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Witness/Type of Exhibit:	Murray/Supplemental Rebuttal
Sponsoring Party:	Public Counsel
Case No.:	ER-2024-0189

SUPPLEMENTAL REBUTTAL

TESTIMONY

OF

DAVID MURRAY

Submitted on Behalf of the Office of the Public Counsel

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

CASE NO. ER-2024-0189

October 15, 2025

SUPPLEMENTAL REBUTTAL TESTIMONY

OF

DAVID MURRAY

**EVERGY MISSOURI WEST, INC. D/B/A
EVERGY MISSOURI WEST**

CASE NO. ER-2024-0189

Q. Please state your name and business address.

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

Q. Are you the same David Murray who previously filed testimony in this case?

A. Yes.

Q. What is the purpose of this testimony?

A. To respond to the direct testimony of Evergy Missouri West's ("EMW") witness, Darren R. Ives filed on September 15, 2025.

Q. What aspects of his testimony will you address?

A. I will address his testimony related to the financial impact of Crossroads Energy Center ("Crossroads") transmission expense disallowances on EMW's financial condition.

Q. Can you provide a summary of Mr. Ives' testimony addressing the financial impact of the non-recovery of Crossroads transmission expenses?

A. Yes. Mr. Ives' testimony attempts to convince the Commission to allow the recovery of Crossroads transmission expenses by showing the impact non-recovery of these expenses has had on EMW's earned ROE. He also discusses recent rating agency reports published on EMW and his view about how allowing Crossroads transmission expenses could be considered favorable by the rating agencies.

1 **Q. Should EMW's financial situation be the primary consideration in determining**
2 **whether to allow EMW recovery of Crossroads transmission expenses?**

3 A. No. The purpose of economic regulation is to protect ratepayers from inefficient and
4 uneconomic decisions. It is not to insulate a utility company's financial condition no matter
5 what the cost to ratepayers. However, that being said, under efficient and economical
6 management, it is important to set rates to allow for the potential of a financially stable
7 company that can attract capital at reasonable costs.

8 **Q. What are the primary principles established in landmark United States Supreme**
9 **Court cases as it relates to evaluating a fair and reasonable rate of return ("ROR")**
10 **of utility companies?**

11 A. The following principles of the *Hope*¹ and *Bluefield*² Supreme Court of the United States
12 cases are often cited as criteria when setting a fair and reasonable ROR for purposes of
13 utility ratemaking:

- 14 1. Comparable returns for similar risk;
- 15 2. Financial integrity/maintain credit; and
- 16 3. Capital attraction.

17 **Q. Do these principles entitle a utility company's shareholders to be made whole**
18 **regardless of the efficiency and effectiveness of management decisions?**

19 A. No. The US Supreme Court stated the following in the *Bluefield* decision as it relates to
20 setting a utility company's rates and resulting ROR:

21 The return should be reasonably sufficient to assure confidence in
22 the financial soundness of the utility, and should be adequate, **under**
23 **efficient and economical management**, to maintain and support its
24 credit and to enable it to raise the money necessary for the proper
25 discharge of its public duties.³ (emphasis added).

¹ *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 64 S.Ct. 281, 88 L.Ed. 333 (1943).

² *Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679 (1923).

³ *Id.*

1 **Q. Regardless, will prospective investors in Evergy's common equity not earn their**
2 **required return if the Commission continues to disallow the Crossroad transmission**
3 **costs?**

4 A. No. The estimated intrinsic value of a share of Evergy's common stock already reflects
5 investors' expectations, which if investors expect the Commission to continue to disallow
6 transmission expenses associated with Crossroads, would mean that Evergy's common
7 share price is already adjusted downward for such expectations. The shareholders that
8 incurred the loss of value associated with the potential expectation that Evergy would
9 recover transmission costs associated with Crossroads were investors that owned Great
10 Plains Energy's (the previous publicly-traded holding company that wholly-owned Evergy
11 Missouri West) stock at the time of the Commission's decision in Case No. ER-2010-0356.
12 From that point forward, prospective shareholders should not have factored in expectations
13 to recover these costs, which would allow them to recover at least their required return on
14 common equity (*i.e.* the Company's cost of equity).

