

Exhibit No.: _____
Issue(s): Rate of Return/Capital Structure
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Sponsoring Party: Public Counsel
Case No.: ER-2026-0143

DIRECT TESTIMONY

OF

DAVID MURRAY

Submitted on Behalf of the Office of the Public Counsel

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

CASE NO. ER-2026-0143

** _____ **
Denotes Confidential Information that has been redacted

June 30, 2026

PUBLIC

Definitions/Abbreviations

AFUDC	Allowance for funds used during construction – this is the return that is allowed on CWIP. AFUDC is capitalized based on short-term debt costs until the CWIP balance exceeds short-term debt outstanding. It then accrues a return based on the allowed ROR for long-term capital
Allowed ROE	Regulatory body’s determination of how much earnings/profit to allow in the revenue requirement.
Allowed ROR	Regulatory body’s decision as to the amount of return allowed for equity capital and debt capital supporting rate base/investment.
Basis Point	1/100 th of a percent 0.01%; 100 basis points = 1%
Beta	Measure of the covariance of the stock and the market dividend by the variance of the market. If Beta is less than one, implies the stock will have lower returns than S&P 500 during bull markets, but higher returns than the S&P 500 during bear markets.
CAGR	Compound Annual Growth Rate
CAPM	Capital Asset Pricing Model
CFA	Chartered Financial Analyst Program
COE	Investors’ minimum required/expected ROE in exchange for providing equity capital. Implied/determined through analyzing stock prices in relation to fundamentals, such as estimated cash flows/dividends.
COE	Cost of common equity
Constant/Gordon Growth DCF/DDM	Method used to discount dividends/cash flows that are expected to grow at a constant growth rate into perpetuity.
CWIP	Construction work in progress – plant that is not included in rate base, but accrues a return until the plant is fully operational and used for service.
DCF	Discounted Cash Flow Method – the DCF method can discount various proxies of cash flows, such as estimated dividends, free cash flows to the equity investor or free cash flows to the firm. In utility ratemaking, “the DCF model” is used loosely to identify a DDM analysis, which is more specific type of DCF.

DDM	Dividend Discount Model – a DCF method that discounts expected dividends to determine a fair price to pay for a share of stock.
DPS	Dividends per share
EI	Edison Electric Institute
EPS	Earnings per share
Fed	The Federal Reserve Bank
Investment Grade	BBB-, Baa3 or better
Leverage	The amount of debt that supports a company's capital structure.
Multi-stage DCF/DDM	Method used to determine the value and/or COE for a firm in which it is expected to have varying cash flows and/or growth rates. May be as few as two stages, with no limit on more stages.
P/E	Price per share divided by earnings per share. A measure of the cost per share of earnings. Earnings can be measured based on historical or projected periods
P/LTM EPS	Price to last-twelve-months (LTM) EPS
P/NTM EPS	Price to estimated next-twelve months (NTM) EPS
PEG	P/E divided by equity analysts' consensus estimated long-term CAGR in EPS. Used to assess price levels as related to changes in expected growth or to other companies' PEG ratios
PISA	Plant in Service Accounting
ROE	Return on Common Equity – a function of accounting net income divided by book value of equity on balance sheet.
ROR	Rate of Return – includes equity, debt, and other forms of capital applied to rate base/
SURFA	Society of Utility and Regulatory Utility Financial Analysts
WACC	Weighted Average Cost of Capital
ZOR	The Missouri Public Service Commission's past test of reasonableness for recommended allowed ROEs. +/- 100 basis points around a recent mean authorized ROE from other state commission decisions as published by the Regulatory Research Associates

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DIRECT TESTIMONY

OF

DAVID MURRAY

EVERGY METRO

FILE NO. ER-2026-0143

1 **I. INTRODUCTION**

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

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

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

6 A. I am employed by the Missouri Office of the Public Counsel (“OPC”) as a Utility
7 Regulatory Manager.

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

9 A. I am testifying on behalf of the OPC.

10 **Q. What is the purpose of your testimony?**

11 A. To recommend a fair and reasonable rate of return (“ROR”) for purposes of setting Evergy
12 Metro Inc.’s (“Metro”) revenue requirement for its Missouri regulated electric utility
13 operations.

14 **Q. What experience, knowledge, and education qualify you to sponsor ROR testimony
15 in this case?**

16 A. Please see the attached Schedule DM-D-1 for my qualifications as well as a summary of
17 the cases in which I have sponsored testimony on ROR and other financial issues.

18 **II. SUMMARY**

19 **Q. What aspects of ROR will you address?**

20 A. I will address a fair and reasonable allowed return on common equity (“ROE”) and a fair
21 and reasonable ratemaking capital structure.

1 **Q. What is your main conclusion after analyzing Metro’s specific financial situation as**
2 **well as the current state of capital markets?**

3 A. Metro’s allowed ROE should be set at 9.25%, based on my recommended authorized ROE
4 range of 9.00% to 9.50%. My recommended range reflects the following considerations:

- 5 • Metro was authorized a 9.50% ROE in 2015 when the electric utility
6 industry’s cost of equity (“COE”) was very similar to the COE now;
- 7 • my recommended ROE of 9.25% fairly balances the shareholder value
8 Metro can create from anticipated significant capital investment and the
9 burden placed on ratepayers from this significant investment;
- 10 • Metro can create additional wealth for its shareholders if it earns a ROE
11 above its COE of approximately 8.00%; and
- 12 • under the Commission’s typical zone of reasonableness (“ZOR”) standard,
13 a recommended ROE in the range of 8.70% to 10.70% is generally
14 considered reasonable by the Commission.

15 My recommended ROE should be applied to a 45% common equity ratio. This is the
16 approximate common equity ratio, after excluding short-term debt, Evergy Inc. (“Evergy”)
17 has maintained since July 1, 2024. This common equity ratio reflects the debt capacity
18 Evergy has been able to utilize due to the low business risk of its regulated utility
19 subsidiaries. Evergy’s consolidated debt capacity has been enhanced by Missouri’s
20 investor-friendly legislative and regulatory environment, but instead of sharing this cost of
21 capital savings with ratepayers, Evergy is retaining these benefits for its shareholders by
22 issuing holding company debt. In fact, Evergy’s recent requested ratemaking common
23 equity ratios of approximately 52% for Metro’s Missouri operations are higher than the
24 approximate 50% common equity ratios it typically requested prior to the enactment of
25 several utility-friendly legislative initiatives in Missouri since 2018. The Commission
26 should correct this misappropriation of debt capacity by setting Metro’s authorized ROR
27 based on Evergy’s market-based capital structure ratios.

28 Additionally, because recently enacted legislation explicitly authorizes the potential to
29 include construction work-in-progress (“CWIP”) in rate base, if Metro’s rate base as of

1 June 30, 2026, includes CWIP, I will reconsider whether my recommended ratemaking
2 capital structure should include some proportion of short-term debt. Otherwise, the ROR
3 charged on the CWIP in rate base may be more costly than the ROR prescribed for the
4 calculation of allowance for funds used during construction (“AFUDC”).

5 **Q. Before you discuss the details supporting your ROR analysis, would you summarize**
6 **your rationales for your conclusions?**

7 A. Yes. Although capital structure and the allowed ROE are interrelated as to the ultimate
8 impact on Metro’s revenue requirement, I will first briefly explain my rationale for each
9 component, separately.

10 I recommend the Commission set Metro’s allowed ROE for its electric utility operations
11 at 9.25% based on a range of 9.00% to 9.50%. While my authorized ROE recommendation
12 is below Metro’s 9.50% Commission-authorized ROE from approximately ten years ago
13 and recent average authorized ROEs in other jurisdictions of approximately 9.70%, my
14 recommended 9.25% authorized ROE is still above Metro’s COE. If Metro’s authorized
15 ROE is set above its COE, then Evergy’s investments in Metro’s rate base allow Evergy to
16 create shareholder wealth above the principal value of their investment. Therefore, as I
17 will discuss in more detail later, an authorized ROE above the COE meets the capital
18 attraction standard articulated by the United States Supreme Court in the landmark *Hope*
19 and *Bluefield*¹ cases.

20 Although electric utility stocks underperformed the Standard and Poor (“S&P”) 500 for the
21 period from mid-2022 (time of Metro’s last rate case) through mid-2024, they have since
22 been relatively consistent with the S&P 500’s total returns. Since 2024 the S&P 500’s
23 price-to-earnings (“P/E”) ratios have been trading in the 21x to 24x range, which is higher
24 than modern historical averages. Although the S&P 500’s valuation levels have been
25 skewed by a few large technology companies, the higher-than-historical valuation levels
26 imply a lower-than-average market risk premium. Based on my application of several COE
27 methods and corroborating information from investors, I estimate the COE for regulated

¹ *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 64 S.Ct. 281, 88 L.Ed. 333 (1943); *Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679, 43 S.Ct. 675, 67 L.Ed. 1176 (1923).

1 electric utilities to be in the approximate range of 7.75% to 8.25%. That is approximately
2 75 basis points higher than my COE estimate in Metro’s 2022 rate case, but similar to my
3 COE estimates in late 2014 to early 2015 when I filed testimony in Ameren Missouri’s rate
4 case, Case No. ER-2014-0258.

5 I recommend that the Commission set Metro’s authorized common equity ratio at 45%
6 rather than the 52% ratio Evergy has been targeting for ratemaking for its subsidiaries since
7 2022. While Evergy requests that ratepayers fund a more conservative, higher-cost capital
8 structure at the subsidiary level, Evergy is targeting a more aggressive, lower-cost capital
9 structure at the holding company level. Since Metro’s 2022 rate case, the difference
10 between Evergy’s and Metro’s consolidated common equity ratios has increased. Evergy
11 issues holding company debt (both traditional and hybrid debt securities) to minimize the
12 dilution of earnings to publicly-traded common equity shares. Evergy’s financing strategy
13 would be more costly to ratepayers if the Commission authorizes Metro’s ROR based on a
14 52% common equity ratio.

15 Metro’s requested ratemaking common equity ratio is similar to the ratemaking targets of
16 Missouri’s other large electric utilities—Ameren Missouri and The Empire District Electric
17 Company d/b/a Liberty Utilities (“Empire”). Considering investors’ sentiment that
18 Missouri’s regulatory and legislative environment has become even more investor friendly
19 with the passing of Senate Bill 4 in 2025, the lower cost of capital enabled by shifting risks
20 to Missouri’s ratepayers should be reflected in Metro’s authorized ROR. Importantly,
21 subsection six (6) of Section 393.1400 RSMo (hereafter referred to as the plant-in-service
22 accounting (“PISA”) law), contemplates potential adjustments to the authorized ROR due
23 to changes in business risk. As I explain later in my testimony, numerous third-party
24 analysts and investors currently perceive Missouri as an investor-friendly jurisdiction (*i.e.*
25 lower business risk). In my opinion, the most objective means for the Commission to
26 recognize Missouri’s lower business risk in the authorized ROR is to adopt a ratemaking
27 capital structure more consistent with Evergy’s, not Metro’s, actual consolidated capital
28 structure.

1 **Q. Did you take any other matters into consideration when determining a fair and**
2 **reasonable allowed ROE to apply to your recommended capital structure?**

3 A. Yes. I recognize that Metro has affiliates that compete with it for capital. In my opinion,
4 Evergy should choose projects between its Missouri electric utility operations and Kansas
5 electric utility operations based on economic efficiency rather than which jurisdiction
6 awards the highest ROR. The best way for the Commission to encourage economic
7 efficiency is to authorize a ROE closer to the COE.

8 **III. FAIR RETURN ON COMMON EQUITY**

9 **Q. What is the most often cited basis for determining a fair and reasonable ROE for**
10 **purposes of setting utility rates?**

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

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

17 The *Hope* (1943) and *Bluefield* (1923) principles were established well before the advent
18 of modern COE methods, such as the discounted cash flow (“DCF”) method and the
19 Capital Asset Pricing Model (“CAPM”). Therefore, while setting ROEs based on the COE
20 has generally been considered consistent with the *Hope* and *Bluefield* principles, other
21 factors, such as other jurisdictions’ authorized ROEs have been cited by this Commission
22 as a relevant factor it should consider. The authorized ROE is a regulatory ratemaking
23 concept that quantifies the amount of net income allowed in the revenue requirement. The
24 COE is a market-based concept that quantifies investors’ required return on common
25 equity. ROEs have generally been set in the 9-10% range, while an overwhelming amount
26 of evidence demonstrates that investors’ required returns (*i.e.* COE) on utility equity
27 investments typically have been much lower. Therefore, I differentiate between allowed
28 ROEs and the COE in my analysis and recommendation.

1 **Q. How did you determine the approach you would take to estimate a fair and reasonable**
2 **allowed ROE for purposes of this case?**

3 A. I reconciled the principles established in *Hope* and *Bluefield* with modern financial models
4 used to estimate the COE.

5 Considering these principles, I first estimated Metro's current COE and then compared my
6 current COE estimates to my historical COE estimates for the electric utility industry.

7 **Q. Based on your analysis, what is your estimate of Metro's current COE?**

8 A. 7.75% to 8.25%.

9 **Q. What do you consider to be a fair and reasonable allowed ROE range for Metro's**
10 **Missouri electric utility operations?**

11 A. Based on my analysis and awareness of capital market conditions, investor expectations,
12 recent average allowed ROEs for electric utilities, and the expected significant capex cycle
13 for the electric utility industry, I consider 9.00% to 9.50% to be a reasonable range with
14 my point recommendation at 9.25%. My recommended allowed ROE is within the range
15 of the Commission's typically defined ZOR range of 100 basis points above and below
16 recent average authorized ROEs of approximately 9.70%² (i.e. 8.70% to 10.70%). After
17 considering my COE estimates, the Commission's authorized ROE of approximately
18 9.50% for Missouri's electric utilities for rate cases decided in 2015, and Metro's
19 significant expected capex, I consider a 9.25% ROE to be fair and reasonable.

20 **Q. Did the Commission authorize an explicit ROE and capital structure in Metro's last**
21 **rate case, Case No. ER-2022-0129?**

22 A. No. The parties agreed to apply a pre-tax ROR of 8.25% for purposes of PISA accruals,
23 but a ROR, nor its specific parameters, were specified for purposes of the stipulated
24 revenue requirement.

² RRA Major Rate Case Decisions Quarterly Updates, June 10, 2026.

1 **Q. How did you inform yourself for purposes of determining the best methods and**
2 **approaches to use to estimate Metro’s COE?**

3 A. I reviewed Evergy’s Board of Directors (“BOD”) strategic financing and investment
4 considerations since 2024, as well as equity investment research reports covering Evergy
5 and the utility industry for a similar period. After performing this research, I estimated
6 Metro’s COE by performing a COE analysis on a broad proxy group of electric utilities,
7 which included Evergy. Although I analyzed a broad proxy group, I gave more weight to
8 my analysis of subsets of companies within this broad group that are more concentrated in
9 regulated utility operations.

10 **Q. How did you evaluate whether your recommended allowed ROE for Metro is**
11 **reasonable based on current capital market conditions?**

12 A. I compared the trends in various valuation ratios for the electric utility proxy groups since
13 the Commission first deemed 9.50% authorized ROEs as reasonable for Missouri’s electric
14 utilities. While the valuation data does not provide specific COE estimates, it provides
15 context of current electric utility stock valuation levels as compared to past valuation levels
16 when the Commission had to evaluate the reasonableness of various recommendations
17 during those periods. Although cost-of-capital analysis and testimony can be
18 overwhelming to decision-makers, the methods and approaches used by ROR witnesses
19 have been consistent over the years, not only in Missouri, but in all jurisdictions.
20 Therefore, this context should assist the Commission in assessing the credibility of each
21 party’s recommendations and whether it is rational to conclude that utility equity investors
22 require a ROE (*i.e.* the COE) as high as 10.50%.

