

Exhibit No. 7P

Evergy Missouri West – Exhibit 7P
Jason Humphrey
Surrebuttal Testimony
File No. EF-2022-0155

Exhibit: _____

Issues: Carrying Costs; Upfront
Financing Costs; Rising Interest
Rate Environment

Witness: Jason Humphrey

Type of Exhibit: Surrebuttal Testimony

Sponsoring Party: Evergy Missouri West

Case No. EF-2022-0155

Date Testimony Prepared: July 22, 2022

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO:

EF-2022-0155

SURREBUTTAL TESTIMONY

OF

JASON HUMPHREY

ON BEHALF OF

EVERGY MISSOURI WEST

Kansas City, Missouri

July 2022

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SURREBUTTAL TESTIMONY

OF

JASON HUMPHREY

Case No. EF-2022-0155

1 **I. INTRODUCTION**

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

3 A: My name is Jason Humphrey. My business address is 818 S. Kansas Ave. Topeka, KS
4 66612.

5 **Q: Are you the same Jason Humphrey who submitted direct testimony in this docket**
6 **on March 11, 2022?**

7 A: Yes.

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

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

11 **II. PURPOSE OF SURREBUTTAL TESTIMONY**

12 **Q: What is the purpose of your surrebuttal testimony?**

13 A: The purpose of my surrebuttal testimony is: (1) to respond to carrying cost
14 recommendations made by Staff witnesses Bolin and Davis and Office of the Public
15 Counsel (“OPC”) witness Murray; (2) to address comments regarding upfront financing
16 costs by Staff witnesses Bolin and Davis; and (3) to respond to concerns regarding the
17 current rising interest rate environment raised in the rebuttal testimony of Staff witness
18 Davis.

1 **Q: How will your surrebuttal testimony be organized?**

2 A: Having already stated the purpose of my surrebuttal testimony, I will next provide the
3 following sections:

4 III. Carrying Costs

5 IV. Upfront Financing Costs

6 V. Concerns Regarding Rising Interest Rate Environment

7 VI. Conclusion

8 **III. CARRYING COSTS**

9 **Q. Does the Missouri Securitization Statute allow the Company to recover carrying**
10 **costs?**

11 A. Yes. As discussed in the Surrebuttal Testimony of John Reed, the recovery of carrying
12 charges is specifically provided for in the Missouri Securitization Statute. In particular, the
13 definition of energy transition costs with respect to retired or abandoned electric generating
14 facilities include “accrued carrying charges”. Likewise, qualified extraordinary costs
15 include the “purchase of fuel or power, inclusive of carrying charges, during anomalous
16 weather events”.

17 **Q. Is a carrying cost based on a debt rate only, as proposed by Ms. Bolin and Mr.**
18 **Murray, reasonable and consistent with the fair return standard?**

19 A. No. The Company relies on a balanced mix of debt and equity to fund intermediate-term
20 and longer-term investments, operations, and emergencies, like Winter Storm Uri. Short-
21 term sources of funding provide utilities with access to capital between long-term
22 financings. They are one of a utility’s sources of capital, not the entire source of capital.

1 **Q. Ms. Bolin refers to the use of a short-term debt rate in carrying costs in FAC filings**
2 **as justification for the Staff’s recommendation. Do you agree?**

3 A. No. The appropriate return (or carrying cost) for the deployment of EMW’s capital in this
4 instance is no different than that which should apply to any other commitment of
5 intermediate or long-term capital **and** should reflect a balanced mix of debt and equity. The
6 interval over which EMW’s capital will be deployed is not yet known, but it significantly
7 exceeds one year, which is the typical definition of short-term capital.

8 Further, as discussed by Mr. Ives and Mr. Klote, securitization will reduce
9 customers’ costs by financing Storm Uri costs with securitization bonds that have a lower
10 cost than EMW’s WACC. Staff and OPC witnesses’ proposals would deny EMW the
11 opportunity to earn a reasonable return until securitization bonds are issued. This is neither
12 reasonable nor appropriate. The Company’s proposed securitization should be supported,
13 not penalized.

