up date in a rate review and the effective date of new rates has typically been approximately six months.

While a generation project is under construction and before it is placed in service, EMW is permitted to accrue Allowance for Funds used During Construction ("AFUDC"). AFUDC is a regulatory accounting method that allows utilities to capitalize the financing costs incurred during the construction of a new plant. AFUDC is typically accrued at

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EMW's rate of return, and the balance is added to the cost of the plant to be recovered in rates.

However, EMW is not permitted to accrue AFUDC after a plant is placed in service unless authorized by the Commission. This means that there will be a lag between (a) the in-service date when EMW will start incurring depreciation expense and operating and maintenance ("O&M") expense without being permitted to accrue AFUDC, and (b) the date when new customer rates become effective that include the investment in the natural gas plants. The amount of lost recovery of EMW's return on and return of its investments during this period of time would be significant. Without construction accounting, even if we are able to optimize the timing of our next general rate case, EMW will experience at least six months of regulatory lag on its investments. For an investment the size of the Viola Generating Station, lost recovery of a return of and on the Company's investment will total in excess of $8 million per month.

With planned investments in natural gas generation, as discussed in this Application, and in solar generation projects as proposed in pending Case No. EA-2024-0292, EMW will be making extraordinarily large financial outlays for the construction of new generation over the next six years. Therefore, EMW requests construction accounting treatment in order to manage those large investments by eliminating one source of regulatory lag. The Commission's approval of construction accounting treatment would also signify its support for Evergy's investment in necessary dispatchable generation.

Q. What is EMW requesting in order to ensure equitable treatment to allow it to avoid the impact of regulatory lag, recover its costs, and earn a reasonable return on its investment in natural gas generation?

A. Evergy Missouri West requests that the Commission approve the use of construction accounting through a deferral to a regulatory asset of AFUDC costs and depreciation expense for the new natural gas facilities between the time they are placed in service on EMW's books and the effective date of new rates that will reflect these investments in its revenue requirement. This will allow EMW to continue to accrue AFUDC on these projects and to defer the depreciation expense during the Regulatory Loss Period. EMW requests this treatment for its investment in the Viola plant and the Mullin Creek 1 plant.

In the event that 50% of the McNew plant is allocated to EMW pursuant to the decision framework discussed by Mr. Gunn, we would request construction accounting treatment for the investment in that plant as well.

Q. Has the Commission granted Construction Accounting in the past?

A. Yes. Construction Accounting is a regulatory accounting concept that is well known and has been utilized in the past. This type of accounting has been authorized by the Commission to help utilities recover the cost of large construction projects. The Commission has approved Construction Accounting in the following cases:

- No. EU-2014-0255: Kansas City Power & Light Co. regarding upgrades at the La Cygne energy center in Kansas.
- No. EU-2011-0034: Kansas City Power & Light Co. regarding the Iatan 2 unit at the Iatan energy center.

- No. EO-2010-0262: Empire District Electric Co. regarding the Plum Point energy center in Arkansas.
- No. ER-2010-0036: Union Electric Co. d/b/a Ameren Missouri regarding the Sioux energy center's scrubber project.
- No. EO-90-114: Missouri Public Service Co. regarding the Sibley generating station.

Most recently, the Commission approved Construction Accounting for Ameren Missouri's Castle Bluff Project in Case No. EA-2024-0237. The Commission determined Construction Accounting was appropriate in all of the above cases which support the requests in this proceeding.

Q: What request are you making for EMM with respect to Construction Accounting?

A: In the event that 50% of the McNew plant is allocated to Evergy Missouri Metro, pursuant to the framework discussed by Mr. Gunn, we request Construction Accounting treatment for EMM's investment in that plant as well.

Q: How would the request for Construction Accounting be impacted if the Plant in Service Accounting ("PISA") statute (Section 393.1400, et al.) is revised as a result of current discussions?

A: As Mr. Gunn explains, we would ask the Commission to be clear in its order that if the PISA statute is amended so that it applies to the natural gas facilities proposed in this Application or if any other statute applies to those facilities that results in deferral and recovery of return on and of investment from the in-service date to the effective date of new rates, then no Construction Accounting will be applied.

III. ACCOUNTING FOR JOINTLY OWNED PLANTS

Q: How will the Company formalize its operating and accounting approach for the natural gas facilities that will be jointly owned?