23 **Q. How did you estimate Metro’s COE?**

24 A. I used a multi-stage discounted cash flow (“DCF”) method, with specific emphasis on
25 consensus analysts’ estimated dividends and the modeled growth of dividends. A DCF
26 method which discounts dividends is more precisely and appropriately defined as the
27 dividend discount model (“DDM”). I also applied the Capital Asset Pricing Model
28 (“CAPM”) to both Evergy and the proxy groups. Finally, I performed simple and logical
29 reasonableness checks of my COE estimates. One such reasonableness check is a straight-

1 forward bond-yield-plus-risk-premium (“BYPRP”) method included in the Chartered
2 Financial Analyst (“CFA”) Program curriculum.³

3 **Q. Was your approach substantially the same as the one you employed in Metro’s 2022**
4 **rate case?**

5 A. Yes. However, in this case, instead of providing separate schedules for my company-
6 specific COE analysis of Evergy, my analysis of Evergy is embedded in my COE schedules
7 for the entire proxy group.

8 **A. ELECTRIC UTILITY INDUSTRY**

9 **Q. Have there been significant changes in the electric utility industry since Metro’s 2022**
10 **rate case?**

11 A. Yes. In 2022, the Energy Information Administration’s (“EIA”) 2022 Annual Energy
12 Outlook projected a compound annual growth rate (“CAGR”) in purchased electricity of
13 approximately 0.7% through 2050.⁴ However, in EIA’s 2026 Annual Energy Outlook, the
14 projected CAGR in purchased electricity increased to 1.3% through 2050.⁵ While this
15 difference may seem minor, this annual difference results in an approximate 18% overall
16 increase in expected electricity use by 2050 based on 2026 estimates compared to 2022
17 estimates.

18 Although there may have been some indication of a potential increase in the projected
19 CAGR in earnings per share (“EPS”) in 2022 due to increased load growth, it was not
20 prevalent. To the extent electric utilities, such as Ameren Corp, guided to higher CAGR
21 in EPS (~6-8%), it was primarily a function of capex for grid modernization, grid
22 hardening, and renewable generation projects. However, with the widespread construction
23 of data centers, many more electric utilities are guiding investors to expect at least a CAGR
24 in EPS of 6-8%, if not in the low double digits for companies such as Entergy, NiSource,
25 and Centerpoint. Many companies have resorted to guiding investors to an 8%+ long-term

³ 2021 CFA Program – Level II Refresher Reading, Equity Valuation, p. 35.

⁴ EIA 2022 Annual Energy Outlook.

⁵ EIA 2026 Annual Energy Outlook.

1 CAGR in EPS – both because they do not want to constrain expectations, and to minimize
2 potential pushback from politicians and regulators.⁶ This expanding expectation for a
3 higher CAGR in EPS follows a couple of decades of electric utilities generally growing
4 their EPS at a CAGR range of 4-6%.⁷

5 **Q. Based on the 2026 EIA estimates for electricity consumption, when are annual growth**
6 **rates expected to begin to slow?**

7 A. Around 2034 to 2035.

8 **Q. What is the major cause for the anticipated increase in electricity demand?**

9 A. Data centers.

10 **Q. What is Evergy’s current expected CAGR in load growth through 2030?**

11 A. 7-8%, which is almost double the expected 4-5% percent projected just a year ago. Before
12 the explosion of data centers’ expected demand for electricity, Evergy’s projected load
13 growth was approximately 1-2%.⁸

14 **Q. Are all Evergy subsidiaries expected to achieve the same load growth?**

15 A. No. The CAGR for Metro’s load is expected to be 6-7%, Evergy Missouri West’s CAGR
16 in load is expected to be 10-11%, and Evergy Kansas Central’s CAGR in load is expected
17 to be 7-8%.⁹

18 **Q. Do investors in Evergy’s stock value Evergy differently based on which subsidiaries**
19 **are expected to receive higher load growth?**

20 A. Not that I am aware of.

⁶ Shahriar (Shar) Pourreza, CFA, et. al., “DTE Energy – Buckle In—Capex Update and CAGR Raise Coming,” Wells Fargo, June 12, 2026, p. 1.

⁷ Anthony Crowdell, et. al., “Run-Rate Reality: Leaders Get Cheaper, Laggards Don’t,” Mizuho Securities USA LLC, June 2, 2026.

⁸ Anthony Crowdell, “Fifth ESA Signed, Load Growth Guidance Raised; Maintain Neutral,” Mizuho Securities USA LLC, May 8, 2026.

⁹ Evergy’s First Quarter 2026 Earnings Presentation, May 7, 2026, p. 14.

1 **Q. Does the electric utility industry project the need for a significant increase in capex**
2 **to meet the anticipated increase in load?**

3 A. Yes. The most obvious need is an increase in generation capacity. However, to the extent
4 the additional generation capacity is connected to the grid, this will also require significant
5 capital expenditures in other infrastructure, such as transmission, substations, and
6 transformers to ensure this power is available to the grid.

7 **Q. How do the electric utility industry’s anticipated capital expenditures over the next**
8 **five years compare to the electric utility industry’s actual capital expenditures for the**
9 **last five years?**

10 A. As of September 2025, the Edison Electric Institute (“EEI”) projected U.S. investor-owned
11 electric utilities would spend \$1.1 trillion for the period 2025 through 2029. This
12 projection compares to actual capital expenditures of \$764.6 billion over the prior five
13 years.¹⁰

14 Further, Jefferies stated the following in a recent equity research report:

15 **We forecast a 7.9% EPS CAGR through ‘29 across large-cap electrics**
16 **driven by capex acceleration.**

17 We run the regression to compare five-year capex change rate (2025-2029
18 vs. 2020-2024) with 2025-2029 EPS CAGR across all electric utility
19 coverage. On average, we estimate large-cap electric utilities are planning
20 a 79% 2025-2029 five-year capex step-up vs. their 2020-2024 plan, well
21 above the 40% capex increase from 2015-2019 to 2020-2024. The capex
22 ramps support a JEF [Jefferies’ estimate] 7.9% five-year EPS CAGR
23 through 2029 (7.1% across all electrics). Our analysis below shows that
24 utilities posting the strongest capex revisions also tend to trend higher in
25 earnings, supporting greater confidence in the stability of their growth.
26 While capex and rate base growth are the overriding fundamental drivers of
27 a regulated utility earnings growth trajectory, other company-specific
28 drivers like ROE improvement and efficient equity financing can impact
29 EPS CAGRs and need to be considered.¹¹

¹⁰ EEI, September 2025: <https://www.eei.org/-/media/Project/EEI/Documents/Issues-and-Policy/Finance-And-Tax/Industry-Capital-Expenditures.pdf?la=en&hash=ED29F5298EF389A7876D96EEA7613C59C2D00881>

¹¹ Julien Dumoulin-Smith, et. al., “Utility Capex – Strong Momentum: What’s Changed in Six Months? +10% to \$1.1T,” Jefferies, pp. 10-11.

1 **Q. What is Evergy’s projected CAGR in rate base through 2030?**

2 A. 12%.¹²

3 **Q. How does this projected CAGR in rate base compare to projected growth in 2022?**

4 A. It was 5-6% in 2022.¹³

5 **Q. What was Evergy’s expected rate base growth before Elliot Investment Management**
6 **L.P.’s (“Elliot”) initiative¹⁴ that caused Evergy to change its previous strategy of**
7 **increasing Evergy’s EPS through merger synergies and stock buybacks?**

8 A. Approximately 3-4%.¹⁵

9 **Q. Are all electric utility companies expected to experience the same magnitude of**
10 **increased demand growth, capital expenditure growth, and EPS growth?**

11 A. No. Some utility companies, such as NiSource and Entergy Inc., are expected to achieve
12 much higher growth from data center demand than other utility companies, such as
13 transmission and distribution (“T&D”) companies. While Evergy is not expected to
14 achieve as high growth from data centers as NiSource and Entergy, Evergy, including its
15 subsidiaries Metro and Evergy Missouri West, has increased its expected load growth and
16 the capacity Evergy, including its subsidiaries Metro and Evergy Missouri West, needs to
17 meet this expected load growth by a significant amount through at least 2030. While there
18 is a wide dispersion in projected 3-5 year CAGR in EPS across the electric utility industry
19 because of disparities in increased electricity demand and capex, this does not necessarily
20 translate into a wide dispersion in the COE across the industry.

¹² Anthony Crowdell, “Fifth ESA Signed, Load Growth Guidance Raised; Maintain Neutral,” Mizuho Securities USA LLC, May 8, 2026.

¹³ Evergy’s First Quarter 2022 Earnings Presentation, May 5, 2022, p. 12.

¹⁴ Elliott Capital took an activist ownership position in Evergy around 2020, after which it caused Evergy to form a Strategic Review Operating Committee (“SROC”) to explore whether Evergy should continue as a stand-alone company or seek to be acquired or merge with another entity. After exploring alternatives, the SROC recommended continuing as a stand-alone company. At this point, Evergy changed its investment and financing strategy to maximize shareholder value through investing in its systems rather than repurchasing outstanding shares of common stock.

¹⁵ Evergy’s First Quarter 2020 Earnings Presentation, May 7, 2020, p. 17.

1 **Q. Can you provide examples of some utility companies that expect high long-term**
2 **CAGR in EPS due to expected load growth from data centers?**

3 A. Yes. Entergy's current EPS guidance through 2029 implies a 13% CAGR in EPS, which
4 is the highest long-term CAGR in EPS I can recall in my 25-years of experience for a
5 company predominately confined to regulated utility operations. On its earnings
6 conference call for the first quarter of 2026, NiSource increased its guidance for long-term
7 CAGR in EPS to 9-10%. American Electric Power also raised its guided long-term CAGR
8 in EPS from 9% to greater than 9% on its first quarter 2026 earnings conference call.
9 Additionally, as I testified earlier, many companies, including Evergy, are now guiding
10 investors to an 8%+ CAGR in EPS because they believe that large load opportunities may
11 not constrain the upper threshold of guided CAGR in EPS.

12 As I later testify, the naïve assumption that dividends per share ("DPS") will grow in
13 perpetuity at rates similar to projected CAGR in EPS over five years leads to the conclusion
14 that higher near-term growth causes a significant increase in the COE. This is inaccurate.
15 Instead, it is the uncertainty of whether these large load customers' anticipated demand
16 will be realized and produce higher EPS estimates that may cause a higher COE.

17 **Q. How has Evergy's guidance on long-term CAGR in EPS evolved since Evergy was**
18 **formed through the merger of Great Plains Energy ("GPE") and Westar Inc.**
19 **("Westar") in 2018?**

20 A. After Evergy was formed, it guided investors to a 5-7% CAGR in EPS and a 2-3% CAGR
21 in rate base. Evergy expected to achieve the higher CAGR in EPS through merger savings
22 and the repurchase of outstanding common shares.¹⁶ In 2023, Evergy lowered its projected
23 CAGR in EPS to 4-6%, which was enabled by a projected CAGR in rate base of
24 approximately 6%.¹⁷ After the end of 2025, Evergy guided investors to a 6-8%+ CAGR
25 in EPS due mainly to expected load growth and capital expenditures needed (~11.5%
26 CAGR in rate base) to serve large load customers.¹⁸

¹⁶ Evergy's Fourth Quarter 2018 Earnings Presentation, February 22, 2019, p. 13.

¹⁷ Evergy's Third Quarter 2023 Earnings Presentation, November 7, 2023, p. 16.

¹⁸ Evergy's Fourth Quarter 2025 Earnings Presentation, February 19, 2026, p. 5

1 **B. CAPITAL MARKET CONDITIONS**

2 **Q. Would you describe current capital market conditions as they relate to the electric**
3 **utility industry in general and to Evergy specifically before you discuss the details of**
4 **how you specifically estimated Metro’s COE?**

5 A. Yes. This information provides context as to the current state of utility capital markets,
6 with specific emphasis on the electric utility industry considering the expected dramatic
7 increase in expected load growth and the corresponding investment in the grid and
8 generation to meet expected load growth. Considering the rapid and steep increase in
9 interest rates from 2022 to 2023, which caused utility debt costs to increase dramatically
10 from those costs in 2020 to 2021, it is important to understand the context of authorized
11 ROEs versus the COE over a much longer period than just the last few years. It is for this
12 reason that I analyze and compare utility stock valuations and interest rates for most of the
13 period since the financial crisis and recession around 2008/2009.

14 **Q. What authorized ROE did you recommend in recent electric utility rate increase**
15 **applications filed in Missouri?**

16 A. I recommended 9.50% based on a range of 9.00% to 9.75% for rate cases filed by Ameren
17 Missouri and EMW¹⁹; and 9.25% for The Empire District Electric Company’s (“Empire”)
18 rate case.²⁰ I recommended a lower authorized ROE for Empire due to significant customer
19 service problems during the rollout of its Customer First program. To be clear, I did not
20 recommend a lower authorized ROE for Empire because it had a lower cost of capital than
21 EMW or Ameren Missouri. If not for the poor quality of Empire’s customer service, I
22 would have also recommended a 9.50% authorized ROE for Empire.

23 **Q. What was your primary basis for recommending 9.50% authorized ROEs in these**
24 **recent electric utility rate cases?**

25 A. As I discuss in more detail later, electric utility stock valuation levels over the last couple
26 of years have been consistent with their valuation levels in 2015, the year when the

¹⁹ Case Nos. ER-2024-0319 and ER-2024-0189, respectively.

²⁰ Case No. ER-2024-0261.

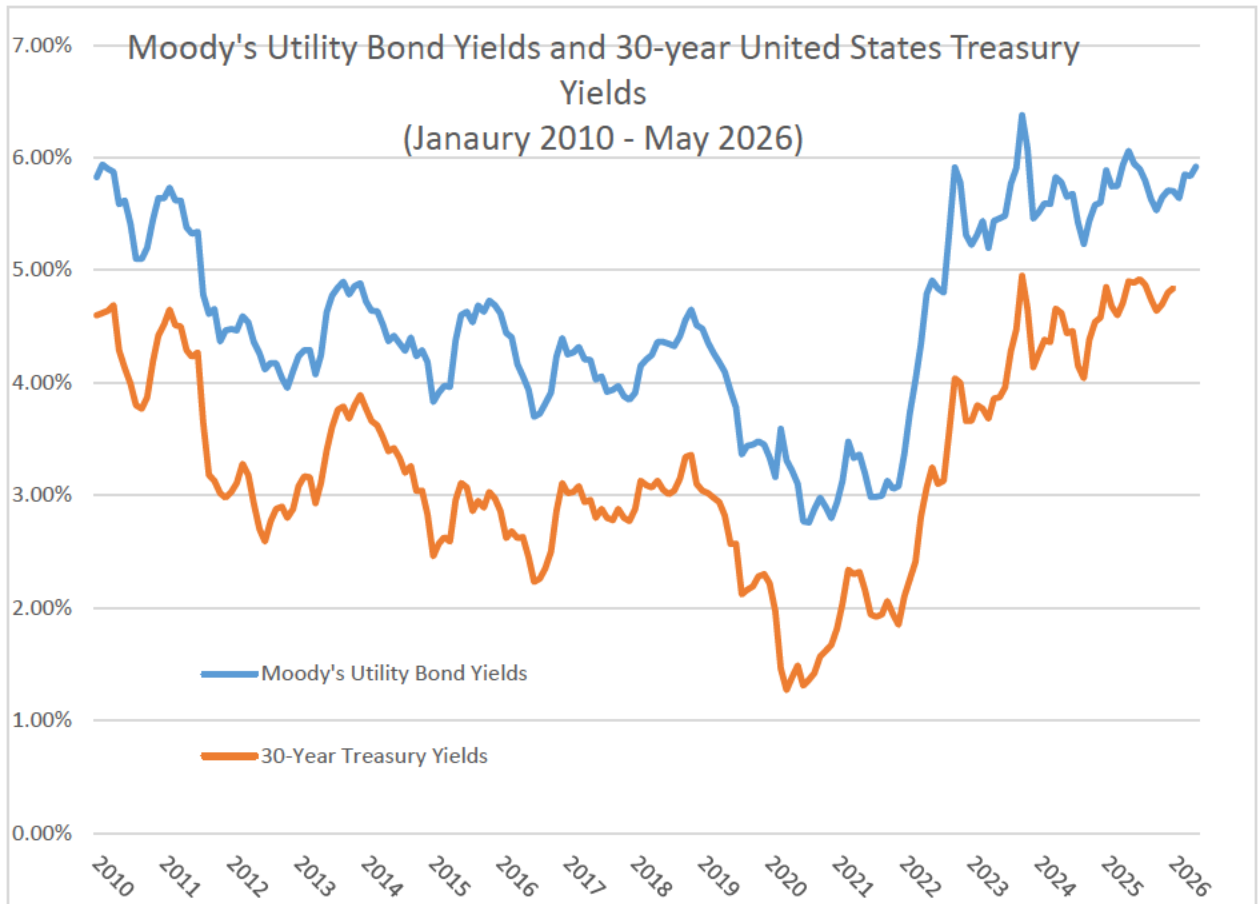
1 Commission first deemed authorized ROEs of approximately 9.50% as fair and reasonable
2 for Missouri’s electric utilities. Because authorized ROEs did not decline much between
3 2015 and 2022, despite an obvious and significant decline in the cost of capital over this
4 period, it is inappropriate to attempt to justify higher authorized ROEs today because the
5 cost of capital has increased since plummeting to all-time lows during the period of late
6 2019 through 2021. This is the primary reason I consider it imperative to evaluate the
7 context of today’s capital markets to not only that of recent periods, but also over a longer
8 period. Stated another way, changes in authorized ROEs have tended to lag changes in the
9 cost of capital. Because this lag caused the spread between authorized ROEs and the COE
10 to reach at least 400 basis points when the COE was at all-time lows during the 2019 to
11 2021 period, it is fair and reasonable to allow the spread to compress to the levels that
12 occurred before this period.

