Exhibit No. 11P

Evergy Missouri West – Exhibit 11P
Ronald A. Klote
Direct Testimony
File No. EF-2022-0155

Exhibit:	_____
Issues:	Revenue Requirement of Securitized Financing; Net Present Value Comparison between Customer Costs of Securitization Financing and Customary Ratemaking; Winter Storm Uri Cost Adjustments; Periodic True-Up Mechanism
Witness:	Ronald A. Klote
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Evergy Missouri West
Case No.	EF-2022-0155
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO:

EF-2022-0155

DIRECT TESTIMONY

OF

RONALD A. KLOTE

ON BEHALF OF

EVERGY MISSOURI WEST

Kansas City, Missouri
March 2022

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DIRECT TESTIMONY

OF

RONALD A. KLOTE

Case No. EF-2022-0155

I. INTRODUCTION

Q: Please state your name and business address.

A: My name is Ronald A. Klote. My business address is 1200 Main, Kansas City, Missouri 64105.

Q: By whom and in what capacity are you employed?

A: I am employed by Evergy Metro, Inc. I serve as Senior Director – Regulatory Affairs for Evergy Metro, Inc. d/b/a Evergy Kansas Metro ("Evergy Kansas Metro"), Evergy Kansas Central, Inc. and Evergy South, Inc., collectively d/b/a as Evergy Kansas Central ("Evergy Kansas Central"), Evergy Metro, Inc. d/b/a as Evergy Missouri Metro ("Evergy Missouri Metro"), Evergy Missouri West, Inc. d/b/a Evergy Missouri West ("Evergy Missouri West". They are the operating utilities of Evergy, Inc. ("Evergy").

Q: On whose behalf are you testifying?

A: I am testifying on behalf of Evergy Missouri West, Inc. ("Evergy Missouri West," "Company" or "EMW") in support of the approval of the Company's Application for a Financing Order authorizing the financing of Qualified Extraordinary Costs incurred by

Evergy Missouri West in connection with Winter Storm Uri through an issuance of Securitized Utility Tariff Bonds ("Securitization Bonds").[1]

Q: What are your responsibilities?

A: My responsibilities include the coordination, preparation and review of financial information and schedules associated with Company rate case filings, compliance filings and other regulatory filings.

Q: Please describe your education, experience and employment history.

A: In 1992, I received a Bachelor of Science Degree in Accountancy from the University of Missouri-Columbia. In May 2016, I completed my Master of Business Administration Degree from the University of Missouri – Kansas City. I am a Certified Public Accountant holding a certificate in the State of Missouri. In 1992, I joined Arthur Andersen, LLP holding various positions of increasing responsibilities in the auditing division. I conducted and led various auditing engagements of company financial statements. In 1995, I joined Water District No. 1 of Johnson County as a Senior Accountant. This position involved operational and financial analysis of water operations. In 1998, I joined Overland Consulting, Inc. as a Senior Consultant. This position involved special accounting and auditing projects in the electric, gas, telecommunications and cable industries. In 2002, I joined Aquila, Inc. ("Aquila") holding various positions within the Regulatory department until 2004 when I became Director of Regulatory Accounting Services. This position was primarily responsible for the planning and preparation of all

[1] Capitalized terms such as Financing Order, Qualified Extraordinary Costs and Securitized Utility Tariff Bonds are defined in Section 393.1700.1, Mo. Rev. Stat. (2016), as amended, also referred to here as the Securitization Law.

accounting adjustments associated with regulatory filings in the electric jurisdictions. As a result of the acquisition of Aquila by Great Plains Energy Incorporated ("GPE"), I began my employment with Kansas City Power & Light Company ("KCP&L") as Senior Manager, Regulatory Accounting in July 2008. In April 2013, I joined the Regulatory Affairs department as a Senior Manager remaining in charge of Regulatory Accounting responsibilities. In December 2015, I became Director, Regulatory Affairs continuing my Regulatory Accounting responsibilities. In addition, I was responsible for the coordination, preparation and filing of rate cases and rider filings in our electric jurisdictions. In October 2021, I became Senior Director of Regulatory Affairs and I continue in that position today.

Q: Have you previously testified in a proceeding at the Missouri Public Service Commission ("Commission" or "PSC") or before any other utility regulatory agency?