15 **Q. Can you provide an example to illustrate your point?**

16 A. Yes. For purposes of this example, I assumed that the cost of equity is 8% with a growth
17 rate of 6% for the first ten years and a 3% perpetual growth rate. I assumed the cash flow
18 to the shareholder in the first year was \$10. Based on these assumptions an investor would
19 pay \$246.45 for the opportunity to receive the anticipated cash flows. Now, this same
20 investor, who had factored in an expectation of recovering \$1 of annual expenses that the
21 Commission disallowed, and investors expect the Commission to continue to disallow,
22 would experience an immediate loss of \$16.25. Therefore, the shareholders who owned
23 the stock prior to the disallowance experienced the loss, not investors who purchase the
24 stock after the disallowance.

25 **Q. Why would new investors not realize this loss?**

26 A. Because they reduced their expected annual cash flows by \$1 every year. New investors
27 would only be willing to pay \$230.20 for the revised expected cash flows, which if realized
28 would allow for an 8% return on the investor's \$230.20 investment.

1 **Q. Based on your example, should Evergy be able to attract equity capital at reasonable**
2 **costs?**

3 A. Yes. In this example, I did not assume that equity investors required a higher risk premium
4 to invest in Evergy because of the disallowance. If investors did so, then they would pay
5 a lower amount for the opportunity to benefit from expected cash flows. That being said,
6 the market price of Evergy's stock is adjusted to ensure that new investors can reasonably
7 expect to achieve their required return on their equity investment.

8 **Q. Does this mean that the equity investors will receive their 8 percent required return?**

9 A. Not necessarily. However, as with the utility industry in general, market returns for utility
10 shares are heavily influenced by changes in opportunity costs, such as bond yields. But it
11 should also be emphasized that the risk premium required over bond yields reflects the
12 uncertainty that common equity investors may not achieve their required returns.
13 Otherwise, the required return on an equity investment in a utility company should not be
14 much higher than coupons offered on the company's own long-term bonds.

15 **Q. Is it possible to quantify the impact of the transmission cost disallowance on Great**
16 **Plains Energy's shareholders' and subsequent Evergy shareholders' market returns**
17 **since 2011?**

18 A. No. Even before Great Plains Energy ("GPE") merged with Westar Energy Inc. in 2018,
19 EMW did not comprise the entirety of GPE. In fact, EMW has always been the smallest
20 regulated utility subsidiary of GPE and then Evergy. Therefore, it is essentially impossible
21 to provide practical information on the market impact of the Commission's disallowance
22 on shareholder returns.

23 **Q. But didn't Mr. Ives provide his quantification based on earned returns on the book**
24 **value of common equity?**

25 A. Yes, but as I already testified, the return on the book value of common equity (*i.e.* ROE
26 based on financial statement reporting) is not synonymous with the return on market value
27 of common equity. The total return on GPE's common equity for the period April 31,
28 2011, (days before the Commission's May 4, 2011, decision in Case No. ER-2010-0356)

1 through May 31, 2016 (the day GPE announced an agreement to acquire Westar Energy)
2 was 73.91% or equivalent to a compound annual return of 11.69%. However, this period
3 coincided with the start of a sustained decline in the cost of capital, which greatly benefited
4 utility industry shareholders. Therefore, because of macroeconomic issues that are not
5 related to the fundamental financial expectations of the utility industry in general, and
6 utility companies specifically, GPE's favorable shareholder market returns cannot
7 necessarily be attributed to company-specific financial performance.

8 **Q. What is your response to Mr. Ive's testimony as it relates to EMW's credit metrics,**
9 **and ultimate credit ratings?**

10 A. The facts speak for themselves as it relates to EMW's credit metrics and credit ratings, but
11 it is important to provide the consumer advocate's viewpoint as to whether EMW's
12 financial metrics and credit ratings should be the primary consideration in deciding whether
13 to allow Crossroads transmission expenses to be recovered from ratepayers.