14 **Q. Does Mr. Murray attempt to link a decision in this case on carrying costs to EMW’s**
15 **pending rate case ER-2022-0130?**

16 A. Yes. Mr. Murray testifies (1) if the Commission rejects his proposal to assign a short-term
17 debt rate to Storm Uri costs in this case, then ROR established in EMW’s pending rate case
18 should reflect short-term debt, but (2) if the Commission adopts his proposal here to use
19 the short-term debt rate to calculate carrying costs for securitization then he “would not
20 recommend including this higher portion of short-term debt in MO West’s authorized ROR
21 in the general rate case.”

1 **Q. What is your response to Mr. Murray on this point?**

2 A. Mr. Murray's "heads-I-win/tails-you-lose" approach should be rejected by the Commission
3 as it clearly fails to compensate EMW for the capital costs it will have incurred between
4 their incurrence in February 2021 and their recovery which will likely occur sometime
5 during the period between February 2023 and the Fall of 2024. Mr. Murray seems to
6 believe that the Company has relied exclusively on short-term debt to carry Winter Storm
7 Uri costs and bases his "either/or" recommendation on that belief. In fact, it's simply not
8 possible to establish which dollars have been or are being used to support any specifically
9 identified cost item. Short-term debt balances fluctuate over time and are substantially
10 influenced by a variety of factors including working capital needs, operations, market
11 conditions and special conditions like Winter Storm Uri.

12 **Q: What is the appropriate carrying cost for financing Storm Uri?**

13 A: EMW's WACC is the appropriate carrying cost for financing Winter Storm Uri. The
14 Winter Storm URI costs will have been carried for more than 18 months at the conclusion
15 of the procedural schedule in this case. The Company has requested a two-year effective
16 period for the Financing order once the order is non-appealable. It is not out of question
17 that the securitization bonds would be issued up to four years after the occurrence of Winter
18 Storm Uri. The carrying costs associated with Winter Storm Uri are clearly medium to
19 long-term cost for the Company, and as such should be recovered at the typical rate for
20 such costs. In this case, the utility WACC grossed up for taxes.

1 **Q: Are the carrying costs appropriately reflected in the amount to be financed in your**
2 **direct testimony schedules?**

3 A: Yes, the calculations for up-front and on-going financing costs were based on the amount
4 of the Winter Storm Uri costs and their associated carrying costs at Missouri West's
5 Weighted Average Cost of Capital.

6 **IV. UPFRONT FINANCING COSTS**

7 **Q: Please explain your understanding of Staff's position regarding upfront financing**
8 **costs?**

9 A: Based on the rebuttal testimony of Staff witness Davis (pages 7-8) and Staff witness Bolin
10 (page 11), I understand that Staff recommends that the upfront financing costs I supported
11 in my direct testimony of approximately \$6.6 million for inclusion in the total amount to
12 be recovered through securitized bonds should be reduced to about \$6 million.

13 **Q: Do you know the basis of this Staff recommendation?**

14 A: No, Staff's rebuttal testimony does not clearly articulate the basis for this recommended
15 reduction. In an effort to gain a better understanding of the rationale underlying Staff's
16 recommendation to reduce upfront financing costs included in the total amount to be
17 recovered by approximately \$600,000, I closely examined Staff's workpapers on this topic.
18 Although the workpapers do not shed clear light on the Staff's rationale, it appears that,
19 perhaps, the reduction in upfront financing costs recommended by Staff is driven primarily
20 by its aggregate reduction to the total amount to be recovered as calculated in the various
21 adjustments sponsored by Staff (e.g., the NFOM cost adjustment, the carrying cost
22 adjustment, the 95%/5% adjustment, the extraordinary revenue adjustment and the Nucor
23 adjustment) rather than by specific concerns regarding identifiable upfront financing cost

1 elements. As a result of this, and because the Company disputes the vast majority of the
2 dollar amount of the adjustments Staff has recommended, I do not believe any adjustment
3 to upfront financing costs is warranted at this time.