A: Yes. I have testified before the Commission, the Kansas Corporation Commission, the California Public Utilities Commission, and the Public Utilities Commission of Colorado.

Q: What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to support the calculation of the Evergy Missouri West revenue requirements for the proposed charges to customers necessary to recover the Winter Storm Uri costs and associated Financing Costs of the Company. The Qualified Extraordinary Costs consist of both net fuel and purchased power costs and non-fuel operation and maintenance ("O&M") costs related to Winter Storm Uri.

These Winter Storm Uri costs are the subject of Evergy Missouri West and Evergy Missouri Metro's Application for An Accounting Authority Order Allowing the Company to Record and Preserve Costs Related to the February 2021 Cold Weather Event filed in

No. EU-2021-0283 ("Uri AAO Case"). At this time, the Company is still awaiting an order in the Uri AAO Case. The proposed Winter Storm Uri costs are the incremental expenses for fuel and purchased power costs net of off system sales over Evergy Missouri West's three-year average (2018 – 2020) of February fuel and purchased power cost net of off system sales. The Company proposes to finance and recover these Qualified Extraordinary Costs related to Winter Storm Uri through the issuance of Securitization Bonds under Section 393.1700 of the Securitization Law enacted in Missouri in 2021. If the Commission grants a Financing Order as requested in this proceeding, a Securitized Utility Tariff Charge ("Charge" or "Charges") would be paid by all existing and future retail customers of Evergy Missouri West or its successors or assignees under Commission-approved rate schedules except for one customer served under a special contract on August 28, 2021. The testimony of Company witness Bradley D. Lutz discusses the calculation of the Charges for Winter Storm Uri costs by rate class. Based on current market conditions, I will demonstrate that the issuance of Securitization Bonds to finance Winter Storm Uri costs and the imposition of the Charges necessary to generate revenues to pay for the debt service of the Securitization Bonds and related Financing Costs are expected to provide quantifiable net present value benefits to customers of the Company as compared with the customary methods of financing recovery of those costs.

After this Introduction (Section I), my testimony discusses five specific topics:

- Section II identifies and estimates the revenue requirement necessary to recover the Qualified Extraordinary Costs incurred by Evergy Missouri

West for Winter Storm Uri that the Company proposes to finance using Securitization Bonds and recover through Charges;

- Section III provides a comparison between the net present value of the costs to customers that are estimated to result from the issuance of Securitization Bonds to finance recovery of Winter Storm Uri costs and the costs that would result from the application of customary methods of financing and reflecting Winter Storm Uri costs in rates;
- Section IV describes the adjustments to the amount of Winter Storm Uri costs that have been made since the storm occurred in February 2021 and proposes a future ratemaking process to reconcile any differences between Qualified Extraordinary Costs included in the Securitization Bonds and final Qualified Extraordinary Costs incurred by the Company;
- Section V describes the proposed true-up processes associated with the collection of payments for Securitization Bonds; and
- Section VI describes ratemaking mechanisms the Company proposes as follows (1) a reconciliation process for differences in actual up-front financing costs and up-front financing costs included in the principal amount securitized, (2) provide a return to the Company at its weighted average cost of capital on amounts it advances to the special purpose entity ("SPE") to fund reserves, if any, or capital accounts in connection with the Securitization Bonds, and (3) address the impact of deferred taxes

associated with the Qualified Extraordinary Costs associated with Winter Storm Uri.

Q. Are you sponsoring any Schedules to your Direct Testimony?

A. Yes. The following Schedules are included in my direct testimony:

- Schedule RAK – 1: Fuel Clause Analysis for Winter Storm Uri
- Schedule RAK – 2: Winter Storm Uri Reconciliation to AAO Filing
- Schedule RAK – 3: Evergy Missouri West Total RevenueRequirement for Winter Storm Uri Charges
- Schedule RAK – 4: Winter Storm Uri Securitization Benefits Analysis

Each of these Schedules was prepared under my direction and control, and to the best of my knowledge all factual matters contained therein are true and accurate.

II. WINTER STORM URI COSTS TO BE SECURITIZED

Q. Please explain how the Securitization Law can provide benefits to customers in connection with the financing and recovery of Qualified Extraordinary Costs such as those incurred by Evergy Missouri West for Winter Storm Uri?