14 While strained credit metrics and their potential impact on a company's cost of capital is
15 of concern, the primary consideration for the Commission in making its decision on this
16 issue is whether the Company's decisions related to Crossroads were prudent. I consider
17 this to be equivalent to the principle of setting a fair and reasonable authorized ROR based
18 on "efficient and economical management" pursuant to the US Supreme Court's decision
19 in the *Bluefield* case. If a company's cost of capital increases due to imprudent
20 management decisions, then this increased cost of capital should not be charged to
21 ratepayers. While I did not recommend a downward adjustment to EMW's cost of debt in
22 my recommended ROR in this general rate case, to the extent that EMW incurs a higher
23 cost of debt due to imprudent management decisions, this should also be considered.

1 **Q. Have you recommended downward adjustments to Missouri utility companies' cost**
2 **of debt in any past or current rate cases to protect ratepayers from paying a higher**
3 **than reasonable ROR to a utility?**

4 A. Yes. I recently recommended reductions to the actual or assigned costs of debt to the
5 following Liberty Utilities Co.'s ("LUCo") Missouri operating utility subsidiaries' costs of
6 debt because their affiliation with Algonquin Power & Utilities Corp. ("APUC") and LUCo
7 has caused higher than reasonable costs of debt for a stable 'BBB'-rated utility business
8 risk profile: The Empire District Electric Company, Liberty Utilities (Midstates Natural
9 Gas) Corp., and Liberty Utilities (Missouri Water) LLC.

10 Additionally, starting around 2002, EMW's actual cost of long-term debt was higher than
11 reasonable due to its affiliation with failed non-regulated operations. Consequently, I
12 recommended EMW's actual cost of debt be adjusted to be more consistent with a stable
13 'BBB'-rated utility business risk profile. EMW had committed not to charge a cost of debt
14 any higher than that which was consistent with investment grade debt issuances. However,
15 EMW requested debt costs consistent with the lowest investment grade credit rating,
16 'BBB-'⁴, rather than the 'BBB' credit rating it had before its non-regulated investments
17 caused its S&P credit rating to bottom out at 'CCC+' on June 23, 2004.⁵

18 **Q. But in these cases, your adjustments were due to the utility's affiliation with the risks**
19 **realized with the non-regulated operations, not the regulated operations. Should**
20 **EMW's decisions related to Crossroads be evaluated differently?**

21 A. No. In either situation, the realized risk was caused by management decisions. A utility's
22 financial condition is not the responsibility of ratepayers. In fact, the role of utility
23 regulators is to ensure that ratepayers are not charged for inefficient and uneconomical
24 management.

⁴ Case No. ER-2009-0090, Rebuttal Testimony of David Murray, p. 22, ln. 20 – p. 23, ln. 5.

⁵ S&P Global Ratings.

1 **Q. Mr. Ives discusses S&P Global Ratings’ recent comments regarding EMW’s credit**
2 **rating. Can you respond to Mr. Ives’s position as to how the Commission should react**
3 **to these comments?**

4 A. Again, the Commission should focus on the primary issue of whether Crossroads
5 transmission costs are the result of prudent decisions, not on the ultimate impact on credit
6 ratings. S&P Global Ratings is providing the debt investors’ view of favorable ratemaking
7 treatment, not the ratepayers’ view. Therefore, extracting statements such as the
8 importance of “timely rate recovery” to attempt to convince the Commission to allow
9 recovery of the Crossroads transmission expense should not be the primary factor on
10 whether ratepayers should be charged this expense. The fallacy of this argument can be
11 illustrated by considering the impact on EMW’s credit quality of not recovering its actual
12 cost of debt when its credit ratings were below investment-grade. If financial stability,
13 regardless of what caused a company to become financially unstable, should be the primary
14 focus of utility regulators, then the Commission should have allowed EMW to recover the
15 14.875% cost associated with \$500 million of debt it issued in July 2002.⁶ Additionally,
16 the Commission should have authorized EMW to use its Missouri utility assets as collateral
17 to raise short-term debt financing because EMW was not a sound credit due to its failed
18 non-regulated investments.⁷ Thankfully, the Commission did not impose this burden on
19 EMW’s regulated utility ratepayers because these events were due to management
20 decisions deemed detrimental to EMW’s utility customers.

