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True-Up Surrebuttal Direct Testimony of David Murray
Case No. ER-2026-0143

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SURREBUTTAL and TRUE-UP 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

September 10, 2026

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OF

DAVID MURRAY

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

CASE NO. ER-2026-0143

I. INTRODUCTION

Q. Please state your name and business address.

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

Q. Are you the same David Murray who previously filed Direct and Rebuttal Testimony in this case?

A. Yes.

Q. What is the purpose of your testimony?

A. To update my recommended rate of return ("ROR") based on financial data through the true-up date, June 30, 2026. I will also respond to the rebuttal testimonies of Geoffrey Ley, Ann E. Bulkley, and Seoung Joun Won, PhD, as it relates to capital structure and the recommended authorized return on common equity ("ROE").

Q. How will you approach the presentation of your testimony?

A. First, I will provide my true-up recommendations. Then, I will collectively address Mr. Ley's, Ms. Bulkley's, and Dr. Won's rebuttal testimony related to my recommended capital structure. Finally, I will address Ms. Bulkley's testimony addressing my recommended authorized ROE.

II. TRUE-UP OF RECOMMENDED RATE OF RETURN

Q. Is there a unique issue in this case that requires a deeper dive into determining the appropriate ROR as of the true-up date in this case?

A. Yes. Evergy Metro Inc. ("Metro") proposes including construction work in progress ("CWIP") in rate base as of the true-up date. The Office of the Public Counsel's ("OPC") primary position is that Metro's incurred costs through June 30, 2026, are not properly defined as CWIP (*see* OPC witness John Riley's Surrebuttal and True-Up Direct Testimony). However, if the Commission decides these costs meet the definition of CWIP and authorizes an amount of CWIP to be included in rate base in Case No. EA-2026-0154, then OPC (*see* Geoffe Marke's Surrebuttal Testimony) recommends the costs associated with CWIP be assigned to the Large Load Power Service ("LLPS") rate class. I address the cost comparison of including CWIP in rate base as compared to continuing to capitalize CWIP financing costs using the allowance for funds used during construction ("AFUDC") ratemaking methodology.

Q. What is the advantage of using the AFUDC methodology to capitalize financing costs supporting CWIP?

A. The AFUDC rate is updated monthly during the entire period in which financing costs are capitalized. Therefore, the short-term debt supporting CWIP and the corresponding cost of that short-term debt is matched to the assets it funds. This allows for better matching of actual financing costs incurred to support CWIP and the potential to fully capture a company's use of short-term debt in ratemaking.

Q. What if CWIP is included in rate base?

A. It is more difficult to reconcile the capital employed to support CWIP. However, it can certainly be estimated based on past long-dated construction projects, such as Iatan 2, and Metro's projected capital balances and costs during the construction of Mullin Creek #1. Based on my review of this information, a 50% weighting of short-term debt in the ROR allowed on CWIP would be a reasonable assumption. However, determining a reasonable

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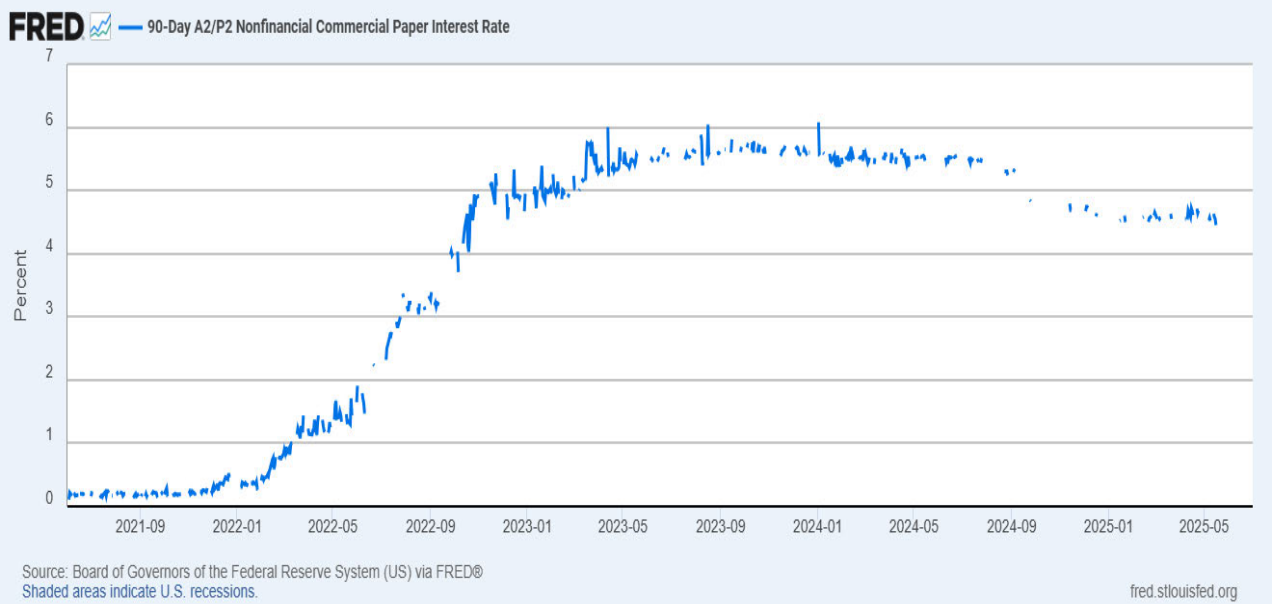
short-term debt rate to allow over several years is more challenging. As demonstrated in the chart below, short-term debt rates can change dramatically over a multi-year period:



As illustrated, the commercial paper rate increased dramatically starting at the beginning of 2022, before peaking on January 2, 2024, at 6.08%; the minimum commercial paper rate during this period was 0.15% on July 15, 2021; and the average was 3.65%.

Q. Did any Metro witnesses testify that allowing CWIP in rate base would benefit ratepayers?

A. Yes. Metro witness Gunn testifies as follows:

> The inclusion of CWIP in rate base lowers rates over the long term by reducing the rate increases when the asset goes into service.[1]

Q. Is Mr. Gunn saying that Metro's retail customers would realize net savings if CWIP is allowed in rate base rather than if AFUDC treatment continues?

A. Yes. In response to OPC Data Request No. 3029, Metro confirmed that Mr. Gunn intended to convey that ratepayers would realize net savings over the entire life of a natural gas

[1] Gunn Direct Testimony, p. 23, lns. 18-20.

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generating facility (including the construction period), such as Mullin Creek No. 2 (Schedule DM-S-1).

Q. Did Metro provide any analysis to support Mr. Gunn's testimony?

A. Not with testimony, but in response to OPC Data Request No. 3029, Metro referred OPC to several analyses it provided in response to Staff Data Request No. 0185. In response to Staff's data request, Metro provided a comparative analysis of CWIP vs. AFUDC treatment for the following three natural gas generation projects: McNew, Mullin Creek #1, and Viola.

Q. Did those analyses imply that allowing CWIP in the Evergy subsidiary utilities' rate bases result in net savings to the retail customers of those utilities?

A. Yes, but the quantification relied on a nominal value.

Q. What is the significance of that?

A. Evergy's analysis assumed that ratepayers would assign the same value to the higher rates they would pay during the construction period as compared to the lower rates they would pay starting in 2044 and continuing through 2070.

Q. Would Evergy's customers rather save a dollar today or a dollar in 40 years?

A. They would rather save a dollar today.

Q. Why?

A. Because customers are certain of the purchasing power of the dollar in the current economic environment, but uncertain of the value of the dollar in the future. The erosion of the value of the dollar due to a targeted inflation rate of approximately 2% is the base discount rate for all consumers. However, because many consumers may be in debt or have other opportunity costs, the value of a dollar today compared to the future is also driven by these factors. For example, if consumers have outstanding balances on their credit cards, they could have discount rates as high as 20%. The Commission heard arguments about appropriate discount rates to apply to the timing of ratepayers' savings/costs in recent

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securitization cases involving The Empire District Electric Company ("Empire"), Union Electric Company ("Ameren Missouri") and Evergy Missouri West ("Missouri West). As it related to the securitization cases involving undepreciated generating plant balances, the Commission decided the appropriate discount rate for determining customer costs/savings is the company's weighted average cost of capital ("WACC").

Q. Do Missouri's electric utility companies use WACC for any other present value calculations?

A. Yes. Missouri's electric utility companies use WACC to evaluate various resource plans when filing their integrated resource plans ("IRP") on a triennial basis. The WACC is applied to estimated future cash flows the utility expects to charge ratepayers to determine the net present value ("NPV") of revenue requirement for the evaluated resource plans. The lower the NPV, the lower the cost to ratepayers.

Q. Did Evergy's Mullin Creek #1 analysis provide an estimated WACC for Missouri West?

A. Yes. Evergy applied a WACC of 7.01% for purposes of estimating the revenue requirement for Mullin Creek #1 over its useful life.

Q. After appropriately discounting Missouri West's retail customers' higher initial rates against their lower long-term rates, would including Mullin Creek #1 CWIP in Missouri West's rate base result in net savings to Missouri West's retail customers on a NPV basis?

