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DIRECT TESTIMONY

OF

PAUL ALVAREZ

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

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DIRECT TESTIMONY

OF

PAUL J. ALVAREZ

EVERGY MISSOURI METRO

CASE NO. ER-2026-0143

I. INTRODUCTION

Q. Please state your name, title and business address.

A. My name is Paul J. Alvarez. My business address is Wired Group, P.O. Box 620756, Littleton, CO 80162.

Q. What is your current occupation?

A. I lead the Wired Group, a consultancy specializing in distribution utility planning, investment, regulation, and performance.

Q. Please describe your education and employment background.

A. I receive an undergraduate degree in finance and marketing from Indiana University's Kelley School of Business in 1983, and a master's degree from the Kellogg School of Management at Northwestern University in 1991. After several roles of increasing responsibility in Chicago-area Fortune 500 companies, my first role in the monopoly electric utility industry, beginning in 2001, was as a product development manager with Xcel Energy. I oversaw the development of new demand-side management (DSM) programs, as well as programs and rates in support of voluntary renewable energy purchases and renewable portfolio standard compliance. My work developing DSM programs honed my understanding of various cost-effectiveness tests typically employed in the utility industry.

Working for a boutique consultancy in 2010[1] and 2011,[2] I lead teams that completed the first two independent evaluations of benefits delivered by smart grid investment programs ever completed. I started the Wired Group in 2012 to focus

[1] Alvarez P. et al. *SmartGridCity® Demonstration Project Evaluation,* Colorado PUC 11A-1001E, Exh. MGL-1 to the Direct Testimony of Michael G. Lamb, Xcel Energy (December 14, 2011).

[2] Alvarez P. et al., *Staff Audit and Assessment of Duke Energy Ohio Smart Grid* prepared by MetaVu, Inc. for the Staff of the Public Utilities Commission of Ohio (June 30, 2011), available at https://dis.puc.state.oh.us/ViewImage.aspx?CMID=A1001001A11F30B73603I44077.

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exclusively on distribution utility regulation, planning, investment, and performance measurement. I wrote the book, *"Smart Grid Hype and Reality: A Systems Approach to Maximizing Customer Return on Utility Investment"* in 2014, and updated it with a second edition in 2018. In addition to leading the Wired Group, I occasionally teach regulators and staff at Michigan State University's Institute of Public Utilities. I also publish papers and present at conferences on distribution utility regulation, planning, investment, and performance measurement.

Q. Do you maintain any professional designations?

A. No.

Q. Have you previously provided testimony before the Missouri Public Service Commission ("Commission")?

A. No.

Q. Have you previously served as an expert consultant in proceedings before state utility regulators?

A. Yes. Since 2014 I have submitted testimony in 61 proceedings before 20 different state utility regulators. Please see my CV attached as Schedule PJA – 1, which provides information on testimony subject matter, jurisdictions, proceeding identification, and dates. I have also attached Schedule PJA-2, which is a selection of Company responses to my data requests.

Q. What party do you represent?

A. In this proceeding, I represent the Missouri Office of the Public Counsel ("Public Counsel" or "OPC").

Q. Are any other Wired Group associates filing testimony in this proceeding?

A. Yes. Expert David Shapley will also be filing testimony on behalf of Public Counsel. Mr. Shapley and I worked together closely on our evaluation of EMM's rate increase request, and as a result, references from my testimony to his, and in his testimony to mine, are frequent.

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to present the results of my examination of the reasonableness of EMM's transmission and distribution infrastructure spending since the Company's last rate case, and to provide recommendations to the Commission regarding EMM capital spending governance.

Q. Would you please provide a summary of your recommendations?

A. I provide two recommendations for the Commission's consideration.

1) The Commission should require discretionary investments that EMM makes or proposes to pass a risk-informed benefit-cost analysis test of customer cost-effectiveness.

2) The Commission should order $51.2 million in disallowances recommended in OPC's expert witness Shapley's direct testimony as summarized in the table below:

($ in millions)	2022	2023	2024	2025	2026	Total
Lateral Rebuild Projects	$7.107	$2.014	$0.218	$5.426	$6.951	$21.806
Substation Projects	4.427	7.987	8.684	4.331	3.996	29.424
Totals	$11.534	$10.091	$8.902	$9.757	$10.947	$51.230

Q. Would you please provide a brief preview of your testimony?

A. My testimony is broken down into four sections. After this Introduction, Section II provides my perspective on EMM's distribution capital spending since its last rate increase request. Section III describes a method for evaluating discretionary utility spending that I recommend the Commission require of EMM (and other regulated for-profit utilities), and identifies serious deficiencies in capital spending governance at EMM documented through discovery. Section IV summarizes and concludes this testimony.

