Exhibit:	
Issue:	Transmission ROE; Transource
Witness:	Jim Flucke
Type of Exhibit:	Rebuttal Testimony
Sponsoring Party:	Evergy Missouri Metro and Evergy Missouri West
Case Nos.:	ER-2022-0129 / 0130
Date Testimony Prepared:	July 13, 2022

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2022-0129 / 0130

REBUTTAL TESTIMONY

OF

JIM FLUCKE

ON BEHALF OF

EVERGY MISSOURI METRO and EVERGY MISSOURI METRO

Kansas City, Missouri
July 2022

REBUTTAL TESTIMONY

OF

JIM FLUCKE

Case No. ER-2022-0129 / 0130

I. <u>INTRODUCTION</u>

Q: Please state your name and business address.

A: My name is Jim Flucke. My business address is 1200 Main, Kansas City, Missouri 64105.

Q: Are you the same Jim Flucke who submitted direct testimony in these dockets on January 7, 2022?

A: Yes.

Q: On whose behalf are you testifying?

A: I am testifying on behalf of Evergy Metro, Inc. d/b/a Evergy Missouri Metro ("Evergy Missouri Metro") and Evergy Missouri West, Inc. d/b/a Evergy Missouri West ("Evergy Missouri West") (collectively, the "Company").

Q: What is the purpose of your rebuttal testimony?

A: The purpose of my rebuttal testimony is to respond to Staff witness Majors direct testimony pages 6-10) and Transmission Revenue ROE Adjustment.

A. Transource Adjustments

Q: What revisions did Staff make to the Company's proposed Transource CWIP/FERC Incentives adjustment?

A: Staff reviewed the Company's proposed adjustment and recommended that it be revised in various respects including the removal of the impact of FERC transmission rate incentives and a correction of the income tax rate used for years 2018 and after for the impact of the Tax Cuts and Jobs Act of 2017 and the excess deferred taxes that resulted from the act.

Q: What disagreement do you have with Staff's change regarding the cost of debt and the removal of transmission rate incentives?

A: Staff's suggestion that "cost of long term debt is not a result of any FERC incentive" is not consistent with previous testimony and FERC approvals. In Transource Missouri's application in FERC Docket No. ER12-2554, and specifically in the direct testimony of Transource Missouri witness Matt Vermillion, Transource Missouri discussed the risks and challenges that Transource Missouri would face in obtaining financing for each of the Projects and how the rate incentives requested would help support investment grade credit ratings, which in turn would bolster Transource Missouri's ability to obtain debt capital on reasonable terms. The requested, and subsequently approved, rate incentives helped to mitigate lender concerns regarding uncertainties in cash flows. It is highly unlikely that Transource Missouri would have been able to acquire debt financing on as favorable terms as it did without the rate incentives that FERC granted. Staff's adjustment to remove the rate incentives while keeping the debt rates at levels that would likely not have been available to Transource Missouri absent the accompanying rate incentives is inconsistent and, thus, inappropriate.

Q: Do you disagree with the changes made to the correct the income tax rate and the excess deferred taxes?

A: No, those changes were appropriate.

Q: Have you provided revised calculations of the Transource Adjustments?

A: Yes, Evergy has provided revised files with the correct tax rate impacts and the proper cost of long-term debt including FERC rate incentives.

B. Transmission Revenue ROE Adjustment (Adjustment R-80)

Q: What is Staff's position regarding the Company's proposed ROE adjustment in the transmission revenues received from SPP for other Transmission Customers' use of the Company's transmission facilities?

A: Staff recommended that transmission revenues not be adjusted to reflect the differences between MPSC- and FERC-authorized ROEs as was calculated in Evergy Adjustment R-80 and discussed in my Direct testimony.

Q: What is the Company's position regarding Staff's recommendation to not include Evergy's Adjustment R-80 in its revenue requirement calculation?

A: The Company does not agree with Staff's exclusion of adjustment R-80 nor does the Company agree with Staff's flawed rationale for its exclusion of the adjustment. The R-80 adjustment was proposed to correct a situation where the crediting of transmission revenue results in Missouri retail customers paying less than the MPSC authorized return.

Q: Why does the transmission revenue crediting result in Missouri retail customers paying less than the MPSC has authorized?