A. No. On an NPV basis, including CWIP in rate base results in ratepayers paying $16.01 million more over the life of the plant (including the 5-year construction period).

Q. Did Metro provide a comparison of CWIP vs. AFUDC treatment for Mullin Creek #2?

A. Yes. In response to OPC Data Request No. 3031, Metro provided its analysis, which was also provided in Case No. EA-2026-0154 in response to Staff Data Request No. 0007.

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Q. Does the analysis Metro provided imply that Metro's retail customers would achieve savings if Mullin Creek #2 CWIP is included in Metro's rate base instead of continuing AFUDC treatment?

A. Yes, but again Metro's analysis did not determine the NPV of savings/costs. On a nominal basis, Metro determined that its Missouri retail customers would save $95.8 million. However, on a NPV basis, it would cost ratepayers $35.09 million if CWIP were included in Metro's rate base.

Q. Are the AFUDC rate assumptions for the Evergy Mullin Creek #2 savings/cost analysis the same as the AFUDC rate assumptions for the Evergy Mullin Creek #1 savings/cost analysis?

A. No. While I do not know the basis for Metro's estimate of the AFUDC rate for Mullin Creek #2, it was higher than the AFUDC rate used in the Mullin Creek #1 analysis. For purposes of Mullin Creek #2, Evergy simply divided a generic annual rate of 6.5% by 12 to determine the monthly AFUDC rate. For purposes of the Mullin Creek #1 analysis, Evergy calculated the estimated AFUDC rate by following the prescribed FERC USOA formula, which assigns 100% weight to short-term debt until the CWIP balances exceed short-term debt. This caused the average AFUDC rate to be lower in the Mullin Creek #1 analysis.

Q. What was the average annualized AFUDC rate in Evergy's Mullin Creek #1 analysis?

A. 5.79%.

Q. What is the NPV of ratepayer savings/costs if you used the lower AFUDC rates Evergy assumed in its Mullin Creek #1 analysis?

A. On a NPV basis, the ratepayer costs would be $42.59 million if CWIP is allowed in rate base rather than receiving continued AFUDC treatment.

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Q. Is it possible to ensure that on a present value basis the cost to Metro's retail customers of Mullin Creek #2 CWIP treatment would not exceed Mullin Creek #2 AFUDC treatment?

A. Yes. This can be achieved by reducing the ROR allowed on CWIP.

Q. Can that be done?

A. Yes. While it is not a typical step in developing the revenue requirement to apply a distinct ROR to a particular rate base asset apart from all the assets in rate base, it would not be difficult to assign a separate ROR to the amount of CWIP in rate base and apply the traditional ROR to the remaining rate base.

Q. What ROR on CWIP would cause the NPV of customer savings/costs to be approximately $0?

A. A pre-tax ROR of 5.08%.

Q. Is this the ROR you recommend the Commission apply to CWIP in rate base?

A. Yes. However, I note that some estimated variables in this analysis could change. Therefore, while a 5.08% ROR currently approximates a NPV of $0, it is possible that this figure may vary. Consequently, the ROR applied to CWIP should achieve an estimated NPV of $0 to ensure ratepayers are not financially harmed from CWIP being included in Metro's rate base.

Q. If the Commission were to reject your recommendation, do you have alternative suggestions?

A. Yes, I consider two alternatives to be more reasonable than charging ratepayers a ROR on CWIP based on a traditional ROR: (1) allow a ROR on CWIP based on a current cost of long-term debt, which could be estimated based on the yield-to-maturities ("YTM") on Metro's long-term bonds, (2) or determine the ROR to apply to CWIP based on the logic underlying the FERC USOA formula for determining the AFUDC rate. Because I consider the capital structure ratios Evergy used to estimate AFUDC over the period of construction of Mullin Creek #1 to be reasonable, these capital structure ratios could be used to

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determine the authorized ROR to apply to CWIP. The average common equity ratio over this period was 25.859% with the remaining proportion assigned to short-term debt (51.585%) and long-term debt (22.555%). The weighted average ROR to apply to CWIP could then be based on these weights applied to the true-up long-term debt cost of 4.54%, the short-term debt cost as of June 2026 of 3.87%, and a 9.25% ROE.

Q. Do your alternatives ensure that Metro's retail customers will realize savings on a NPV basis?

A. Only if the pre-tax ROR applied to CWIP is lower than 5.08%. The YTMs on Metro's long-term bonds are currently higher than 5.08% and the pre-tax ROR for the second alternative is 6.16% so neither scenario would result in ratepayers achieving savings on a NPV basis.

Q. Did you analyze Evergy's and Metro's financial information through June 30, 2026, to determine whether you should update your recommended ratemaking capital structure for rate base other than CWIP?

A. Yes.

Q. Are you changing your recommendation?

A. No. I still recommend a ratemaking capital structure of 45% common equity and 55% long-term debt for all rate base not classified as CWIP. I recommend a 9.25% ROE be applied to the 45% common equity ratio and a 4.54% embedded cost of long-term debt be applied to the 55% long-term debt ratio. Please see Schedule DM-S-2 for the details of the second alternative ROR ("FERC USOA method"), which I recommend be applied if CWIP is allowed in rate base, and my ROR recommendation for all other rate base.

III. CAPITAL STRUCTURE TESTIMONY

Q. Who sponsored rebuttal testimony addressing your recommended ratemaking capital structure?

A. Evergy witnesses Mr. Ley and Ms. Bulkley, as well as Staff witness Dr. Won.

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Q. Are their criticisms of your recommended capital structure similar?

A. Yes. Therefore, as it relates to the ratemaking capital structure issue, I will address the testimony of all these witnesses together rather than separately.

Q. What is their primary criticism of your recommended ratemaking capital structure?

A. That it is inappropriate to consider Evergy's consolidated capital structure in determining a fair and reasonable ratemaking capital structure for Metro. As Mr. Ley testifies, other than timing differences, Staff's and Metro's approaches to determining their recommended ratemaking capital structures are substantially similar. In fact, Dr. Won relied on Metro's representation of its capital balances in response to Staff's DR No. 0107. Therefore, once Dr. Won relays the true-up data balances he received from Metro in response to DR No. 0107, they should have the exact same recommended ratemaking capital structure, which consists of 52.19% common equity and 47.81% long-term debt.[2]

Q. Did Dr. Won and Mr. Ley cite the same four factors in their arguments that the Commission should adopt Metro's per books capital structure as of June 30, 2026?

A. Yes. Dr. Won and Mr. Ley cite four factors from the cost of capital guide used as curriculum for utility regulatory financial analysts to attain the Certified Rate of Return Analyst ("CRRA") designation, which is administered by the Society of Utility and Regulatory Financial Analysts ("SURFA").

Q. Are you familiar with SURFA and the cost of capital guide to which Dr. Won and Mr. Ley refer?

A. Yes. I have been an active member of SURFA for many years and currently serve on the SURFA board of directors. I studied the Cost of Capital – A Practitioner's Guide by David Parcell before I sat for the examination to achieve the CRRA certification in 2007.

Q. What are the four factors Dr. Won and Mr. Ley address in their rebuttal testimonies?

A. They are:

[2] Evergy Metro's July 29, 2026, response to Staff Data Request No. 0107

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1. Whether the subsidiary utility obtains all of its capital from its parent, or issues its own debt and preferred stock;
2. Whether the parent guarantees any of the securities issued by the subsidiary;
3. Whether the subsidiary's capital structure is independent of its parent (i.e. existence of double leverage, absence of proper relationship between risk and leverage of utility and non-utility subsidiaries); and
4. Whether the parent (or consolidated enterprise) is diversified into non-utility operations.[3]

Q. Would you separately address each of these four factors?

A. Yes; however, as will be apparent from my discussion, some of the factors are interrelated and should be considered together, along with a deeper dive into their logic, to understand the purpose in considering these factors in determining a fair and reasonable ratemaking capital structure. For example, it is important to understand the rationale for parental guarantees and whether diversification into non-utility operations causes the consolidated parent company capital structure to be representative of the regulated utility subsidiaries' debt capacities. Also, if a parent company only owns regulated vertically integrated electric utilities, it should be obvious that the parent company's ability to have a more leveraged capital structure arises from the low business risk of its vertically integrated electric utilities.

Q. What is your response to Dr. Won's and Mr. Ley's testimonies regarding the first factor?

A. The first factor is:

> Whether the subsidiary utility obtains all of its capital from its parent, or issues its own debt and preferred stock.

Metro issues its own long-term debt and commercial paper in third-party debt markets. However, just because a subsidiary issues its own debt does not mean its capital flows are independent of those of its parent company. Perhaps one of the most glaring changes to Evergy's financial management of Metro, as compared to when its parent company was Great Plains Energy ("GPE" and Metro's previous parent company before the merger of

[3] David Parcell, "The Cost of Capital – A Practitioner's Guide," 2010 Edition, p. 46.

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GPE and Westar Inc. in 2018), is the fact that not only does Evergy issue long-term debt and hybrid capital to fund investments in its subsidiaries, but it also issues short-term debt to fund dividends to its third-party shareholders. Evergy freely admitted such during its November 20, 2024, Capital Structure & Return on Equity Workshop before the Kansas Corporation Commission ("KCC"). While this is certainly efficient for Evergy and its subsidiaries, it demonstrates that each subsidiary's financing activities are not managed as them being standalone entities. If Metro's financing activities were independent from Evergy, it would issue capital to fund its proportional share of Evergy's dividends to outside shareholders. It does not.