13 **Q. Would you describe and illustrate recent and long-term changes in long-term bond**
14 **yields?**

15 A. Yes. Long-term bond yields peaked in the Fall of 2023, oscillated from the Fall of 2023
16 until the start of the war with Iran, and then increased since then. In fact, as illustrated in
17 the below chart, investment grade utility bond yields and long-term United States Treasury
18 (“UST”) bond yields have not been as high as recent yields since 2010.

19 The early stages of lower long-term interest rates in the first half of the last decade were
20 considered by some as potentially anomalous because of the Federal Reserve Bank’s
21 (“Fed”) quantitative easing (“QE”) programs²¹ through October 2014. For the last half of
22 the past decade, long-term interest rates continued an overall declining trend, until they
23 reached all-time lows in 2020 and 2021. However, after a significant increase in inflation
24 when the economy reopened after the Covid-19 pandemic, long-term rates increased
25 dramatically, until leveling off at higher rates over the last couple of years.

²¹ QE involved three rounds of the Fed’s direct intervention in bond markets beyond just lowering the Fed Funds rate. The Fed’s QE programs had the express intent of reducing long-term interest rates.



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As the graph shows, average utility long-term bond yields had declined to modern all-time lows in the latter half of 2020 – levels not experienced since the late 1940s and early 1950s. But in less than three years, those yields more than doubled. Although more simplistic COE methods may imply that the COE for utilities whipsawed along with bond yields, utility valuation levels over the 2020 to 2023 period indicate otherwise. As I explain in more detail later, the post Covid-19 economic and capital market conditions were atypical. These anomalous conditions were a consequence of the Fed’s and U.S. Congress’s massive interventions through monetary and fiscal policies, respectively, during the Covid-19 pandemic.

1 **Q. Why is it typically important to evaluate trends in long-term interest rates when**
2 **evaluating the utility industry's COE?**

3 A. The investment community had typically regarded utility stocks as bond proxies/pseudo
4 bonds, meaning that if long-term bond yields decline, then regulated utility stock prices
5 typically increase. Although investors' total returns in utility stock investments typically
6 include some capital gains, because of the slow and steady growth in earnings, utility
7 companies had historically distributed approximately 2/3 of their earnings as dividends to
8 shareholders, causing utility stocks to typically be characterized as yield investments.
9 Therefore, changes in utility stock valuation levels historically had a strong inverse
10 correlation to changes in bond yields, *i.e.* as bond yields decrease, utility stock prices
11 increase.

12 **Q. Do investors currently view electric utility stocks differently in light of expectations**
13 **for increased load growth due to the build-out of data centers?**

14 A. Yes. While regulated electric utility companies are still viewed as safe/defensive
15 investments, many electric utility companies, including Evergy, have started to
16 communicate to investors that they will target a lower dividend payout ratio (in the 50% to
17 60% range compared to past targeted ranges in the 60% to 70% range) so they can retain
18 more equity capital for investment in utility infrastructure.

19 Morningstar stated the following about recent electric utility stock valuation levels:

20 Utilities' median 18 P/E ratio is above the sector's 20-year average, and
21 their 3% dividend yield is possibly the lowest ever, suggesting that investors
22 value utilities' growth prospects more than their dividends.²²

23 Some brokerage firms, such as Wells Fargo, now estimate target/fair prices for utility
24 stocks by not only regressing P/E ratios against long-term bond yields, but also projected
25 3-5-year CAGRs in EPS, which is referred to as the PEG ratio (P/E divided by the estimated

²² Travis Miller, et. al., "US Utilities: Is Data Center Excitement Running Out of Fuel? A sector pullback gives investors a chance to assess which utilities can meet lofty growth expectations," Morningstar Equity Research, September 23, 2025, p. 1.

1 3-5 year CAGR in EPS). In fact, Wells Fargo is now applying more weight (55%) to the
2 PEG ratio than the regression against long-term bond yields (45%).²³

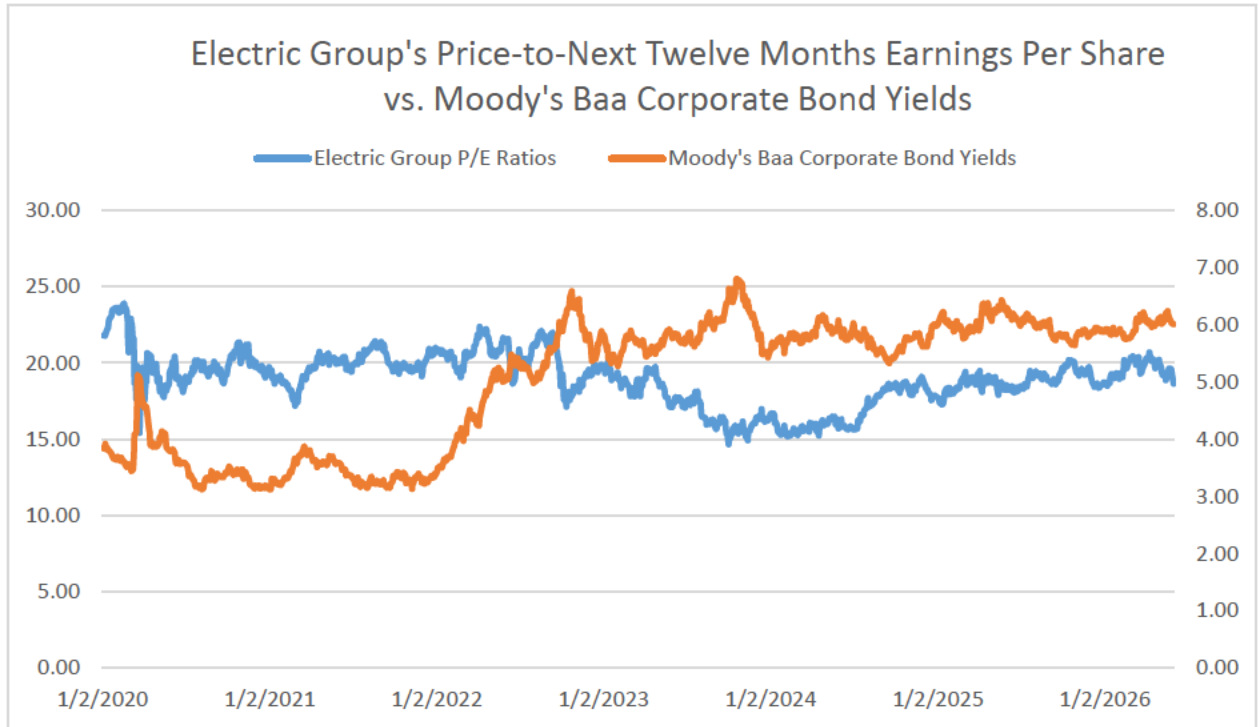
3 **Q. During the period April 2020 through August 2022, did utility stock valuations and**
4 **bond yields provide traditional and consistent signals about utilities' cost of capital?**

5 A. No. Following the drastic and significant intervention by the Fed in monetary policy and
6 the UST in fiscal policy in reaction to Covid-19 and its associated mitigation measures, the
7 yield-to-maturity ("YTM") on utility and corporate bonds traded at 70-to-80 year lows.
8 However, at the same time, broader utility stocks (mainly local natural gas distribution
9 companies ("LDC") and electric utility stocks) underperformed the S&P 500. The same
10 atypical trading pattern occurred as long-term bond yields increased dramatically in 2022.
11 Utility stocks significantly outperformed the S&P 500 on a relative basis, despite long-
12 term yields increasing through much of 2022. The increase in yields caused the S&P 500
13 to contract significantly, while causing only a slight decline in utility stock prices, allowing
14 them to maintain similar P/E ratios as before the rapid increase in long-term interest rates.
15 Consequently, while the utility industry's debt costs fluctuated along with the macro
16 changes in interest rates, the same was not true for the utility industry's cost of equity.

17 **Q. What about the period of August 2022 through early 2024?**

18 A. Starting around mid-September 2022, electric utility P/E ratios resumed their more typical
19 inverse correlation with long-term yields, as illustrated in the following chart:

²³ Shahriar Pourreza, et. al., "When You See One Cockroach, Are There More? Not in Utilities ore Power, Not in '26," Wells Fargo, January 20, 2026.



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During the all-time low bond yield environment, the utility industry was able to take advantage of extremely low debt capital costs. For example, on May 26, 2020, Metro issued 10-year, \$400 million dollar bonds at an annual coupon rate of only 2.25%. However, during this period, utility equity valuation levels did not increase in response to the decline in bond yields, which implied investors did not expect extremely low interest rates to be sustained. Similarly, as bond yields increased significantly in 2022, utility equity valuation levels did not contract as typically expected—because investors understood that the extremely low cost of debt during 2020 to 2021 was not sustainable, as well as concern that the Fed’s aggressive monetary policy to combat inflation might cause a recession. To illustrate the significant increase in utility bond yields, Metro issued 10-year, \$300 million bonds on April 5, 2024, at a coupon of 5.4%, or over twice as high as four years ago.

1 **Q. Has the correlation of electric utility companies' P/E ratios to bond yields changed**
2 **since early 2024, when investors recognized that electric utility companies should**
3 **benefit from data center growth?**

4 A. Yes. Since the beginning of 2024, electric utility companies' P/E ratios have exhibited a
5 positive correlation with changes in long-term bond yields. Investors now consider electric
6 utility companies' characteristics to be similar to that of a water utility, such as American
7 Water Works Company, where the companies have a significant need to redeploy retained
8 capital back into the utility. Consequently, dividend payout ratios of electric utility
9 companies have started to decline to payout ratios consistent with lower targets
10 communicated by utilities' managements.

11 **Q. Did you consider this fact in your multi-stage DDM analysis?**

12 A. Yes. It is mathematically necessary for utility companies to maintain a lower growth in
13 their DPS compared to their EPS to reduce the dividend payout ratio. My multi-stage DDM
14 analysis accounts for this reality.

15 **Q. Would you provide a graphic illustration of an electric utility industry proxy**
16 **group's²⁴ price-to-next-twelve-months-earnings (P/E) ratios since January 1, 2012?**

17 A. Yes. See the below graph:

²⁴ Unless otherwise specified, the proxy group I use to represent the electric utility industry are the following companies: Alliant Energy Corporation, American Electric Power Company, CMS Energy Corporation, DTE Energy Company, IDACORP, OGE Energy Corp, Pinnacle West Capital Corporation, Portland General Electric Company, The Southern Company, WEC Energy Group, and Xcel Energy Inc. These companies met screening criteria I used in Ameren Missouri's 2012 or 2014 rate cases, Case Nos. ER-2012-0166 and ER-2014-0258, respectively.



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The electric utility industry's P/E ratios traded as low as the 15x to 16x range in late 2023. The last time electric utility industry stocks consistently traded at this lower level was around 2015. Although long-term bond yields have recently increased to levels similar to late 2023, the electric utility industry's P/E ratios have remained above 19x. This may partially be explained by current expectations of higher long-term CAGRs in EPS.

7

Q. Why is it important to be aware of the historical context of the electric utility industry's P/E ratios?

8

9

A. Because the Commission deemed a 9.70% to 9.80% authorized ROE to be fair and reasonable for Missouri's large electric utilities around 2012, whereas the Commission deemed an approximate 9.50% authorized ROE as fair and reasonable for Missouri's large electric utilities around 2015. Therefore, at least based on observing the time-series data on P/E valuations, despite recent increases in long-term bond yields, a 9.25% ROE is fair and reasonable and supportive of Metro's ability to attract equity capital.

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1 **Q. Would you compare Evergy's P/E ratios to the electric utility industry for the period**
2 **shown in the previous chart?**

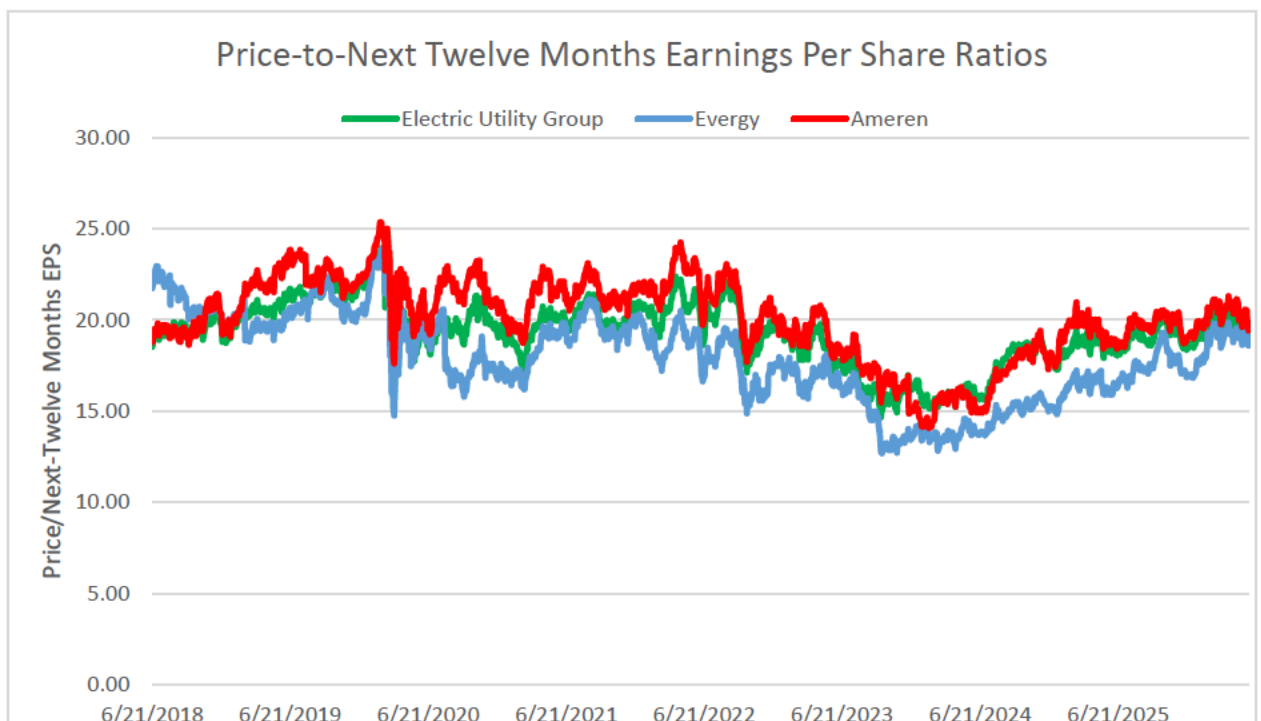
3 A. No, I cannot. Evergy was formed on June 4, 2018, through the merger of GPE and Westar.
4 Therefore, Evergy's P/E ratios can only be observed subsequent to this date.