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II. EMM's DISTRIBUTION CAPITAL SPENDING SINCE ITS LAST RATE INCREASE REQUEST: OVERVIEW AND PERSPECTIVE

Q. Would you please preview this section of your testimony?

A. In this section of my testimony I provide my perspective on the Company's capital spending since its last rate increase request.

Q. Please provide a brief overview of the EMM's rate request.

A. In this proceeding, EMM is requesting a $137.9 million increase in its annual revenue requirement. This is an overall rate increase of 14.92%, excluding fuel.[3] EMM estimates that based on its request, which includes the rebasing of the Fuel Adjustment Clause, or FAC, the typical residential customer bill will increase by $17.70 per month.[4]

Q. When was EMM's last rate increase?

A. EMM's most recent rate increase was in 2022 in case No. ER-2022-0129.

Q. What is the largest drive of this current rate case?

A. The largest single drive of this rate increase, by far, is the increase in capital spending.

Q. How much of this rate increase is due to capital spending?

A. Two-thirds (66.7%) of EMM's rate increase request can be traced to its increased capital spending.[5]

Q. In what areas of the utility is this capital spending taking place?

A. The vast majority of capital spending appears to be designed to improve reliability.[6] While some capital appears to have been spent on digital customer service[7] and other administrative needs, EMM's distribution grid has apparently been singled out for

[3] Direct Testimony of Kevin D. Gunn, page 8, lines 3-4.
[4] Direct Testimony of Kevin D. Gunn, page 10, lines 5-6.
[5] Direct Testimony of Kevin D. Gunn, page 9, Figure 1.
[6] Direct Testimony of Kevin D. Gunn, page 8, line 15.
[7] Direct Testimony of Katie McDonald, pages 11-21.

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particularly significant increases in capital spending. OPC Witness Shapley addresses this in his testimony.

Q. What is some of the other drivers of EMM's rate increase?

A. The second largest driver of EMM's rate increase is the increase in EMM's cost of capital, representing approximately $18.1 million (13.4%) of the rate increase request.[8] This includes EMM's recommendation to increase its profit percentage (i.e. its Return on Equity) to 10.5%. This request will be addressed by Public Counsel expert David Murray. Another reason for the increase, though smaller, is EMM's proposal to establish a storm cost reserve. This proposal increases EMM's annual revenue requirement by approximately $1.1 million,[9] and will be addressed by Public Counsel expert Manzell Payne.

Q. Why is it important to examine EMM's capital spending?

A. It is important to examine EMM's overall capital spending because capital spending cost recovery extends over decades. As a result, increases in capital spending only become apparent in rate increases over long periods of time; the revenue requirement in the first few years of a capital project only reflects a fraction of what customers will ultimately pay for those projects. When increased capital spending drives such a large proportion of EMM's rate increase request (two-thirds) despite extended cost recovery, this indicates that such increases must have been particularly large, warranting close scrutiny. My Wired Group colleague and expert Mr. Shapley scrutinizes Company infrastructure spending in his testimony on behalf of Public Counsel.

Q. Can you demonstrate EMM's increase in capital spending on its distribution infrastructure?

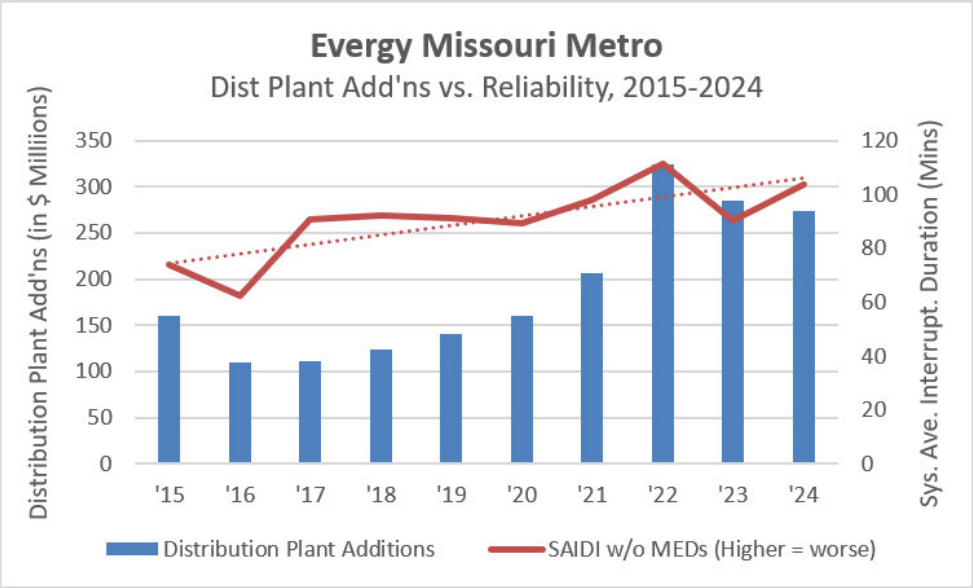
A. Yes. Figure 1 below indicates that EMM's capital spending on distribution infrastructure has increased dramatically since EMM's last rate case, and since the passing of Senate Bill 564 in 2018. While I recognize that increased capital spending to improve reliability may

[8] Direct Testimony of Kevin D. Gunn, page 9, Figure 1.
[9] Direct Testimony of Ronald A. Klote, Schedule RAK-4, page 4, line 79.