Dr. Won also testifies that because Metro's assigned credit rating is based on its own standalone capital structure, this supports the use of Metro's capital structure. Dr. Won's testimony implies that this is a statement of fact, but it is not. The basis for Metro's assigned credit rating is much more nuanced than Dr. Won implies. While it is true that S&P Global Ratings assigns Metro an issuer credit rating ('A-') that is one notch higher than Evergy's issuer credit rating of 'BBB+', S&P Global still states that its 'stable' outlook on Metro's credit rating is "based on [its] outlook on parent Evergy" and any change in the rating may occur if Evergy's rating is lowered or raised. Therefore, their ratings are not independent. However, I do acknowledge that as compared to other Missouri utility subsidiaries, Metro is the only company that S&P Global Ratings assigns a different issuer credit rating than that of the consolidated group rating.

Q. Does S&P Global Ratings treat Metro's Evergy subsidiary affiliates similarly when giving weight to their standalone credit profiles?

A. No.

Q. Why not?

A. I do not know. However, it is perplexing because each of Evergy's regulated utility subsidiaries are under the same corporate structure and subject to similar corporate governance and financial management practices. I sent three emails to analysts identified by S&P Global Ratings on the Evergy Metro ratings report seeking their explanations, but none have responded.

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Q. What is your response to Staff's and the Company's rebuttal testimonies regarding the second factor?

A. The second factor is:

> Whether the parent guarantees any of the securities issued by the subsidiary.

Staff and the Company testify that because Evergy does not guarantee Metro's debt, this supports the use of Metro's capital structure. However, this guideline needs to be considered carefully as to the interpretation of the need for a parental guarantee and the interaction of this guideline with the fourth guideline – whether a consolidated enterprise is diversified in non-utility operations. A holding company that only owns regulated utility subsidiaries (considered a pure-play regulated utility) derives its creditworthiness from the low-risk profile of its regulated utility subsidiaries. Therefore, Metro and its vertically integrated electric utility sister companies provide Evergy its credit capacity rather than vice versa. In fact, when selecting comparable companies to estimate the COE for Metro's vertically integrated electric utility operations, the goal is to select publicly-traded holding companies that are mostly confined to regulated utility operations. The COE for these holding companies would then be a function of the low business risk associated with the regulated subsidiaries AND the financial risk (*i.e.* use of debt in the capital structure) contained in the consolidated capital structure.

Q. What is your response to Staff's and the Company's rebuttal testimonies regarding the third factor?

A. The third factor is:

> Whether the subsidiary's capital structure is independent of its parent (i.e. existence of double leverage, absence of proper relationship between risk and leverage of utility and non-utility subsidiaries).

Dr. Won testifies in his direct testimony that Staff did not find evidence Evergy has used double leverage.[4] In his rebuttal testimony Mr. Ley emphasizes Dr. Won's finding that Evergy has not used double leverage to invest in Metro.[5] Dr. Won's finding was based on

[4] Won Direct Testimony, p. 43, lns. 10-14.
[5] Ley Rebuttal Testimony, p. 5, lns. 6-7.

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Metro's answer to Staff Data Request No. 0347, which requested Metro provide him a "list of financial records including amounts and dates that Evergy Inc.'s long-term debt issuances have been used to infuse equity into Evergy Metro Missouri since 2023 in an Executable MS Excel file." Metro responded that there are no such financial records (*see* Schedule DM-S-3). Therefore, Dr. Won's testimony does not corroborate Mr. Ley's testimony, but rather simply restates Metro's answer to Staff's data request.

Q. Did Metro provide an accurate response to Dr. Won's data request?

A. Yes.

Q. Do Dr. Won's data request and Metro's response to it establish that Evergy does not employ double leverage in its financial strategies?

A. No.

Q. Why not?

A. First, the mere fact that Evergy issues debt at Evergy (*i.e.* the holding company level) and at its wholly-owned subsidiaries establishes that Evergy employs double leverage – debt issued at two levels of Evergy's corporate structure. Second, as I testified in my direct testimony, because Evergy's subsidiaries are not financed as standalone entities, Evergy does not require its subsidiaries to distribute sufficient dividends to fund dividend payments to third-party shareholders. Evergy issues short-term debt to fund the shortfall between the dividends it receives from its subsidiaries and the dividends it pays to third-party shareholders. As Evergy accumulates higher short-term debt balances, it then issues long-term holding company capital to refinance the short-term debt.

Q. How could Evergy maintain its targeted ratemaking common equity ratios of approximately 52% at its subsidiaries if it received sufficient dividends from its subsidiaries and required the subsidiaries to issue short-term debt to fund dividend payments to Evergy?

A. It could use Evergy holding company debt proceeds to record equity contributions into its subsidiaries. While it would seem inefficient to distribute a dividend to Evergy only to

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have it returned in the form of an "equity" contribution later, I am simply illustrating my point that a deeper analysis should be performed to understand the ultimate impact of Evergy's financing strategies rather than simply accepting Metro's confirmation to a narrowly defined data request.

Q. Did Dr. Won issue a data request to you to request support for your direct testimony that Evergy issues short-term debt to fund dividends because Metro and its sister subsidiaries did not distribute sufficient dividends to fully fund dividends to third-party shareholders?

A. Yes. As shown in Schedule DM-S-4, Dr. Won issued DR No. 0457 to me to request further clarification and support for my testimony. As I determined through my analysis of quarterly cash flow statements for Evergy and its subsidiaries for the period June 30, 2024, through March 31, 2026, Evergy only received $598 million in dividends from its subsidiaries despite distributing $1.2197 billion in dividends to its third-party shareholders. Because Evergy does not receive funds from operations other than its subsidiaries, the only means for Evergy to cover the deficiency is to issue holding company capital. Although my analysis of Evergy's financial statements supports my position, I also directed Dr. Won to Evergy's own statements during its November 20, 2024, Capital Structure and Return on Equity Workshop before the KCC, which can be found at approximately the 57-minute mark of the following link: https://www.youtube.com/live/PV-NjHm0R2g?t=2794s.

Q. Do you have additional evidence of Evergy's financing strategy which allows Evergy to forgo receiving dividends from its utility subsidiaries to fund the dividends Evergy distributes to its third-party shareholders?

A. Yes. Evergy did not receive any dividends from its subsidiaries for the 9-month period, October 1, 2023, through June 30, 2024. However, Evergy still paid $443 million in dividends to third-party shareholders over the same period.

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Q. How was it able to do that?

A. Evergy issued $1.4 billion of convertible bonds on December 7, 2023. Evergy used $500 million of the proceeds to repay a $500 million term loan Evergy issued in February 2022.[6] ** _____ _____ _____ _____ **[7]

Q. Did Evergy receive any dividends from Metro during the period in which Evergy issued this $500 million term loan?

A. No. In fact, Metro did not pay any dividends to Evergy for the nine-month period ending June 30, 2022. While Evergy did receive $295 million of dividends from its Kansas subsidiary, Evergy Kansas Central ("EKC"), over this same nine-month period, it was still less than the $393.9 million in dividends Evergy paid to third-party shareholders. Evergy issued capital to fund $98.9 million dividend deficiency and Evergy's infusion of $200 million of equity into Missouri West during the first quarter of 2022.

Q. What do these affiliate capital flows demonstrate?

A. That Evergy is optimizing its consolidated capital structure to achieve a lower cost of capital while continuing to prop up its subsidiaries' equity ratios for purposes of requesting a higher revenue requirement. Therefore, I do not agree with Metro's answer to Dr. Won's data request that Evergy is not employing double leverage to attempt to minimize its cost of capital but still maintain more equity-rich subsidiary capital structures for purposes of justifying higher revenue requirements.

[6] Evergy Inc.'s Form 10-K Filing, December 31, 2023, p. 129.
[7] Evergy's Finance Committee Meeting, December 13, 2023, p. 43.

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Q. Regardless of the nuances related to identifying double leverage, what is the significance of the third factor?

A. It highlights a fundamental consideration when assessing the optimal use of leverage in a capital structure. While Dr. Won's data request to Metro was very narrow in its interpretation of double leverage, fundamental financing principles should be the primary consideration when assessing whether Metro's proposed ratemaking capital structure is consistent with Evergy's own view about an optimal capital structure to support its regulated utility investments. The note in the parenthesis of the fourth factor—(i.e. existence of double leverage, absence of proper relationship between risk and leverage of utility and non-utility subsidiaries)—highlights the possibility that a subsidiary capital structure is suspect if there is an "absence of proper relationship between risk and leverage of utility and non-utility subsidiaries."

Generally, non-utility subsidiaries have higher business risks than regulated utility subsidiaries. A subsidiary with higher business risk cannot incur as much financial risk (*i.e.* debt) and still maintain the same credit rating/quality as a subsidiary with lower business risk. The same holds true for a consolidated holding company. However, in Evergy's case, its business risk is a function of its regulated utility subsidiaries. Therefore, its ability to incur more financial risk (*i.e.* more leverage in its consolidated capital structure) is purely a function of its low-risk regulated utility subsidiaries. Evergy's consolidated capital structure reflects Evergy's view about the "proper relationship between risk and leverage of [its] utilities," not the subsidiary's capital structure, which is managed for ratemaking purposes rather than balancing business and financial risk.