5 **Q. At what starting date is information available for Evergy's P/E ratio?**

6 A. June 21, 2018.

7 **Q. Would you compare Evergy's P/E ratios to those of the electric utility industry and**
8 **to Ameren's P/E ratios since June 21, 2018?**

9 A. Yes. The comparison follows:



10

11 Evergy started trading at a premium to the electric utility industry when it was first formed
12 but then traded at a discount for much of 2019. After Elliott issued a January 21, 2020,
13 public letter to Evergy's Board of Directors ("BOD"), Evergy's P/E ratio traded in line
14 with the rest of the electric utility industry from approximately March 2020 through the
15 end of July 2020. On August 5, 2020, when Evergy announced it would pursue a stand-

1 alone strategy through its Sustainability Transformation Plan (“STP”), its P/E ratio
2 immediately declined by approximately 3x (from around 20x to 17x). However, for most
3 of 2021, Evergy’s P/E ratios traded anywhere from in-line to a slight discount to those of
4 the electric utility industry. Until recently, Evergy consistently traded at a discount to the
5 electric utility industry and Ameren for most of the period since 2021. Evergy’s P/E ratio
6 declined significantly in the fall of 2023 after it announced it settled the Evergy Kansas
7 Central rate case for an amount that was lower than investors’ expectations. During its
8 subsequent third quarter 2023 earnings conference call, Evergy lowered its guidance for
9 long-term CAGR in EPS to 4-6% from 6-8%.

10 **Q. Has the electric utility industry experienced significant changes recently that must be**
11 **considered when analyzing changes in valuation ratios since 2015?**

12 A. Yes. As the Commission is acutely aware due to its review and approval of large load
13 power service (“LLPS”) tariffs for Metro and Evergy Missouri West in 2025, electric utility
14 companies plan to invest significant amounts of capital to increase their capacity to serve
15 expected large increases in electricity demand from data centers. Consequently, on its
16 fourth quarter 2025 earnings conference call, Evergy communicated to investors that it now
17 expects its CAGR in EPS over the next five years to increase to 6-8% from prior guidance
18 of 4-6% CAGR. As I testified above, 6-8% guidance for expected CAGR in EPS is the
19 new normal, not 4-6%. The higher EPS growth expectations partially explain the electric
20 utility industry’s higher P/E ratios. Put another way, if the electric utility industry’s current
21 P/E ratios are higher than they were in 2015 when the Commission deemed a 9.50%
22 authorized ROE to be fair and reasonable, that fact does not definitively prove the current
23 COE is lower than it was in 2015. If expected growth for the electric utility industry in
24 2026 were the same as in 2015, then, absent a significant change in the electric utility
25 industry’s use of leverage in its capital structure or in targeted dividend payout ratios, a
26 P/E ratio higher now than it was in 2015 would strongly imply a lower COE.

1 **Q. What was your estimate of the electric utility industry’s COE when the Commission**
2 **deemed a 9.53% authorized ROE as fair and reasonable for Ameren Missouri in**
3 **2015?**

4 A. I estimated the COE to be in the range of 7.6% to 8.4% in Ameren Missouri’s rate case,
5 Case No. ER-2014-0258.²⁵ However, as I later testify, I applied a more generic version of
6 the multi-stage DCF at that time, which made the simplified assumption that my proxy
7 groups’ DPS would grow at the same rate as analysts’ projections for long-term CAGR in
8 EPS. Additionally, I assumed a higher perpetual growth rate range of 3-4%. I will illustrate
9 the impact these generic assumptions have on a COE estimate later.

10 **Q. Have factors other than the cost of capital caused investors to temper their**
11 **expectations for higher authorized RORs?**

12 A. Yes. Due to affordability issues including the higher cost of living in general, some
13 politicians and utility commissions are scrutinizing elements of utility rate increase
14 requests that may be considered to be more subjective or discretionary. While pure-play
15 utility companies’ embedded costs of debt are usually non-discretionary, the same is not
16 true for authorized ROEs and weight of the equity ratio applied to them. Because customer
17 affordability is a heightened concern, analysts and investors believe that consideration may
18 result in lower RORs through lower authorized ROEs and equity ratios.²⁶

19 **Q. Would awarding a lower authorized ROE despite the increase in the cost of capital**
20 **since 2023 impair a utility company’s ability to attract capital?**

21 A. No, but only if the awarded ROE is not set lower than the COE. Most utility company
22 witnesses testify that authorizing a ROE at approximate parity with the COE is consistent
23 with the principles identified in *Hope* and *Bluefield*. This logic is supported because
24 prospective investors will not provide capital to a company that continuously invests in

²⁵ Case No. ER-2014-0258, Staff Cost of Service Report, December 5, 2014, p. 11, Ins. 1-2.

²⁶ RRA Major Rate Case Decisions Quarterly Updates, June 10, 2026.

1 projects that do not earn at least the COE. Otherwise, the company is destroying
2 shareholder value.

3 **Q. Is this logic supported by the investment community's views regarding efficient use**
4 **of capital?**

5 A. Yes. In recent commentary covering the announcement of the mega merger between
6 NextEra Energy and Dominion, Barclays explained that because utility enterprise values
7 are currently trading at a value of approximately 1.4x rate base, utility companies should
8 be confident that they will create value for their shareholders by investing organically at a
9 capital to rate base ratio of 1.0x.²⁷ This analysis is certainly consistent with the
10 management's fiduciary duty to shareholders to invest in projects that create shareholder
11 wealth. Management can create shareholder wealth from organic investment because
12 commissions award ROEs that are higher than the COE. If a commission awards a ROE
13 lower than investors' expectations of perhaps an ROE consistent with a recent national
14 average of around 9.70%, then current shareholders will experience a decline in the value
15 of their shares, but going forward, prospective investors will supply capital if the expected
16 ROE is not lower than the COE.

17 **Q. Can utilities still create value for their shareholders when the spread between the**
18 **COE and allowed ROEs is narrow?**

19 A. Yes. Even at a narrow spread, as long as a company has the opportunity to earn more than
20 its cost of capital, it will create value above the initial book value investment (*i.e.*
21 investment in rate base for utility companies). The logic underlying the ratemaking
22 principle of setting an authorized ROE at or near parity with the COE is that utility
23 companies will only invest in projects that are expected to be economically efficient based
24 on the merits of the projects rather than simply being authorized a return higher than the
25 cost of capital (or a jurisdiction that authorizes a higher return than another jurisdiction).
26 Morningstar's discounted cash flow analysis recognizes this principle should at least hold

²⁷ Nicholas Campanella, "Where Does Utility Sector M&A Stand Coming Out of the Announced NEE/D Merger?"
Barclays Capital Inc., June 2, 2026.

1 over the long-term. Specifically, as it relates to estimating growth in cash flows in the
2 perpetuity stage, Morningstar states the following:

3 Once a company's marginal ROIC [Return on Invested Capital] hits
4 its cost of capital, we calculate a continuing value, using a standard
5 perpetuity formula. At perpetuity, we assume that any growth or
6 decline or investment in the business neither creates nor destroys
7 value and that any new investment provides a return in line with
8 estimated WACC.²⁸

9 **Q. Is this fundamental financial principle even more imperative now that electric utilities
10 are plunging forward in Missouri with significant rate base investments?**

11 A. Yes. Because Evergy's projected capital expenditures over the next five years is expected
12 to be \$21.6 billion as compared to \$7.6 billion of projected capital expenditures for the
13 previous five years, the greater the authorized ROR over the cost of capital, the higher net
14 present value ("NPV") Evergy can create for its shareholders. A simplified example, which
15 assumes all 5-years of capex are made in one year and Evergy is maintains an authorized
16 9.5% ROE and approximate 50% common equity ratio as compared to its approximate
17 45% common equity ratio and 8.0% COE, Evergy could create approximately \$1.814
18 billion of shareholder value from \$21.6 billion of investment as compared to approximately
19 \$634.229 million of shareholder value from \$7.6 billion of investment. Therefore, the
20 multiple of shareholder value created is exactly proportionate to the multiple of capex.

21 **Q. Would the increased value only accrue to existing shareholders?**

22 A. No. Because of the significant planned capital investment, Evergy plans to issue new
23 common equity to fund such investment. In its fourth quarter 2025 earnings presentation,
24 Evergy's financing plan over the next five years includes a plan to issue \$3.3 billion of
25 additional common equity. Based on Evergy's recent share price of approximately \$83.95,
26 this would require 39,309,113 additional common shares to be issued. These additional
27 shares would dilute the aggregate NPV/share to \$6.72/share as compared to \$7.87/share
28 based on current outstanding shares.

²⁸ *Id.*

1 **Q. If you are correct about your estimate of Evergy’s COE at around 8% and all of**
2 **Evergy’s subsidiaries were authorized ROEs based on the COE and those ROEs were**
3 **applied to Evergy’s capital structure, would Evergy have the same motivation to boost**
4 **the scale of its investments?**

5 A. No. The logic underlying setting the authorized ROR consistent with the cost of capital is
6 to ensure that utility companies only make necessary investments. If Evergy needed to
7 invest \$1 or \$1 billion, the NPV of the investment is zero with the investor receiving their
8 required return of 8%. Therefore, Evergy’s management and shareholders would be
9 indifferent to the scale of Evergy’s investments.

10 **Q. Should this potential additional value for shareholders be considered in deciding a**
11 **fair and reasonable authorized ROE for Metro as compared to the COE?**

12 A. Yes. Again, at the very least, the Commission should not increase its previous authorized
13 ROE of 9.50% for Metro, but I argue that it should be lowered to provide balance between
14 creating shareholder wealth and ensuring capital is used efficiently, which would minimize
15 rate increases charged to ratepayers.

16 **Q. Are you aware of any authoritative articles published recently regarding the efficient**
17 **use of capital if commissions would set authorized ROEs closer to the COE?**

18 A. Yes. An article published by the American Economic Liberties Project and authored by
19 Mark Ellis, a former utility executive with Sempra Energy who holds degrees from
20 Massachusetts Institute of Technology and Harvard University, is attached as Schedule
21 DM-D-2. Mr. Ellis explains the discrepancy between authorized returns and the cost of
22 capital, which is consistent with the analysis and corroborating evidence I have sponsored
23 in regulatory proceedings over much of my career.²⁹

²⁹ Mr. Ellis suggests that the Society of Utility Regulatory and Financial Analysts (“SURFA”), the organization for which I have served and currently serve as a board member, serves a goal of indoctrinating/co-opting ROR witnesses who sponsor testimony on behalf of commissions and consumer intervenors. While I certainly have concerns about the bias of certain members of the organization, as a board member and a participant at the conference, I have been able to provide counterpoints to opinions offered by those who may attempt to wittingly or unwittingly tilt the tables in favor of the utility industry. My participation and attendance at SURFA conferences allowed me to learn that brokerage/investment (“Wall Street”) analysts discount utility company expected cash

1 **Q. But aren't there many authoritative and credentialed experts that disagree with you**
2 **and Mr. Ellis about the COE for utility companies?**

3 A. Sure, but these are not the experts that utility companies hire to provide advice about
4 consequential decisions regarding capital budgeting, merger/acquisitions, and/or capital
5 structure strategies. For example, ** _____
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15 **Q. Is there other third-party evidence that supports a finding that the electric utility**
16 **industry's COE was not higher than authorized ROEs even when interest rates spiked**
17 **in the fall of 2023?**

18 A. Yes. Bank of America stated the following in October 2023 when long-term bond yields
19 had increased to the highest levels since 2010:

20 **On a spot basis with 9.5-9.6% after-tax authorized ROEs in 3Q23, this**
21 **is meaningfully higher than the cost of equity from the capital asset**
22 **pricing model for most utilities in the 8.5-9.0% range.** The 5% 30Yr US
23 Treasury has compressed returns for utilities which have back-levered but
24 we do not foresee a meaningful increase in allowed ROEs back above 10%.
25 We continue to believe that California will not increase the allowed rate of
26 return for the electric utilities due to the continuation of the extraordinary
27 event from covid and the related policy responses.³⁰ (bold in the original).

flows to shareholders, i.e. the COE, at much lower rates than ROR witnesses claim is the COE. It is this enlightenment that has caused me to vigorously pursue discovery in utility regulatory proceedings of equity research and financial advisory analysis provided to the boards of corporations which own Missouri utility companies.
³⁰ Julien Dumoulin-Smith, et. al, "Utilities in a 5% Treasury World: Who has a plan to withstand the pain? 3Q Preview," Bank of America Securities, October 20, 2023.

1 **C. ESTIMATED COST OF COMMON EQUITY**

2 **Q. Having provided context on recent changes in the utility capital market generally,**
3 **and with regard to Evergy specifically, would you explain how you approached**
4 **estimating Metro’s COE in this case?**

5 A. Yes. I performed a multi-stage DCF analysis and a CAPM analysis on a proxy group of
6 electric utility companies, which includes Evergy. Then, I tested the reasonableness of my
7 estimates by using simple reasonableness checks, such as the bond-yield-plus-risk-
8 premium (“BYPRP”) method discussed in the CFA curriculum.

9 **Q. How did you inform yourself as to reasonable and rational inputs for your COE**
10 **approaches?**

11 A. The objective of a ROR witness is to emulate investors’ approaches to analyzing and
12 making investment decisions as it relates to investing in utility stocks. Therefore, I have
13 made it a priority to review, analyze, and understand how equity research analysts estimate
14 fair prices for utility stocks. My analysis has allowed me to test the theory of cost of capital
15 estimation in utility ROR testimony, as it compares to practice. I have discovered
16 investment analysts use multi-stage DCF approaches to estimate fundamental values of
17 utility stocks, and/or they use relative valuation techniques that compare a company’s P/E
18 ratios to averages for the industry and/or potentially a more tailored subset of peer
19 companies.

20 In my experience, professional equity (“Wall Street”) analysts project long-term CAGR in
21 EPS to determine whether a company’s P/E ratio deserves a premium or a discount to its
22 peers. Wall Street analysts DO NOT use these estimated long-term CAGRs in EPS for
23 purposes of projecting a perpetual dividend growth rate, as some ROR witnesses suggest.
24 When performing an absolute valuation analysis, such as a DCF/DDM, Wall Street
25 analysts assume rational perpetual growth rates in the range of a rate consistent with
26 inflation to a rate consistent with expected nominal gross domestic product (“GDP”).