A: Similar to our other jointly owned facilities, including Jeffrey Energy Center, LaCygne Energy Center, and Iatan Energy Center, Evergy will put in place a Joint Ownership and Operating Agreement ("JOA") for the Viola plant (and the McNew plant if a 50% interest is allocated to an entity other than EKC). Evergy is still in the process of developing the JOA, however, because the JOA will be an affiliate agreement, Evergy will submit the executed version of the agreement to the Commission once it is finalized and signed. We expect the structure of the JOA to be similar to the most recent agreement executed for a dispatchable, jointly owned plant, which was for Iatan 2 at the Iatan Energy Center. Because one (possibly two if the McNew plant is allocated to EMW or EMM) combined-cycle natural gas plants will be located in Kansas, EKC will be the operator for the Viola (and McNew, if applicable) plant. The JOA will outline EKC's responsibilities as operator, as well as the accounting approach to be followed for all costs incurred during construction and after the plants are placed in-service.

Q: How is Evergy handling the incurrence of costs related to the jointly owned natural gas plants before the JOA is finalized?

A: Early in the planning stage, Evergy executed agreements related to the construction of the CCGT natural gas plants in the name of Evergy Services, Inc. under which any related costs from those agreements will be allocated to the affiliate owners based on their ownership percentages. For the Reservation Agreements for each of the two Kansas plants, EKC will execute the agreements with Mitsubishi, as described by Evergy witness Kyle

Olson, because EKC will be the operator for those two plants. The costs will then be allocated to the affiliate owners based on their ownership percentages. EKC and EMW have executed an agreement that outlines their respective responsibility for the costs incurred as a result of the Reservation Agreement for the Viola plant as 50-50 owners of that plant. That agreement between EKC and EMW will be provided along with the other workpapers in support of Mr. Olson's testimony.

Q: How will the Company account for costs related to the jointly owned natural gas plants in order to ensure their costs are assigned appropriately based on ownership interest?

A: We will manage the accounting for costs related to the jointly owned natural gas plants in the same manner that we currently manage costs for the other plants that are jointly owned by affiliates which are the plants at the Iatan, LaCygne, and Jeffrey Energy Centers. For example:

- Construction costs, removal costs, and/or net salvage incurred by EKC as the operator will be accounted for in accordance with the FERC Uniform System of Accounts and with Generally Accepted Accounting Principles ("GAAP").
- The Joint Owners will share all construction costs, removal costs, and/or net salvage in proportion to their ownership share.
- Cost of construction, removal and salvage will be specifically identified. EKC will record and track costs directly assignable to each of the jointly owned natural gas plants in separate and distinct projects within its accounting system, to allow for appropriate and accurate reporting and allocations to the co-owners. Allocation of

costs will occur on a monthly basis when books are closed. We will use intercompany accounts to record the payables and receivables between affiliates.

- Once the jointly owned plants are in-service, EKC will operate the natural gas plants pursuant to the JOA and will incur expenses associated with operating and maintaining those plants. EKC will record and track labor and other costs directly assignable to the jointly owned natural gas plants in separate and distinct projects within its accounting system to allow for appropriate and accurate reporting and allocations to the co-owners. Allocation of costs will occur on a monthly basis when books are closed, and we will use intercompany accounts to record the payables and receivables between affiliates.
- Each co-owner will report to the appropriate taxing authority its ownership share subject to real estate and personal property taxes and will make timely payment of all taxes levied thereon. Each co-owner will record its property tax expense directly on its own books.
- Each co-owner will own an interest in the inventory of materials and supplies in proportion to its ownership share. At the time of purchase, inventory items will be identified for the natural gas plant they relate to. The associated cost of inventory will be allocated to each co-owner based on the respective percentage of ownership share.

Just as we do for the other jointly owned plants, we will ensure that the accounting for any capital or expense related to a jointly owned natural gas plant will be managed in a way that ensures the appropriate allocation of the responsibility of costs to each owner based on its ownership share.

Q: Does this conclude your testimony?

A: Yes, it does.

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 RONALD A. KLOTE

STATE OF MISSORUI)) ss
COUNTY OF JACKSON)

Ronald A. Klote, being first duly sworn on his oath, states:

1. My name is Ronald A. Klote and I am employed by Evergy Metro, Inc. as Senior Director – Regulatory Affairs.

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.

Ronald A Klote
Ronald A. Klote

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

Anthony R. Westenkirchner
Notary Public

My commission expires: 4/26/2025

ANTHONY R. WESTENKIRCHNER
NOTARY PUBLIC - NOTARY SEAL
STATE OF MISSOURI
MY COMMISSION EXPIRES APRIL 26, 2025
PLATTE COUNTY
COMMISSION #17279952

Evergy Metro, Inc. d/b/a Evergy Missouri Metro and
<u>Evergy Missouri West, Inc. d/b/a Evergy Missouri West</u>

Docket No.: EA-2025-0075
Date: October 25, 2024

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Direct, p. 4, lns. 1 and 4	4 and 6

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2. Employee-sensitive personnel information;

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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.