A: Under the current Missouri retail ratemaking methodology, all of the Company owned transmission assets and related expenses are included in the calculation of the gross retail revenue requirement. This gross retail revenue requirement is based on a MPSC-authorized ROE. The transmission revenue crediting occurs when the Company charges other Transmission Customers through the SPP OATT for their use of the Company-owned transmission assets. Because all of the Company-owned transmission assets and related expenses have been included in the gross Missouri retail revenue requirement calculation, transmission revenues received through the SPP OATT for the use of those same

Company-owned transmission assets must be credited against the gross retail revenue requirement to arrive at a net retail revenue requirement. The problem with this revenue crediting, however, is that transmission revenues that are being received from other Transmission Customers through the SPP OATT are based on an Annual Transmission Revenue Requirement ("ATRR") calculated in the Company Transmission Formula Rate ("TFR") that is based on a FERC-authorized ROE. The FERC-authorized ROE is different than the MPSC authorized ROE. When the FERC-authorized ROE is higher than the MPSC authorized ROE, the transmission revenues from other Transmission Customers that are being credited against the gross retail revenue requirement are greater than that which was calculated in the gross retail revenue requirement. Essentially, Missouri retail customers would be credited back more than they would have been charged. This crediting back of more to Missouri retail customers than was built into their gross retail revenue requirement creates an improper arbitrage situation for Missouri retail customers that is controlled by the MPSC. Evergy's Adjustment R-80 eliminates this improper arbitrage situation.

Q: Can you provide a simple illustrative example of this situation?

A: Yes. The simplified example calculation in Figure 1 below shows how transmission revenue crediting at the FERC-authorized ROE (when the FERC-authorized ROE is greater the MPSC-authorized ROE) results in retail customers effectively paying less than the MPSC-authorized return. In this example, the ROE component of the total transmission revenue requirement at an assumed 9.9% MPSC-authorized ROE would be $9.9 million (line 5 in the MPSC column of Figure 1). In this example, it is assumed that Company retail load is 90% of the total transmission load using the Company transmission facilities and that load for SPP charges to other Transmission Customers for the use of Company transmission facilities is 10% of the total transmission load. Thus, Company retail customers would be expected to pay 90% of the $9.9 million, or $8.91 million (line 8 in the MPSC column of Figure 1). SPP, on behalf of the Company, charges other Transmission Customers for their use of Company transmission facilities under the terms of the SPP OATT. Those charges are based on the ATRR in Company's TFR, which includes Company's FERC-authorized ROE of 11.1%. The SPP charges to those other Transmission Customers that are associated with the 11.1 % ROE component of the Company ATRR would be $1.11 million (line 9 in the FERC column of Figure 1). As previously noted, all of the Company-owned transmission assets and related expenses are included in the gross Missouri retail revenue requirement calculation, and the transmission revenues received from SPP charges to other Transmission Customers are credited against the gross retail revenue requirement to arrive at a net retail revenue requirement. The problem is that the full gross retail revenue requirement is calculated using the MPSC-authorized ROE and the transmission revenue credit is based on the FERC-authorized ROE. This problem can be seen in Figure 1 where the transmission revenue credit of $1.11 million (line 11 of Figure 1), which is based on the 11.1% FERC-authorized ROE, is subtracted from the gross retail revenue requirement of $9.9 million (line 10 of Figure 1) that is based on the assumed 9.9% MPSC-authorized ROE. In the example in Figure 1, the resulting net retail revenue available for equity of $8.79 million (line 12 of Figure 1) is less than the $8.91 million (line 8 in the MPSC column of Figure 1) that Company retail customers would be expected to pay. This results in Company retail customers being effectively only charged for a 9.77% ROE (line 13 of Figure 1) on transmission ratebase rather than the 9.9% ROE for which they should be charged.

