Exhibit No.:	
Issue:	Financial Ability and Resources
Witness:	John M. Grace
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Evergy Missouri West
Case No.:	EA-2024-0292
Date Testimony Prepared:	October 25, 2024

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EA-2024-0292

DIRECT TESTIMONY

OF

JOHN M. GRACE

ON BEHALF OF

EVERGY MISSOURI WEST

Kansas City, Missouri
October 2024

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DIRECT TESTIMONY

OF

JOHN M. GRACE

Case No. EA-2024-0292

I. INTRODUCTION

Q: Please state your name and business address.

A: My name is John M. Grace. My business address is 818 S. Kansas Avenue, Topeka, Kansas.

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

A: I am employed by Evergy Kansas Central, Inc. and serve as Senior Director, Corporate Planning and Financial Performance for 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"), Evergy Metro, Inc. d/b/a Evergy Kansas Metro ("Evergy Kansas Metro"), and Evergy Kansas Central, Inc. and Evergy Kansas South, Inc., collectively d/b/a as Evergy Kansas Central ("Evergy Kansas Central") the operating utilities of Evergy, Inc. ("Evergy").

Q: Who are you testifying for?

A: I am testifying on behalf of Evergy Missouri West (also referred to as "EMW" or the "Company").

Q: What are your responsibilities?

A: My responsibilities include directing financial planning activities, including the annual budget and long-term financial plan, performance reporting, energy forecasting, and providing financial support and analysis throughout and on behalf of the Company.

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

A: I hold a Bachelor of Business Administration in accounting and finance from Washburn University and an M.B.A. from Washburn University. I joined Evergy Kansas Central in 1998. During my career I have served in various financial roles all with increasing responsibility, including accounting, budgets, finance, and financial analysis and modeling.

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

A: Yes, I have previously testified before the Kansas Corporation Commission.

Q: What is the purpose of your direct testimony?

A: The purpose of my direct testimony is to (1) Demonstrate that Evergy Missouri West has the financial ability to acquire the Foxtrot and Sunflower Sky solar projects, as well as the financial ability to construct, install, own, operate, manage, maintain, and control the Assets; (2) Explain how these projects can take advantage of valuable tax credits and renewable attributes under the Inflation Reduction Act ("IRA") for the benefit of Evergy Missouri West customers, and (3) state whether EMW will apply plant-in-service accounting ("PISA") to these projects if they are completed before being addressed in a general rate case.

II. FINANCIAL ABILITY

Q: Does Evergy Missouri West have the financial ability to acquire, construct, install, own, manage, maintain, and control the Foxtrot and Sunflower Sky solar projects?

A: Yes. EMW has proven experience financing the purchase, construction, and operation of generating assets that serve Missouri customers. Evergy Missouri West currently owns, operates, as well as contracts for 2,587 MW of generating capacity. This includes the recently acquired 143 MW of the natural gas combined-cycle Dogwood Energy Facility. Evergy's public utilities own, operate, and/or contract for just under 16,000 MW of generating capacity.

The anticipated project cost for Foxtrot is **[redacted]** for the first 100 MWac. The anticipated project cost for Sunflower Sky is **[redacted]**.

Q: Please describe Evergy Missouri West's access to capital.

A: Evergy Missouri West has adequate short-term liquidity and the proven ability to access the debt capital markets to finance the construction and operation of large generating assets.

EMW has access to adequate short-term liquidity. In August 2024, Evergy extended its $2.5 billion master credit facility from 2027 to 2028. The Company has borrowing capacity under that master credit facility with a current sub-limit of $700 million. As of June 30, 2024, the Company had $109.8 million borrowed under this credit agreement, with $590.2 million of remaining liquidity under the agreement. The Company also sells an undivided percentage ownership interest in its retail electric accounts receivable to an independent outside investor. These

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sales are accounted for as a secured borrowing with accounts receivable pledged as collateral and a corresponding short-term, collateralized note payable. Under this account receivable sales facility, Evergy Missouri West has the ability to borrow up to $50.0 million at any time, and, to the extent the Company has qualifying accounts receivable and subject to the bank's discretion, it can borrow up to $65.0 million at any time.

Evergy Missouri West also has access to the long-term capital markets, as is evidenced by the $1.9 billion of long-term debt and $1.9 billion of shareholders' equity on its balance sheet as of June 30, 2024.

Q: Has Evergy Missouri West been able to acquire new generating assets recently?

A: Yes. EMW has demonstrated the ability to acquire generating assets with the recent purchase of a 22.2% interest in the Dogwood Energy Facility. The acquisition of this asset closed on April 24, 2024.