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have been part of the Legislature's intention in passing SB 564, this does not relieve EMM of its responsibility to ensure that its capital spending delivers reliability benefits of sufficient size and value to exceed the costs of that spending. As Figure 1 indicates,[10] while distribution capital spending has increased significantly, reliability has not improved.

Figure 1: EMM Distribution Plant Additions compared to Reliability Performance, 2015-2024



This finding can be seen repeated at a more detailed level in the distribution capital spending projects and programs Mr. Shapley examines in his testimony. In our informed opinion EMM has made a lot of discretionary capital equipment replacement decisions that are unlikely to deliver reliability improvements of sufficient customer value to exceed costs customers will pay.

Q. Should the Commission be concerned about the dramatic rise in EMM capital spending presented in Figure 1?

A. Yes. I am also concerned that absent improved governance over EMM's capital spending decisions, capital bias[11] will encourage EMM to continue increasing capital spending into

[10] Distribution Plant Additions from KCP&L/EMM FERC Form 1; SAIDI from KCP&L/EMM US EIA Form 861.
[11] Averch H and Johnson L. 'Behavior of the Firm Under Regulatory Constraint.' *The American Economic Review.* Vol. 52, No. 5 (December, 1962), pp. 1052-1069.

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the future. While EMM's plans indicate that capital spending on distribution will moderate in the future, this may only be due to the recent shift in EMM's capital spending plans to spend more on generation in the near term[12] (to meet anticipated increases in load from large load customers). Had the perceived need to increase generation not arisen, and/or once that need is addressed or abates, it is likely EMM will return to making investments that will not cost-effectively improve reliability, as Mr. Shapley believes the Company has made since its last rate case. This is due to capital bias, which refers to the Company's incentive to increase earnings by increasing the size of its rate base. The next section of my testimony provides a recommendation intended to eliminate discretionary capital spending decisions that are unlikely to deliver benefits to customers in excess of costs to customers.

III. HOW EMM SHOULD EVALUATE DISCRETIONARY CAPITAL SPENDING DECISIONS

Q. Would you please preview this section of your testimony?

A. In this section of my testimony I critique EMM's capital spending governance, and provide an alternative for the Commission to consider as a future guideline to order not only for EMM, but for all investor-owned electric utilities in Missouri. EMM has made multiple discretionary capital spending decisions since its last rate case that are inadequately supported, including major substation projects and lateral rebuild projects. A lack of rigor in decision-making for discretionary spending decisions underlies the cost disallowances recommended in Mr. Shapley's testimony.

I begin this section by explaining how and why to discern between spending required for safe and reliable service and spending that is discretionary. I then proceed to explain risk-informed benefit-cost analysis, and why it is ideal for discretionary capital project decision support. Next, I will describe the Company's lack of capital project and program spending governance and challenge processes. I conclude this section by recommending that the Commission establish a definition for discretionary spending, and

[12] Case No. EO-2019-0047. Capital Investment Plan Update. Schedule 1 – Current Five-Year Plan and Comparisons to Prior Five-Year Plan by Category. February 27, 2026.

order EMM to apply a risk-informed benefit-cost analysis as a test of cost-effectiveness when making decisions regarding discretionary capital projects larger than $1 million.

A. How and why to discern between spending required for safe and reliable service and spending that is discretionary

Q. What is the difference between a required investment and a discretionary investment?

A. According to the Regulatory Compact, in exchange for the right to provide service in a defined service area as a monopoly, utilities must make the investments required to deliver safe and reliable service to all customers in that service area. In exchange, a for-profit utility regulator provides utilities with a reasonable opportunity to earn a rate of return on investment as part of the rates the utility charges. I note that over the past 100 years or so, the Regulatory Compact, combined with cost-of-service ratemaking, has provided Americans with a safe and reliable electric system, envied the world over, at a reasonable cost. This system of utility regulation and utility investment has survived periods of exceptionally fast load growth in the past, be it from refrigeration in the 1930s, World War II production in the 1940s, or air conditioning in the 1950s and 1960s.

As a result, I define required investments as those that are required to deliver service in a safe and reliable manner under the Regulatory Compact. Examples of these include:

- Expanding infrastructure capacity when a bona fide forecast indicates loads will exceed existing infrastructure capacity in the near future;
- Replacing equipment that fails in service (such as equipment damaged by storms);
- Replacing equipment that fails an objective diagnostic or functional test or inspection;
- Connecting new customers (or expanding service capacity as existing customers request);
- Completing facility relocations made necessary by public works projects (or that a customer pays for); and
- Installing equipment required by an order from an authority that authorizes the utility to operate (such as the Commission or Legislature).