Figure 1

Illustrative Transmission Revenue Crediting Example (without R-80 Adjustment)

			MPSC ROE Revenue Requirement	FERC ROE Revenue Requirement
(1)	Transmission Rate Base		$ 200,000,000	$ 200,000,000
(2)	Equity Portion of Capital Structure		50%	50%
(3)	Transmission Rate Base (Equity portion)	(1) x (2)	$ 100,000,000	$ 100,000,000
(4)	Authorized ROE		9.90%	11.10%
(5)	ROE Component of Transmission Revenue Requirement	(3) x (4)	$ 9,900,000	$ 11,100,000
(6)	% of Total Transmission Load - Evergy Metro Retail		90%	90%
(7)	% of Total Transmission Load - SPP Charges to Others		10%	10%
			100%	100%
(8)	Allocated ROE Revenue Requirement for Evergy Metro Retail	(5) x (6)	$ 8,910,000	$ 9,990,000
(9)	Allocated ROE Revenue Requirement for SPP Charges to Others	(5) x (7)	$ 990,000	$ 1,110,000
			$ 9,900,000	$ 11,100,000
(10)	Gross ROE Revenue Requirement @MPSC ROE (9.9%)	MPSC (5)	$ 9,900,000	
(11)	Less: Transmission Revenue Credit @FERC ROE 11.1%	FERC (9)	$ 1,110,000	
(12)	Net Evergy Metro Retail Revenue Available for Equity	(10) - (11)	$ 8,790,000	
(13)	Effective ROE paid by Evergy Metro Customers	(12) / [(3)*(6)]	9.77%	< Authorized ROE

Note: This is a simplified calculation for illustrative purposes. The numbers shown are not necessarily representative of actual Evergy Metro ratebase, capital structure, load, etc.

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Q: How does the R-80 adjustment fix this problem?

A: The R-80 adjustment recalculates the transmission revenues received from other Transmission Customers through the SPP OATT by changing the ROE in the Company TFR to the ROE that Company has requested that the MPSC authorize in this rate case. The adjusted transmission revenues from other Transmission Customers that reflect the ROE requested from the MPSC in this rate case are then credited against the retail revenue requirement. This adjustment fixes the problem and creates a situation where the Missouri retail customers are paying the MPSC-authorized return.

Q: Can you provide a simple illustrative example of how the R-80 adjustment fixes the problem?

A: Yes. The simplified example calculation in Figure 2 below shows how the R-80 adjustment fixes the transmission revenue crediting problem. The calculation in Figure 2 is the same as that in Figure 1 with one exception. Instead of crediting back transmission revenues that are based on the FERC-authorized ROE of 11.1%, the transmission revenue credit (line 11 of Figure 2) is instead based on what the SPP charges to other Transmission Customers for use of Company transmission facilities would be if they had been based on the assumed MPSC-authorized ROE of 9.9% rather than the FERC-authorized ROE of 11.1%. As can be seen in Figure 2, the resulting \$8.91 million net retail revenue available for equity (line 12 of Figure 2) is now the same as the \$8.91 million (line 8 in the MPSC column of Figure 1) that Company retail customers would be expected to pay. This results in Company retail customers now being appropriately charged for a 9.9% requested MPSC-authorized ROE. If the Commission authorizes a different ROE, then that would be utilized in developing the final revenue requirement and compliance tariff sheets at the conclusion of this case.

Figure 2

Illustrative Transmission Revenue Crediting Example (with R-80 Adjustment)

			MPSC ROE Revenue Requirement	FERC ROE Revenue Requirement
(1)	Transmission Rate Base		$ 200,000,000	$ 200,000,000
(2)	Equity Portion of Capital Structure		50%	50%
(3)	Transmission Rate Base (Equity portion)	(1) x (2)	$ 100,000,000	$ 100,000,000
(4)	Authorized ROE		9.90%	11.10%
(5)	ROE Component of Transmission Revenue Requirement	(3) x (4)	$ 9,900,000	$ 11,100,000
(6)	% of Total Transmission Load - Evergy Metro Retail		90%	90%
(7)	% of Total Transmission Load - SPP Charges to Others		10%	10%
			100%	100%
(8)	Allocated ROE Revenue Requirement for Evergy Metro Retail	(5) x (6)	$ 8,910,000	$ 9,990,000
(9)	Allocated ROE Revenue Requirement for SPP Charges to Others	(5) x (7)	$ 990,000	$ 1,110,000
			$ 9,900,000	$ 11,100,000
(10)	Gross ROE Revenue Requirement @MPSC ROE (9.9%)	MPSC (5)	$ 9,900,000	
(11)	Less: Transmission Revenue Credit **@MPSC ROE 9.9%**	MPSC (9)	$ 990,000	
(12)	Net Evergy Metro Retail Revenue Available for Equity	(10) - (11)	$ 8,910,000	
(13)	Effective ROE paid by Evergy Metro Customers	(12) / [(3)*(6)]	**9.90%**	**= Authorized ROE**

Note: This is a simplified calculation for illustrative purposes. The numbers shown are not necessarily representative of actual Evergy Metro ratebase, capital structure, load, etc.