21 Additionally, Mr. Ives attempts to capitalize on S&P’s comments related to risks caused
22 by EMW’s “limited geographic ... diversity,” which “leave[s] cash flow susceptible to
23 local weather and economic conditions.” Mr. Ives maintains that these comments support
24 having generation located in Mississippi to serve customers in northwestern Missouri.
25 While I certainly understand the benefit of geographic diversity as it relates to demand
26 from customers due to weather and economic conditions, I am not aware of geographic
27 diversity for supply being a major concern for debt and equity investors. Mr. Ives’
28 testimony is another stretch of the use of comments from the “investment community” to

⁶ Aquila Inc.’s SEC Form 10-K Filing, December 31, 2004, p. 116.

⁷ Case No. EF-2003-0465.

attempt to convince the Commission to charge EMW's customers for the Crossroads transmission expenses.

Q. What is your response to Mr. Ives' testimony as it relates to Moody's assessment of EMW's credit quality?

A. While it is certainly concerning that Moody's downgraded EMW to Baa3, which is the equivalent of a 'BBB-' S&P credit rating and the lowest credit rating before "junk" rating status, it is important to put the Crossroads transmission expenses in perspective. If the Crossroad transmission expenses of \$18.1 million were included in 2024 cash flows, then EMW's CFO Pre W/C to debt ratio would have been approximately 11% rather than 10.1%. While an improvement, it would not have prevented EMW from being downgrade to 'Baa3'.

Additionally, while concerning, I also note that the current yield-to-maturities ("YTM") on EMW's outstanding debt have been lower than the YTM's on LUCo's debt, which is charged to LUCo's Missouri utilities, and it has a better Moody's credit rating of 'Baa2' or one notch higher than EMW.

SUMMARY AND CONCLUSIONS

Q. Can you summarize your response to Mr. Ives' testimony?

A. Yes. Mr. Ives' testimony discusses issues that should not be the Commission's primary focus. If a management decision is deemed imprudent, the purpose of economic regulation is to ensure ratepayers do not pay the higher cost related to these imprudent decisions. If such decision causes a company's financial risk profile to be weaker than it would have been absent these imprudent decisions, ratepayers are not expected to make shareholders whole when that decision causes the company to under-earn its authorized ROE. If a company feels entitled to its authorized ROE, then the Commission should not authorize a risk premium over the company's bond costs. Investors in stock require a risk premium because they are not contractually entitled to a specific return. Therefore, the Commission should not allow complaints about the financial impact of its decisions to be its primary focus in deciding whether a utility company should be allowed to recover certain costs.

1 In fact, although I have not recommended an downward adjustment to EMW's cost of long-
2 term debt, even if EMW's cost of capital is higher due to its management decisions, then
3 ratepayers should not be responsible for these higher costs of capital either.

4 **Q. Does this conclude your testimony?**

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

AFFIDAVIT OF DAVID MURRAY

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

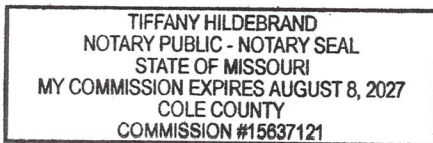
David Murray, of lawful age and being first duly sworn, deposes and states:

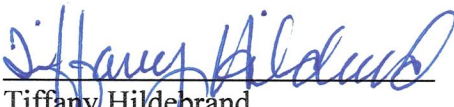
1. My name is David Murray. I am a Utility Regulatory Manager for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my supplemental rebuttal testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.



David Murray
Utility Regulatory Manager

Subscribed and sworn to me this 15th day of October 2025.





Tiffany Hildebrand
Notary Public

My Commission expires August 8, 2027.