A. The Securitization Law allows the Commission to authorize the issuance of high-quality, low-cost Securitization Bonds to finance the recovery of Qualified Extraordinary Costs that mitigate rate increases that customers would otherwise need to pay to finance recovery of those same costs. The use of Securitization Bonds reduces Financing Costs by lowering the capital cost that would otherwise be necessary. The direct testimony of Company witnesses Darrin Ives and Jason Humphrey also discuss this topic.

Q: What costs does Evergy Missouri West consider as Qualified Extraordinary Costs for Winter Storm Uri that the Company seeks to finance through the issuance of the Securitization Bonds?

A: The Company is seeking a Financing Order authorizing Evergy to finance Qualified Extraordinary Costs net of revenues related to Winter Storm Uri through the use of securitization. More specifically, Evergy Missouri West requests to include in the Qualified Extraordinary Costs to be financed through the issuance of Securitization Bonds the following items:

- Its actual incurred fuel and purchased power costs, and off-system sales revenues earned related to Winter Storm Uri that are in excess of a three-year average of those costs typically recovered in the fuel adjustment clause ("FAC");
- its actual reasonable and prudently incurred O&M costs related to Winter Storm Uri; and
- carrying costs on the entire amount of financed Qualified Extraordinary Costs through the issuance date of the Securitization Bonds.

Q: Please explain in more detail Evergy Missouri West's request to finance through Securitization Bonds certain costs incurred net of revenues earned as a result of Winter Storm Uri.

A: Evergy Missouri West does not believe that recovering Winter Storm Uri costs and revenues through the FAC is in the best interest of the Company or its customers, given the extraordinary amount of costs that were incurred. Evergy Missouri West seeks to finance through the issuance of Securitization Bonds the Qualified Extraordinary Costs caused by Winter Storm Uri above the level of a three-year baseline for February fuel and purchased power costs, and revenues earned.

Q: How did Evergy Missouri West calculate the amount of fuel and purchased power costs attributable to Winter Storm Uri?

A: To identify the Qualified Extraordinary Costs associated with Winter Storm Uri, Evergy Missouri West established a baseline to approximate normal conditions for the month of February. EMW calculated a three-year average baseline using actual February costs for the years 2018, 2019, and 2020 for fuel, purchased power costs and off-system sales, and compared the actual costs and off-system sales that were incurred in February 2021 to that three-year average. The amount of the February 2021 costs that exceeded the three-year average baseline is the amount of Qualified Extraordinary Costs to be financed through issuance of Securitization Bonds. These amounts can be found in my Schedule RAK-1.

Based on amounts recorded as of December 31, 2021, subject to resettlements and a final calculation of any other applicable and valid charges, Evergy Missouri West incurred $11.8 million in fuel costs and $314.6 million in purchased power costs in February 2021. When compared to the three-year average, Evergy Missouri West incurred $8.3 million of fuel costs and $299.8 million of purchased power costs *in excess* of its three-year average. These excess costs were offset somewhat by slightly lower transmission costs and increased off system sales. Please see Schedule RAK-1 for a summary of these calculations.

Q: Are fuel and purchased power costs normally recovered in the FAC?

A: Yes. Under normal circumstances, Evergy Missouri West would file a Fuel Adjustment Rate tariff in an FAC proceeding that is designed to recover 95 percent of the energy cost differences from base rates, with a substantial portion of the recovery occurring in the first year. This is the customary procedure used to recover costs or to credit revenues. However, given the extraordinary nature of Winter Storm Uri and the impacts to Evergy Missouri West customers that would result from the recovery of Winter Storm Uri costs and revenues through the FAC, the Company seeks approval to finance through the issuance of Securitization Bonds the entire amount of the Qualified Extraordinary Costs above the three-year average baseline.

Q: Is there another customary method that could be used to recover the Qualified Extraordinary Costs incurred from Winter Storm Uri?

A: Yes. Another customary mechanism that could be used to recover the Qualified Extraordinary Costs is to use an Accounting Authority Order to defer and amortize the extraordinary costs over a specified period of time. This type of recovery would amortize extraordinary costs, including carrying costs, in revenue requirement calculations in Company rate case filings over a specified period of time.

Q: Did Evergy Missouri West include any costs associated with Winter Storm Uri in its FAC filing made in July 2021 (in Case No. ER-2022-0005) for the 6-month accumulation period from December 2020 to May 2021?