Q. If these are required investments, what are discretionary investments?

A. Investments that are not required for safe and reliable service are discretionary. For example, assuming current levels of reliability are acceptable, investments to improve reliability are discretionary. EMM reliability performance appears to me to be acceptable, if not better than acceptable. According to EMM witness Mr. Mulvany, EMM restoration performance (CAIDI) is top tier, system average interruption duration (SAIDI) is far better than average, and system average interruption frequency (SAIFI) is only slightly below average.[13] Moreover, EMM customers are much more than satisfied with the Company's current service reliability.[14] Thus, I consider decisions to spend capital to improve reliability to be discretionary rather than required for safe and reliable service.

Discretionary decisions to complete a capital project can vary in timing (now vs. future), geographic extent (system-wide vs. specific locations), and even whether to move forward with a particular capital project or program at all. Examples include the substation and lateral rebuild projects Mr. Shapley addresses in his testimony.

Q. Why is it important to differentiate between required and discretionary spending?

A. By definition, a project that is required for safe and reliable service is not optional. There is therefore little need for economic analysis. If a used and useful piece of equipment is damaged in a storm, EMM must repair or replace it. If a developer builds a new residential subdivision, EMM must build laterals and service lines. However, since discretionary projects are not required for safe and reliable service, decisions to move forward with them should not be made unless the value of benefits delivered by such projects to customers exceed the costs of such projects to customers. This is why, as just one example, Missouri law requires utilities' energy efficiency programs to pass a test of cost-effectiveness.[15] To summarize, it is important to differentiate between required and discretionary spending because the Commission should not expect required spending to pass cost-effectiveness

[13] Direct Testimony of Kevin D. Gunn, Figure 4, pages 8-9.
[14] Q2036_CONF_Outage Frequency Research. Slide 3.
[15] RSMO Chapter 393.1075(4).

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tests,[16] while the Commission should expect discretionary spending to pass cost-effectiveness tests.

Q. Is there other statutory guidance to Missouri electric utilities regarding the development of benefit costs analyses for certain discretionary capital spending?

A. Yes. In addition to the Missouri Energy Efficiency Investment Act provision described above, Missouri law instructs utilities taking advantage of deferred cost recovery for non-revenue projects to develop benefit-cost analyses for such projects in excess of $20 million.[17] However, as EMM has completed just four such projects over $20 million since its last rate case,[18] I believe this threshold to be too high, and that the Commission should take the lead on extending this requirement to smaller projects. That a utility can often break large, complex projects down into phases to avoid such requirements is another reason to reduce the threshold.

Q. Has the legislature expressed a preferred methodology for testing the cost-effectiveness of discretionary capital projects?

A. Yes. The Missouri Energy Efficiency Investment Act specifies the Total Resource Cost test as the preferred test for energy efficiency program cost effectiveness. The Total Resource Cost test is essentially a benefit/cost analysis that compares the benefits enjoyed by customers (both program participants and non-participants) to costs paid by customers (both program participants and non-participants). This is a fine approach, but it must be augmented a bit when the benefits of spending are reductions in risk rather than reductions in energy usage. Since most discretionary utility investments are made to reduce the risk of a service interruption, the size and value of the reduction in service interruption risk likely to be delivered by a proposed project must be estimated in the benefit part of the benefit-cost analysis of that project. There is a standard way to do this, and it is known as a risk-informed benefit-cost analysis.

[16] This observation is not intended to imply that utilities are not responsible for providing other information to demonstrate the prudence of required investments. As examples, required investments must be used and useful in providing service, and must be procured through processes that reduce costs and prevent malfeasance.
[17] RSMO Chapter 393.1400(4). See also SB 564 (2018); SB 745 (2022); and SB 4 (2025).
[18] Q5000_CONF_Plant Adds 2021_2026 for Trans Mulvany_DRs WP, tab "data."

B. Discretionary spending decisions and risk-informed benefit-cost analysis

Q. What is a risk-informed benefit-cost analysis?

A. A risk-informed benefit estimate involves an assessment of the existing risk of a service interruption (or other adverse event, like a safety incident), meaning, before any action (like a capital project) is taken. This is known as the probability of an adverse event, and for service interruptions, can be gleaned from utilities' outage management systems. Next, the reduction in the probability of a service interruption likely to result from the capital project being considered is estimated. Ideally, this estimate is based on improvements measured from similar projects in the past. Finally, the consequences of a service interruption in the proposed capital project's location (customer counts, residential-commercial customer mix, interruption duration, etc.) is estimated in dollars. Most commonly, the US Department of Energy's online "Interruption Cost Estimator" tool is used for this. Then, these three estimates are simply multiplied to calculate the annual value of the risk reduction offered by a project in dollars, as shown in the equation below:[19]

Annual Value of Risk Reduction (in $)	=	Annual Adverse Event probability %	✖	Reduction in probability % as a result of investment	✖	Consequence of the Adverse Event (in $)

This risk reduction value over the expected lifetime of an investment (20, 40 years, etc.) is the risk-informed "benefit" that should be compared to project costs to customers for significantly-sized discretionary capital spending decisions. The equation can also be used to estimate the dollar-denominated benefits of other types of risk reductions, such as the value of a safety improvement.