1 Finally, and most relevant to the task at hand, they estimate utilities' COE to be in the
2 7.0%-7.5% range.³¹

3 **Q. Is it important to analyze the information these equity research firms rely on to**
4 **determine a fair and reasonable ROE for Metro?**

5 A. Yes.

6 **Q. Why?**

7 A. Analyzing this information is important because these Wall Street analysts are the very
8 individuals who underlie various consensus estimates widely considered by investors.
9 ROR witnesses recognize the influence Wall Street analysts have on utility stock prices by
10 the very fact that they use consensus financial metric forecasts for purposes of estimating
11 the COE.

12 **Q. What equity research firms cover Evergy's stock?**

13 A. According to Evergy's website, the following firms cover its stock: Barclays, Citi,
14 Evercore ISI, Ladenburg Thalman, Seaport Research Partners, Wells Fargo Securities, and
15 Wolfe Research.³²

16 **Q. Did you review any of these firms' research for purposes of performing your cost of**
17 **equity analysis and preparing your testimony?**

18 A. Yes. I mainly relied on reports Evergy provided in response to Staff Data Request No.
19 0117. However, over my career I have established relationships with some firms/analysts
20 who have distributed this material to me directly through their email distribution lists.
21 These relationships were borne from my role as a regulator in which many of these analysts
22 seek information related to Missouri's general and specific regulatory issues. I have also
23 interacted with these analysts through my participation in organizations, such as the Society
24 of Utility and Regulatory Analysts ("SURFA"). Additionally, I recently had the

³¹ Ryan Levine, et. al., "Evergy Inc.: Going with Higher 6-8% Growth Guide, Higher Than We Thought," Citi Research, February 19, 2026; Travis Miller, "Evergy Earnings: Regulatory Success, Demand Growth Are Earnings Tailwinds," Morningstar, November 6, 2025.

³² <https://investors.evergy.com/investor-relations/stock-information/analyst-coverage>

1 opportunity to obtain broader access to broker/equity research through a trial from the
2 vendor AlphaSense. During this trial, I was afforded the opportunity to explore/analyze
3 not only brokerage reports published on the publicly-traded parent companies of Missouri's
4 utility companies, but equity research covering views/analysis of both the utility industry
5 and broad capital market conditions, such as analysis and commentary on the S&P 500.

6 1. PROXY GROUP

7 **Q. How did you approach selecting a custom electric utility proxy group?**

8 A. I decided to analyze a broad proxy group of utilities classified as “regulated” and “mostly
9 regulated” utilities by the Edison Electric Institute (“EEI”), which includes Evergy.³³
10 Although I estimated a COE based on this broad electric proxy group, I also disaggregated
11 companies within this broad proxy group to give more weight to companies that are more
12 confined to pure-play regulated utility operations. To filter out electric companies with
13 significant non-regulated operations, I estimated the COE for companies EEI classifies as
14 “regulated.” However, even some of these companies have non-regulated operations that
15 contribute to volatility to earnings and/or cash flows. Therefore, I reviewed the various
16 business segments of each of these companies to determine which generally have had less
17 than 10% of their operations exposed to competitive and international markets over the
18 past five years, which was nineteen (19) companies. I also disaggregated the results for
19 eleven (11) of the EEI companies I analyzed for electric utility rate cases in 2012 and 2014,
20 which are the same companies I have consistently used for the charts in my ROR
21 testimonies over the last several years.

22 **Q. Why did you choose five years of historical financial data for purposes of determining
23 which companies to weigh more heavily in your COE analysis?**

24 A. Because, as I discuss in more detail later, the Capital Asset Pricing Model (“CAPM”) relies
25 on a variable referred to as beta, which is frequently calculated based on five years of
26 historical data. To ensure the resulting historical betas are more reliable in measuring
27 investors’ forward-looking views of the required return for a regulated utility investment,

³³ EEI classifies companies as “Regulated” if at least 80% of their assets are dedicated to regulated utility operations.

1 it is important to ensure the selected companies have consistently had a business risk profile
2 consistent with a regulated monopoly utility profile over the entire period.

3 **Q. Is it necessary for a company's five years of historical financial experience to be**
4 **consistent with a mostly pure-play regulated utility for purposes of applying the**
5 **multi-stage DCF/DDM?**

6 A. Not necessarily. However, to the extent investors are apprehensive about a company not
7 having a track record of proven reliable earnings/dividend growth to test the reasonableness
8 of managements' forward guidance on earnings/dividend growth, it may cause investors to
9 discount the stock until management establishes a track record of meeting earnings
10 guidance as a pure-play regulated utility.

11 **Q. Should the results of any of the proxy companies included in your proxy group be**
12 **given less weight?**

13 A. Yes. Black Hills Corporation and NorthWestern Corporation should be afforded little
14 weight because of their planned merger. Additionally, TXNM Energy should not be given
15 weight since Blackstone announced a definitive agreement to acquire TXNM on May 18,
16 2025. This causes my subset group of predominately regulated utility companies to decline
17 to 16 companies.

18 **Q. How do your proxy group's credit ratings compare to Evergy's and Evergy Metro's**
19 **credit ratings?**

20 A. Evergy and Metro have a S&P issuer credit rating of 'BBB+' and 'A-', respectively. The
21 average S&P issuer credit rating for the various electric utility proxy groups are as follows:
22 (1) broad group – 'BBB+' to 'BBB', (2) predominately regulated group – 'BBB', and (3)
23 proxy group used in graphs – 'BBB+' to 'A-'.

24 Evergy and Metro have a Moody's issuer credit rating of 'Baa2' and 'Baa1', respectively.
25 The average Moody's issuer credit rating for the various electric utility proxy groups are
26 as follows: (1) broad group – 'Baa2', (2) predominately regulated group – 'Baa2' to
27 'Baa1', and (3) proxy group used in graphs – 'Baa1' to 'Baa2'.

1 **Q. What is the average debt-to-total capital ratio of your proxy group?**

2 A. The simple average total debt-to-total capital ratio is approximately 59% to 61% depending
3 on the selected proxy group.

4 **Q. Why is it important to be aware of the publicly-traded proxy groups' use of leverage
5 when estimating a fair and reasonable ROE for an operating subsidiary?**

6 A. Because equity investors in publicly-traded utility companies determine their required
7 return (*i.e.* the company's COE) by evaluating the total risk of the company, which includes
8 the business risk and the financial risk (*i.e.* debt in the capital structure). Because the proxy
9 groups' capital structures consist of 60% total debt, the equity investors' required return is
10 based on this amount of financial risk. I recommend the Commission apply the authorized
11 ROE to a capital structure like that of the proxy groups' actual capital structures. However,
12 if a witness recommends their proxy groups' COE be applied to a less leveraged subsidiary
13 capital structure, then this COE must be adjusted downward to reflect the lower financial
14 risk inherent in that capital structure as compared to the proxy groups' financial risk.

15 **Q. What methods/models did you use to estimate Evergy's and the proxy group's COE?**

16 A. I used the DCF method and the CAPM.

17 2. MULTI-STAGE DCF/DDM

18 **Q. What version of the DCF did you use?**

19 A. For my DCF analysis, I used the multi-stage version because it allows for a modeling of
20 changes in dividend growth due to varying capital expenditure cycles occurring within the
21 electric utility industry.

22 For the first stage (May 31, 2026, through June 30, 2030) I used Wall Street analysts'
23 consensus DPS estimates to the extent they were available. For the second stage (June 30,
24 2030, through June 30, 2040), I allowed for a gradual decline from Wall Street analysts'
25 projected 5-year CAGR in EPS to a sustainable perpetual growth rate in the range of 2.5%
26 to 3.5% starting on June 30, 2040. In order to estimate investors' anticipated annual DPS
27 over the second stage, I determined consensus analysts' estimated dividend payout ratios

1 as of 2030. I then allowed the dividend payout ratios to gradually converge to a sustainable
2 payout ratio in the range of 74.23% (2.50% perpetual growth at 9.70% terminal ROE) to
3 63.92% (3.50% perpetual growth at 9.70% terminal ROE) starting in 2040. The terminal
4 payout ratios are consistent with the constant/sustainable-growth DCF theory that requires
5 DPS, EPS and book value per share (“BVPS”) to grow in perpetuity at the same rate.

6 As it relates to the timing of investors’ receipt of dividends, I assumed investors receive
7 the entire annual DPS estimate at the middle of the year. This discounting convention
8 mitigates the potential under- or over-estimating of the COE based on either end-of-year
9 or beginning-of-year discounting conventions.

10 My industry COE estimate based on application of the multi-stage DCF to the proxy group
11 indicates a COE in the range of approximately 7.85% to 8.05%, which is around 70 to 95
12 basis points higher than my estimates in Metro’s 2022 rate case (*see* Schedules DM-D-3
13 through DM-D-5).

14 **Q. How did you determine your assumed 2.50% to 3.50% perpetual growth rate for**
15 **DPS?**

16 A. This growth rate range is generally consistent with the following: (1) potential long-term
17 sustainable growth rate of the U.S. economy,³⁴ (2) past actual historical electric industry
18 growth rate data from the Moody’s electric utility index³⁵ and a sample group of electric
19 utility companies in which data was available from Value Line – all of which demonstrates
20 that electric utilities’ DPS typically grow slower than the economy over long-term
21 periods,³⁶ (3) long-term electric utility industry fundamentals as it relates to earned ROEs
22 on normalized electric utility rate base growth, and (4) commentary/analysis available from
23 practical investment/valuation analysis. As it relates to fundamentals, a sustainable growth
24 rate can be determined by multiplying an average long-term industry retention rate by an
25 expected book ROE of approximately 9.7%, which is consistent with the current average
26 authorized ROE. Assuming the electric utility industry retains sufficient capital to ensure

³⁴ <https://www.cbo.gov/data/budget-economic-data>; Annual Energy Outlook 2026, U. S. Energy Information Administration, April 8, 2026, Table 20 (Link: https://www.eia.gov/outlooks/aeo/tables_ref.php).

³⁵ Staff Cost of Service Report, Case No. ER-2011-0028, p. 18.

³⁶ *Id.*

1 it doesn't have to access external equity markets, then a 3% perpetual growth rate requires
2 companies to retain 30.97% of earnings to avoid issuing additional common equity.

3 **Q. How does your assumed 2.50% to 3.50% perpetual growth rate compare to perpetual**
4 **growth rates used in practice by investment analysts to estimate the enterprise value**
5 **and shareholder value of utility companies?**

6 A. This range is consistent with the perpetual growth rates used for purposes of estimating
7 utility stock prices. For example, Citi Research typically uses a perpetual growth rate in
8 the range of 3% to 3.5% in its multi-stage DDM analysis of electric utility stocks.³⁷
9 Additionally, ** _____

10 _____
11 _____

12 _____ **38

13 **Q. How does a 2.5% to 3.5% perpetual CAGR compare to projected long-term CAGRs**
14 **in inflation and nominal GDP?**

15 A. According to the Energy Information Administration ("EIA"), the CAGR in inflation and
16 nominal GDP through 2050 is expected to be 2.02% and 3.74%, respectively.³⁹

17 **Q. Historically, at what percentage of GDP is electric utility demand?**

18 A. According to Bank of America Global Research ("BofA"), it has typically been
19 approximately 60% of GDP growth.⁴⁰ 60% of EIA's expected nominal GDP growth is
20 approximately 2.25%. Therefore, an assumption of perpetual growth rate of approximately
21 2.5% to 3.5% is consistent with rational expectations.

³⁷ Ryan Levine, et. al., "Exelon Corp: Datacenter Growth and Policy Evolution to Create Growth; Buy," Citi Research, March 26, 2026; Ryan Levine, et. al., "Pinnacle West Capital Corp: Long Runway for Growth While Regulatory Lag Remains Near-Term EPS Headwind, Monsoon & Haboobs to Drive Q3 Results," Citi Research, October 15, 2025.

³⁸ Energy Inc.'s February 26, 2024, Board of Directors Meeting, pp. 131 and 141

³⁹ Annual Energy Outlook 2026, U. S. Energy Information Administration, April 8, 2026, Table 20 (Link: https://www.eia.gov/outlooks/aeo/tables_ref.php).

⁴⁰ Ross Fowler, "US Power & Utilities: 2026 Year Ahead: Walk the Line – Growth vs. Affordability in a Regulated World," Bank of America Securities, December 15, 2025, p. 7.

1 **Q. Why did you assume a terminal ROE of 9.7%?**

2 A. It is consistent with current average authorized ROEs. While some companies may be
3 higher or lower and authorized ROEs may change over time, it is difficult to predict an
4 expected earned ROE in perpetuity. Before recent increases in long-term interest rates,
5 Wells Fargo had used a terminal ROE of 9.0% and Evercore ISI had used a terminal ROE
6 of 9.25%.

7 **Q. How do your current multi-stage DCF COE estimates for the electric utility industry**
8 **compare to your multi-state DCF COE estimates for the electric utility industry**
9 **during the 2014/2015 period in which the Commission first deemed a 9.5% authorized**
10 **ROE to be fair and reasonable for Missouri's electric utilities?**

11 A. My current multi-stage DCF COE estimate of approximately 8% is similar to my estimate
12 of the electric utility industry's COE in the range of 7.6-8.4% in Ameren Missouri's 2014
13 rate case, Case No. ER-2014-0258.

14 **Q. Have you changed anything in your multi-stage DCF approach that may affect your**
15 **electric utility industry COE estimates?**

16 A. Yes. I refined my multi-stage approach starting in 2019 because I gained access to more
17 detailed analysts' estimates. I determined that I could use these more detailed estimates to
18 more closely align the variables in the model with the assumptions underlying the constant-
19 growth stage – the terminal stage of the model. Those changes may cause slight differences.

20 **Q. Using the same multi-stage DCF approach you used prior to 2014/2015, what do the**
21 **results imply about the changes in the electric utility industry's COE since 2015?**

22 A. The electric utility industry's current COE is approximately the same as it was in
23 2014/2015. Assuming a 3% perpetual growth rate for both periods, the indicated COE is
24 around 7.5% in both periods (*see* Schedule DM-D-6).

1 **Q. What does the beta in a CAPM analysis?**

2 A. Beta is statistically defined as the covariance of the returns on an asset (in this case an
3 individual stock or group of stocks) with the return on the S&P 500 divided by the variance
4 of the returns on the S&P 500. This statistical measure is intended to provide investors
5 with insight regarding expected volatility of a security (or portfolio of securities) as it
6 relates to market volatility. A beta of less than one implies less expected volatility than the
7 market, with the trade-off of a lower expected return than the market. The reverse is
8 expected for a beta greater than one.

9 **Q. Are stock betas calculated based on historical market prices and relationships?**

10 A. Yes. For example, Value Line's published betas are based on five years of historical
11 weekly returns of a stock or portfolio of stocks as compared to the weekly returns of the
12 market.

13 **Q. What are the indicated historical betas for your proxy groups based on the most
14 recent past five years of data?**

15 A. 0.58 to 0.62.

16 **Q. Are the current historical betas consistent with typical utility betas over the long-
17 term?**

18 A. No. Current electric utility betas are lower than typical electric utility betas of around 0.7
19 to 0.75. Therefore, I will apply a beta of 0.7 to determine the adjusted risk premium electric
20 utility investors typically require on a going-forward basis.

21 **Q. Can you explain the typical considerations in determining the risk-free rate variable
22 used in applying the CAPM?**

23 A. Yes. UST bills (tenor of less than a year), notes (tenor of 2-10 years), or bonds (tenor of
24 20 and 30 years) are typically considered to be risk-free to the extent the U.S. Government
25 is not expected to default on its debt obligations. Because the U.S. Government has taxing
26 and money creation authority, these issues are considered by rating agencies in assigning
27 extremely strong credit rating to U.S. debt. While rating agencies have downgraded the

1 United States' credit rating to one notch below the strongest credit rating possible ('AAA'),
2 for the most part, there are no bonds that are less risky than U.S. government debt.