Q. What is your response to the rebuttal testimonies of Staff's and the Company's witnesses regarding the fourth factor?

A. The fourth factor is:

> Whether the parent (or consolidated enterprise) is diversified into non-utility operations.

Mr. Ley did not address this factor. Dr. Won states that because Evergy has insignificant exposure to non-regulated operations, he does not have significant concerns about the

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"financial relationship between EMM's regulated utility service and Evergy's non-regulated business." It appears that Dr. Won believes Evergy's lack of non-regulated operations is supportive of accepting Metro's capital structure as reasonable for determining the ROR to charge ratepayers. If so, his logic is the opposite of the purpose for evaluating this factor. As I already explained when addressing the second and third factors, if a parent company's subsidiaries' operations are homogeneous, then the parent company's composite business risk is substantially the same as that of its individual subsidiaries. Consequently, if I were estimating the cost of capital for a vertically integrated electric utility such as Oklahoma Gas & Electric Company ("OG&E"), I would consider Evergy to be an ideal proxy company to estimate OG&E's cost of capital. However, since Evergy's COE is a function of both the business risk of its regulated utilities and the financial risk inherent in its capital structure, the COE should be applied to a capital structure consistent with Evergy's consolidated capital structure.

Q. Do you have an example of a situation where it would be inappropriate to use the parent company's consolidated capital structure to set the ROR for its regulated utility subsidiaries?

A. Yes. Before Algonquin Power & Utilities Company ("APUC") experienced financial difficulties related to its non-regulated operations and failed acquisition activity, it targeted a common equity ratio of approximately 45% for the primary holding company (Liberty Utilities Co.) of its United States regulated utility subsidiaries, and a 60% equity ratio for its non-regulated utility subsidiary. On a composite basis, this resulted in APUC typically having a consolidated equity ratio in the 48% to 52% range. At least when APUC was financially stable, its capital structure management reflected the diversity of its operations and consideration for the differences in business risk. In rate cases involving Liberty Utilities Co.'s ("LUCo") Missouri utility operations, I recommended a ratemaking common equity ratio consistent with LUCo's targeted common equity ratio because it reflected the expected balancing of the use of leverage against the underlying business risk of the operations.

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Q. Did Dr. Won accept Metro's and Missouri West's per books common equity ratios in their most recently concluded general rate cases before this Commission?

A. No. In Missouri West's 2024 rate case, Dr. Won recommended the Commission adopt a ratemaking capital structure consisting of 50% common equity and 50% long-term debt. Dr. Won's recommendation in Missouri West's 2024 rate case was consistent with his recommended ratemaking capital structures of 50% common equity and 50% long-term debt in the 2022 Metro and Missouri West rate cases.

Q. What was Dr. Won's justification for recommending a ratemaking common equity ratio of 50% in Missouri West's 2024 rate case?

A. He relied on Missouri West's response to a Staff data request, which stated that Evergy targets a common equity ratio for Missouri West of just over 50%.[8]

Q. What has changed since that 2024 rate case?

A. Dr. Won's interpretation of Evergy's responses to his data requests. Dr. Won issued the same data request in this case and received the exact same response as he received in Missouri West's 2024 rate case. Dr. Won testifies as follows on page 42 of his direct testimony:

> Evergy has changed its target capital structure for each subsidiary utility to just over ** _____ ** since the last rate case, which has led Staff to consider revising its recommendation.[9]

Q. Why is the identification of the targeted capital structure classified as confidential?

A. I do not know. This is a general statement that can easily be verified by simply analyzing Evergy's subsidiaries' financial statements.

Q. What was Missouri West's specific response to Dr. Won's DR No. 0110 in Case No. ER-2024-0189?

A. Missouri West's response follows:

[8] Case No. ER-2024-0189, Surrebuttal and True-up Direct Testimony of David Murray, p. 13, lns. 1-11.
[9] Won Direct Testimony, p. 42, lns. 6-11.

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> As stated in Mr. Andrews' Direct Testimony, page 6, "We continually evaluate the capital structure and seek to maintain a balance just over 50% equity and slightly less than 50% debt optimized over the long-term for the timing of financing, capital plans, rating agency views and alignment with peer companies' capital structures with which we compete for investor capital."[10]

Q. What was Metro's specific response to Dr. Won's DR No. 0112 in this case?

A. Metro's full response follows:

> ** _____
> _____
> _____
> _____
> _____
> _____
> _____
> _____ . **

Again, I do not know why Metro designated its answer as confidential because as I have testified throughout this case, it is clear and obvious that since 2022, Evergy has targeted a 52% equity ratio for purposes of its requested ratemaking capital structures for Metro and Missouri West.

Q. What was Missouri West's common equity ratio as of the true-up date in its 2024 rate case?

A. According to Company witness Ronald A. Klote, Missouri West had a 49.85% common equity ratio as of the true-up date.[11]

Q. What common equity ratio did Missouri West project as of the true-up date when it filed its direct testimony in its 2024 rate case?

A. 52.04%.

[10] Case No. ER-2024-0189, Evergy Missouri West Response to Staff Data Request No. 110
[11] *Id.,* True-Up Rebuttal Testimony of Ronald A. Klote, p. 7, lns. 6-11.

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Q. What caused Missouri West's true-up equity ratio to be lower than its estimate when it filed its rate case?

A. Missouri West decided to issue $400 million of long-term debt rather than the $190,068,439 it assumed in its projections.

Q. Are you aware of any negative rating actions due to Missouri West's decision to align its requested ratemaking common equity ratio with Dr. Won's recommendation of a 50% common equity ratio in Missouri West's 2024 rate case?

A. No.

Q. Could Evergy have adjusted Metro's common equity ratio to achieve a 50% common equity ratio for this case?

A. Yes. Evergy could have upsized its $400 million debt issuance on August 15, 2025, paid Evergy its proportionate share of the dividends it pays to third-party shareholders, and/or issued additional long-term debt to refinance at least a portion of the $570.3 million short-term debt (its highest balance since June 30, 2024) outstanding as of June 30, 2026.

Q. Does Evergy's management make recommendations to its board of directors as to the amounts of dividends it should collect from its subsidiaries?

A. Yes. Evergy's management recommends to its board of directors whether Evergy's subsidiaries should distribute dividends to Evergy (their ultimate parent) and the potential amounts of such dividends if so declared.[12] The subsidiaries do not control this decision. This is not consistent with subsidiaries that are independent from their parent company. Regardless, even if the subsidiaries did declare the amount of dividend to distribute to Evergy, the subsidiaries' boards of directors largely overlap with Evergy's board of directors.

[12] Evergy Finance Committee Meeting, October 30, 2023, p. 72.

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Q. Does this activity support your testimony that Metro's capital structure is not a consequence of arms-length transactions?

A. Yes. If Metro were an independent, publicly-traded company, it would be directly accountable to its third-party shareholders. It is not. It is accountable to its parent company, Evergy, which manages the dividend policies of Evergy and its affiliates for the benefit of the Evergy enterprise of companies. Evergy's use of an internal money pool agreement is an additional example of the fact that Evergy's subsidiaries' capital structures do not result from arms-length transactions. These examples specifically refute Ms. Bulkley's rebuttal testimony where she claims that I did not provide evidence that Metro's capital structure is not a consequence of arms-length transactions.[13]

Q. Mr. Ley testifies in rebuttal that based on Evergy's review of 109 rate cases, it is not regulatory practice to attribute holding company debt to subsidiary utilities for purposes of setting an authorized ROR. Is this finding misleading for purposes of providing the Commission with evidence to make an informed decision in this case?

A. Yes. While it may be true that certain commissions did not specifically assign or allocate holding company debt and/or costs to the operating utility companies in the rate cases Evergy reviewed, this does not mean that other jurisdictions adopted operating companies' per books capital structures without scrutiny of the requested ratemaking common equity ratios. I discovered that several utility commissions did consider the parent company's consolidated capital structure and/or the proxy groups' consolidated capital structures (*i.e.* the publicly-traded holding companies, not those of the operating company subsidiaries) in determining a fair and reasonable ratemaking capital structure.

For example, as I testified in my direct testimony, the Illinois Commerce Commission ("ICC") has considered the discrepancies between the holding company's consolidated capital structure and those of its subsidiaries in determining a fair and reasonable ratemaking capital structure.[14] The ICC grappled with a fair and reasonable ratemaking capital structure for Ameren Illinois Company ("AIC") over many rate cases. So much so

[13] Bulkley Rebuttal, p. 79, lns. 3-6.
[14] Murray Direct, p. 47, lns. 20-22.

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that eventually it was codified in statute that a requested common equity ratio above 50% for ratemaking had to be explicitly supported by AIC in its application for a rate adjustment. As documented in Evergy's research about capital structure decisions, AIC requested a ratemaking common equity ratio of 54.03% in its 2023 rate case but was authorized a 50% common equity ratio for ratemaking purposes. It should be noted that AIC's financial relationship with Ameren is the same as Ameren Missouri's as it relates to the four factors Dr. Won and Mr. Ley claim justify adopting Metro's per books capital structure as of the true-up date in this case.

