

Public Version

Exhibit No.:
Issue: Construction Accounting, CWIP and Cost
Allocation
Witness: Ronald A. Klotz
Type of Exhibit: Direct Testimony
Sponsoring Party: Evergy Missouri Metro
Case No.: EA-2026-0154
Date Testimony Prepared: May 14, 2026

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. EA-2026-0154

DIRECT TESTIMONY

OF

RONALD A. KLOTE

ON BEHALF OF

EVERGY MISSOURI METRO

**Kansas City, Missouri
May 2026**

TABLE OF CONTENTS

I. INTRODUCTION AND PURPOSE..... 1

II. REQUEST FOR CONSTRUCTION WORK IN PROGRESS FOR THE PROJECT 4

III. ACCOUNTING FOR JOINTLY OWNED FACILITIES AT THE MULLIN CREEK
GENERATING STATION..... 7

IV. JURISDICTIONAL ALLOCATION OF THE PROJECT 9

V. CONCLUSION..... 11

DIRECT TESTIMONY

OF

RONALD A. KLOTE

CASE NO. EA-2026-0154

I. INTRODUCTION AND PURPOSE

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17

Q: Please state your name and business address.

A: My name is Ronald A. Klotz. 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. (“Evergy Metro”) d/b/a as Evergy Missouri Metro (“Evergy Missouri Metro”, “EMM”, “Applicant”, or the “Company”), and Evergy Missouri West, Inc. d/b/a Evergy Missouri West (“EMW”), the operating utilities of Evergy, Inc. (“Evergy”)

Q: On whose behalf are you testifying?

A: I am testifying on behalf of EMM.

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.

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

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

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

1 2021, I became Senior Director of Regulatory Affairs and continue in that position today
2 with Evergy.

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

5 A: Yes. I have testified before the PSC, the Kansas Corporation Commission (“KCC”), the
6 California Public Utilities Commission, and the Public Utilities Commission of Colorado.

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

8 A: My testimony concerns accounting issues related to the new 400 MW simple-cycle natural
9 gas generating facility known as Mullin Creek #2 (also referred to as the “Project”) for
10 which EMM seeks a certificate of convenience and necessity (“CCN”) in this case. Mullin
11 Creek #2 is a new natural gas generating unit that will be located in Nodaway County,
12 Missouri proximate to the new Mullin Creek #1 natural gas generating unit (to be owned
13 by Evergy Missouri West) that was granted a CCN by the Commission in July 2025 in
14 Case No. EA-2024-0075. Specifically, the purpose of my testimony is (1) to request that
15 the Commission determine the amount of construction work in progress (“CWIP”) that
16 will be eligible for inclusion in rate base after expended during the construction phase of
17 the project, pursuant to newly enacted Section 393.135.2¹; (2) to discuss the accounting
18 process the Company will implement for the common plant of the natural gas facilities at
19 the Mullin Creek Generating Station in order to ensure costs are appropriately allocated
20 according to each utility affiliate’s ownership interest; and (3) to explain how 100% of the
21 Project’s costs will be allocated or assigned to the Missouri jurisdiction of Evergy Metro.
22 The Company requests a CCN for Mullin Creek #2 because it is an essential element of the

¹ All citations are to the Revised Statutes of Missouri (2016), as amended.

1 efforts of Evergy Missouri Metro to fulfill its current and projected capacity and energy
2 needs.

3 **II. REQUEST FOR CONSTRUCTION WORK IN PROGRESS FOR THE PROJECT**

4 **Q: When will the Company's rates reflect a full return of and on its investment in Mullin**
5 **Creek #2?**

6 A: Rates will not reflect a full return on and of the investment in the Project until it is included
7 in new base rates after Mullin Creek #2 is found to be in service. The estimated in-service
8 date for the Project is December 2030. The Company cannot perfectly align a rate review
9 with the date when this new investment will go into service. The minimum time period
10 between the true-up date of June 30, 2026, in EMM's pending rate case, No. ER-2026-
11 0143 and the effective date of new rates has typically been approximately six months.