[19] California Public Utilities Commission. Decision 22-12-027 dated December 15, 2022 in R.20-07-013. Appendix A, Page 13, line item 13.

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Q. Would you please explain how this equation works?

A. Yes. As an example, assume a potential capital project with an expected life of 40 years will reduce the risk of a service interruption from 4% per year to 2% per year (a 50% risk reduction), and that every service interruption saved by this investment will avoid impacting 400 customers for two hours. Using the US Department of Energy's online Interruption Cost Estimator,[20] such a service interruption has a consequence cost of $219,000 (assuming EMM's residential to non-residential customer mix of 89%/11%). The annual value of the service interruption risk reduced by this example equals $4,379, as shown by the equation below:

Annual Value of Risk Reduction $4,379	=	Annual Adverse Event probability 4% (0.04)	✖	Reduction in probability % as a result of investment 50% (.5)	✖	Consequence of the Adverse Event ($0.219 million)

Over 40 years, assuming a 2.5% inflation rate and an 8% discount rate, the present value of an annual risk reduction benefit of $4,379 is $69,778. Thus, as long as the present value of cost to customers of a project, including the utility's interest expense, profits, and taxes on profits customers must pay over time, is less than $69,778, the decision to move forward with this proposed discretionary project could be deemed prudent. Without such an analysis, the prudence of the decision to complete a discretionary project cannot be determined.

C. EMM's Lack of Capital Spending Governance and Project/Program Challenge Process

Q. How has EMM decided which discretionary projects to build recently?

A. In recent years, EMM has been making discretionary decisions to replace a lot of equipment, including lateral reconductoring projects and substation projects. EMM has

[20] The US Department of Energy's online Interruption Cost Estimator tool is available at http://www.icecalculator.com.

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been using subjective means to identify these projects, making the decisions to move ahead with them discretionary. Yet, though Mr. Shapley and I would characterize these projects as discretionary, EMM appears to have completed no risk-informed benefit-cost analyses.

Q. In your opinion how should EMM have evaluated which projects to build?

A. As described in expert Shapley's testimony, utilities have historically used objective inspections to determine when a conductor must be repaired or replaced, and objective diagnostic and functional tests to determine when substation equipment must be repaired or replaced.[21] Repairs and replacements identified through these objective means are required for safe and reliable service, and not discretionary. In my opinion EMM should have used objective means to identify which of these particular lateral reconductoring and substation projects to build.

Q. Would you explain your understanding of how EMM selects which laterals to reconductor?

A. While EMM appears to use standard inspections and testing to identify required repairs and replacements, it also appears to use subjective means to make additional, discretionary equipment replacement decisions. Regarding lateral reconductoring, EMM uses a software package, AssetLens, to make discretionary equipment replacement decisions.[22] The software appears to evaluate equipment on six dimensions, such as estimates of the cost to customers of outages served by the lateral, and the presence of "critical" customers. Using these six dimensions, the software assigns what I would characterize as a "riskiness" score to items or groups of equipment.[23] These scores are utilized to prioritize laterals for reconductoring. EMM claims the software uses the scores to develop a benefit-cost ratio for reconductoring projects.[24] However, EMM states it retains neither lateral scores nor lateral benefit-cost analyses,[25] making it impossible for expert Shapley or me (or anyone else) to examine these justifications for these projects. Further, I note that risk scores are

[21] Direct Testimony of David C. Shapley dated June 30, 2026. Pages 3-8.
[22] Company response to OPC Data Request 5008.
[23] Company response to OPC Data Request 2019.
[24] Company response to OPC Data Request 5008 (c) (viii).
[25] Company response to OPC Data Request 5008 (c)(vi) and (vii).

not denominated in dollars, making the Company's claim that risk scores were used to complete benefit-cost analyses suspect.

Q. Who establishes EMM's capital spending budget?

A. EMM's parent company, Evergy, Inc., establishes a capital spending budget for EMM. Notably, capital bias provides EMM and its parent with an economic incentive to spend as much capital as EMM can justify and raise. Potential lateral reconductoring projects are ranked from highest to lowest by priority scores, and EMM completes the lateral reconductoring projects that it can for the available budget. EMM's process is backwards and results in unnecessary capital spending. Rather than simply using up the capital budget the parent allocates, EMM should limit its discretionary capital spending to only those programs and projects likely to deliver benefits in excess of costs as determined by a risk-informed benefit-cost analysis.

