

BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION

In the Matter of the Application of Evergy Metro,)
Inc. d/b/a Evergy Missouri Metro and Evergy)
Missouri West, Inc. d/b/a Evergy Missouri West) No. EA-2020-_____
for an Accounting Authority Order Allowing the)
Companies to Record and Preserve Costs Related)
to COVID-19 Expenses

**APPLICATION OF EVERGY METRO, INC. AND EVERGY MISSOURI WEST, INC.
FOR ACCOUNTING AUTHORITY ORDER
RELATED TO COVID-19 COSTS AND FINANCIAL IMPACTS**

Evergy Metro, Inc. d/b/a Evergy Missouri Metro (“Evergy Missouri Metro”) and Evergy Missouri West, Inc. (“Evergy Missouri West”) (collectively, “Evergy”), pursuant to Section 386.250¹ and 393.140, as well as 20 CSR 4240-2.060, file this Application for an accounting authority order (“AAO”) permitting Evergy to accumulate and defer to a regulatory asset for consideration of recovery in future rate case proceedings before the Missouri Public Service Commission (“Commission”) all extraordinary costs and financial impacts incurred as a result of the coronavirus disease (“COVID-19”) pandemic, plus associated carrying costs. Evergy also requests for good cause shown a waiver of the 60-day notice requirement of 20 CSR 4240-4.017(1)(D).

In support of the Application, Evergy states as follows:

I. General Information

1. Evergy Missouri Metro is a Missouri corporation with its principal office and place of business at 1200 Main Street, Kansas City, Missouri 64105. It is engaged in the generation, transmission, distribution and sale of electricity in western Missouri and eastern Kansas, operating

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

primarily in the Kansas City metropolitan area. Evergy Missouri Metro is an “electrical corporation” and a “public utility” subject to the jurisdiction, supervision, and control of the Commission under Chapters 386 and 393.

2. Evergy Missouri Metro’s certificate of good standing was filed in Case No. EN-2020-0063 and is incorporated by reference pursuant to 20 CSR 4240-2.060(1)(G).

3. Evergy Missouri West is a Delaware corporation with its principal office and place of business at 1200 Main Street, Kansas City, Missouri 64105. It is engaged in the generation, transmission, distribution and sale of electricity in western Missouri, including the suburban Kansas City metropolitan area, St. Joseph, and surrounding counties. Evergy Missouri West is an “electrical corporation” and a “public utility” subject to the jurisdiction, supervision and control of the Commission under Chapters 386 and 393.

4. A certificate of authority for a foreign corporation to do business Missouri was filed with the Commission in Case No. EN-2020-0064 and is incorporated by reference pursuant to 20 CSR 4240-2.060(1)(G).

5. Evergy Missouri Metro and Evergy Missouri West are wholly-owned subsidiaries of Evergy, Inc. They have no annual reports or regulatory assessment fees that are overdue.

6. Evergy Missouri Metro has no pending actions or final unsatisfied judgments or decisions against it from any state or federal agency or court which involved customer services or rates, which action, judgment or decision has occurred within three years of the date of this application.

7. Evergy Missouri West has no pending actions or final unsatisfied judgments or decisions against it from any state or federal agency or court which involved customer services or rates, which action, judgment or decision has occurred within three years of the date of this

application, except for: *Patricia Sue Stinnett v. Kansas City Power & Light Co.*, No. EC-2020-0088²; and *Barbara Edwards v. Evergy Missouri West*, No. EC-2020-0252.

8. In addition to serving counsel named below, all correspondence, pleadings, notices, orders and other communications regarding this proceeding should also be sent to:

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9. By this application, Evergy Missouri Metro and Evergy Missouri West seek an AAO from the Commission authorizing Evergy to track and defer in a regulatory asset all extraordinary costs and related financial impacts including lost revenues related to the COVID-19 pandemic.