12 **Q: Is Evergy permitted to reflect the facilities' investment costs in rate base as**
13 **construction work in progress ("CWIP"), pursuant to Section 393.135.2?**

14 A: Yes. As part of Senate Bill 4, enacted in 2025, Section 393.135.2(1), Evergy "may be
15 permitted ... to include construction work in progress for any new natural gas-generating
16 unit in rate base. The inclusion of construction work in progress allowed under this
17 subsection shall be in lieu of any otherwise applicable allowance for funds used during
18 construction that would have accrued from and after the effective date of new base rates
19 that reflect inclusion of the construction work in progress in rate base. The commission
20 shall determine, in a proceeding under section 393.170, the amount of construction work
21 in progress that may be included in rate base. The amount shall be limited by: (a) The

1 estimated cost of such project; and (b) Project expenditures made within the estimated
2 construction period for such project.”

3 **Q: What are the estimated costs of the project?**

4 A: The estimated total project cost for Mullin Creek #2, which reflects the exclusion of any
5 allowance for funds used during construction (“AFUDC”) and the effect of any CWIP
6 allowed in rate base, is ****[REDACTED]**** To be clear, the recovery of CWIP will only
7 occur beginning on the effective date of a Commission order that allows for such recovery
8 in a general rate case and will not completely replace AFUDC. AFUDC will still accrue
9 on CWIP balances that are not reflected in retail rates. While this Project will strengthen
10 reliability and expand dispatchable capacity system wide for the benefit of all Missouri
11 customers of Evergy Metro, a material portion of the project costs will ultimately be borne
12 by new large load customers in EMM’s jurisdiction. This approach is consistent with cost
13 causation principles which will help to mitigate rate impacts on the broader customer base.

14 **Q: Why does Evergy Missouri Metro request that CWIP be allowed in rate base under**
15 **Section 393.135.2, rather than seek approval of AFUDC?**

16 A: Over time the CWIP procedure can cost customers less than the AFUDC process. Under
17 Section 393.135.2, the money invested to build Mullin Creek #2 will be recognized in rate
18 base as the construction of the facility takes place. Under the CWIP process customers
19 will pay less capitalized interest on the investment as the construction costs are included in
20 rate base. The opposite is the case under the AFUDC procedure where the interest on the
21 funds invested in the plant is capitalized and the Project continues to accrue capitalized
22 interest on construction expenditures until the asset goes into service, and that capitalized
23 interest is then paid by customers. Once added to rate base under AFUDC, both the

CONFIDENTIAL

1 investment in the plant and the accrued carrying costs earn a rate of return and are
2 depreciated over the life of the facility.

3 It is true that the CWIP method requires customers to pay construction costs in rate
4 base sooner rather than later when the plant is in service. However, customers will not pay
5 for all of the capitalized interest that would have been accrued under AFUDC accounting
6 which requires rate increases over the long run because of higher depreciation charges and
7 the return on the undepreciated amount of the capitalized interest in rate base.

8 **Q: On February 6, 2026, Evergy Missouri Metro filed a general rate case in No. ER-**
9 **2026-0143. Did EMM request CWIP costs associated with Mullin Creek #2?**

10 A: Yes, on behalf of Evergy Missouri Metro, I made that request in my direct testimony in
11 No. ER-2026-0143 on pages 13-15 where I explained the RB-21 CWIP adjustment that is
12 needed for a new natural gas generating units. One of the two units included in that request
13 is the Mullin Creek #2 plant. As provided in Section 393.135.2, the amount of CWIP that
14 was estimated by the Company to be included in rate base is \$66,593,424 This amount is
15 the Mullin Creek #2 plant's estimated CWIP amount as of June 30, 2026, included in the
16 Company's request. At the true-up date of the rate case, the amount of CWIP that has
17 actually been expended will be included in the Company's true-up revenue requirement
18 calculation in ER-2026-0143.