Q. What conclusion do you draw from your analysis of EMM's process for prioritizing lateral reconductoring projects?

A. The conclusion that I draw is the EMM's lateral reconductoring project scoring and budgeting practices appear to be largely subjective, and driven more by capital bias (to benefit shareholders) than by an interest in limiting capital spending to projects likely to deliver benefits in excess of costs (to benefit customers). I do not recommend that EMM decisions to reconductor laterals identified by the AssetLens software should be relied upon.

Q. Why do you come to this conclusion?

A. First, to my knowledge, the software does not use the risk-informed benefit equation described earlier in this testimony to project and place a dollar value on the reliability improvement benefits from projects. With no assessment of existing service interruption risk, no estimate of risk reductions from lateral reconductoring projects, and no estimate of the value of service interruption reductions in dollars, there can be no estimate of customer benefits against which to compare customer costs.

Further, it is my understanding that the accuracy of the software's reliability improvement projections has not been validated.[26] To validate a model is to compare the known reliability performance improvement after a completed project to the reliability performance improvements the software model projected. Such a comparison would determine the accuracy of the software's reliability improvement projections. That EMM would make discretionary capital spending decisions in the tens of millions of dollars based on a software model that has not been validated, and over which EMM has no control,[27] makes no sense to me. The Commission should not find such a practice acceptable.

Q. Do you have any further concerns with the AssetLens Software and EMM's reliance on it?

A. Yes. It is possible that AssetLens software was specifically designed in part to justify accelerated equipment replacements. Developed by a wholly owned subsidiary of Burns and McDonnell, an engineering firm with significant revenues from investor-owned utilities, software that helps justify accelerated equipment replacements would certainly be attractive to any utility with capital bias, like EMM. Further, we note that Burns and McDonnell maintains a large consulting practice specializing in electric project engineering, procurement, and construction ("EPC"). It is certainly possible the firm could be hired to complete the projects its AssetLens software recommends. I recommend the Commission recognize these incentives as it considers the prudence of EMM's lateral replacement projects and decision-making. Indeed, EMM reports it spends almost ** _____ ** on outsourced EPC services annually,[28] making EMM an important prospective customer for Kansas City-based Burns and McDonnell.

Q. How much rigor does EMM apply to its decisions to build new, or rebuild or upgrade existing substations?

A. Substation projects are extremely costly. When asked in discovery for the details of multi-faceted substation projects over $500,000 placed into service since the last rate case, the

[26] There is an outstanding request for EMM to provide any validation studies completed on the accuracy of the AssetLens software's reliability improvement projections.
[27] Company response to OPC data request 2020.
[28] Q5014_CONF_DR5014

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Company responded with spending details on 48 projects and programs totaling $260.9 million, for an average cost per project of $5.4 million.[29] These projects, plus the lateral reconductoring projects described above, represent a significant proportion of the increase in capital spending depicted in Figure 1 (page 6) since the last rate case. Only nine projects totaling just $65.1 million appear to be needed to accommodate load growth,[30] making the balance of the projects and program spending discretionary, apparently to improve reliability.

Mr. Shapley and I would expect rigorous reviews or justifications of the need for the remaining 37 discretionary capital projects and programs totaling $195.8 million. Yet despite the size of these significant capital spending decisions, the Company appears to apply even less rigor to substation projects than it applies to lateral reconductoring projects. When asked in discovery, the Company provided no approved capital spending authorizations for any of these substation projects or programs,[31] nor did the company complete any benefit-cost analyses on any of these projects.[32] It appears EMM applied no rigorous challenge process at all when making substation capital project and capital program decisions. (Note that this is somewhat different from the Company's claim for lateral reconductoring projects; for those projects, EMM claims to have completed, but not retained, benefit-cost analyses.)

Q. What could account for such an extreme lack of rigor for such costly projects?

A. I understand that EMM's parent company, Evergy, was formed in 2018 through the merger of Kansas City Power and Light, Kansas Gas and Electric Company, and Great Plains Energy. In January 2020, a private equity firm with a history of shareholder activism, Elliot Management, announced it had amassed about 5% ownership in Evergy, worth about $760 million at the time.[33] I also understand that many stakeholders were concerned that Elliot Management encouraged dramatic increases in capital spending by these subsidiaries

[29] Q5023 a_CONF_Substation Plant Additions
[30] Ibid.
[31] Company responses to OPC 5005 (c), (d), and (e); OPC 5006(b); and OPC 5007(b).
[32] Company response to OPC 5023 (a)(iv), (b)(iv), (c)(iv), and (d)(iv).
[33] *Elliott Management Sends Letter to Board of Directors of Evergy, Inc*. Elliott Management Corporation Press Release dated January 21, 2020.