A: Yes. The Company included in its July 2021 FAC filing a six-month accumulation period that includes the three-year average baseline of costs from 2018 through 2020. This baseline amount of average fuel and purchased power costs was included in the FAC filing in order to capture a more normal amount of fuel costs that were incurred and that Evergy Missouri West would have expected if Winter Storm Uri had not occurred.

Q: How does Evergy Missouri West propose to handle carrying costs up to the issuance date of the Securitization Bonds associated with the amounts requested to be financed in this proceeding?

A: Carrying costs will be calculated using Evergy Missouri West's assumed weighted average cost of capital of 7.358%, plus applicable taxes.

Q: Why is the weighted average cost of capital appropriate in this case?

A: Evergy Missouri West proposes to remove the Winter Storm Uri costs from recovery in the fuel adjustment clause and instead proposes a long-term recovery of these costs. As such, using the weighted average cost of capital is appropriate in this case and is consistent with the recovery that would occur if these costs remained in the fuel clause and the majority of the costs were ultimately deferred due to the plant-in-service accounting ("PISA") rate caps established in Sections 393.1655.5 and 393.1400.2(3) which provide for the use of the weighted average cost of capital on amounts deferred in excess of established rate caps.

Q: Did Evergy Missouri West incur additional non-fuel O&M costs as a result of Winter Storm Uri that should also be considered Qualified Extraordinary Costs?

A: Yes. Evergy Missouri West incurred extraordinary non-fuel O&M expenses directly attributable to Winter Storm Uri in the areas of communication, overtime for its employees and payroll taxes on the overtime costs, additional contractor costs, damage claims, and costs for additional materials. For Evergy Missouri West, these costs are estimated at $274,934 and included in Schedule RAK-1.

Q: Did the Qualified Extraordinary Costs receive a jurisdictional allocation consistent with other fuel and purchase power costs in Evergy Missouri West?

A: Yes. The energy allocator resulting from Evergy Missouri West's last rate case was applied to the total Qualified Extraordinary Costs to provide the correct amount assigned to the retail jurisdiction.

Q: What is Evergy Missouri West seeking with respect to these non-fuel costs?

A: Evergy Missouri West requests a Financing Order that authorizes the issuance of Securitization Bonds to finance recovery of these Qualified Extraordinary Costs from customers.

Q. Do these costs meet the definition for costs eligible to be securitized?

A. Yes, they do. Section 393.1700.1(13) states that Qualified Extraordinary Costs are "not limited to those [costs] related to purchases of fuel or power, inclusive of carrying charges, during anomalous weather events."

Q. Please describe other costs that can be securitized with Qualified Extraordinary Costs for Winter Storm Uri and the revenue requirement for the Charges.

A. Up-front Financing Costs are added to the Winter Storm Uri costs to arrive at the total securitizable balance for the Securitization Bonds. These amounts are quantified and described by Company witness Jason Humphrey and are included in Schedule RAK-3 to arrive at the total up-front financing costs securitizable balance for the Securitization Bonds of approximately $6.6 million. Estimates of ongoing financing costs are also included in the revenue requirement for the Charges. These amounts are also quantified and described by Company witness Jason Humphrey and are included in Schedule RAK-3. Including the estimates of ongoing Financing Costs, Schedule RAK-3 calculates the total monthly revenue requirement related to storm securitization to be approximately $2.6 million for Evergy Missouri West. Also, included in Schedule RAK-3 is the weighted average coupon rate that will be used in the financing of the Securitization Bonds. This weighted average coupon rate is described in the testimony of witness Steffen Lunde.

III. WINTER STORM URI SECURITIZATION BENEFITS ANALYSIS

Q. Is the Company required to demonstrate customer benefits associated with financing the recovery of Qualified Extraordinary Costs for Winter Storm Uri through the issuance of Securitization Bonds in this proceeding?

A. Yes. The Company is required to demonstrate quantifiable net present value benefits to its customers under Section 393.1700.2(2)(e). The Company is to provide the following:

> (e) A comparison between the net present value of the cost to customers that are estimated to result from the issuance of securitized utility tariff bonds and the costs that would result from the application of the customary method of financing and reflecting the qualified extraordinary costs in retail customer rates. The Comparison should demonstrate that the issuance of securitized utility tariff bonds and the imposition of securitized utility tariff charges are expected to provide quantifiable net present value benefits to customers.