19 **Q: What is the benefit to EMM customers for including this?**

20 A: As stated above, when the construction costs of a generating facility begins, the project
21 begins to accrue and capitalize AFUDC which ultimately become part of the total
22 construction costs of a project. By including CWIP costs in rate base during a rate case

1 proceeding, AFUDC costs cease accruing and ultimately lower the cost of the construction
2 project. This ultimately lowers the overall costs that are collected from customers.

3 **III. ACCOUNTING FOR JOINTLY OWNED FACILITIES AT THE MULLIN CREEK** 4 **GENERATING STATION**

5 **Q: How will the Company formalize its operating and accounting approach for the**
6 **common plant of the natural gas facilities that will be jointly owned?**

7 A: Similar to Evergy's other jointly owned facilities, including Jeffrey Energy Center,
8 LaCygne Energy Center, and Iatan Energy Center, Evergy will put in place a Joint
9 Ownership and Operating Agreement ("JOA") for the ownership of common facilities
10 being utilized by Mullin Creek #1 (to be owned by Evergy Missouri West, Inc.) and Mullin
11 Creek #2 (to be owned by Evergy Metro, Inc.). Evergy is still in the process of developing
12 the JOA. Because the JOA will be an agreement between affiliates, Evergy will submit
13 the executed version of the agreement to the Commission once it is finalized and signed.
14 Evergy expects the structure of the JOA to be similar to the most recent agreement executed
15 for a dispatchable, jointly owned plant, which was for the Viola and the McNew Generating
16 Stations in No. EA-2025-0075 regarding their common facilities.

17 **Q: How will the Company account for costs related to the jointly owned assets in order**
18 **to ensure their costs are assigned appropriately based on ownership interest?**

19 A: Evergy will manage the accounting for costs related to the jointly owned assets in the same
20 manner that it currently manages costs for its plants that are jointly owned by its utilities.

21 For example:

- 22 ■ Construction costs, removal costs, and/or net salvage incurred by
23 EMW/EMM as the operator of the Mullin Creek common facilities will be
24 accounted for in accordance with the FERC Uniform System of Accounts

1 and with Generally Accepted Accounting Principles (“GAAP”). The joint
2 owners will share all construction costs, removal costs, and/or net salvage
3 in proportion to their ownership share associated with the common
4 facilities.

- 5 ■ Cost of construction, removal and salvage will be specifically identified.
6 EMM and EMW will record and track costs directly assignable to the
7 Mullin Creek common facilities in separate and distinct projects within its
8 accounting system, to allow for appropriate and accurate reporting and
9 allocations to the co-owners. Allocation of costs will occur on a monthly
10 basis when books are closed. Evergy will use intercompany accounts to
11 record the payables and receivables between affiliates.

- 12 ■ Once Mullin Creek #1 and Mullin Creek #2 are in-service, EMM and EMW
13 will operate the common facilities pursuant to the JOA and will incur
14 expenses associated with operating and maintaining those plants. Evergy
15 Missouri Metro will record and track labor and other costs directly
16 assignable to the jointly owned facilities as separate and distinct items
17 within its accounting system to allow for appropriate and accurate reporting
18 and allocation to the co-owners. The allocation of costs will occur on a
19 monthly basis when books are closed, and EMM and EMW will use
20 intercompany accounts to record the payables and receivables between
21 affiliates.

- 22 ■ Each co-owner will report to the appropriate taxing authority its ownership
23 share subject to real estate and personal property taxes. and will make timely

1 payment of all taxes levied thereon. Each co-owner will record its property
2 tax expense directly on its own books.

- 3 ▪ Each co-owner will own an interest in the inventory of materials and
4 supplies in proportion to its ownership share. At the time of purchase,
5 inventory items will be identified for the facility or asset they relate to. The
6 associated cost of inventory will be allocated to each co-owner based on the
7 respective percentage of ownership share.

8 The Company will ensure that the accounting for any capital investment or
9 operating expense related to a jointly owned asset is managed in a way that ensures the
10 appropriate allocation of the responsibility of costs to each owner based on its ownership
11 share.