10. For good cause, Evergy also requests a waiver of the 60-day notice provisions of 20 CSR 4240-4.017(1)(D) as its assessment of the operational, financial and other effects of COVID-19 only began in March 2020 as the size and scale of the pandemic's effects upon Evergy Missouri Metro and Evergy Missouri West have become more apparent and continue to be assessed. The verification of Mr. Ives that Evergy has had no communication with the Office of

² Although this Complaint was filed against Kansas City Power & Light Co. ("KCP&L"), at the time of filing, the customer was actually served by KCP&L Greater Missouri Operations Co. ("GMO"). Effective October 7, 2019, Evergy Missouri West adopted the service territory and tariffs of GMO.

the Commission within the prior 150 days regarding any substantive issue likely to arise in this case is attached.

II. Introduction

11. As this Commission is well aware, Governor Parson acting through the Department of Health and Senior Services (“DHSS”) has issued a series of orders closing schools, government offices and businesses to prevent the further spread of COVID-19. See DHSS Order (Apr. 3, 2020). The most recent order permits the limited re-opening of retail businesses with social-distancing and occupancy restrictions in effect until May 31, while ordering schools to remain closed. See DHSS Order (Apr. 27, 2020).

12. Businesses in Evergy’s service territories have taken extreme measures to halt the spread of the pandemic. The Claycomo plant of Ford Motor Company, Evergy Missouri Metro’s largest industrial customer, closed its production line on March 20 and has not announced when it will re-open. Public sources have reported that the U.S. automobile industry is “targeting May 18 to resume some production at their U.S. factories.” See The Wall Street Journal at A-1 (Apr. 28, 2020). All Missouri K-12 schools and institutions of higher learning have been closed for the academic year. A variety of retail and entertainment venues such as Macy’s, Kohl’s, Best Buy, four casinos operating in the Kansas City area, and AMC Theaters which owns and operates theaters in Evergy’s service territory and throughout the country and is headquartered in the Kansas City metropolitan area, will continue to be closed for the duration of the stay-at-home orders. These business contractions and closures as a result of the pandemic have reduced Evergy’s revenues substantially and will continue to do so for an unknown period of time.

13. A number of Missouri local governments have designated electricity, natural gas and related energy businesses as “essential” and have issued stay-at-home or shelter-in-place

orders affecting virtually all aspects of the local economy that are significantly more restrictive and cover a longer period of time than Governor Parson's order. See Fourth Amended Order 20-01, City of Kansas City (Apr. 30, 2020) (effective through May 15, 2020); Fourth Amended Declaration and Order, City of St. Joseph (Apr. 30, 2020) (effective through May 31, 2020).

14. Recent reports indicate the economic consequences of these and similar orders, including Missouri's unemployment rate rising to 14% based on 453,000 applications for unemployment benefits. See St. Louis Bus. J. (Apr. 30, 2020).

15. The Commission has properly recognized the essential nature of Missouri's utilities and its employees. In its letter of March 27, 2020, the Commission urged all local officials to recognize that utility workers are "indispensable to ensuring Missouri's citizens receive safe and reliable access to water, heat, power and information" in order "to fight the spread of COVID-19" and "to designate utility workers as essential." On March 30, 2020 the Commission issued a Media Advisory (PR-20-136) which circulated a March 19 advisory memorandum from the Department of Homeland Security's Cybersecurity & Infrastructure Security Agency that lists energy workers, among others, as "essential to continued critical infrastructure viability."

16. Consistent with the Commission's statements and its orders in other Missouri utility proceedings, Evergy has suspended disconnections related to non-payment and has suspended the accumulation of interest and late fees related to non-payment through at least June 1, 2020 for all but its largest business customers. Evergy is offering customers flexible payment arrangements over a 12-month period and working case-by-case with commercial and industrial customers on payment arrangements as needed. As a result of these actions and the economic impact the pandemic is having on customers' ability to pay bills generally, arrearages have substantially increased and will continue to rise and Evergy expects this to result in significantly higher bad

debt expense.³ Evergy is also exploring the development of new options for implementing programs to assist customers affected by the pandemic who are making good faith efforts to make payments. The costs of such programs should also be deferred for consideration in the next rate case because it is expected to lower overall costs of operations related to disconnections, as well as mitigate the potential for increased bad debt expense.