This a simplified calculation for illustrative purposes only. The numbers shown are not necessarily representative of actual Company ratebase, capital structure, load, etc.

Q: You also mentioned above that Staff's rationale for not including the R-80 adjustment was flawed. What was Staff's rationale?

A: Staff's rationale for not including the R-80 adjustment, which is discussed on pages 22-23 of Lyons' testimony, is also shown below:

> Since no adjustment was made to its transmission expense for the incentives that are included in the costs Evergy Metro and Evergy West receive from SPP and charges to its customers, for consistency Staff did not reduce transmission revenues for the difference in Evergy Metro's and Evergy West's authorized FERC ROE of 11.1% and its proposed ROE of 10% in this case. Staff did reflect the full financial impact of both transmission revenue and transmission expense. It is Staff's position that Evergy Metro's and Evergy West's participation in SPP encompasses both the financial impact of Evergy Metro's and Evergy West's ownership of transmission assets and the financial impacts of the use of other SPP members' transmission assets. Consequently, Evergy Metro and Evergy West

> customers are entitled to all transmission revenues that offset a part of transmission expense."

Q: Why is Staff's rationale flawed?

A: First, as a point of clarification, while the Company's TFR template has a placeholder for CWIP in ratebase and some of the other ROE incentives mentioned by Staff, the Company does not currently have FERC approval to apply those incentives to any projects in its TFR. The only incentive that the Company currently has FERC approval for in its TFR is the 50 basis point ROE adder for being a member of an RTO. The application of any of the other incentives would require the Company to get specific FERC approval on a project specific basis.

Q: Is that the main flaw in Staff's rationale?

A: No. The most significant flaw in Staff's rationale is in the Lyons's discussion above where it is stated that they "did not reduce transmission revenues for the difference in Evergy Metro's and Evergy West's authorized FERC ROE of 11.1% and its proposed ROE of 10% in this case." [Evergy's R-80 Adjustment] Staff is, thus, suggesting that Transmission for Others revenues in FERC Acct 456.1 should not be adjusted if Transmission by Others expenses in FERC Acct 565 are not adjusted.

Q: Why is that rationale flawed?

A: There are fundamental differences between the Transmission for Others revenues in Account 456.1 and the Transmission by Others expenses in Account 565. These differences are primarily related to which entity owns the transmission facilities and to the jurisdictional rate-making authority and methodology.

Q: Who owns the transmission facilities for which Transmission for Others revenues in Account 456.1 are being received?

A: The Company owns those transmission facilities. The Company receives those transmission revenues when other wholesale transmission customers utilize the Company-owned transmission facilities.

Q: Who owns the transmission facilities for which Transmission by Others expenses in Account 565 are being charged?

A: Those transmission facilities are primarily owned by other transmission-owning companies. The Company is charged transmission expenses for its use, on behalf of its retail customers, of those other transmission-owning companies' transmission facilities.

Q: Your response above noted that the transmission facilities for which Transmission by Others Expenses in Account 565 are being charged are "primarily" owned by other transmission-owning companies. Are, then, some of the charges in Account 565 for the Company's use of Company-owned transmission facilities?

A: Yes. There are some charges in Account 565 related to the Company's use of Company-owned transmission facilities. The Company has, however, adjusted for those in Evergy's Adjustment R-80 by excluding the related revenues from the ROE adjustment. The net result of that exclusion is that the transmission revenues in Account 456.1 for the Company's use of Company-owned transmission facilities and the transmission expenses in Account 565 for the Company's use of Company-owned transmission facilities offset each other. The net result is that charges to the Company retail customers for the use of transmission facilities owned by the Company are based on the ROE authorized by the MPSC.