3 The tenor of U.S. Treasury security to use in the CAPM is largely driven by the method of
4 estimating the equity risk premium (*e.g.* use of historical data to project future required
5 equity risk premiums) and the intended holding period of the subject equity security. Most
6 historical databases of long-term return information on notes/bonds are measures of long-
7 term returns on either 10-year Treasury Notes or 20-year Treasury Bonds. Therefore, the
8 interest rate used should be based on the tenor of the UST security subtracted from market
9 equity returns. However, many times analysts may use a 30-year Treasury Bond when
10 adding a long-term realized risk premium because a 30-year bond yield is typically not
11 much different than a 20-year bond yield. In fact, at times the 20-year bond yield may be
12 higher than the 30-year bond yield due to lower liquidity.

13 The other main factor often considered when choosing the tenor of the risk-free rate is the
14 intended holding period of the investment in the equity security. While individual investors
15 have a wide range of holding periods, utility stock investments are typically long-term
16 investments, making longer-tenor bonds more appropriate.

17 **Q. What tenors of UST debt did you use in applying the CAPM?**

18 A. I used 10-year UST notes and 20-year UST bonds because the historical realized risk
19 premium data I considered was calculated based on these tenors.

20 **Q. Can you identify and explain the market risk premium you used in your application
21 of the CAPM?**

22 A. Yes. The market risk premium (also commonly referred to as the equity risk premium) is
23 the compensation investors' require over a risk-free rate to be enticed to invest in a portfolio
24 of equities that represent the entire equity market. In the United States, the proxy for the
25 overall equity market is usually a broad-based index, such as the S&P 500. Typically, the
26 estimated market risk premium is the cost of equity variable that is the most prone to error
27 or manipulation. For purposes of capital budgeting, if an analyst is attempting to support
28 a specific investment/project, he/she may purposely estimate a lower market risk premium

1 to increase the odds the investment/project will be funded or vice versa if attempting to
2 squash an investment/project. As it relates to utility ratemaking, analysts sponsoring
3 testimony on behalf of utilities typically inflate the market risk premium to attempt to
4 justify a higher requested authorized ROE, whereas analysts sponsoring testimony on
5 behalf of consumer advocates may do the opposite. However, my experience has been that
6 even ROR witnesses representing consumer advocates have an upward bias in their COE
7 estimates, because they understand commissions are unlikely to award ROEs consistent
8 with utility companies' lower COE.

9 Although estimates of the market risk premium vary widely among ROR witnesses, they
10 do not vary as widely among investment analysts estimating the fundamental value of a
11 share of utility stock. Fortunately, there are many reputable and practical sources available
12 to evaluate whether certain market risk premium estimates are rational and reasonable.
13 Additionally, over my career as a ROR witness, I have consistently discovered
14 parent/holding company level BOD materials/documents which demonstrate that Missouri
15 utility companies estimate a much more reasonable/rational market risk premium for
16 purposes of estimating the COE for capital budgeting or valuation purposes, which
17 contradict the inflated market risk premium estimates sponsored by their ROR witnesses.

18 Perhaps one of the easiest methods, but not necessarily the most accurate and reliable, for
19 projecting market risk premiums is to assume past realized stock market returns over
20 riskless government bill/note/bond returns will prevail in the future. Although the
21 calculation of realized return spreads would seem straightforward, there are many factors
22 that investors/analysts debate when extrapolating historical realized return spreads to
23 project investors' current required risk premiums. I will briefly address a few of them.

24 First, the time span of the historical return data is one of the most significant factors
25 impacting the calculation of realized risk premiums. Many investors/analysts typically
26 advocate for using the longest period for which historical return data is available. In the
27 mid-1970's, Roger B. Ibbotson and Rex A. Sinquefeld of Folk, Missouri, compiled and
28 published some of the most comprehensive United States' historical market return data in
29 their book, Stocks, Bonds, Bills and Inflation ("SBBI") Yearbook. Morningstar published
30 the SBBI Yearbook until 2015. While Morningstar continued to maintain the database

1 after 2015, Duff & Phelps published the SBBI Yearbook until 2021. Duff & Phelps ceased
2 publishing the SBBI Yearbook after 2021, but Morningstar continued to maintain the
3 database through February 1, 2025, when it announced it would halt updating and
4 producing this data. While the SBBI Yearbook data was one of the most widely used and
5 accepted references for purposes of providing long-term return information on several
6 broad asset classes, the starting year (1926) for compiling this data was a function of the
7 practical availability of data, rather than consideration of a period that may best represent
8 future expectations.⁴¹ Although I used this source consistently over approximately the last
9 twenty-five years for purposes of my cost of capital analysis, I frequently provided
10 information from other reputable and influential sources which suggested lower projected
11 market risk premiums based on recent market valuation levels, such as P/E ratios for the
12 S&P 500, which demonstrated that investors were paying a higher premium per share of
13 earnings than they had during past periods.

14 Although the SBBI Yearbook data is no longer readily available, access to historical return
15 data through other sources has become more robust since the mid-1970s. The two primary
16 sources I relied on for historical realized equity risk premiums through 2025 is the online
17 database provided by Aswath Damodaran, PhD and Professor of Finance at the Stern
18 School of Business at New York University and the Global Investment Returns Yearbook
19 by Elroy Dimson, Paul Marsh, and Mike Staunton (“DMS”). Dr. Damodaran’s return data
20 starts in 1928. The DMS annual return data starts in 1900 and includes data not only for
21 the United States, but also 23 other markets around the world.

22 While Dr. Damodaran and DMS provide historical realized risk premium data, each source
23 also provides their own projected market risk premiums based on their decompositions of
24 the fundamental drivers of equity returns, such as dividend yields, earnings/divided growth,
25 and expansion in valuation ratios such as the P/E ratios and dividend-to-price ratios
26 (“D/P”). These sources estimate the current implied required market/equity risk premium
27 is lower than the historical realized market risk premiums. Considering their historical
28 annual return information captures 100 to 125 years of data, these analyses highlight their

⁴¹ “Revisiting the Equity Risk Premium,” CFA Institute Research Foundation, 2023, p. 3.

1 views that historical higher earned returns on common equity investments were not
2 required returns, but rather unexpected excess returns.⁴²

3 For purposes of my CAPM analysis, my range of COE estimates are premised on a range
4 of estimated market risk premiums. The low-end is based on Damodaran's and DMS'
5 direct estimates based on current market conditions, which are approximately 4.3% and
6 2.3%, respectively.⁴³ The high-end is based on the historical realized risk premiums shown
7 in Damodaran's and DMS' databases. Additionally, for sake of comparison to the other
8 commercially available market risk premium estimates, I note that Kroll, the most recent
9 publisher of the SBBI data, estimates a current market risk premium of 5%.⁴⁴

10 **Q. What causes DMS to estimate such a low market risk premium?**

11 A. DMS market risk premium estimates consider many variables that have caused equity
12 markets to achieve higher returns than they deem sustainable going forward. DMS adjusts
13 the historical realized return spreads to eliminate the compounded annual expansion of the
14 price-to-dividend ratio of 0.86%. DMS' adjustment is consistent with those made by
15 several other authoritative sources, which recognize that increased stock valuation levels
16 since 1950 cannot continue indefinitely. Otherwise, the market risk premium would
17 eventually become negative, which is irrational. The other significant adjustment DMS
18 made to historical returns was to assume that the future growth of dividends for the market
19 would be lower than the 1.67% CAGR achieved over the period from 1900 to 2025. Based
20 on the S&P 500's dividend yield of 1.18% as of December 31, 2025, DMS' market risk
21 premium estimate of 2.3% implies real dividend growth of 1.1%. This adjustment is not
22 as widely recognized among other sources that provide market risk premium estimates.
23 Without this adjustment, DMS' market risk premium estimate is approximately 4%. DMS'
24 basis for its recommended dividend growth adjustment is that not only was the 1.67%

⁴² Their views are also corroborated by the work of two other preeminent finance academics, Eugene F. Fama and Kenneth R. French in their published research, "The Equity Premium," *Journal of Finance*, Vol. LVII, No. 2, April 2002, pp. 637-659.

⁴³ Damodaran's market risk premium estimates are measured against the 10-year United States Treasury Note. DMS's market risk premium estimates are measured against long-maturity bonds, which DMS defines as an approximate 20-year maturity.

⁴⁴ <https://www.kroll.com/en/reports/cost-of-capital/recommended-us-equity-risk-premium-and-corresponding-risk-free-rates>

1 CAGR in real dividends in the United States a matter of good fortune since 1950 (not
2 expected nor required by investors), but the 0.61% CAGR in real dividends for the world
3 markets were also a matter of good fortune. Put another way, starting at a much lower
4 dividend yield (1.18%) as compared to an historical average of approximately 4%, would
5 require an even higher CAGR in real dividends ($4.03\% - 1.18\% = 2.85\%$) than that which
6 occurred during the exceptional growth period for United States after WWII. This
7 assumption would require another similar exceptional growth period, which they indicate
8 is illogical and counterintuitive.

9 **Q. What were the realized risk premiums based on the stock market data provided by**
10 **Damodaran and DMS?**

11 A. The data provided on Damodaran's website for the period 1928 through 2025 shows that
12 the geometric average realized market risk premium was 5.49%, which translates into an
13 annual arithmetic average of 7.03%. Damodaran uses the 10-year UST yield as the risk-
14 free rate in his determination of both realized and implied risk premiums. Clearly, Dr.
15 Damodaran's implied market risk premium of approximately 4.3% reflects his view that
16 investors received excess returns over their required returns for much of the measured
17 period.

18 DMS determined the realized market risk premium for the United States' stock markets as
19 compared to long-term government bonds (approximately 20-year maturities) for the
20 period 1900 to 2025 was 4.93% on a geometric basis and 6.79% on an arithmetic basis.
21 Considering that DMS derivation of an implied risk premium is only 2.29% going forward,
22 DMS views the exceptional US market returns after WWII as not rationally expected to be
23 repeated over the next 75 years. ⁴⁵

24 **Q. Would you explain market risk premium estimates in further detail?**

25 A. Yes. Although my CAPM schedules show realized market risk premiums as high as 7%
26 based on arithmetic mean return differences between long-term government bonds and the
27 equity market, most finance academics, investors, and practitioners would consider a 7%

⁴⁵ Elroy Dimson, Paul Marsh, and Mike Staunton, "2026 Global Investment Returns Yearbook," UBS, pp. 109-110.

1 market risk premium to be unreasonably high. In fact, although a 4% market risk premium
2 is relatively low in context of risk premium estimates used for purposes of recommending
3 a ROR in utility ratemaking proceedings, a 4% market risk premium is consistent with the
4 central tendency of estimates provided at decennial roundtables of some of the most well-
5 respected names (including the previously mentioned Roger Ibbotson and Elroy Dimson)
6 who have performed extensive and consequential research in determining rational and
7 reasonable risk premium estimates.⁴⁶ In the most recent decennial roundtable, the
8 contributors provided market risk premium estimates over the next ten years that ranged
9 from 0.1% to 5.0% as compared to a ten-year UST note.⁴⁷ Therefore, COE estimates based
10 on a 4% market risk premium added to the 10-year UST note is more in line with a
11 consensus estimate used to analyze a fair value of utility stocks.

12 **Q. Based on your analysis and consideration of the aforementioned data and opinions,**
13 **can you please provide your best estimate of the electric utility industry’s COE using**
14 **the CAPM?**

15 A. Yes. For the details of my analysis, please see Schedule DM-D-7. I give the most weight
16 to my CAPM COE estimates using an approximate 4.0-5.0% equity risk premium. Using
17 a typical electric utility beta of around 0.7 and both a 10-year and 20-year recent UST yield,
18 I estimate the electric utility industry’s COE to be in the range of 7.75% to 8.5%.

19 **Q. Are there any other reasonableness tests to show your COE estimates are rational**
20 **and logical?**

21 A. Yes. First, as I indicated earlier in my testimony, a simple rule of thumb the Chartered
22 Financial Analyst (“CFA”) suggests in its curriculum to estimate the COE is to add 3% to
23 4% risk premium to a company’s bond yield to provide a fairly simple, but objective cost
24 of equity. Being that the investment community views utility stocks as bond
25 surrogates/substitutes, it is logical and reasonable to not add a risk premium any higher
26 than 3% to the bond. Simply adding a 3% risk premium to recent YTM’s of Metro’s long-
27 term bonds of around 5.75% implies a COE of approximately 8.75%.

⁴⁶ “Revisiting the Equity Risk Premium,” CFA Institute Research Foundation, 2023.

⁴⁷ *Id.*

1 Second, one just needs to think about the basic characteristics of utility stocks—stable,
2 low-risk, with steady and high dividends, which is why investors typically viewed them as
3 yield investments. However, based on recent investment commentary and utility company
4 guidance, investors are expecting electric utility companies to retain approximately half of
5 their earnings to reinvest in their systems to meet anticipated load growth. This has caused
6 a change in investors’ expectations of the amount of return they expect to receive from
7 dividends and capital gains. While I am not aware of any specific study similar to that
8 performed by Alliance Bernstein (an equity research firm) which showed that between
9 1974 to 2010, approximately 68% of returns from utility stocks were from dividends and
10 the remaining from capital gains,⁴⁸ because this study occurred during the secular decline
11 in load growth, it is logical to expect a lower percentage of returns from dividends in the
12 future. However, even assuming electric utility stocks generated 50% of returns from
13 capital gains over the long-term (consistent with utilities current retained earnings of
14 around 50%), this result translates into a 6.3% required return based on the current average
15 electric utility dividend yield of approximately 3.15%. If Evergy investors were able to
16 achieve 50% of their total return from capital gains over the long-term, this implies a total
17 return of approximately 6.7% based on its current dividend yield of approximately 3.35%.

18 Finally, my COE estimates are actually higher than those used in practice to estimate the
19 value of utility stocks. For example, Citigroup Global Markets Inc. (“Citi Research”)
20 applied a COE of 7.0% to Evergy’s expected dividends when it recently estimated a fair
21 price for Evergy’s stock.⁴⁹ Morningstar applied a COE of 7.5% for purposes of its fair
22 value estimate for Evergy’s stock.⁵⁰

⁴⁸ Hugh Wynne, Francois D. Broquin, and Saurabh Singh, “U.S. Utilities: Our Dividend Growth Model Identified Utilities Poised to Pay More,” May 20, 2011, Bernstein Research.

⁴⁹ Ryan Levine, et. al., “Evergy Inc.: Going with Higher 6-8% Growth Guide, Higher Than We Thought,” Citi Research, February 19, 2026.

⁵⁰ Travis Miller, “Evergy Earnings: Regulatory Success, Demand Growth Are Earnings Tailwinds,” Morningstar, November 6, 2025.

1 **Q. Based on your analysis and understanding of Evergy’s COE, the electric utility**
2 **industry’s COE, investor expectations on allowed ROEs, average electric utility**
3 **authorized ROEs and Evergy’s authorized returns for its Kansas electric utility**
4 **operations, what would be a fair and reasonable allowed ROE range in this case?**

5 A. 9.00% to 9.50% with 9.25% being my point recommendation.

6 **Q. Considering you estimate Metro’s COE at around 8.0%, why do you consider a**
7 **9.25% authorized ROE reasonable?**

8 A. While it certainly may be a worthwhile debate to quantify the amount of “premium,” if
9 any, over the COE that is fair and reasonable to allow a utility, the Commission has
10 repeatedly communicated in its orders that it will consider average authorized ROEs in
11 setting a fair and reasonable ROE for its Missouri utilities. As it relates to this instant case,
12 I believe an authorized ROE of 9.25% still allows Metro to create shareholder value, and
13 ensures the important consideration of the increased burden on Metro’s ratepayers from
14 the significant expected capex cycle to meet data centers’ demand for electricity.