as a way to increase shareholder value. This was documented in an agreement between Elliot Management and Evergy dated February 28, 2020 which, among other things, established a Committee to develop a plan for grid reliability investment.[34] The resulting Sustainability Transformation Plan, unveiled that August, proposed $4.93 billion in transmission and distribution capital spending 2020-2024[35] as part of a total capital spending plan that was $1.35 billion higher than Evergy's previous capital spending plan[36] (which itself already represented a significant increase, as indicated by capital spending increases 2019-2020 over 2016-2018 in Figure 1, page 6). The significant increase in capital spending 2021-2024 in Figure 1 is likely the result of Transformation Plan implementation. Yet as Figure 1 (page 6) indicates, the Plan and its capital spending increases have not improved reliability. This indicates customers have not gotten value for rate increases related to that reliability capital spending.

Q. What does all this have to do with the lack of rigor for capital spending decisions EMM data request responses indicate?

A. While customers have received no reliability improvement value from EMM rate and capital spending increases, investors have done very well. For example, Elliot Management's investment in Evergy was worth at least $245 million more than the investor paid (1.005 billion as of June 26, 2026). (Elliot Management accumulated shares in Evergy, and possibly predecessor companies, over time, and so the price Elliot Management paid for its 5% share of Evergy is almost certainly much less than the $760 million valuation at the time of the investor's announcement in January 2020.) This indicates that while capital project and program challenge processes, and capital spending governance generally, are important for customers, they are antithetical to shareholders interests. Shareholder interest in increased capital spending could be related to the lack of rigor and challenge processes for capital projects and programs at EMM.

[34] Case No. EO-2021-0032. Agreement by and among Elliot Investment Management, L.P., Elliot Associates, L.P., and Elliot International L.P. and Evergy Inc. dated February 28, 2020.
[35] Sustainable Transformation Plan. Evergy proposal dated August 13, 2020. Table 3, page 28.
[36] Ibid, Figure 5, page 29.

Q. What is the link between the interests of EMM's parent company and lack of capital spending governance at EMM?

A. There are indications that lavish capital spending on the substation (and lateral reconductoring) projects and programs since the last rate case without adequate capital project and program review have resulted from a 'go forth and spend capital' instruction from EMM's parent company, consistent with Evergy's Transformation Plan. As indicated in Mr. Shapley's testimony, significant spending increases are resulting from the proactive substation transformer replacement program ($85.6 million)[37] and the proactive substation breaker/switchgear replacement program $34.9 million)[38] in addition to the lateral reconductoring program ($21.8 million).[39] There are indications these programs were prompted by Evergy, and the programs appear to have resulted in significant changes in EMM equipment repair and replacement practices, as further detailed in Mr. Shapley's testimony. As Mr. Shapley testifies, the new practices are imprudent, as they do not represent least cost solutions to equipment issues identified through objective diagnostic and functional testing. Further, Mr. Shapley does not expect the new practices to improve reliability. This explains why reliability has failed to respond to capital spending increases.

From my perspective, discretionary capital spending programs, as well as decisions to modify equipment repair and replacement practices related to those programs, should be required to pass risk-informed benefit-cost analyses or other tests of cost effectiveness, just as large capital projects should. Additionally, capital equipment replacement projects should be screened for alternatives, such as the repairs Mr. Shapley describes in his testimony. That no such challenge process appears to exist is an indication of inadequate capital spending governance, which is an indication of the effects of the 'go forth and spend capital' instruction I allege from Evergy to subsidiaries like EMM.

[37] Q5023 c_CONF_Transformers
[38] Q5023 d_CONF_Breakers
[39] Q5008_Lateral Info (a) and Q5008_Lateral Info (b).

Q. Are you suggesting EMM management completed no review at all of these projects?

A. No. It appears that technical reviews were appropriately completed on all projects. However, technical reviews are altogether different from capital spending governance, complete with project and program challenge processes. Technical reviews are intended to ensure completed projects will provide safe and reliable service, and that projects can be completed with minimal customer disruption for the costs estimated by project sponsors. This is a completely different type of review than a capital project and program challenge process. Both technical reviews and capital project and program challenge processes are essential to sound capital spending governance. In essence, technical reviews of projects with no challenge processes indicate that any technically sound project proposed by EMM engineers receives capital spending approval. This is capital spending governance deficiency at its most extreme, and should not be condoned by the Commission.