Q: Has the Company completed this analysis?

A: Yes, it has. The Winter Storm Uri Securitization Benefits Analysis in Schedule RAK-4 provides the analysis comparing the recovery of the net present value of the Securitization Bonds to the customary methods of financing that could be used to recover Winter Storm Uri costs.

Q: What are the customary methods of financing that could be used to recover the costs associated with Winter Storm Uri?

A: There are two approaches described earlier in my testimony that could be used to compare to the securitization method with the customary methods of financing of the extraordinary costs of Winter Storm Uri. These include the FAC process and the Accounting Authority Order ("AAO") amortization approach.

Q: Please describe these approaches.

A: The FAC process is the typical means through which fuel and purchased power costs are recovered. It shows the total annual impact of Winter Storm Uri costs that would flow through to customers in Year 1 and the impact of Year 2 and subsequent years which would flow through base rates. The FAC process includes the amounts that would be passed through to customers over one year up to the rate caps established under the PISA provisions of Sections 393.1400 and Section 393.1655, and deferral of the remaining amount of fuel and purchased power costs into a regulatory asset to be recovered over a period of 20 years in Evergy Missouri West's base rates, including a return at Evergy Missouri West's weighted average cost of capital plus applicable taxes, as provided for in the PISA legislation.

Secondly, the AAO amortization approach assumes that an AAO authorized a regulatory asset in the amount of Winter Storm Uri costs, and that such amount is approved in Evergy Missouri West's next rate case and amortized over a 15-year period including carrying costs at EMW's weighted average cost of capital plus applicable taxes.

Q: What method of financing have these two methods of financing been compared to?

A: These two methods have been compared to the Securitization Bond approach which is the purpose of this proceeding. This approach assumes the recovery of Winter Storm Uri costs occurs through the issuance of Securitization Bonds which are authorized under Section 393.1700.2(2) for Qualified Extraordinary Costs.

Q. How does the Company propose to treat carrying costs on Winter Storm Uri Costs up to the date of the Securitization Bond issuance?

A. Given that the Company will incur carrying costs until the date of the Securitization Bond issuance, the Company will reflect the actual carrying costs at the time of its Securitization Bond issuance in the Securitization Bond issuance amount. These costs include the Company's weighted average cost of capital plus applicable taxes from the date that the particular cost was incurred to the date the Securitization Bonds are issued. The weighted average cost of capital plus applicable taxes used for Evergy Missouri West in this proceeding is 8.9%.

Q: Please describe the results of this analysis included in Schedule RAK-4.

A: The total estimated net present value ("NPV") of the costs to customers is provided in Schedule RAK-4. By using the Securitization Bond financing approach, the estimated NPV is approximately $257.6 million based on market conditions that existed as of the date of the Application. By contrast, the Fuel Adjustment Clause Approach results in an estimated NPV of approximately $322.1 million, an increase to customers over the securitization bond financing approach of $64.5 million. The AAO Amortization Approach results in an estimated NPV of approximately $378.9 million, an increase to customers over the securitization bond financing approach of $121.3 million. This analysis clearly demonstrates that the securitization bond financing approach provides benefits to customers on a NPV basis when compared to customary methods of financing.

IV. ADJUSTMENTS TO TOTAL WINTER STORM URI COSTS AND FUTURE RATEMAKING PROCESS

Q: Have adjustments occurred to the total amount of Winter Storm Uri costs that were originally incurred in February 2021?

A: Yes. Adjustments and resettlements of such costs have occurred in monthly billings since the Winter Storm Uri. Schedule RAK-2 provides the amount of adjustments that have occurred in each quarter through December 31, 2021. These adjustments and resettlements are calculated by Southwest Power Pool, Inc. ("SPP"), the regional transmission organization that operates the wholesale energy markets in which the Evergy operating utilities participate.

Q: Does Evergy Missouri West propose to provide the Commission any adjustments made to the costs net of revenues resulting from Winter Storm Uri that may occur after December 31, 2021 and before the Securitization Bonds are issued?