Evergy also reviewed a 2024 Indiana Michigan Power Company (subsidiary of American Electric Power Company) rate case in which the subsidiary requested a higher common equity ratio than that which the Commission authorized. In Evergy's own notes on the case, they indicated that the Indiana Public Service Commission adopted the Indiana Attorney General's recommendation to impute a hypothetical 48% common equity ratio based on various factors, including consideration of the average consolidated holding company common equity ratios of the proxy group. Evergy also noted that consideration of holding company capital structures were also factors in downward adjustments to requested common equity ratios in utility rate cases in the following states: Oklahoma, Arkansas, New York, and Louisianna.

Finally, there were a couple of other rate cases in which the authorized common equity ratio was lower than that requested with no specific mention of holding company leverage of either the parent or the proxy group.[15]

Q. What is your response to Ms. Bulkley's testimony that it is the risk of investment, not the source of the funds, that should be the primary factor the Commission should consider in setting a fair and reasonable ratemaking capital structure in this case?[16]

A. I couldn't agree more. But Ms. Bulkley and I have a fundamental disagreement with interpreting the consequence of this fundamental financing principle. As I have testified throughout this case, Evergy is a holding company of mostly pure-play vertically integrated

[15] Docket No. C-940027-E-42T, The Potomac Edison Company, November 9, 2024, and Docket No. C-22-00270-UT, Public Service Company of New Mexico, January 3, 2024.
[16] Bulkley Rebuttal, p. 80, lns. 3-11.

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electric utility operating company subsidiaries. Therefore, Evergy's business risk is a function of these low-risk assets. As I clearly outlined in my direct testimony, Evergy understands that it can optimize its consolidated capital structure (*i.e*. achieve the lowest cost of capital) by taking advantage of these low-risk assets by issuing additional holding company debt. The costs of Evergy's funds are not based on Evergy's independent balance sheet (*e.g*. a large retained cash balance or some other type of capital infusion wholly unrelated to Evergy's utility subsidiaries), but rather the business risk of its regulated utility subsidiaries. Therefore, it is Evergy's more leveraged capital structure that provides Evergy's management's authentic views regarding the sustainable debt capacity, and therefore cost of funds, of its regulated utility assets.

IV. ANN E. BULKLEY'S REBUTTAL TESTIMONY

Q. What is your response to Ms. Bulkley's assertion that there is no basis for your position that utility company rate regulators authorize ROEs for utility companies that are higher than their actual COE?[17]

A. My bases are my own COE analysis and corroborating third-party analyses. Because I am not actively involved with the valuation variable of the discounted cash flow ("DCF")/dividend discount model ("DDM") formula (*i.e.* estimating the intrinsic enterprise value of a firm and/or shareholder value), I have made it a point to test the reasonableness of my COE estimates by analyzing and reviewing the COE estimates used by investors to estimate the intrinsic value of utility companies and their share prices. By and large, the information I have frequently discovered implies that my COE estimates are higher than those typically used by investors. Although Ms. Bulkley has been sponsoring ROR testimony in Missouri in several utility rate cases since 2020, I do not recall a single instance in which she provided counter evidence and/or examples of third-party sources that corroborate her assumptions and resulting COE estimates.

[17] Bulkley Rebuttal, p. 45, ll. 9-12.

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Q. Have you taken other steps to corroborate your COE estimate in this case?

A. Yes. Despite being able to consistently provide corroborating information from internal corporate records and external investment/equity analysis that show my COE estimates are reasonable, if not too high, I persistently review such information to determine how changes in capital market conditions may be affecting financial advisors' cost of capital estimates. As I testified on page 27, lines 1-14, of my direct testimony, the most recent example of a financial advisor hired to provide Evergy's board of directors advice about the company's enterprise and equity value used a COE of ** _____
_____
_____
_____ ** As I further testified in my direct testimony, my COE estimate and observation that investors' COE is lower than authorized ROEs was corroborated by Bank of America in a report published during the same period.

Q. Do you have any further response to Ms. Bulkley's opinion that authorized ROEs are not higher than investors' COE and, instead, reflect investors' COE?

A. Because I have provided this type of evidence repeatedly in numerous Missouri rate cases in which Ms. Bulkley has sponsored ROR testimony, and Ms. Bulkley has never provided third-party corroboration for her view (other than average authorized ROEs) nor have the boards of directors of Missouri's utility companies hired different financial advisors because they believe their valuation estimates are too high due to COE estimates lower than Ms. Bulkley's estimates, I do not see the point of continuing this discussion. If the Commission is unsure of my credibility on this matter, I encourage the Commission to review the corroborating information I have repeatedly provided not only in past Evergy rate cases, but also in Ameren Missouri's and Missouri American Water Company's past rate cases where Ms. Bulkley testified as a ROR witness for the utilities. I have provided similar information in Spire Missouri's and Liberty Utilities Co.'s past Missouri rate cases, but Ms. Bulkley did not sponsor ROR testimony on behalf of these companies.

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Q. What financial metric is often used to evaluate whether a company, or portfolio of companies, is earning more than its cost of capital?

A. Market-to-book ratios. A market-to-book ratio above one generally establishes that a company is creating wealth for its shareholders by earning more than its cost of capital.

Q. Why?

A. A simple example to illustrate this dynamic is a bond valuation. If a 30-year United States Treasury ("UST") bond is issued today at a coupon consistent with the current yield-to-maturity on 30-year UST bonds (5.25%), then the value of the bond is exactly equal to the $1,000 principal balance of the bond. If the market cost of debt increases to 5.5% in one year, investors would only pay $963.97 for the 5.25% coupon bond in order to ensure they receive the current market yield of 5.5%. The market-to-book ratio of the 4.1% bond is 96.40%. Conversely, if the market cost of debt were to decrease to 5.0% in one year, investors would pay $1,038.06 for the 5.25% coupon in order for the seller to be compensated for the lower coupons on newly-issued bonds. The market-to-book ratio of the 5.25% bond is 103.81% in this scenario. These same principles apply to the book value (original issue price) of common stock.

Q. Would you explain why?

A. Justified price-to-book ratios are determined through the following formula, which is premised on using a discounted cash flow analysis:[18]

$$P_0/B_0 = (ROE - g)/(r - g)$$

Where:
- P_0 = price/market value at period 0
- B_0 = book value at period 0
- ROE = expected return on common equity
- g = growth in earnings
- r = cost of common equity

If expected earnings are higher than the cost of common equity, then the justified market/book ratio is greater than one and vice-versa.

[18] Refresher Reading, 2024 CFA® Program, Level 2, p. 45.

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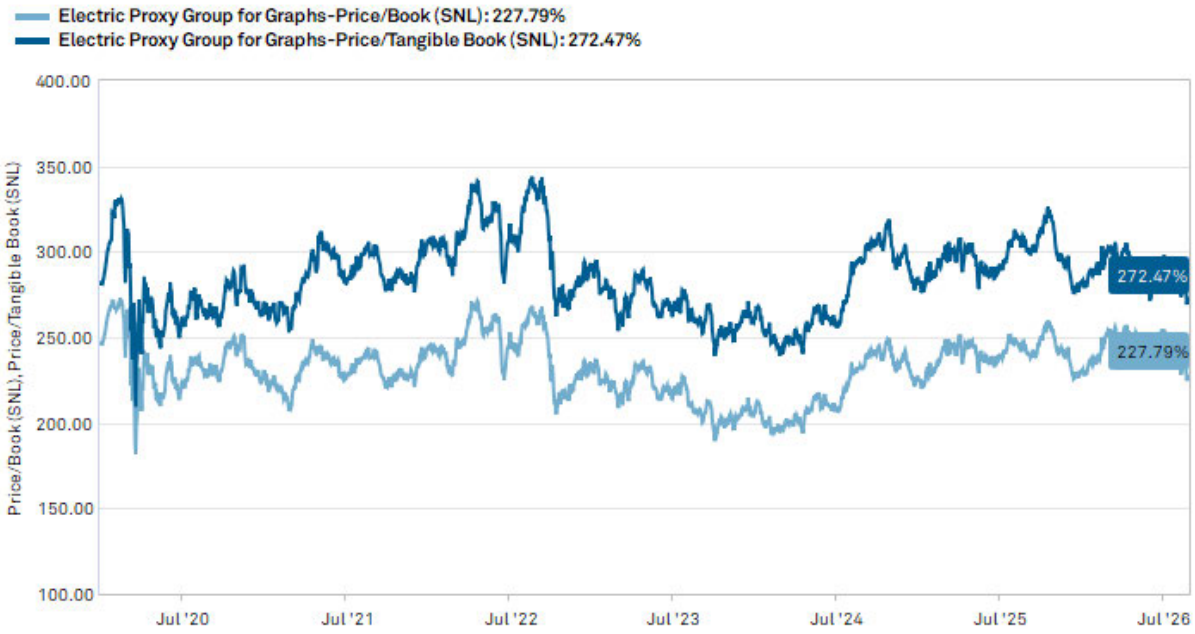
Q. What are the market-to-book ratios of the electric utility group you analyzed in your direct testimony?