4 **Q: If the Commission adopts the Company’s position on upfront financing costs and**
5 **makes no adjustment at this time, what does that mean for the amount of upfront**
6 **financing costs that will be included in the total amount to be securitized?**

7 A: The final amount of upfront financing costs will be ascertained once the bonds are placed
8 to market and will be visible to the Commission (and the parties) through the issuance
9 advice letter (“IAL”) process that will take place immediately before the bonds are issued.
10 To the extent the amount of upfront financing costs is a function of the total amount to be
11 recovered, any adjustments ordered by the Commission will be known at that time.
12 Furthermore, if the amount of upfront financing costs included in the securitized bonds
13 turns out to be different than the amount of upfront financing costs actually incurred by the
14 Company, the difference will be reconciled in either the first annual true-up (if the upfront
15 financing costs included in the principal amount of the bonds is greater than those actually
16 incurred) or through establishment of a regulatory asset to be treated in a subsequent rate
17 case (as required by paragraph 25 on p.22 of Sch. SL-2 to Company witness Lunde’s direct
18 testimony, the Company’s proposed financing order) to ensure customers pay neither more
19 nor less than the amount of upfront financing costs actually incurred.

20 **Q: Are you proposing any updates to the upfront financing costs?**

21 A: Yes. Witness Klote adjusts the Winter Storm Uri costs for NFOM costs and a February
22 2022 SPP resettlement adjustment. Due to this adjustment, there is a slight change to the
23 upfront financing costs for the amount that is variable based on the Uri costs to be

1 securitized. The updated costs are reflected in my updated Schedule JOH 2 – Upfront and
2 Ongoing Financing Costs.

3 **V. CONCERNS REGARDING RISING INTEREST RATES**

4 **Q: Staff witness Davis notes (on pages 5-6 and 8-9 of his rebuttal testimony) that interest**
5 **rates have increased since the Company filed its direct testimony in this proceeding**
6 **and suggests that in such an environment the Company should have performed**
7 **additional sensitivity analyses to demonstrate that the statutory standards will be met.**
8 **How do you respond?**

9 **A:** The Company does not disagree that interest rates have risen since the filing of direct
10 testimony. The unfortunate reality is that they may rise further after the submission of this
11 surrebuttal testimony on July 22, 2022, or even after the Commission’s financing order is
12 issued. No one can know at this time what interest rates will be when the securitized bonds
13 are issued.

14 The usefulness of sensitivity analyses is limited given the uncertainty surrounding
15 future interest rates and that limited usefulness does not justify the amount of time and effort
16 required to produce the sensitivity analyses. Company Witness Lunde instead performs a
17 breakeven analysis that allows parties to see the rates at which Securitization is at cost parity
18 with the alternative recovery methods and does not produce net present value savings for
19 customers.

20 A rising interest rate environment will ultimately affect all capital costs. Staff
21 witness Davis acknowledges this reality on page 6 of his rebuttal testimony. This means
22 that the WACC will necessarily increase in a rising interest rate environment as long-term
23 debt matures and is re-issued at higher than previous rates. In addition, securitized

1 financing costs will never include the cost of equity so there will always be capital cost
2 savings associated with securitized bonds when compared to the WACC (the traditional
3 method of financing utilities).

4 Given these facts, Company witness Lunde has performed a “break-even analysis”
5 that demonstrates that even with securitized debt costs as high as 6.986% (compared to the
6 3.427% securitized debt cost assumed in the Company’s direct testimony), financing
7 recovery of winter storm Uri costs by means of securitization produces quantifiable NPV
8 benefits for customers compared to recovering Winter Storm Uri costs through the FAC
9 with a PISA deferral or through a traditional AAO. It must be remembered also that this
10 “break-even analysis” is conservative because it holds the WACC constant at the current
11 level for the term of the securitized bonds even though it is virtually certain that the
12 Company’s WACC would increase from its current level as a result of the rising interest
13 rate environment.

14 VI. CONCLUSION

15 **Q: What conclusions should the Commission draw from your surrebuttal testimony?**

16 A: Neither Staff (which has proposed a long-term debt rate) nor OPC (which has proposed a
17 short-term debt rate) has recommended a carrying cost rate that fairly compensates EMW
18 for the capital costs it will have incurred for the period of time – which will be no less than
19 two years and could conceivably approach four years – between the Company’s incurrence
20 of Winter Storm Uri costs in February 2021 and the Company’s recovery of those costs
21 through securitized bonds (February 2023, at the earliest.) As such, the Commission
22 should adopt the carrying cost recommendation of the Company, its current weighted
23 average cost of capital.