Q: Has Evergy Missouri West been able to access the long-term capital markets recently?

A: Yes. The Company recently issued 10-year, $300 million of A/A3 rated first-mortgage bonds at a 5.65% coupon on May 29, 2024. These bonds were competitively priced, consistent with initial guidance provided by the underwriters, and clearly demonstrate Evergy Missouri West's ability to access the long-term capital markets.

Q: What are Evergy Missouri West's current credit ratings?

A: EMW's credit is solid investment grade, as rated by both Standard & Poor's (also known as "S&P Global") and Moody's Investors Service, Inc. ("Moody's"), as displayed in Table 1.

Table 1

Rating	**Standard & Poor's**	**Moody's**
Outlook	Stable	Negative
Corporate Credit Rating	BBB+	Baa2
Senior Secured Debt	A	A3
Commercial Paper	A-2	P-2

Q: What did Moody's say in its recent ratings report on the Company, issued on May 3, 2024?

A: Moody's affirmed the ratings of Evergy Missouri West noted in Table 1, but it revised the outlook of the Company from "stable" to "negative." The Ratings Action report stated: "Missouri West's negative outlook reflects credit metrics that have deteriorated over the last few years and are expected to be sustained at levels that are weak for its current Baa2 rating."[1]

Moody's commented specifically on EMW's success in obtaining a Financing Order from the Commission in the fall of 2022 to securitize the extraordinary fuel and purchased power costs that it incurred during Winter Storm Uri in February 2021, but also on the lengthy delay in securitizing those costs

[1] "Rating Action: Moody's Ratings affirms ratings of Evergy Missouri West, revised outlook to negative" at 1, Moody's Investors Service, Inc. (May 3, 2024). See **Confidential Schedule JMG-1**.

because of the unsuccessful appellate litigation pursued by the Office of the Public Counsel which was not concluded until November 2023.[2]

Moody's stated: "[Evergy] Missouri West's credit metrics have been weak since a material decline in financial metrics in 2021 due to severe winter storm impacts. Missouri West securitized the excess fuel and purchased power costs associated with the storm in February 2024, however the securitized debt issuance was significantly delayed due to a lengthy appeals process that followed the [MPSC's] October 2022 original initial financing order. The delayed fuel and purchased power cost recovery put additional pressure on [Evergy] Missouri West's credit profile for a longer period of time than expected due to the short-term debt burden and carrying costs associated with the fuel deferrals."[3]

In addition, Moody's observed that Evergy "Missouri West lacks the type of timely and automatic investment and operating cost recovery mechanisms seen in other states, resulting in a weaker financial profile than that of its peers."[4]

Nonetheless, EMW has still been able to access the long-term debt capital markets with success, as discussed above.

[2] See Amended Report & Order at 6, 109-124 (issuing Financing Order and approving Petition for Financing), No. EF-2022-0155 (Nov. 17, 2022), *aff'd*, Office of Public Counsel v. Missouri PSC, 676 S.W.3d 438 (Mo. App. W.D. 2023). The Mandate of the Court of Appeals was not issued until November 15, 2023. The Company moved promptly to securitize the costs resulting from Winter Storm Uri, with the securitized utility bonds being issued on the day the Securitized Utility Tariff Rider (Schedule SUR), No. JE-2024-0114, became effective on February 23, 2024.

[3] Id. at 2.

[4] Id. at 1-2.

III. TAX CREDITS

Q: Why is it important to pursue renewable projects in the near term to capture the available tax incentives?

A: The 2022 Inflation Reduction Act's Section 48(e) offers new access to clean energy tax credits with an emphasis on reaching disadvantaged populations and communities with environmental justice concerns. Certain projects may be eligible for bonus credits if they meet certain environmental justice criteria. Only solar and wind technologies are eligible in 2023 and 2024.

Q: Are there tax credits available for the Solar Projects presented in this case?

A: Yes.

Q: What tax credits will the Foxtrot and Sunflower Sky solar projects qualify for under the Inflation Reduction Act?

A: Both projects will qualify for either the investment tax credit ("ITC") or production tax credits ("PTC"), albeit at different levels, which will reduce the cost to customers once reflected in retail rates. Foxtrot will qualify for either a 40% ITC or 110% PTC, since the project meets the requirements for the 10% Energy Community Bonus credit due to its proximity to the retired Asbury coal plant. Sunflower Sky will qualify for a 30% ITC or 100% PTC.

Q: How will these tax credits work to benefit EMW's customers?