A. Please see the following chart:



Q. How should one interpret this chart?

A. As shown, the market-to-book ratios have been greater than 2-to-1 since January 1, 2020. Because publicly-traded utility companies periodically complete mergers and acquisitions, similar to Evergy, the book value of companies' common stocks may include an allowance for goodwill (purchase price over the book value of the assets). After deducting goodwill from the book value of the common stock, the market-to-book ratios have been in the 2.5x to 3.25x range. The electric utility industry's lofty price-to-book ratios support my position, and those of investors and financial advisors, that authorized ROEs are higher than the COE.

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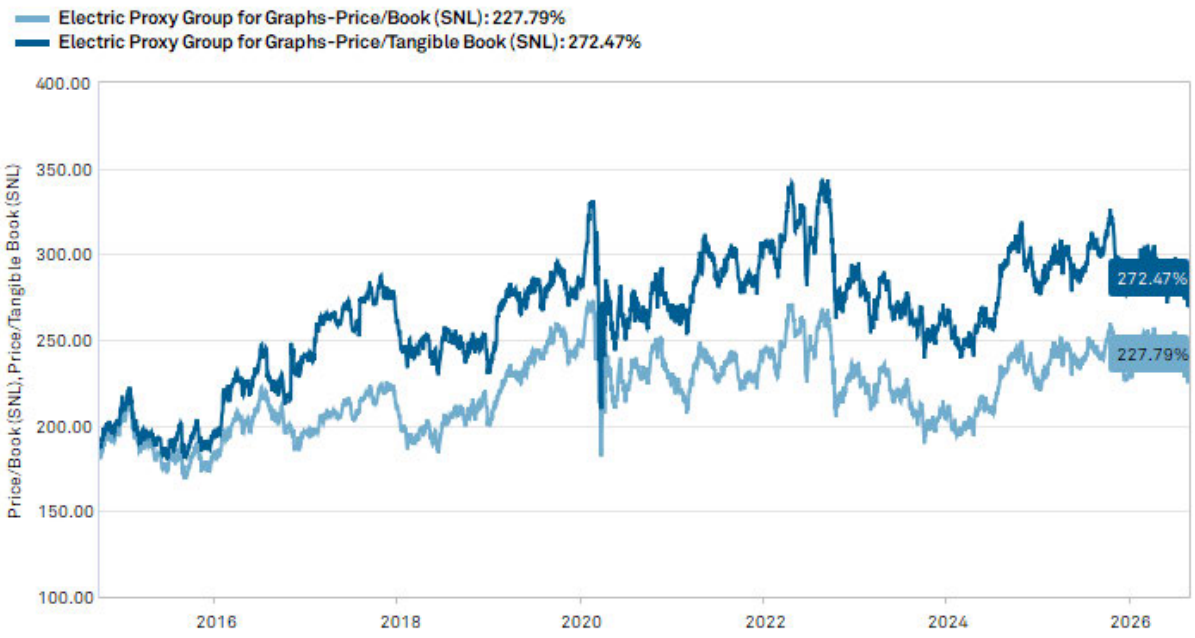
Q. How do current market-to-book ratios for the electric utility industry compare to their market-to-book ratios in 2015 when the Commission deemed a 9.5% ROE to be fair and reasonable for Missouri's major electric utility companies?

A. Generally, they are higher, implying a higher spread in earned ROEs as compared to the COE. See the following chart showing electric utility price-to-book ratios since September 30, 2014:



The fact that market-to-book ratios now are higher than they were in 2015 supports the reasonableness of the Commission at least maintaining Metro's authorized ROE at 9.5% or even lowering it.

Q. What is the basis for Ms. Bulkley's claim that your multi-stage DCF analysis is less reliable than a constant-growth DCF analysis using equity analysts' projected long-term growth in EPS as the constant growth rate?[19]

A. She testifies that a multi-stage DCF/DDM requires an analyst to make additional assumptions that require subjective judgment, which may be influenced by an analyst's

[19] *Id.,* p. 59, ln. 5 – p. 60, ln. 9.

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bias. Apparently, she believes that because her constant-growth DCF analysis assumes utility companies' DPS will grow in perpetuity at the same rate as equity analysts' consensus estimates of a 5-year CAGR in EPS, this removes bias from her COE estimate.

Q. What is your response to Ms. Bulkley's criticisms that your assumptions and approach for your multi-stage DCF/DDM analysis are not consistent with investors/market expectations for growth in utility stock prices?

A. Unlike Ms. Bulkley I provided investor/analyst information in my direct testimony that corroborates and supports my multi-stage DCF/DDM analysis approach and the assumptions I made.

Q. Did Ms. Bulkley provide practical examples demonstrating that investors/analysts perform fundamental valuation assessments based on the assumptions she used in her approach?

A. No.

Q. In your approximate 20 years of experience in reviewing and analyzing equity research reports covering the utility industry, have you ever seen where an analyst assumed a utility's DPS will grow in perpetuity at the same rate as a projected 3-to-5-year CAGR in EPS?

A. No.

Q. In your approximate 20 years of experience reviewing and analyzing equity analyst research reports, what version of the DCF do analysts typically use for purposes of estimating the intrinsic value of a utility's stock?

A. A multi-stage DCF or, more specifically, a multi-stage DDM (dividend discount model).

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Q. What is the implication of Ms. Bulkley's criticism that instead of transitioning the assumed DPS growth to a more reasonable growth rate in fifteen years, you should have assumed this higher growth could be sustained for longer?

A. That commercial and residential ratepayers should pay for a higher COE due to investors' expectations for higher CAGR in electric utilities' EPS caused by increased demand and capex to service large load customers. This result would violate utility companies' pledges, including Metro's, to not charge legacy customers a higher revenue requirement due to risks related to large load exposure. However, as I testified in my rebuttal testimony, assuming a cost of capital witness does not inappropriately assume this higher growth will continue in perpetuity, which is economically impossible, then exposure to large load customers should not cause a drastic increase in the COE.

Q. Ms. Bulkley quotes a passage from Roger A. Morin's book to discredit your multi-stage DCF analysis.[20] Is Dr. Morin's opinion consistent with the CFA Program's curriculum?

A. No.

Q. Does Dr. Morin state anything in that quote for which you have never seen any support?

A. Yes, the following statement, which Ms. Bulkley emphasizes in her testimony:

> I am not aware of any evidence that investors evaluate the future based on the assumptions and data sources required to apply the two-stage or three-stage DCF model.[21]

I have found the evidence of which Dr. Morin states he is unaware, but I have never discovered an investment analysis where the analyst estimated the intrinsic value of a utility stock using the constant-growth DCF and assumptions as Ms. Bulkley and Dr. Morin suggest. I have provided many examples of equity analysts utilizing a multi-stage DCF/DDM analysis of utility stocks, with the most prominent examples being Evercore ISI, Wells Fargo, and Citi Research. However, I do agree with Dr. Morin that these

[20] Bulkley Rebuttal, p. 60, l. 13 – p. 61, l. 2.
[21] *Id.*, p. 60, l. 30 – p. 61, l. 2.

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investors do not typically assume a perpetual growth rate consistent with a projected long-term nominal GDP growth rate. It is usually lower. For example, Evercore ISI's multi-stage DCF/DDM used a sustainable long-term rate base growth rate in the range of 2.5% to 4.5% for purposes of its assumed perpetual growth rate.[22]

Q. Is your assumed perpetual growth rate of 2.5% to 3.5% consistent with a utility company's rate base growth during periods of maintenance-level capital expenditures?

A. Yes. Before Ameren Missouri was able to elect plant in service accounting ("PISA") in 2018, Ameren Corp. communicated to investors that its investment in Ameren Missouri was limited to maintenance-level capex. Before Ameren Missouri elected PISA, its CAGR in rate base was in the range of 2.2% to 3% for the period 2010/2011 to 2019.[23]

Q. Is your assumed perpetual growth rate consistent with any other investment analysis specifically relevant to Evergy?

A. Yes. As I testified on page 34, lines 3-12, of my direct testimony, Evergy itself hired ** _____ _____ _____ _____ _____ _____ _____ _____ _____ ** Therefore, despite Dr. Morin's academic credentials and experience in sponsoring ROR testimony on behalf of utilities for most of his career, the evidence I have seen and just related does not support the opinions he expressed in his book.

[22] Durgesh Chopra, et. al., "Top Ten Touches – Q1 2025 Investor Activity," Evercore ISI, May 18, 2025, p. 7.
[23] Case No. ER-2021-0240, David Murray Direct Testimony, p. 22, lines 13-20.

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Q. How does Ms. Bulkley support her opinion that you should have assumed a higher CAGR in DPS for a longer period since you recognized the significant increase in demand for electricity from data centers and the capital expenditures needed to meet this demand?[24]

A. She quotes from my direct testimony in which I cited EIA's significant increase in projected electricity demand since its 2022 Annual Energy Outlook. As I testified in my direct testimony, the projected CAGR for electricity demand through 2050 increased from 0.7% in EIA's 2022 Annual Energy Outlook to 1.3% in EIA's 2026 Annual Energy Outlook. However, Ms. Bulkley did not highlight my testimony where I stated that the EIA predicts the CAGR to peak around 2034 to 2035 before it begins to slow.