1 Staff has not provided any specific rationale for adjustment of identifiable upfront
2 financing costs and instead appears to base its proposed reduction of such costs on the
3 lower total amount to be recovered resulting from various adjustments it has proposed that
4 are disputed by the Company. As a result, and because the amount of upfront financing
5 costs will be visible to the Commission through the IAL process that will occur after the
6 Commission has made its decision on the various adjustments proposed by Staff just before
7 the securitized bonds are issued, there is no reason to reduce upfront financing costs at this
8 time.

9 The fact that interest rates have risen since the Company's direct testimony filing
10 and may rise further prior to the issuance of securitized bonds provides no reasonable basis
11 to order the Company to provide additional sensitivity analyses as suggested by Staff. The
12 "break even analysis" provided by Company witness Lunde in his surrebuttal testimony is
13 sufficient for the Commission to determine at this time that the statutory requirements are
14 likely to be met, and the IAL process that will occur just before the bonds are issued will
15 enable the Commission to be certain that the statutory standards are met before it allows
16 the bonds to be issued.

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

18 **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 for a Financing Order Authorizing the)
Financing of Extraordinary Storm Costs)
Through an Issuance of Securitized Utility)
Tariff Bonds.)

Case No. EF-2022-0155

AFFIDAVIT OF JASON HUMPHREY

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Jason Humphrey, being first duly sworn on his oath, states:

1. My name is Jason Humphrey and I am employed by Evergy Metro, Inc. as Sr Director Renewable & Assistant Treasurer - Renewables Development.

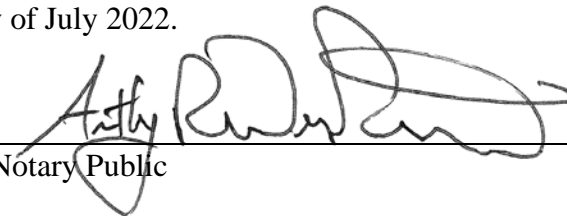
2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Evergy Missouri West consisting of nine (9) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

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.



Jason Humphrey

Subscribed and sworn before me this 22nd day of July 2022.



Notary Public

My commission expires: 4/26/2025



Direct Testimony of Jason O. Humphrey
 Evergy Missouri West
 Before the Missouri Public Service Commission
 Case. No. EF-2022-0155
 Estimated Up Front and Ongoing Securitization Costs

1	Storm Uri costs (incl. carrying costs)	\$		From RAK-7 Line 4 Revenue Requirement
2				
3	<u>Up Front Costs:</u>			
4	Legal fees	\$		
5	Underwriting	\$		
6	Auditor fee	\$		
7	Structuring advisor (incl. discount)	\$		
8	Information Technology Programming Costs	\$		
9	Commission advisors	\$		
10	Original Issue Discount			
11	Misc	\$		
12	Sub-total Up Front Costs	\$		
13				
14	SEC Registration Fees			
15	Bond rating fees			
16	Filing fees total percentage			Line 14 + Line 15
17	Total Rating and Filing Fees	\$		(Line 1 + Line 12) * Line 16
18				
19	Total Upfront Costs	\$		Line 12 + Line 17
20				
21	Estimated bond issuance amount	\$		Line 1 + Line 19
22				
23	<u>Estimated Ongoing Costs per year</u>			
24				
25	Servicing	\$		
26	Administration	\$		
27	Trustee fee	\$		
28	Auditing/accounting fees	\$		
29	Legal fees	\$		
30	Rating agency surveillance fees	\$		
31	Return on Capital Account for Credit enhancement (calculated at proposed WACC from ER-2021-0312)	\$		
32	Printing fees	\$		
33	Independent Manager Fee	\$		
34	Miscellaneous	\$		
35	Ongoing Costs Per Year	\$		
36				
37	Ongoing Costs Per Month	\$		