15 **IV. CAPITAL STRUCTURE**

16 **Q. Would you briefly explain capital structure?**

17 A. Capital structure represents how a company’s assets are financed. The typical capital
18 structure consists of common equity, long-term debt, and short-term debt. Although short-
19 term debt is a typical component of a utility company’s capital structure, if that debt is fully
20 supporting construction work in progress (“CWIP”), then it typically is excluded from the
21 rate making capital structure and is reflected in the AFUDC rate. However, because
22 Missouri law now allows CWIP to be included in rate base, it is even more important to
23 consider the inclusion of short-term debt in the authorized ROR if it is not fully captured
24 in the AFUDC capitalization rate.

1 **Q. What capital structure do you recommend for purposes of setting Evergy Metro's**
2 **ROR as of the updated test year in this case?**

3 A. I recommend a ratemaking capital structure consisting of 45% common equity and 55%
4 long-term debt. My capital structure recommendation is based on my analysis of Evergy's
5 and Metro's quarterly capital structures from the beginning of the test year (July 1, 2024)
6 through March 31, 2026 (most recent quarterly capital structure information available
7 before the true-up period of June 30, 2026). My recommended capital structure ratios
8 consider the interdependency of Evergy and its subsidiaries' capital flows. Evergy
9 manages its own internal accounting records (not available to the public) for purposes of
10 targeting the capital structure it desires for purposes of setting its authorized ROR.

11 **Q. Are there any unique issues in this case that may cause you to reconsider your**
12 **recommended ratemaking capital structure as of the true-up date in this case?**

13 A. Yes. Evergy Metro projects approximately \$86 million of CWIP will be eligible for rate
14 base treatment as of the true-up date in this case. As I explained above but will explain in
15 more detail when I provide my ROR recommendation in true-up direct testimony in this
16 case, it is customary to finance construction projects, at least initially, with short-term debt.
17 Therefore, the AFUDC capitalization rate is typically heavily (if not 100%) weighted based
18 on short-term debt financing rates. Additionally, because Evergy issues significant
19 amounts of holding company financing (including short-term debt), this activity distorts
20 the traditional logic/principles associated with FERC-USOA prescribed formulas for
21 accruing AFUDC. For example, if the holding company is issuing short-term debt to fund
22 dividends to its shareholders rather than relying on its subsidiaries to fund dividends, this
23 causes an unfair assignment of higher long-term financing costs for purposes of
24 capitalizing AFUDC. Because of the potential for CWIP in to be included in rate base, the
25 interaction of holding company and subsidiary's financing activities requires heightened
26 scrutiny.

27 **Q. What is the basis for your recommended ratemaking capital structure?**

28 A. My recommended capital structure for Metro is consistent with Evergy's adjusted
29 consolidated per books capital structure. I reduced Evergy's long-term debt balance by

1 \$250 million and increased its common equity balance by \$250 million to allow 50% equity
2 treatment for Evergy's \$500 million of outstanding junior subordinated notes ("JSN").
3 Including short-term debt, Evergy's adjusted equity ratio has been in the range of
4 approximately 40% to 43% for quarterly periods ending June 30, 2024, through March 31,
5 2026, with an average of 41.54% (see Schedule DM-8, p. 2). Excluding short-term debt,
6 Evergy's long-term capital ratios were in the range of approximately 44% to 46%, with an
7 average of 44.84% (see Schedule DM-8, p 2). Based on my analysis of Evergy's adjusted
8 common equity ratios since June 30, 2024, I recommend Metro's authorized common
9 equity ratio be set at 45%.

10 **Q. Is it unusual to consider a parent company's capital structure when determining a**
11 **fair and reasonable ratemaking capital structure for the utility operating subsidiary?**

12 A. No. Despite Evergy's consistent attempts to state otherwise, the Kansas Corporation
13 Commission ("KCC") Staff's and Missouri OPC's recommendations to consider holding
14 company capital and/or capital structure targets in setting a subsidiary's ROR is not
15 atypical. I am aware of several other states that at least consider the disparity between a
16 utility subsidiary's capital structure and that of its parent company to determine a fair and
17 reasonable ratemaking capital structure.

18 **Q. Would you provide some examples?**

19 A. Yes. As I already testified the KCC's Staff has.

20 The Illinois Commerce Commission ("ICC") frequently considers holding company
21 consolidated capital structures in determining a reasonable common equity ratio in which
22 to apply the authorized ROE.

23 In Oregon, the Public Utility Commission of Oregon ("OPUC") is currently considering
24 Portland General Electric Company's ("PGE") application to create a holding company,
25 which would then wholly-own PGE as a subsidiary. One of the main areas of contention
26 about the application is PGE's intent to use the holding company to issue debt at the holding
27 company level to lever PGE's authorized ROE and common equity ratio to achieve a higher
28 CAGR in EPS. Oregon Staff challenged PGE's contention that the creation of a holding

1 company would benefit PGE's ratepayers by reducing the cost of capital. Oregon Staff
2 correctly testified that the only party that would benefit from the holding company's
3 reduced cost of capital would be PGE's shareholders because PGE expected to maintain
4 the same capital structure ratios at the subsidiary after creation of the holding company,
5 while optimizing the holding company consolidated capital structure by issuing holding
6 company debt. While Oregon Staff's primary recommendation to the OPUC is to not
7 authorize the creation of the holding company because the transaction as proposed does
8 not provide a benefit to PGE's ratepayers, the Oregon Staff's alternate position is that PGE
9 provide ratepayers a \$115 million rate credit if the OPUC approves the holding company
10 and authorizes it to issue debt. This rate credit would ensure PGE's ratepayers receive at
11 least a one-time consideration for anticipated cost of capital savings due to the holding
12 company using debt to leverage its returns.⁵¹

13 Finally, due to heightened affordability concerns, Pennsylvania's governor recently
14 advised that the discrepancy between its utilities' authorized common equity ratios
15 (sometimes as high as 55%) compared to their holding company consolidated capital
16 structures (sometimes as low as the high 30% range), should be considered when setting
17 the authorized ROR for the operating utility company.

18 **Q. Do investors recognize that commissions may scrutinize the increasing disparity**
19 **between holding company consolidated capital structures and operating companies'**
20 **requested ratemaking capital structures?**

21 A. Yes. Jefferies stated the following about considering leverage used at the holding company
22 level:

23 Utilities in states like Missouri have proven averse to leveraging these in
24 their Holding company capital structures at risk of attracting yet more
25 attention to the discrepancy between Operating and Holding company
26 capitalization discrepancies. As affordability concerns are accentuated, a
27 focus on equity capital structure is a risk and tension.⁵²

⁵¹ *In the Matter of Portland General Electric Company, Application for Corporate Reorganization to Create a Holding Company*, Oregon Public Utility Commission, Docket No. UM 2385, Staff Position Statement.

⁵² Julien Dumoulin-Smith, et. al, "North America-Power & Utilities: 26 Themes for 2026: Data Center Honeymoon is Over as DCs Become the Villain," Jefferies Equity Research, January 5, 2026, p. 39.

1 **Q. Why is it contradictory for the holding company to be more leveraged than the utility**
2 **operating company?**

3 A. Because the consolidated business risk profiles of regulated utility holding companies, such
4 as Evergy, Ameren Corp. and Spire Inc., are based on that of their pure-play regulated
5 utility subsidiaries. Therefore, the holding companies' ability to reduce their cost of capital
6 by maintaining a more leveraged consolidated capital structure is based purely on their
7 subsidiaries' low business-risk.

8 **Q. Do investors consider the potential that commissions may authorize a lower common**
9 **equity ratio than that which a holding company may target for its utility subsidiary**
10 **for ratemaking purposes?**

11 A. Yes. In fact, Missouri's largest local natural gas distribution utility, Spire Missouri, is a
12 good example. In its 2021 rate case, Spire Missouri requested an approximate 54%
13 ratemaking common equity ratio, despite Spire Inc.'s consolidated common equity ratio
14 being almost 15 percentage points lower at approximately 40%. While the Commission
15 did not explicitly adjust Spire Missouri's authorized ratemaking common equity ratio due
16 to this discrepancy, it considered the dilutive effect of short-term debt on Spire Missouri's
17 common equity ratio, which caused it to be authorized a ROR premised on a 49.86%
18 common equity ratio in Case No. GR-2021-0108. In the following case, Spire Missouri
19 requested a 55% common equity ratio for ratemaking purposes. Considering that brokers,
20 such as Guggenheim, realized that it was aggressive to estimate a fair value for Spire Inc.'s
21 stock based on Spire Missouri's previous requested 54% ratemaking common equity ratio,
22 investors likely tempered the projected earnings from Spire Missouri to reflect a more
23 reasonable ratemaking common equity ratio.

24 **Q. Why is it important for the Commission to understand these dynamics?**

25 A. Because to the extent management of Missouri's investor-owned utility companies guide
26 investors' expectations that the Commission will consistently adopt a 52% common equity
27 ratio for ratemaking purposes, investors will value the company's stock based on these
28 more investor-friendly ratemaking parameters. If the stock price declines when the
29 Commission authorizes a more reasonable common equity ratio, this reaction is not

1 because investors are unwilling to provide capital to the company, they simply applied a
2 higher than reasonable value to the stock based on the expectation of higher level of returns
3 embedded in rates.

4 **Q. Has the business risk associated with Missouri’s regulatory environment declined**
5 **over the last several years?**

6 A. Yes. As I testified earlier, because of several utility-friendly laws that have been passed
7 over the last several years and more utility-friendly Commission decisions, investors
8 currently assign premium multiples to earnings generated from Missouri utility systems.

9 **Q. If investors pay a premium for earnings from Missouri utility operations, what does**
10 **this imply about the cost of raising capital for the Missouri utilities?**

11 A. If investors pay a premium to participate in the earnings generated from Missouri utility
12 companies, this means that investors’ required return is lower for the capital they provide.

13 **Q. Do you have examples that corroborate your view?**

14 A. Yes. The following sell-side brokers apply the following premiums to industry average
15 P/E ratios for earnings generated from Missouri utility companies: BMO Capital Markets
16 applies a 15% premium for earnings attributed to Missouri,⁵³ Bank of America Securities
17 applies a 5% premium for earnings attributed to Missouri,⁵⁴ and Jefferies applies a 5%
18 premium to earnings from Missouri.⁵⁵

19 **Q. Has Missouri’s more investor-friendly regulatory environment been recognized by**
20 **any other third-party sources?**

21 A. Yes. The Regulatory Research Associates (“RRA”) raised its investor ranking for Missouri
22 by not only one notch, but two notches in April 2025 following the Missouri legislature’s

⁵³ Edward M DeArias, et. al., “Evergy – Initiating Coverage at Outperform – Just Real Topeka People,” BMO Capital Markets, May 12, 2025, p. 16.

⁵⁴ Ross Fowler, et. al., “Evergy – Watt’s the Q1’26 number for EVRG?,” Bank of America Securities, April 14, 2026.

⁵⁵ Paul Zimbaro, e. al., “Evergy – On the Hot Seat: Another Weather Headwind Pressures Mgmt. 1Q26 Preview,” Jefferies, April 14, 2026, p. 5.

1 enactment of Senate Bill 4.⁵⁶ RRA later adjusted its ranking of Missouri’s utility regulatory
2 environment to Average/2 to maintain its approximate normal distribution for all regulatory
3 environments. It is rare for RRA to increase its ranking for regulatory environment by two
4 notches in one fell swoop.

5 **Q. What is one of the main strategies to take advantage of lower business risk when**
6 **financing a business?**

7 A. Increasing the proportion of debt in the capital structure to finance the company’s assets.
8 Rating agencies typically relax their required credit metrics (*i.e.* allow more debt in the
9 capital structure) for a given credit rating as the business risk declines.

10 **Q. Has Moody’s done that for Evergy Inc. recently?**

11 A. Yes. On May 21, 2025, Moody’s lowered Evergy Inc.’s downgrade threshold for the credit
12 metric cash flow from operations before changes in working capital (CFO pre-WC) to debt
13 to 14% from 15%.⁵⁷ While Moody’s did not explicitly explain its rationale for lowering
14 this threshold (allowing more debt in Evergy Inc.’s capital structure without lowering the
15 credit rating), Moody’s relaxation occurred after the Missouri legislature passed Senate
16 Bill 4.

17 **Q. Did Moody’s relax/loosen its downgrade threshold for Ameren Corp. after Missouri**
18 **initially passed PISA legislation?**

19 A. Yes. As I testified in recent Ameren Missouri rate cases, Moody’s lowered Ameren Corp.’s
20 downgrade threshold for its CFO pre-WC to debt ratio on March 29, 2019, which followed
21 Ameren Missouri’s enactment of PISA in September 2018.⁵⁸

⁵⁶ Lillian Federico, “Shifts in regulatory risk emerge as utilities face myriad challenges,” RRA Regulatory Focus, July 15, 2025, p. 2.

⁵⁷ Jillian Cordona, et. al, “Evergy Inc. – Update to credit analysis after rating affirmation,” Moody’s Ratings, May 21, 2025.

⁵⁸ Case No. ER-2024-0319, Direct Testimony of David Murray, p. 37, ll. 1-18 and Case No. ER-2022-0337, Direct Testimony of David Murray, p. 42, l. 19 – p. 43, l. 13.

1 **Q. Has Moody's lowered the credit metric downgrade thresholds for the Missouri**
2 **subsidiaries of Evergy Inc. and Ameren Corp?**

3 A. No.

4 **Q. Why not?**

5 A. Great question. As I testified in recent Ameren Missouri rate cases, it appears that the
6 holding company's executive officers are primarily bargaining on behalf of the holding
7 company rather than the subsidiaries. This is logical considering that management's
8 fiduciary duty is to that of its shareholders. If regulators do not ensure ratepayers benefit
9 from this cost of capital savings by setting the operating company's ROR based on the
10 subsidiary's higher debt capacity, Ameren's and Evergy's management will continue to
11 create more shareholder wealth by using this debt capacity at the holding company rather
12 than at the operating utility company level. The Commission is the only entity that has the
13 authority to ensure ratepayers receive due consideration for the transfer of investor risk to
14 ratepayers.

15 **Q. Have the holding companies of Missouri's utility operating companies managed their**
16 **subsidiaries' capital structures to take advantage of their increased debt capacity,**
17 **which would allow ratepayers to realize at least some cost of capital savings associated**
18 **with bearing more risk?**

19 A. No. In fact, starting in 2022, Evergy began to consistently target a 52% common equity
20 ratio (consistent with Ameren Corp's constant target of 52% for Ameren Missouri) for all
21 of its subsidiaries, while reducing its consolidated common equity ratio.

22 **Q. If the Commission allows Missouri's utilities authorized ROR to be set based on a**
23 **52% common equity ratio regardless of their reduced business risk profiles, what is**
24 **likely to occur?**

25 A. The holding companies will continue to target a lower cost of capital at the parent company
26 level rather than at the subsidiary because of the circular nature of ratemaking in the United
27 States. This result was evident from the initial version of Senate Bill 4, which intended to
28 mandate the use of a subsidiary capital structure and an average authorized ROE based on

1 decisions in other jurisdictions. As demonstrated by the discrepancy of authorized equity
2 ratios versus consolidated holding company common equity ratios for companies with
3 utility operations in Pennsylvania, once a regulator puts ratemaking in auto-pilot, these
4 parameters are included in RRA's compilation of jurisdictional averages, which are then
5 used by witnesses to claim that the petitioning utility's requested common equity ratio is
6 reasonable because it is consistent with other jurisdictions. As Evergy established in its
7 recent workshop with the KCC, the disparity between holding company consolidated
8 capital structures and subsidiary capital structures is extremely wide.⁵⁹ While I have not
9 investigated all of these circumstances, based on my understanding that many companies
10 in the electric utility industry have become more concentrated in regulated utility
11 operations, management recognizes one of the most effective ways to maximize
12 shareholder value during the current increased capital expenditure cycle is to arbitrage the
13 use of more debt at the holding company to increase shareholder margin.