Q. Does this EIA projected CAGR support your assumption in your multi-stage DCF that higher near-term growth rates would transition to a sustainable growth rate at some point in the future?

A. Yes, but unlike Ms. Bulkley's unrealistic assumption that utilities' DPS would grow at the same rate as EPS because of needed reinvestment into the system to meet demand growth, my multi-stage DDM analysis also recognizes that DPS growth would remain lower than EPS growth until the current investment cycle matures. Because my multi-stage DCF analysis recognizes the reality that utility companies are growing DPS slower than EPS in earlier years and will not grow at the same rate until maturity in the outer years, the impact of varying assumptions on growth transition does not make as large of an impact on COE estimates as Ms. Bulkley suggests.

Q. What is the expected CAGR in DPS for your and Ms. Bulkley's proxy companies over the next five years?

A. 4.97% and 4.70%, respectively.

[24] Bulkley Rebuttal, p. 62, ln. 11 – p. 64, ln. 4.

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Q. Just to be clear, are these DPS estimates based on your expectations or those of investors?

A. Investors. For purposes of the DPS estimates for the first five years of my multi-stage DDM, I used consensus analysts' discrete estimates of annual DPS which I extracted from S&P Global Market Intelligence database.

Q. What CAGR in DPS does Ms. Bulkley assume for the first five years in her constant-growth DDM analysis?

A. 7.5%.[25]

Q. What CAGR in DPS is assumed for the next ten years in your multi-stage DDM analysis for your proxy group and Ms. Bulkley's proxy group?

A. 7.48% and 7.72%, respectively.

Q. Why is the expected CAGR in DPS higher during the second stage as compared to the first stage of your multi-stage DDM?

A. Because it reflects the reality that electric utility companies, including Evergy, plan to reduce their dividend payout ratios (meaning DPS will grow slower than EPS until the lower targeted payout ratio is reached) to retain more capital because of growth opportunities related to anticipated large load demand. However, after the construction cycle matures, utility companies will no longer need to retain as much of their earnings for reinvestment, which will cause the CAGR in DPS to be higher than the CAGR in EPS over the transition period.

Q. What CAGR in EPS is assumed for the next ten years in your multi-stage DDM analysis for your proxy group and Ms. Bulkley's proxy group?

A. 5.20% and 5.26%, respectively.

[25] Bulkley Rebuttal, Schedule AEB-2R.

Q. What CAGR in DPS does Ms. Bulkley assume from year 1 to infinity for purposes of her constant-growth DDM?

A. 7.5%.

Q. So, her methodology does not consider changes in dividend policy due to the reality of changes in capex intensity and gradual transition back to normalized growth?

A. Correct, it does not.

Q. Has Ms. Bulkley's assumed constant CAGR in DPS varied considerably in Evergy rate cases since 2022?

A. Yes. Ms. Bulkley's assumed perpetual growth rates were as follows for rate cases in 2022, 2024, and the current rate case, respectively: 6.11%,[26] 6.31%,[27] and 7.5% in this case based on her updated constant-growth DCF analysis attached to her rebuttal testimony.

Q. Do investors/analysts typically change assumed perpetual growth rates as frequently and significantly as Ms. Bulkley suggests by her assumptions in her constant-growth DCF modeling?

A. No. In fact, Evergy itself does not use widely divergent perpetual growth rates in its own valuation analysis for purposes of testing the carrying value of its goodwill asset. Evergy used the following perpetual growth rates for its valuation analysis in 2021, 2023, and 2025, respectively: **_____**[30]

Q. What constant growth rate did Ms. Bulkley's assume in the schedules she attached to her direct testimony in this rate case?

A. 7.0%.

[26] Case No. ER-2022-0129, Ann E. Bulkley Rebuttal Testimony, Schedule AEB-R3.
[27] Case No. ER-2024-0189, Ann E. Bulkley Rebuttal Testimony, Schedule AEB-R2.
[28] *Id.*, Evergy Missouri West's Response to Staff Data Request No. 0117.
[29] *Id.*
[30] Metro's Response to Staff Data Request No. 0115.

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Q. Why did Ms. Bulkley's assumed constant-growth rate increase by 50 basis points since she filed her direct testimony?

A. Her proxy companies' average expected 3-to-5-year CAGR in EPS have increased significantly because of higher expected demand from large load customers. For example, as shown on Schedule AEB-R2, she assumed analysts' consensus projected CAGR in Entergy's EPS of 12.73% will continue in perpetuity. Her assumption causes her to estimate Entergy's COE to be in the range of 15.18% to 15.4%. As I testified earlier, Entergy is highly exposed to opportunities and risks related to data center demand. While I completely disagree with Ms. Bulkley that this growth is sustainable, the fact that she estimates the COE based on higher growth associated with large load customers runs afoul of excluding higher costs related to large load customers.

Q. What is your response to Ms. Bulkley's criticism that you should have reconsidered the assumptions you used in your CAPM COE analysis because your COE estimates are below utility commissions' authorized ROEs?

A. Ms. Bulkley apparently is more concerned with regulatory decisions rather than capital market assumptions. As I testified in my direct testimony and will further address when I respond to Ms. Bulkley's testimony about varying market risk premiums, the CFA Program curriculum recognizes that some analysts attempt to apply more complex models to estimate the COE. However, if these COE estimates are not in the ballpark of a simple reasonableness test of adding a 3-4% equity risk premium to a company's own bond yield (the company's bond yield captures required risk premiums related to credit and business risk so the additional risk premium is only for the fact that equity investors are subordinate to debt investors), then one should be wary of relying on such COE estimates. The CFA Program curriculum specifically states the following:

> 4.3.2 *Bond Yield Plus Risk Premium*
>
> For companies with publicly traded debt, the **bond yield plus risk premium method** [bold in original] provides a quick estimate of the cost of equity. The estimate is
>
> BYPRP cost of equity = YTM on the company's long-term debt + Risk premium

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> The YTM on the company's long-term debt includes
> - a real interest rate and a premium for expected inflation, which are also factors embodied in a government bond yield; and
> - a default risk premium.
>
> The default risk premium captures factors such as profitability, the sensitivity of profitability to the business cycle, and leverage (operating and financial) that also affect the returns to equity. The risk premium in Equation 13 [above] is the premium that compensates for the additional risk of the equity issue compared with the debt issue (recognizing that debt has a prior claim on the cash flows of the company). In US markets, the typical risk premium added is 3%–4%, based on experience.
>
> The bond yield plus risk premium method can be viewed as a build-up method applying to companies with publicly traded debt. The estimate provided can be a useful check when the explanatory power of more-rigorous models is low. Given that a company's shares have positive systematic risk, the yield on its long-term debt is revealing as a check on cost of equity estimate.[31]

The curriculum indicates that this method establishes a reasonableness check for COE estimates that are clearly too low if they are below the YTM on the company's debt, but also likely too high if they are above 3-4% over the YTM on a company's bond.

Q. Whose more rigorous COE estimation methods are more accurate and reliable when compared to this test of reasonableness?

A. My COE estimate of 7.75% to 8.25% rather than Ms. Bulkley's COE estimate of 10.25% to 11.25%. As I testified in my direct testimony, adding a 3% equity risk premium to the 5.75% YTM on Metro's long-term bond yields implies an 8.75% COE. Because the utility sector is viewed as one of the safest sectors for equity investments, it is logical for investors to require a risk premium over its own bond yield that is toward the low-end of the range, if not slightly below the low-end of the generic risk premium.

[31] Jerald E. Pinto, et. al., 2021 CFA Program Level II, Reading 25, pgs. 35-36.

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Q. Ms. Bulkley claims that negative market reactions to lower authorized ROE decisions proves that your COE estimates do not reflect investors' required return on equity. Is she correct?

A. No. A negative market reaction to a lower authorized ROE is simply investors adjusting their earnings expectations off a lower earnings base than they had projected before. In this instance, it is important to differentiate between earnings expectations and required returns. If a commission has consistently authorized a utility a 10% ROE, then unexpectedly reduces the authorized ROE to 9.5%, then the present value of the lower level of expected cash flows from the earnings will be lower. This would occur whether the COE is 8% or 8.5%.

Q. In attempting to convince the Commission that authorizing a ROE more consistent with my COE estimates or even my higher 9.25% authorized ROE recommendation, Ms. Bulkley provides examples of negative capital market reactions to other state commission decisions. Did any of these decisions involve the parent company of a Missouri utility?

A. Yes. Ms. Bulkley discusses the Illinois Commerce Commission's ("ICC") decision to reject Ameren Illinois Co.'s ("AIC") multi-year rate plan proposal and authorize AIC an ROE of 8.72%.

Q. Does her example support the reasonableness of your recommended ROR?

A. Yes. As Ms. Bulkley testified, the ICC decision prompted investors to suggest/encourage Ameren Corp. to reallocate capital from AIC to Ameren's other jurisdictions. Ameren's other jurisdictions are Missouri and the United States' Federal Energy Regulatory Commission ("FERC"). Consequently, if anything, this example suggests the Commission should be careful not to over-incentivize investment in Missouri. Based on the evidence I provided in my direct testimony, Missouri is currently considered to be an investor-friendly jurisdiction.[32]

[32] Murray Direct Testimony, pgs. 50-52.