A: Yes. Evergy Missouri West proposes to provide to the Commission on a quarterly basis any adjustments that are made to the amounts deferred associated with expected resettlements or valid charges that may occur in the upcoming months. SPP has issued resettlements in the months of June, August, and December 2021 after Winter Storm Uri and more are possible. EMW will continue to track and adjust the amount that is ultimately requested to be financed in this proceeding as a result any other resettlements or adjustments that may occur, and will report these to the Commission on a quarterly basis. To the extent that such resettlements or adjustments occur prior to the final pricing of the Securitization Bonds, the Company will reflect such adjustments or resettlements in the amount of Qualified Extraordinary Costs to be financed.

Q: What does the Company propose to do with any resettlements that occur after amounts to be securitized are finalized in this proceeding?

A: Section 393.1700.2(2)(f) states the following:

> A proposed future ratemaking process to reconcile any differences between securitized utility tariff costs financed by securitized utility tariff bonds and the final securitized costs incurred by the electrical corporation or assigned provided that any such reconciliation shall not affect the amount of securitized utility tariff bonds or the associated securitized utility tariff charges paid by customers.

As such, the Company is required to reconcile any resettlements that occur after the Securitization Bonds have been issued and propose recovery of those costs in a future ratemaking process. EMW anticipates that by the time the Securitization Bonds are issued the Qualified Extraordinary Costs will be finalized and no further resettlements will occur. However, it cannot state with certainty that future resettlements will not occur after the Securitization Bonds are issued. If resettlements do occur after the issuance of the Securitization Bonds, then the Company anticipates including those resettlement costs associated with fuel and purchased power costs net of associated off-system sales to be included in future FAC filings unless this would produce an extraordinary customer rate impact. If that occurs, the Company would request deferral authority and Commission approval of a different ratemaking approach to mitigate such impact. If final Qualified Extraordinary Costs incurred by EMW for Winter Storm Uri differ in costs other than fuel and purchased power costs included in the amount financed by the Securitization Bonds, then the Company proposes to defer those costs into a regulatory asset and include them in the Company's subsequent general rate case. This ratemaking process is included in the proposed Financing Order appended to the direct testimony of Company witness Mr. Lunde of Citi.

V. TRUE-UP MECHANISM

Q: Is a formula based true-up mechanism required by the Company?

A. Yes. A formula-based true-up mechanism is required by Section 393.1700.2(3)(c)e to make periodic, expeditious adjustments, at least annually, in the Charge. It states the following:

> A formula-based true-up mechanism for making, at least annually, expeditious periodic adjustment in the securitized utility tariff charges that customers are required to pay pursuant to the financing order and for making any adjustments that are necessary to correct for any overcollection or undercollection of the charges or to otherwise ensure the timely payment of securitized utility tariff bonds and financing costs and other required amounts and charges payable under the securitized utility tariff bonds.

Q. How will the true-up mechanism work?

A. Per Section 393.1700.2(3)(e), the Company is required to file with the Commission, at least annually, a petition or letter applying the formula-based true-up mechanisms and, based on estimates of consumption for each rate class and other mathematical factors, request approval to make the applicable adjustments. Within 30 days after receiving the Company's request, the Commission is required to either approve the request or inform EMW of any mathematical or clerical errors in its calculation. To achieve this, at least annually (or quarterly beginning 12 months prior to the scheduled final payment date of the latest maturing tranche of each series of Securitization Bonds) a new estimated revenue requirement for the Securitization Bonds will be calculated. This new estimated revenue requirement will take into account total Financing Costs (including debt service) for the forecasted upcoming two periods and prior period adjustments. Once the total average Charge per kWh is calculated for the Securitization Bonds for the upcoming remittance period, it is broken down to specific charges per customer rate class. This breakdown is further addressed in Mr. Lutz's testimony.

Q. How often does the Company intend to true-up the Charge?

A. The Company proposes to implement a true-up at least annually. In addition to the annual true-up, the Company proposes to adjust the Charge semi-annually if the servicer determines that a true-up adjustment is necessary to ensure that the expected recovery during the succeeding 12 months of amounts is sufficient to pay scheduled principal and interest on the Securitization Bonds, the ongoing Financing Costs, and amounts necessary to replenish the draws on the capital account. The Company proposes to make its annual true-up filings, and if necessary, semi-annual true-up filings, so that each true-up shall be effective approximately three months prior to the next scheduled payment date. This true-up mechanism will help to ensure that customers pay no more or less than what is required to pay the debt service on the Securitization Bonds and all on-going Financing Costs. The calculation will take into account total financing costs (including debt service) for the forecasted upcoming two periods and prior period adjustments. It will also help mitigate bondholders' exposure to differences in actual and estimated sales forecasts, uncollectable accounts receivable, and cash flow variability. Company witness Lunde discusses the importance of the true-up mechanism to the ratings agencies.