17. As a result of shelter-at-home orders in both Kansas and Missouri, many of Evergy's employees are working from home. Evergy has incurred incremental costs in order to provide the necessary technology and supplies needed for those employees to work from home. Evergy is also implementing social distancing procedures, temperature checks, and additional cleaning and protective supply measures to protect employees who must physically be present at work. Additionally, for critical employees who are necessary to keeping the electric system running – such as power plant employees and generation operators – Evergy is preparing for the possible sequestration of those employees at their respective work locations in order to keep them healthy and allow them to maintain the reliability of the system.

18. It is likely that there will be other costs incurred related to the COVID-19 pandemic that Evergy has not yet identified or anticipated. Conversely, certain costs will be reduced due to the pandemic, such as external travel and training which Evergy will reflect as reductions to the balances tracked and deferred in a regulatory asset.

III. Legal Authority

19. The Commission has broad authority under Section 386.310.1 to issue “general or special orders” to public utilities “to maintain and operate” their systems, equipment and premises

³ See “Heard on the Street,” The Wall Street Journal at B12 (May 5, 2020) (“Delinquencies will get worse given the lagging nature of billing cycles. While businesses and households suddenly without income may have enough saved up to cover their bills in the first month or two, prolonged lockdowns or a deep recession may exhaust them”).

“in such manner as to promote and safeguard the health and safety of its employees, customers, and the public.” The Commission “may waive the requirement for notice and hearing and provide for expeditious issuance of an order” where it “determines that the failure to do so would result in the likelihood of imminent threat of serious harm to life or property.” Such an order “shall include ... an opportunity for hearing as soon as practicable after” its issuance.

20. In evaluating what actions should be taken regarding unexpected costs incurred as a result of extraordinary and unusual events, the Commission follows its interpretation of the guidance of the Uniform System of Accounts (“USOA”), 18 C.F.R. Part 101, which Missouri electric utilities are required to follow under 20 CSR 4240-20.030(1).⁴ General Instruction 7 of the USOA states that “extraordinary items” relate to the “effects of events ... which have occurred during the current period and which are of unusual nature and infrequent occurrence.” These events must be “of significant effect which are abnormal and significantly different from the ordinary and typical activities of the company, and which would not reasonably be expected to recur in the foreseeable future.”⁵

21. The Commission also has the power to prescribe methods of accounting under Section 393.140(4) and to order the accounts “in which particular outlays and receipts shall be entered, charged or credited” under Section 393.140(8).

22. The Commission has recognized that it is appropriate to allow a utility to defer into a regulatory asset those costs that are associated with providing reliable electric service during extraordinary events, such as extreme weather events. In re Empire Dist. Elec. Co., No. EU-2011-

⁴ Kansas City Power & Light Co. v. PSC, 509 S.W.3d 757, 769-70 (Mo. App. W.D. 2016).

⁵ In re Spire Missouri, Inc., Report & Order at 14, No. GU-2019-0011 (Mar. 20, 2019).

0387, Order Approving Stipulation & Agmt. at 2-4 (Nov. 30, 2011) (Joplin tornado); In re Union Elec. Co., No. EU-2008-0141, Order Approving Stipulation & Agmt. (Apr. 30, 2008) (ice storm).

23. The Commission has allowed Missouri utilities to defer and amortize such extraordinary costs, including carrying charges, that are incurred to deal with the effects of natural disasters. In re Southern Union Co., Report & Order at 26, No. GU-2011-0392 (Jan. 25, 2012) (Joplin tornado). This treatment allows utilities the opportunity, but not a guarantee to recover prudently incurred expenses from customers in a future rate case. Missouri Gas Energy v. PSC, 978 S.W.2d 434, 437 (Mo. App. W.D. 1998).