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Q. Did equity analysts lower their expectations for Ameren's EPS due to this ICC decision?

A. Yes. For example, Wells Fargo lowered its forward annual EPS expectations for Ameren by approximately $0.20/year for each year from 2024 to 2027. Based on Ameren's P/E ratio of around 16.5x in the week prior to the ICC's decision in the AIC electric rate case, a 20-cent reduction in EPS accounts for a $3.30 decline in Ameren's share price. This compares to Ameren's actual stock price decline of around $6. Additionally, Wells Fargo lowered its projected long-term CAGR in EPS for Ameren from 7% to 6%, which also caused assignment of a lower value to Ameren's stock.

Q. Did any other analysts express concern about Ameren's ability to achieve its long-term CAGR in EPS guidance of 6% to 8% after the ICC decision?

A. Yes. Bank of America estimated that Ameren's long-term CAGR in EPS would trend down to 5% as a consequence of the ICC's decision.[33]

Q. Did Ameren lower its guidance for its long-term CAGR in EPS?

A. No. Ameren renewed its guidance of 6% to 8% long-term CAGR in EPS during its earnings conference call for the fourth quarter of 2023.[34]

Q. How was Ameren able to maintain its guidance?

A. Ameren reallocated at least $1.6 billion of capital expenditures it had intended to spend on its AIC systems to Ameren Missouri and Ameren Transmission. AIC's projected 5-year CAGR in its electric rate base declined from 7.4% to 2.3% and its projected 5-year CAGR in natural gas distribution rate base growth declined from 6.7% to 3.3%. Ameren Missouri's projected 5-year CAGR in rate base increased to 9.8% from 8.4%. Ameren Transmission Company's 5-year CAGR in rate base increased to 10.8% from 10.0%.[35]

[33] Julien Dumoulin-Smith, "Ameren Corporation – Downgrade to Neutral: Lower capital coming post Illinois decision," Bank of America, January 4, 2024.
[34] Ameren Corporation FQ4 2023 Earnings Call, February 23, 2024.
[35] "Transforming for Our Future," Ameren Third Quarter 2023 Earnings Investor Presentation, November 9, 2023; and "Powering a Reliable, Sustainable Tomorrow," Ameren Fourth Quarter 2023 Earnings Investor Presentation, February 23, 2024.

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Q. Can you discuss a more recent example of a lower than expected authorized ROE than the examples Ms. Bulkley provided in her testimony?

A. Yes. The Alabaman Public Service Commission recently lowered the midpoint of Spire Alabama's authorized ROE to 9.4% from 9.7%.

Q. Did equity investors react negatively to the Alabama Public Service Commission's decision to reduce Spire Alabama's midpoint authorized ROE?

A. Yes, but as with the other circumstances discussed by Ms. Bulkley, this does not prove that Spire Alabama's COE is above 9.4%, it just means that investors had grown accustomed to expecting investor-friendly outcomes from the Alabama Public Service Commission. Alabama has long been considered one of the most investor-friendly utility regulatory jurisdictions in the United States. However, recently it has been under pressure to be more transparent and give more consideration to consumers. Wells Fargo remarked that while this lower authorized ROE is expected to cause a $0.05-$0.06 decline in Spire's EPS, Spire could offset this reduction by reallocating capital to Spire Missouri. As I have testified extensively, if all jurisdictions set authorized ROEs closer to the COE, companies should be neutral as to which jurisdiction to allocate capital.[36]

Q. Has Evergy acknowledged that Missouri's utility regulatory environment has become even more attractive for investment because of the provisions that were included in Senate Bill 4, which became law in 2025?

A. Yes. Evergy's CEO, David Campbell stated the following during Evergy's fourth quarter 2024 earnings conference call:

> We think it's transformative really in the elements of how it approaches, how new generation is treated, the inclusion in natural gas in PISA, the provision for the commission being able to grant CWIP for new natural gas plant investment, the creation of a new -- the enablement of a new integrated resource planning process that would allow CWIP for all forms of generation as part of that process.

[36] Constantine Lednev, "AL ROE Reset Creates Clearing Event; Focus Can Now Shift to MO," Wells Fargo, September 1, 2026.

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> In Missouri, for 50 years, you haven't been able to get CWIP. So I think the -- how it's transformative -- and there's some other provisions as well, of course, including funding for commission and OPC, but it's transformative in the sense that it's really signaling and putting in place provisions that are supportive of new generation investments, helping to make sure that those are -- can be done in a way that's protected with the credit of the utility with CWIP, but also better enabling planning with a better IRP process, a little more certainty.[37]

As I testified in my direct testimony, subsequent to Missouri's passage of SB 4, the Regulatory Research Associates ("RRA") increased Missouri's utility investor rating by two notches from Average/3 to Average/1. At least on a qualitative basis, RRA's increased ranking of the supportiveness of Missouri's regulatory environment for investors implies a relative reduction of business risk over time for Evergy.

Q. Why is it important to consider utility companies' and investors' qualitative opinions for purposes of setting a fair and reasonable authorized ROR for Metro or any other Missouri utility for that matter?

A. Because setting the authorized ROR much higher than the cost of capital over-incentivizes scale of investment rather than efficiency. As I illustrated in the example in my direct testimony, when the authorized ROR is set at a margin over the cost of capital, jurisdictions may be put in the unfair position of bidding against each other. While such situations are favorable to shareholders, they are not fair to utility ratepayers.

Q. What is the best solution to avoid these potential bidding wars?

A. Awarding a ROR based on each entity's actual cost of capital. If this parity is achieved, then shareholders receive compensation for their required return, rather than excess returns awarded. Companies would then choose projects that they project would earn more than their cost of capital based on the economics of the projects rather than choosing them based on the highest awarded returns.

[37] Evergy Inc. NasdaqGS: EVRG FQ4 2024 Earnings Call Transcripts, February 27, 2025, p. 13.

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Q. Ms. Bulkley assigns you attribution for the "rule of thumb" method. Do you deserve credit for this method?

A. No. The CFA Program should be given attribution for this method, not me. That being said, if not for my pursuit and achievement of the CFA designation, I may not have been aware of some of the information that is generally accepted in the investment community as rational and reliable.

Q. Ms. Bulkley claims that because Dr. Won's past testimonies have suggested other equity risk premiums be applied to the BYPRP discussed in the CFA Program curriculum, this calls into question your assumption of a 3-4% risk premium. Were the risk premiums Dr. Won suggested consistent with the CFA Program curriculum's suggestion?

A. No. As I testified in Missouri American Water Company's 2020 rate case, Case No. WR-2020-0344, Staff added estimated market risk premiums, derived from studies comparing market returns to UST Bond yields.[38] Because US Treasury Bond yields are lower than company-specific bond yields, mainly due to no default risk premium required on a UST Bond, these higher risk premiums should not be applied to corporate bond yields. It is clear from the CFA Program curriculum that the suggested 3% to 4% is based on a typical equity risk premium over a company's own bond yield.

V. SUMMARY AND CONCLUSIONS

Q. Can you summarize your main conclusions related to your surrebuttal testimony in this case?

A. Yes. As it relates to capital structure, Evergy clearly uses holding company debt to leverage the returns authorized for its subsidiaries. Evergy's ability to profit from this strategy depends on the Commission ignoring this leverage in setting a fair and reasonable ratemaking capital structure to set Metro's ROR. Evergy's debt capacity is directly derived from its ownership and control of its regulated utility subsidiaries. Evergy's strategy is in

[38] Case No. WR-2020-0344, David Murray Rebuttal Testimony, p. 48, lns. 3-24.

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contrast to Metro's previous parent company's (Great Plains Energy) strategy to not issue holding company debt, but rather allow its subsidiaries to fund their own liquidity needs by issuing their own short-term debt and still distribute dividends to GPE. Consequently, Metro's previous parent company, GPE, did not object to using its consolidated capital structure for ratemaking. Evergy's holding company financing activities increase the risk of affiliate financing transaction abuses. Therefore, the Commission should at least consider Evergy's use of leverage in setting a fair and reasonable ratemaking capital structure for Metro.

As it relates to an authorized ROE, the evidence is clear that average authorized ROEs are higher than the COE. Although electric utility industry's COE have increased since Metro's 2022 rate case, it is still below my recommended authorized ROE of 9.25%. Considering such, Metro can still attract capital and create shareholder value by investing in its system.

Q. Does this conclude your testimony?

A. Yes.

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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 DAVID MURRAY

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

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

1. My name is David Murray. I am a Utility Regulatory Manager for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my surrebuttal & true-up 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.

David Murray
Utility Regulatory Manager

Subscribed and sworn to me this 9th day of September 2026.

TIFFANY HILDEBRAND
NOTARY PUBLIC - NOTARY SEAL
STATE OF MISSOURI
MY COMMISSION EXPIRES AUGUST 8, 2027
COLE COUNTY
COMMISSION #15637121

Tiffany Hildebrand
Notary Public

My Commission expires August 8, 2027.