Q. Will over- or under-recoveries of the Charge be tracked on a class-by-class basis for determining future charges?

A. No. Any over- or under-recoveries for any prior period will simply be used to adjust the periodic revenue requirement for the next period. As discussed by Company witness Lunde, this "cross collateralization" will strengthen the security for the Securitization Bonds.

Q. Apart from the annual and semi-annual true-up adjustments, does the Company seek authority to file a true-up at any other time?

A. Yes. In addition to the annual and semi-annual true-up adjustments, the Company, acting as the servicer for the Securitization Bonds, seeks authority to make additional interim true-up adjustments at any time to ensure the recovery of revenues sufficient to provide for the timely payment of the Securitization Bonds and all on-going financing costs payable in connection with the Securitization Bonds. The additional interim true-up adjustment would follow the same process as the semi-annual true-up adjustment. The approval period for the additional interim true-up adjustment would also be within 30 days of the date of filing.

Q. Is the Company requesting the ability for a non-standard true-up as well? What is meant by a non-standard true-up?

A. If unanticipated events occur subsequent to the issuance of the bonds that make the methodology of the formula-based true-up mechanism approved in the Securitized Utility Tariff Rider insufficient to ensure recovery of revenues sufficient to provide for the timely payment of the Securitization Bonds and all on-going financing costs payable in connection with the Securitization Bonds then a non-standard true-up process should be available, subject to the approval of the Commission, to address such unanticipated events. Because such a non-standard true-up process would be necessitated by events not presently anticipated that would require adjustments outside the approved formula, it is reasonable that the non-standard true-up process would be subject to a longer time period for Commission review. The Company proposes that the approval period for non-standard true-up adjustments would be 60 days after the date of filing. The non-standard true-up adjustment reasonably balances the potential need to accommodate unanticipated future events with a longer review process. This is intended to ensure there is an appropriate amount of time for the Commission to understand and approve the non-standard adjustment needed to reflect unanticipated events and ensure the recovery of revenues sufficient to provide for the timely payment of the Securitization Bonds and all on-going financing costs payable in connection with the Securitization Bonds.

Q. How long will the Charges be imposed and collected?

A. The charge will be imposed and collected until the associated Securitization Bonds have been paid in full or legally discharged and the related financing costs and required amounts have been paid in full or fully recovered. These details are more fully addressed in the direct testimony of Company witness Steffen Lunde.

Q. Will the Company reconcile Charge collections and estimated remittances?

A. Yes, in the circumstance that an estimate of Charge collections is utilized for remittances to the bond trustee. As described by Company witness Matt Gummig, the Company will reconcile, at least annually, actual Charge collections during the prior twelve months with amounts remitted. If the Charges have been under-remitted, the Company will remit the shortfall to the indenture trustee on the next servicer business day. If the Charges have been over-remitted, then the Company will reduce the next succeeding remittance(s) by the amount of the over-remittance.

Q. What will happen with Charge collections following repayment of the associated Securitization Bonds and any related Financing Costs?

A. After all Securitization Bonds and ongoing Financing Costs have been paid in full, the Charge will no longer be billed to or collected from customers. Any remaining amounts held by the SPE (exclusive of the amounts in the capital subaccount, representing the equity contribution, together with any return on the capital subaccount) will be remitted to Evergy Missouri West, as applicable, to be credited to customers' bills. This process is more fully described by Company witness Steffen Lunde.

VI. RATEMAKING MECHANISMS ASSOCIATED WITH THE QUALIFIED EXTRAORDINARY COSTS AND SECURITIZATION BONDS

Q: What is the purpose of this section of your testimony?

A: In this section I will describe the various aspects of ratemaking mechanisms included in this filing. They are as follows:

- (1) a reconciliation process for differences in actual upfront financing costs and upfront financing costs included in the principal amount securitized,
- (2) provide a return to the Company at the its weighted average cost of capital on amounts it advances to the SPE to fund reserves, if any, or capital accounts in connection with the Securitization Bonds,
- (3) address the impact of deferred taxes associated with the Qualified Extraordinary Costs associate with Winter Storm Uri.