Q. But the grid needs to be upgraded does it not?

A. Not necessarily! This is a popular misconception of which the legislature has apparently been convinced by the state's for-profit utilities. Upgrading the grid assumes capital spending by Missouri for-profit utilities historically has been deficient. Due to capital bias, I can assure you that Missouri utilities have not chronically underinvested in their distribution grids. Further, more capital spending is not necessarily better than less, another popular misconception. As Figure 1 (page 6) and Mr. Shapley's testimony indicates, and as capital bias predicts, for-profit utilities whose rates are determined through cost-of-service ratemaking (like those in Missouri) will often choose to spend more capital than less capital, even when such decisions are not the lowest cost, and even when associated reliability improvements will be minimal. That is why capital spending governance processes, and the Commission's authority to disallow recovery of imprudently-incurred costs from customers, are so critical. Capital spending governance and cost disallowance risk serve as required counterbalances to utility capital bias. Given SB 4 passed in 2025, which appears to me to involve advance determinations of prudence, capital spending governance processes and screening tools like risk-informed benefit-cost analysis become more critical than ever.

D. Recommendations

Q. What are your recommendations for a proposed disallowance to EMM's rate base?

A. Given the preceding discussion, and the results of expert Shapley's analyses of EMM's lateral reconductoring and substation projects, I recommend the Commission adopt the cost disallowances in expert Shapley's testimony. For the lateral rebuild projects, this amounts to a proposed disallowance of $21.806 million from EMM's rate base. For the substation projects, this amounts to a proposed disallowance of $29.424 million from EMM's rate base, amounting to total disallowances of $51.23 million.

Q. What recommendations do you have for the Commission regarding EMM's capital spending governance?

A. Given capital bias, the preceding discussion, and the results of expert Shapley's analyses, it is clear to expert Shapley and me that greater (or even some) governance over EMM's capital spending decisions is needed. I recommend the Commission establish a definition for capital spending decisions that are discretionary, and require that a risk-informed benefit-cost analysis test of customer cost-effectiveness be passed for all capital projects expected to cost more than $1 million, and for all capital programs expected to cost more than $1 million annually. Further, I recommend the Commission demand the Company provide copies of its capital spending authorization policies and procedures, along with a requirement that the Company follow and document the use of that process for all applicable capital spending projects.

IV. REVIEW AND CONCLUSION

Q. Please summarize your testimony.

A. After the Introduction, in Section II of this testimony I provided an overview of EMM's rate increase request as well as my perspective on the dramatic increases in distribution capital spending that are driving EMM's rate increase request. In Section III I explained the difference between required and discretionary utility spending, and described an approach for testing the cost-effectiveness of discretionary utility spending called risk-informed benefit-cost analysis. Section III I also described severe deficiencies in EMM

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capital spending governance, and recommended the Commission review, and demand compliance with, the Company's capital spending authorization process. As a result of these deficiencies, I endorsed OPC Witness Shapley's recommendation to disallow $51.2 million in capital spending. Finally, to help reinstate capital spending governance at EMM, in Section III I concluded with a recommendation that the Commission Order risk-informed benefit-cost analysis be applied to all capital projects and programs in excess of $1 million.

Q. Do you have any concluding comments for Commission consideration?

A. Yes. I recognize that the Legislature has passed various utility-related bills in recent years, such as SB 564 (2018), SB 745 (2022), and SB 4 (2025), and that increased grid investment may have been one of the intended outcomes of these efforts. But these laws do not relieve Missouri utilities of their responsibility to govern capital spending, to choose least-cost solutions when available, or to avoid spending capital on discretionary projects and programs unlikely to deliver value to customers in excess of costs to customers. I believe the Commission, as the Legislature's representative in regulating for-profit monopoly utilities, maintains the right and the ability to moderate any unintended consequences of the Legislature's well-intended actions. It is my hope that the Commission will consider exercising its rights and ability after reviewing this testimony.

Additionally, I wish to thank the Commission in advance for reviewing this testimony and considering my perspectives, observations, and recommendations.

Q. Does this conclude your testimony?

A. Yes, it does. However, given that responses to highly relevant data requests were not received in time to review and include in this testimony, I report that Mr. Shapley's and my review of the Company's application is ongoing. I thus reserve the opportunity to append this testimony as necessary and appropriate.

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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Evergy Metro, Inc. d/b/a Evergy Missouri Metro's Request for Authority to Implement a General Rate Increase for Electric Service	))))	Case No. ER-2026-0143

AFFIDAVIT OF PAUL ALVAREZ

STATE OF COLORADO)
) **ss**
COUNTY OF DOUGLAS)

Paul Alvarez, of lawful age and being first duly sworn, deposes and states:

1. My name is Paul Alvarez. I am a Consultant with Wired Group, having retained its principal place of business at PO Box 620756, Littleton, Colorado 80162. I have been retained by the Missouri Office of the Public Counsel in this proceeding on their behalf.

2. Attached hereto and made a part hereof for all purposes is my direct testimony.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

Paul Alvarez

Subscribed and sworn to me this 29th day of June 2026.

Notary Public

My Commission expires
July 28, 2029

LISA SCHNEIDER
NOTARY PUBLIC - STATE OF COLORADO
NOTARY ID 20254028280
MY COMMISSION EXPIRES JUL 28, 2029