24. Both the Commission and the Court of Appeals have recognized that it is appropriate for a utility “to book incremental changes in revenues and expenses” to an AAO that were caused by an emergency amendment to the Cold Weather Rule. State ex rel. Mo. Gas Energy v. PSC, 210 S.W.3d 330-335-36 (Mo. App. W.D. 2006). Such changes can relate to the financial impacts caused by service reconnections or disconnections, or bad debt that would be accounted for as a regulatory asset for consideration by the Commission in a rate case. Id. at 333.

25. The Commission, as well as the Court of Appeals, have also recognized that revenues not collected by an electric utility to recover its costs can be an item that may be deferred and considered for later ratemaking where the utility lost its largest customer for 14 months as a result of an ice storm that struck southeast Missouri. In re Union Elec. Co., Report & Order at 3-4, No. EU-2012-0027 (Nov. 26, 2013). See State ex rel. Union Elec. Co. v. PSC, 399 S.W.3d 467, 489 (Mo. App. 2013).

26. In 2005 the Commission authorized Kansas City Power & Light Company (“KCP&L”) to use “construction accounting” which provided treatment similar to an AAO where “expenditures and credits” related to the construction of the Iatan 2 plant were subject to deferral

accounting. In re Proposed Experimental Regulatory Plan of Kansas City Power & Light Co., Report & Order at 9-12, 35-37, 41-42 (July 28, 2005) (noting how plan and construction accounting would address financial issues faced by KCP&L during \$1.3 billion infrastructure investment program).

27. A number of other states have authorized regulatory assets for utilities to defer impacts related to COVID-19, including Arkansas, Connecticut, Georgia, Iowa, Louisiana, Maryland, Mississippi, Nevada, Texas, and Virginia, as well as the District of Columbia. Wisconsin has opened a docket to consider the possibility of cost recovery and Alaska's legislature is considering legislation that would allow the creation of a regulatory asset.

28. The Maryland Commission stated:

The Commission acknowledges **the potential for significant financial implications** that compliance with these emergency orders may have on Maryland Utilities and service providers. Consequently, in light of the extraordinary circumstances and in an effort to minimize adverse financial impacts to Maryland Utilities, the Commission authorizes each Utility to create a regulatory asset to record the incremental costs related to COVID-19 prudently incurred beginning on March 16, 2020, by the Utility to ensure that Maryland residents have essential utility services during this period. The Commission finds that the creation of the regulatory asset for COVID-19-related expenses will facilitate the recovery of those costs prudently incurred by the Utilities in their efforts to serve customers during this period, and the Commission finds that deferral of such costs is appropriate because **the current catastrophic health emergency is outside the control of the Utility and a non-recurring event**. Such incremental costs shall also include any assistance or benefit received by the Utilities in connection with COVID-19, regardless of form, that would offset any COVID-19-related expenses.⁶

⁶ In re State of Emergency and Public Health Emergency in the State of Maryland due to COVID-19, Case No. 9639, Order Authorizing Establishment of a Regulatory Asset for COVID-19 related Incremental Costs at 2-3 (Md. P.S.C., Apr. 9, 2020) (emphasis added).

29. On March 26, 2020 the Wyoming Public Service Commission recognized that the majority of its utilities, like Evergy, have suspended “discontinuation of service, imposition of late charges and similar rules ... to mitigate the negative effects on customers of the public health emergency related to the COVID-19 virus.” Holding that applications to take such measures were “not reasonable or necessary under these circumstances” as they “would delay actions beneficial to customers,” it declared: “Public utilities that anticipate applying for the authority to recover, through rates, any foregone revenue or extraordinary costs related to [such] actions ... shall file an application to establish a deferred accounting order.” See Order Authorizing Suspension of Certain Tariff Rules at 2, In re Commission’s Consideration on its own Motion of a Temporary Grant of Auth., Docket No 90000-151-XO-20 (Wyo. P.S.C., Mar. 26, 2020) (emphasis added).