14 **Q. Would you provide an example?**

15 A. Yes. The weighted average coupon rate of Evergy's holding company securities was
16 approximately 4.42% as of December 31, 2025. Assuming Metro's authorized ROE of
17 9.5% ROE is maintained and applied to a 52% common equity ratio as compared to
18 Evergy's lower adjusted equity ratio of approximately 45%, this allows Evergy to receive
19 a 5.08% margin over its cost. After considering the tax deduction Evergy receives for its
20 interest expense, this boosts Evergy's margin to 8.05% over its cost of capital
21 ((9.5%*1.31303) - 4.42%).

22 **Q. How much additional revenue requirement would this generate for Evergy's**
23 **shareholders?**

24 A. Based on Metro's requested rate base, if Evergy is allowed to charge Metro a pre-tax ROE
25 of 12.47% as compared to its cost of capital of 4.42%, this equates into an additional \$21.86
26 million/year of profit for Evergy's shareholders.

⁵⁹ Capital Structure & Return on Equity Policy Workshop, November 20, 2024, pp. 35-38.

1 **Q. Could such a financing strategy violate the Commission’s affiliate transaction rules?**

2 A. Yes. Evergy is charging Metro a rate that is higher than the cost it incurs to raise this
3 capital. The Commission’s affiliate transaction rules require affiliates of regulated utilities
4 to charge the utility the lesser of cost or market.⁶⁰

5 **Q. How did the KCC Staff approach its recommended ratemaking capital structure for**
6 **Evergy Kansas Central (“EKC”) in its 2025 rate case?**

7 A. KCC Staff witness Adam H. Gatewood recommended allocating half of Evergy’s holding
8 company debt to its subsidiaries based on each subsidiary’s proportion of Evergy’s total
9 net property, plant, and equipment (“PP&E”) balances. In EKC’s and Evergy Metro’s
10 2023 Kansas rate cases, Mr. Gatewood recommended all of Evergy’s holding company
11 debt be allocated to Evergy’s subsidiaries based on the same net PP&E allocation method.⁶¹

12 **Q. How does your methodology to determine a recommended ratemaking capital**
13 **structure for Evergy Metro compare to that of the KCC Staff?**

14 A. My recommended ratemaking capital structure ratios are simply based on Evergy’s
15 consolidated capital structure, with imputations for the \$500 million of junior subordinated
16 notes (“JSN”). Therefore, for purposes of determining fair and reasonable capital structure
17 weightings, all capital issued by Evergy and its subsidiaries are included. Essentially, all
18 Evergy’s holding company capital is captured in determining a fair and reasonable
19 proportion of debt and equity in the ratemaking capital structure. However, in contrast to
20 the KCC Staff’s methodology, I do not assign the cost of the holding company debt to the
21 proportion of debt included in my recommended ratemaking capital structure.

22 **Q. Did Mr. Gatewood’s methodology capture all necessary adjustments required to**
23 **ensure the total capital balance was consistent with the long-term assets it funds?**

24 A. No. According to EKC’s recommended capital structure as of March 31, 2025, the total
25 long-term capital supporting long-term assets was approximately \$10.26 billion. Mr.

⁶⁰ 20 CSR 4240-10.155

⁶¹ Docket No. 25-EKCE-294-RTS, Adam H. Gatewood Direct Testimony, pp. 4-5.

1 Gatewood allocated the holding company debt to EKC’s capital structure by adding 50%
2 of the holding company debt (\$697.5 million) to EKC’s total capital of \$10.26 billion for
3 a total capital balance of \$10.97 billion. Because Evergy Inc.’s holding company debt
4 partially funds the equity in EKC, Mr. Gatewood should have reduced EKC’s common
5 equity balance by \$697.5 million because EKC’s assets did not increase along with the
6 allocation of debt.

7 **Q. What would EKC’s imputed common equity ratio be if its common equity balance**
8 **had been reduced by the same amount as the allocated holding company debt?**

9 A. 45.26%, which compares to the 48.74% common equity ratio Mr. Gatewood recommended
10 for EKC’s ROR.

11 **Q. What is EKC’s imputed common equity ratio if based on allocating 100% of the**
12 **holding company debt, as Mr. Gatewood did in the 2023 rate case?**

13 A. 38.47%.

14 **Q. If you had followed the KCC Staff’s methodology from the 2023 and the 2025 rate**
15 **cases, what is the resulting common equity ratios for Metro as of December 31, 2025?**

16 A. 38.52% if 100% of holding company debt is allocated to Evergy’s subsidiaries. 42.24% if
17 50% of holding company debt is allocated to Evergy’s subsidiaries.

18 **Q. **** _____
19 _____

20 A. _____
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⁶² Evergy Inc.’s August 29 – 31, 2023 Board of Directors Strategy Session, p. 352.

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11 **Q.** _____
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13 **A.** _____
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16 **Q.** _____
17 _____

18 **A.** _____
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23 _____ **

24 **Q. Before the end of 2023, did Evergy have any incentive to limit the amount and**
25 **percentage of holding company debt?**

26 **A.** Yes. A condition of the KCC’s approval of the GPE and Westar merger was to institute
27 an Earnings Review and Sharing Plan (“ERSP”). The KCC understood that the newly
28 formed entity, Evergy, could attempt to accrue additional earnings for its shareholders by
29 using more leverage at the holding company level as compared to its subsidiaries.
30 Consequently, if Evergy’s consolidated common equity fell below 47.5%, then the

⁶³ *Id.*, p. 353.

1 common equity ratio of each subsidiary in Kansas would be reduced by a proportional
2 amount for purposes of determining potential bill credits to customers for the ERSP.⁶⁴
3 Therefore, if Evergy's holding company debt exceeded more than 2.5% of its total
4 consolidated capital structure, then Evergy would have been required to share more merger
5 savings with ratepayers.

6 **Q. When did Evergy's ERSP expire?**

7 A. At the time Evergy's KS new rates took effect in 2023.

8 **Q. Has Evergy expressed an intent/desire to optimize Metro's capital structure?**

9 A. No. Based on the approximate 52% common equity ratio Evergy has targeted for its
10 operating utility company subsidiaries, including Metro, over the last several years, it
11 appears that Evergy is managing its subsidiaries' capital structures to achieve a higher
12 authorized common equity ratio for purposes of justifying a higher revenue requirement to
13 charge ratepayers.

14 **Q. Is this practice consistent with Missouri's other large utility companies?**

15 A. Yes. Missouri's other large utility companies, such as Ameren Missouri, Spire Missouri
16 and Liberty's various Missouri operating utility subsidiaries, target ratemaking common
17 equity ratios of approximately 52% to 54%.

18 **Q. Does Evergy's capital structure support a goodwill asset?**

19 A. Yes. Evergy's assets include \$2.336 billion of goodwill.

20 **Q. If you removed this goodwill from Evergy's common equity balance, what is Evergy's
21 tangible common equity ratio?**

22 A. Around 35% with short-term debt, and 37-38% without short-term debt.

⁶⁴ Docket No. 18-KCPE-095-MER, Order Approving Merger, Attachment A, May 24, 2018, pgs. 18-22.

1 **Q. Evergy's common equity ratios net of goodwill are similar to Evergy's subsidiaries'**
2 **common equity ratios if holding company debt is allocated to the subsidiaries**
3 **consistent with the KCC Staff's capital structure approach. Why?**

4 A. Because, the write-up of Evergy's subsidiaries' assets to their fair value occurred at the
5 holding company level when GPE and Westar merged to form Evergy. Therefore, the
6 goodwill associated with the market/fair value of Evergy's utility subsidiaries was booked
7 at the holding company level.

8 **Q. What was Metro's embedded cost of debt at December 31, 2025?**

9 A. According to Metro's response to Staff Data Request No. 108, 4.582%.

10 **Q. Do you agree with Metro's methodology to calculate its embedded cost of debt?**

11 A. Yes. The Company determined the embedded cost of debt using a weighted-average yield-
12 to-maturity, which is a reasonable approach for determining the cost of debt.

13 **Q. Would you provide an example of how a holding company's issuance of capital**
14 **distorts the normal capital flows expected if the utility's subsidiaries were truly stand-**
15 **alone companies?**

16 A. Yes. For the period July 1, 2024, through March 31, 2026, Evergy paid its third-party
17 shareholders \$1.072 billion in dividends, yet it collected only \$598 million of dividends
18 from its subsidiaries – a deficiency of \$474 million. Therefore, Evergy financed the
19 shortfall in dividends from its subsidiaries at the holding company level. This is a financing
20 strategy Evergy confirmed in its Kansas rate cases and capital structure workshop
21 proceeding.

22 If Evergy did not issue holding company capital to finance dividends or lend money to its
23 subsidiaries through the money pool, then regulated utility subsidiaries would do such
24 financing with third parties on a stand-alone basis. While issuing holding company capital
25 is efficient and less costly for shareholders, this model comes at an expense to ratepayers
26 through higher accruals in AFUDC and potentially higher than necessary ROR applied to
27 CWIP.

1 **Q. Did Evergy Metro's previous parent company, GPE, issue holding company debt to**
2 **finance its subsidiaries?**

3 A. No. While GPE had access to \$200 million of short-term debt through its shared credit
4 facility with Evergy Metro and EMW, it rarely and minimally accessed it.

5 **Q. Did Metro consistently access commercial paper markets?**

6 A. Yes.

7 **Q. Did Metro and Evergy Missouri West consistently provide sufficient dividends to**
8 **GPE to fund dividends to GPE's common and preferred shareholders?**

9 A. Yes.

10 **Q. Why is the fact that Metro and Evergy Missouri West consistently provided sufficient**
11 **dividends to GPE to fund dividends to its shareholders an important consideration**
12 **for purposes of evaluating fair and reasonable financing costs charged to Metro's**
13 **ratepayers?**

14 A. Because instead of Evergy's subsidiaries funding a consistent dividend to support
15 dividends to Evergy's shareholders and issuing commercial paper to fund its own capital
16 expenditure needs, Evergy is issuing holding company capital to ensure dividends are fully
17 funded. This structure distorts the original expectation for stand-alone electric utility
18 companies to balance their capital allocation based on their own anticipated capital needs.

19 **Q. Why are these factors important to consider for purpose of authorizing a fair and**
20 **reasonable capital structure for Metro for ratemaking?**

21 A. Evergy's credit quality is derived from its ownership of its regulated utility subsidiaries.
22 Evergy's use of this credit quality allows Evergy access to liquidity under a \$2.5 billion
23 master credit facility for Evergy and its subsidiaries. As of December 31, 2025, Evergy's
24 sublimit borrowing capacity under the master credit facility was \$700 million, which
25 represents an increase from \$300 million as of December 31, 2024.⁶⁵ According to the

⁶⁵ Evergy's SEC Form 10-K Filing, December 31, 2025, p. 129

1 terms of the master credit facility, Evergy can unilaterally adjust each company's
2 borrowing sublimits provided the sublimits remain within minimum and maximum
3 sublimits as specified in the facility.⁶⁶

4 **Q. What do you consider the best approach to sort through the alternative sets of**
5 **financial statements, methods, and potential adjustments to make to Metro's capital**
6 **structure for ratemaking purposes in this case?**

7 A. Take guidance from Evergy's targeted and actual consolidated capitalization ratios to
8 ensure Metro's capital structure is based on the most optimal use of leverage (*i.e.* debt).
9 While I understand the Commission has shown a preference for using a subsidiary capital
10 structure if that subsidiary issues all of its own debt (or in the case of Spire Missouri, at
11 least all of its long-term debt, but not short-term debt), due to the numerous affiliate capital
12 transfers that occur (money pool transactions) and Evergy's propensity to manage liquidity
13 at the holding company level, I have no confidence that the utility subsidiaries' capital
14 structures are a consequence of arms-length transactions intended to optimize the
15 subsidiary capital structure for purposes of minimizing the ROR charged to ratepayers and
16 preserving the subsidiaries' credit capacity (*i.e.* not letting the parent company take
17 borrowing capacity and lower costs of capital from its subsidiaries).

18 **Q. Are you aware of commentary from any authoritative sources that supports your**
19 **view that Evergy manages its subsidiary capital structures to those authorized by the**
20 **Commission?**

21 A. Yes. Moody's stated the following about Metro's capital structure in a January 17, 2025
22 Credit Opinion:

23 The company plans to fund its capital expenditures with a balance
24 of internally generated cash flow and incremental debt, **adjusting**
25 **dividends as needed to maintain the utility's regulatory allowed**
26 **capital structure.**⁶⁷ (emphasis added)

⁶⁶ *Id.*

⁶⁷ Cardona, Jillian, et. al., "Evergy Metro, Inc. – Update to Credit Analysis," Moody's Investor Services, January 17, 2025.

1 **Q. What common equity ratio has Evergy requested for ratemaking for each of its**
2 **subsidiaries' most recent rate cases?**

3 A. Approximately 52%. Evergy's requested ratemaking common equity ratios for its utility
4 subsidiaries have been as follows for rate cases since 2022:

- 5 • Evergy Metro Missouri: 52.07% Case No. ER-2026-0143
- 6 • Evergy Missouri West: 52.04% Case No. ER-2024-0189
- 7 • Evergy Kansas Central: 51.97% Docket No. 25-EKCE-294-RTS
- 8 • Evergy Metro Kansas: 52.00% Docket No. 23-EKCE-775-RTS

9 **Q. Is it prudent for a utility subsidiary's capital structure to remain constant over time?**

10 A. No. Changes in capital market conditions and business risk should consistently and
11 constantly be evaluated to determine the most cost-efficient balance of capital and timing
12 for capital issuances. As clearly stated in Evergy's internal records, Evergy's BOD and
13 Finance Committee are primarily focused on ** _____
14 _____

15 **

16 **Q. Why is it imperative to consider Evergy's long-term equity ratio for setting Metro's**
17 **allowed ROR?**

18 A. Evergy allocates capital around its companies to target and achieve ratemaking common
19 equity ratios. The most objective and practical measure of the capital structure that
20 captures the debt capacity of Evergy's regulated utility assets, is that of Evergy on a
21 consolidated basis. Consequently, I recommend Metro's ratemaking common equity ratio
22 be set consistent with Evergy's adjusted consolidated common equity ratio of
23 approximately 45% over the last couple of years.

1 **SUMMARY AND CONCLUSIONS**

2 **Q. Would you summarize your main conclusions and views as it relates to the ROR you**
3 **recommend the Commission use to determine Metro’s revenue requirement in this**
4 **case?**

5 A. Metro’s ratepayers deserve consideration for the fact that they are now charged for plant
6 placed in service in between general rate cases and for plant that is not in service. These
7 charges used to be risks borne by the shareholders. Now the risk has been shifted to
8 ratepayers. In competitive markets, if a company is able to reduce its business risk and
9 have more assurance of achieving its expected returns, its debt capacity increases.
10 Consideration for such lower business risk can be achieved by reducing the awarded ROE
11 and/or reducing the authorized common equity ratio. Metro has lower business risk due to
12 PISA, the availability of securitization, and now the ability to receive revenues for a return
13 on CWIP. To further enhance shareholder wealth, Evergy would rather leverage this lower
14 business risk at the holding company level, which is unfair to ratepayers. The Commission
15 can objectively ensure ratepayers receive due consideration for these ratemaking
16 mechanisms, by simply recognizing that Evergy, itself, takes advantage of this capacity at
17 the holding company level rather than at its subsidiary. The Commission can do so by
18 setting Metro’s authorized ROR based on a capital structure consistent with Evergy’s more
19 leveraged capital structure. Therefore, the Commission should apply the authorized ROE
20 to a 45.0% common equity ratio to set Metro’s ROR.

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

22 A. Yes.