12 **IV. JURISDICTIONAL ALLOCATION OF THE PROJECT**

13 **Q: How does Evergy Metro, Inc. intend to allocate or assign the capacity and costs of**
14 **Mullin Creek #2 between its two jurisdictions?**

15 **A:** Evergy Metro, Inc. intends to allocate or assign Mullin Creek #2 to its Missouri
16 jurisdiction, referred to here as EMM. Accordingly, the costs associated with Mullin Creek
17 #2 will be 100% assigned to the EMM jurisdiction.

18 **Q: How has Evergy Metro, Inc. historically assigned generation assets?**

19 **A:** Evergy Metro, Inc. has assigned² or allocated its generation assets and their associated
20 plant investment and related revenue requirement between its Kansas and Missouri
21 jurisdictions, including their respective Kansas and Missouri customers. In contrast,
22 Evergy Metro, Inc. plans to assign or allocate Mullin Creek #2 directly to the Missouri

² I use the term “assign” to mean allocating or allotting the Project and its costs to a jurisdiction, but not in the legal sense of conveying or transferring property.

1 jurisdiction of EMM. Under this approach the costs of the facility will not be shared
2 between the jurisdictions but instead will be directly assigned to EMM's Missouri
3 jurisdiction, which will be provided with services and benefits.

4 **Q: Why is the Company changing its approach to assigning generation assets associated**
5 **with the Evergy Metro jurisdictions?**

6 **A:** The Company believes the timing is right for several reasons. First, Evergy Metro, Inc. is
7 changing its approach to assigning certain generation assets in order to more closely align
8 costs with the jurisdiction that directly benefits from its assets. Assigning this resource to
9 the EMM jurisdiction is supported by and aligned with the development of the load
10 forecasting and resource planning considerations in the internal resource plans that its
11 operating utilities are developing. Based on this work and the current operating
12 environment, directly assigning generation assets to a specific jurisdiction is appropriate.

13 Secondly, the timing of this assignment or allocation will likely help a significant
14 initiative currently being considered by the Company. The Company is currently analyzing
15 the impacts of consolidating its jurisdictions, as reported in the working case No. EW-
16 2025-0220. Because Mullin Creek #2 will support EMM's long term needs, directly
17 assigning the Project's costs to Missouri will help to advance future jurisdictional
18 consolidation discussions, as well as future decisions. This would remove an aspect of
19 an allocation process that will have significant challenges in getting assets allocated
20 between the Kansas and Missouri jurisdictions. As new generation is added in the future,
21 it can be directly assigned to the jurisdiction that it will be providing the support for. If
22 Evergy Metro, Inc. continues to allocate its assets between Missouri and Kansas as it
23 currently does, this will only compound the difficult and complex issues that EMM faces

1 today. As such, the Company plans to assign Mullin Creek #2 and 100% of its costs to
2 EMM's Missouri jurisdiction.

3 V. CONCLUSION

4 **Q: Please summarize your testimony.**

5 A: My testimony has focused on three accounting issues associated with the Company's CCN
6 request for Mullin Creek #2. First, I have requested that the Commission determine under
7 Section 393.135.2 the amount of CWIP eligible for rate base inclusion in the Company's
8 rate cases be tied to the Project's total costs (excluding AFUDC). Secondly, I have
9 discussed the accounting process that will be used for any jointly owned common plant of
10 the generating facilities related to the Project in order to ensure that costs are appropriately
11 allocated to each common owner. Finally, I explain why the Company is allocating or
12 assigning 100% of the Project's costs to EMM, which is the Missouri jurisdiction of Evergy
13 Metro.

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

15 A: Yes, it does.

Evergy Metro, Inc. d/b/a Evergy Missouri Metro

Docket No.: EA-2026-0154

Date: May 14, 2026

CONFIDENTIAL INFORMATION

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

Document/Page	Reason for Confidentiality from List Below
Klote Direct, p. 5, ln. 6	3, 4, 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.