30. The Connecticut Public Utilities Regulatory Authority last week allowed its utilities to establish regulatory assets to track incurred COVID-19 incurred costs, and requiring them “to maintain a detailed record of costs incurred and revenues lost” as a result of implementing a COVID-19 Payment Program. See Interim Decision, In re Emergency Petition of Att’y Gen. to Establish a State of Emergency Util. Shut-off Moratorium, Docket No. 20-03-15 (Conn. Public Util. Regul. Auth., April 29, 2020).

31. The Texas Public Utility Commission recently “authorized[d] each electric water, and sewer utility to record as a regulatory asset expenses resulting from the effects of COVID-19, including but not limited to non-payment of qualified customer bills” See Order related to Accrual of Regulatory Assets, Issues related to the State of Disaster for the Coronavirus Disease 2019, Project No. 50664 (Tex. P.U.C., Mar. 26, 2020) (emphasis added).

32. The Federal Energy Regulatory Commission (“FERC”) has also recognized the substantial financial impact the COVID-19 pandemic is having on utilities and the fact that “the

reliability and security of our Nation’s vital energy infrastructure” are “critical to meeting the energy requirements essential to the American people.”⁷ FERC committed to expeditiously process any requests for cost recovery and stated:

Entities regulated by the Commission have had to take unprecedented actions in response to the emergency conditions, including directing staff to work remotely for an extended period, which may disrupt, complicate, or otherwise change their normal course of business operations. In light of the President’s proclamation, the Commission believes it is appropriate to provide regulatory guidance on certain energy infrastructure, market, reliability and security matters. We understand that regulated entities may need to implement new procedures, update and/or suspend existing procedures, and take other measures to safeguard the business continuity of their systems. We are aware that such regulated entities may have questions about their ability to meet regulatory requirements and/or recover the expenses necessary if they take steps to safeguard the business continuity of their systems during the national emergency.⁸

IV. Request for Accounting Authority Order

33. The circumstances that exist in conjunction with the COVID-19 pandemic clearly meet the Commission’s standard for approval of an accounting authority order. As FERC and multiple other state commissions have recognized, the existence of such a public health emergency is an extraordinary event that is outside the utilities’ control and will have substantial financial impacts on utilities, including Evergy. The COVID-19 pandemic has caused Evergy to incur extraordinary costs that are not currently included in base rates and those extraordinary costs will continue to be incurred for an undetermined period of time into the future.

34. Although Evergy may experience some areas where its costs are reduced, a significant amount of those cost reductions will automatically flow through to customers. For

⁷ Business Continuity of Energy Infrastructure, Statement of Policy, 171 FERC ¶ 61,007 (Apr. 2, 2020).

⁸ *Id.*

example, reductions in fuel costs that result from the decreased load during the pandemic will automatically flow through to customers through Evergy's fuel adjustment clauses consistent with those mechanisms. Thus, it is appropriate for the Commission to authorize Evergy to defer the increased costs and lost revenues it is experiencing that otherwise would not be collected from customers. However, as discussed below, where Evergy experiences reductions in costs as a result of COVID-19 that are not automatically passed on to customers, Evergy will track those reductions as a reduction to the amounts tracked and deferred in the regulatory asset established.

35. While there is not substantial Commission precedent for the deferral of lost revenues, it is appropriate in this instance given the extraordinary circumstances that exist as a result of the COVID-19 pandemic, including the government-ordered shut-down of businesses discussed above, and the substantial financial impact the pandemic is having and is expected to have over an unknown period of time on the utility sector. For example, on April 2, 2020, partly influenced by coronavirus-related concerns, S&P Global Ratings lowered its outlook for the North American regulated utility sector to "negative" from "stable."⁹ The credit markets, credit rating agencies, and investors are closely watching the actions state commissions take to support the financial strength of the utilities they regulate.