Q: You have explained the ownership differences for the transmission facilities in question as they relate to Transmission for Others revenue vs. Transmission by Others expenses, but you also noted that there are jurisdictional rate-making authority and methodology differences. Please discuss the jurisdictional rate making authority and methodology for Transmission for Others revenue.

A: The wholesale transmission revenues in Account 456.1 are received based on rates under the jurisdictional authority of FERC and are primarily based on the Company's FERC-approved TFR and administered under the FERC-approved SPP OATT. While the MPSC does not have rate-making authority over the rates upon which the wholesale transmission revenues in Account 456.1 are based, it obviously has retail rate-making authority, and those retail rates are based, in part, on the same Company owned transmission facilities that are also used to generate the wholesale transmission revenues in Account 456.1. That is why Account 456.1 wholesale transmission revenues must be credited against the gross retail revenue requirement to produce a reduced net retail revenue requirement and, thus, avoid double recovery. The problem, however, occurs when the Account 456.1 wholesale transmission revenues that are being credited against the gross retail revenue requirement are based on FERC-approved rates that include a FERC-authorized ROE that is different than the MPSC-authorized ROE. Crediting back more to retail customers than was built into their gross retail revenue requirement, because of differences between FERC and MPSC-authorized ROEs, creates the improper arbitrage situation that is described above in my testimony. Evergy's Adjustment R-80 eliminates this improper arbitrage situation.

Q: How is the jurisdictional rate-making authority and methodology different for the transmission facilities for which Transmission by Others expenses in Account 565 are being charged?

A: The transmission expenses in Account 565 charged to the Company are based on rates under the jurisdictional authority of the FERC and are primarily based on other transmission-owning companies' FERC-approved TFRs and are administered under the FERC-approved SPP OATT. The MPSC does not have rate-making authority over the rates upon which the transmission expenses in Account 565 are based, nor does it have retail rate-making authority over the transmission facilities upon which those charges to the Company are based (other than those facilities owned by the Company). The MPSC, thus, does not have jurisdiction to authorize the ROE to be used in the rates charged to the Company for the use of transmission facilities owned by others. Thus, there is no ROE difference to adjust for because the FERC-authorized ROEs for those other transmission-owning companies are the only relevant ROEs.

Q: Does the Company have the option to pay amounts other than those it is being charged for the use of others transmission facilities?

A: No. the Company has no option to pay any other amounts for the allocated use of transmission facilities owned by other Transmission Owners that have been lawfully charged to the Company as a Transmission Customer under the FERC-approved SPP OATT. The Company is incurring these charges for the use of others' transmission facilities on behalf of its retail customers.

Q: Given these fundamental differences between the Transmission for Others revenues in Account 456.1 vs. Transmission by Others expenses in Account 565, is there any basis for making some sort of ROE adjustment for Transmission by Others expenses in Account 565?

A: No. There is no basis to make such an adjustment to the Transmission by Others expenses recorded in FERC Account 565 that are lawfully incurred by the Company as a Transmission Customer under the SPP OATT for the allocated use of transmission facilities that are owned by other Transmission Owners in SPP. Doing so would, in my opinion, constitute an illegal taking.

Q: Does that conclude your testimony?

A: Yes, it does.

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-2022-0129
In the Matter of Evergy Missouri West, Inc. d/b/a Evergy Missouri West's Request for Authority to Implement A General Rate Increase for Electric Service	))))	Case No. ER-2022-0130

AFFIDAVIT OF JIM FLUCKE

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Jim Flucke, being first duly sworn on his oath, states:

1. My name is Jim Flucke. I work in Kansas City, Missouri, and I am employed by Evergy Metro, Inc. as Vice President, Transmission and Distribution.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Evergy Missouri Metro and Evergy Missouri West consisting of thirteen (13) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

James M. Flucke
Jim Flucke

Subscribed and sworn before me this 13th day of January 2022.

Anthony R. Westenkirchner
Notary Public

My commission expires: 4/26/2025

ANTHONY R. WESTENKIRCHNER
NOTARY PUBLIC - NOTARY SEAL
STATE OF MISSOURI
MY COMMISSION EXPIRES APRIL 26, 2025
PLATTE COUNTY
COMMISSION #17279952