(1) Reconciliation Process for differences in up-front financing costs

Q: How will any differences between actual upfront financing costs and up-front financing costs included in the principal amount securitized be reconciled?

A: If the actual up-front financing costs are below the amount included in the principal amount securitized, then the difference will be held by the SPE and credited back to customers through the first adjustment of the Charge pursuant to the true-up adjustment. If the actual up-front financing costs are in excess of the amount included in the principal amount securitized, then Evergy will have the right to be reimbursed for such prudently incurred excess amounts through the establishment of a regulatory asset. This regulatory asset will be proposed to be collected in the Company's next rate case.

(2) Procedure to Allow Return on Funds Advanced by Evergy Missouri West to the SPE

Q: Will the Company be required to provide funds to the SPE so that the SPE can establish reserve accounts?

A: Based on the direct testimony of Company witness Steffen Lunde, I understand that Internal Revenue Service rules require EMW to contribute an amount equal to 0.5% of the initial aggregate principal amount of the Securitization Bonds to the SPE in the form of a capital contribution. I further understand that the SPE will need to maintain the capital account until the Securitization Bonds have been fully paid. This is a long-term capital outlay by the Company and, as such, the Company is entitled per Section 393.1700.2(3)(c)l to earn a return on those funds at its authorized weighted average cost of capital plus applicable taxes.

Q: Is this topic addressed in the Securitization Law?

A: Yes. Section 393.1700.2(3)(c)l requires that a Commission financing order include "[A] procedure that shall allow the electrical corporation to earn a return, at the cost of capital authorized from time to time in the electrical corporation's rate proceedings, on any moneys advanced by the electrical corporation to fund reserves, if any, or capital accounts established under the terms of any indenture, ancillary agreement, or other financing documents pertaining to the securitized utility tariff bonds".

Q: How does the Company recommend that the Commission meet this requirement?

A: The Company recommends that an amount equal to 0.5% of the principal amount of the Securitization Bonds multiplied by the Company's Commission-authorized cost of capital be included each year in the ongoing financing costs recovered through the Charge. This amount is included in the ongoing financing costs described in the direct testimony of Company witness Jason Humphrey. In addition, this procedure is included in the proposed financing order appended to the direct testimony of Company witness Steffen Lunde.

(3) Deferred Income Taxes

Q: Is there any special treatment for accumulated deferred income taxes or excess deferred income taxes in connection with the Qualified Extraordinary Costs that the Company seeks to recover and finance through Securitization Bonds in this proceeding?

A: No. The requirement found in section 393.1700.2(3)(c)m of the Securitization Law is applicable to securitization proceedings impacting retired plant and has no applicability to this proceeding.

VII. CONCLUSION

Q. Please summarize your testimony.

A. My testimony has provided support for the Qualified Extraordinary Costs that the Company proposes to finance using the Securitization Bonds. In addition, I have also discussed how the total net present value of the costs to customers that are estimated to result from the issuance of Securitization Bonds will provide quantifiable benefits to customers as compared to customary methods of financing. Lastly, I have discussed ratemaking mechanisms including the true-up mechanism that will be put in place to ensure the appropriate amount of collections will be received to ensure repayment of the Securitization Bonds.

Q. Does this conclude your testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Evergy Missouri West, Inc. d/b/a Evergy Missouri West for a Financing Order Authorizing the Financing of Extraordinary Storm Costs Through an Issuance of Securitized Utility Tariff Bonds.	))))))	Case No. EF-2022-0155

AFFIDAVIT OF RONALD A. KLOTE

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Ronald A. Klote, being first duly sworn on his oath, states:

1. My name is Ronald A. Klote. I work in Kansas City, Missouri, and I am employed by Evergy Metro, Inc. as Senior Director – Regulatory Affairs.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Evergy Missouri West consisting of twenty-four (24) 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.

Ronald A. Klote
Ronald A. Klote

Subscribed and sworn before me this 11th day of March 2022.

Anthy 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

SCHEDULES RAK-1 THRU RAK-4 CONTAIN CONFIDENTIAL INFORMATION NOT AVAILABLE TO THE PUBLIC.

ORIGINALS FILED UNDER SEAL.