36. Therefore, Evergy requests an AAO permitting it to identify, track, document, accumulate, and defer in a regulatory asset from March 1, 2020 forward regarding: (1) its actual reasonable and prudently incurred costs related to the COVID-19 pandemic, including but not limited to new or incremental operating and maintenance expense related to protecting employees and customers and plan for and communicate about impacts of the pandemic, increased bad debt

⁹ See <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/s-plowers-north-american-utilities-outlook-to-negative-on-coronavirus-risk-57886477>.

expense to the extent they exceed levels included in the cost of service, costs related to preparing for and any actual sequestration of employees, and costs related to new assistance programs implemented to aid customers with payment of electric bills during the pandemic; (2) lost revenues related to the COVID-19 pandemic; (3) less costs avoided related to COVID-19; and 4) carrying costs. These items will be tracked and deferred for consideration by the Commission for rate recovery in the operating utilities' next general rate cases. Carrying costs will be calculated using each respective operating utility's cost of capital, exclusive of related taxes, as determined in its most recent rate case.

37. It is unknown at this time how long the extraordinary impacts associated with COVID-19 will continue. However, Evergy agrees to track all specific expenses and financial impacts, including revenue degradation, it includes in the regulatory asset, and to retain all appropriate documents supporting those calculations for the Commission's consideration in the operating utilities' next general rate cases.

38. Evergy will also track all offsets to the cost increases it has experienced associated with the COVID-19 pandemic and will reduce the amount of the regulatory asset by any cost reductions. Such offsets will likely include reduction in travel costs, reduction in electricity and other costs at Evergy offices, and any related increase in residential revenues that occurs as a result of more people working from home.

39. Evergy further agrees to file an annual report, with the first report filed no later than May 1, 2021, and no later than May 1 for each succeeding year until each of the operating utilities' next respective general rate case filings, setting forth its costs incurred and revenues lost relating to COVID-19 during the preceding calendar year.

40. In future rate cases the Commission will have a full opportunity to review COVID-19 expenses and lost revenues for prudence and accuracy, as well as to consider other issues such as the appropriate form and time of recovery (i.e., amortization period) for the approved amount of regulatory assets.

41. Evergy requests that the Commission schedule a procedural conference soon after the intervention period closes in this case for the purpose of allowing the parties to discuss whether the requests in this Application may be resolved by agreement and whether a procedural schedule is needed.

WHEREFORE, Evergy Missouri Metro and Evergy Missouri West request that the Commission grant it the authority to track and defer in a regulatory asset all incremental expenses and other financial impacts specifically including lost revenues related to the COVID-19 pandemic, and to waive for good cause the 60-day notice requirement of 20 CSR 4240-4.017(1)(D).

Respectfully submitted,

/s/ Robert J. Hack

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**Attorneys for Evergy Missouri Metro and Evergy
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CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been hand-delivered, emailed or mailed, postage prepaid, to the Staff of the Commission and to the Office of the Public Counsel this 6th day of May 2020.

/s/ Robert J. Hack

Attorney for Evergy Missouri Metro and Evergy
Missouri West

VERIFICATION

COUNTY OF JACKSON)
) SS
STATE OF MISSOURI)

I, Darrin R. Ives, state that I am Vice President of Regulatory Affairs for Evergy, Inc., that I have reviewed the foregoing pleading, that I am familiar with its contents, that the statements contained therein are true and correct to the best of my knowledge and belief, and that Evergy has had no communication with the Office of the Commission within the prior 150 days regarding any substantive issues likely to arise in this case.

Under penalty of perjury, I declare that the foregoing is true and correct to the best of my knowledge and belief.¹⁰

Evergy, Inc.



Darrin R. Ives, Declarant

¹⁰ See Letter from the Commission, dated March 24, 2020: “[A]ny person may file an affidavit in any matter before the Commission without being notarized so long as the affidavit contains the following declaration: [‘]Under penalty of perjury, I declare that the foregoing is true and correct to the best of my knowledge and belief.[’] _____ Signature of Declarant[.] This guidance applies both to pleadings filed in cases before the Commission and to required annual reports and statements of income.”