A: PTC's are based on generation from the solar facility during the first 10 years of operation and the PTC requirements that the solar facility meets. Assume, for example, that each MWh of energy produced from a solar facility that qualifies for a 100% PTC currently generates a $30 credit. If the solar facility meets the 110%

PTC requirement, then a $33 credit is currently generated for each MWh of energy produced. Customers would receive the grossed-up income-tax value of these PTC's once the solar farm is reflected in retail rates.

The ITC is based on qualified project costs. Qualified project costs include the total project cost excluding allowance for funds used during construction ("AFUDC"), internal costs, purchased land, fencing, and ground restoration. For example, assume a solar facility qualifies for the 30% ITC and the total project cost is $200 million. Then assume that of the $200 million total project costs, $180 million are ITC eligible project costs. The ITC value would be 30% of $180 million or $54 million. Customers would receive the grossed-up income-tax value of the $54 million ITC over the life of the solar facility once the Company utilizes the tax credit and that facility is reflected in retail rates.

Q: Does the Company have to select the same tax credit treatment for both projects?

A: No. The tax credit election is project specific and can be different for each project.

Q: Has the Company elected the preferred tax credit treatment for each project?

A: No. The Company still needs to determine what tax credit election along with property tax treatment is most beneficial to customers and the communities where these projects will be located. In particular, the most beneficial property tax treatment for the location of the facility may impact which tax credit election is selected for the project.

Q: What is the property tax treatment for the locations related to these renewable projects?

A: An exemption from property taxes is available for renewable projects located in Kansas for ten years. In place of making property tax payments, the owner of a project would negotiate a payment-in-lieu-of-tax payment (“PILOT”) with the appropriate taxing jurisdictions during the exemption period. This PILOT payment is generally significantly lower than the property taxes that would be due if not for the exemption. The full amount of property taxes would be due starting in year eleven after the exemption expires.

Missouri does not have an exemption from property taxes for renewable projects located in the state. However, it is possible to structure a transaction for a project in Missouri where the project is also exempt from property taxes. Under this structure, the taxing jurisdiction where the project is located issues Chapter 100 Bonds to finance the construction of the facility and then leases it back to the entity that purchased Chapter 100 financing bonds (EMW). This structure is commonly referred to as a “Chapter 100 Bond Lease.” If this structure is used, the project would be exempt from property taxes in Missouri since it is owned by a tax-exempt entity. The property tax exemption would apply for the term of the lease agreement. A PILOT payment would then be negotiated with the taxing jurisdiction in this scenario.

Regardless of the location, EMW would attempt to minimize the overall cost to customers by factoring in the amount of property tax or PILOT payments to be paid under various scenarios, while providing benefits to the communities where these projects are located.

Q: How does the property tax treatment affect the election to claim a production tax credit or investment tax credit?

A: Under the current IRS rules, a production tax credit may only be claimed by the original owner of a facility, but an investment tax credit may be claimed by an original owner or by a lessee. Therefore, if a Chapter 100 Bond Lease is pursued for a project located in Missouri to reduce property taxes, EMW would not be able to elect production tax credits because it is not an owner of the project. EMW would still be able to claim an investment tax credit for the project since EMW would be a lessee.

Q: Has the Company included the value of these tax credits in its economic evaluations?

A: Yes. The modeling behind the Company's Integrated Resource Plan ("IRP") assumed solar would receive a 100% PTC. 1898 & Co.'s economic evaluation of RFP responses assumed Sunflower Sky would receive a 100% PTC and Foxtrot would receive a 110% PTC. As I described above, the Company will be going through a more detailed economic evaluation of which tax credit election, along with property tax and/or PILOT expense, is in the best interest of EMW customers and the communities where these projects are located.

Q: Will these projects have other renewable attributes that are beneficial for customers?

A: Yes. The solar energy produced by these projects will generate renewable energy credits ("REC") which can be used to certify that the power they produce is renewable or that the RECs may be sold with their proceeds going to reduce customer rates. Company witness Kimberly Winslow discusses the proposal of a voluntary program where commercial and industrial customers can subscribe to purchase forward RECs from these projects to fulfill their renewable or sustainability goals. The revenues from the sale of the forward RECs will flow through the Fuel Adjustment Clause and help offset fuel costs of EMW's non-subscribers. .

IV. PISA

Q: Does the Company intend to apply plant-in-service accounting ("PISA") treatment for these solar farms?

A: Yes. The Company currently plans to seek traditional ratemaking treatment in a general rate case before the Commission where the prudent costs of both projects will be reflected in Evergy Missouri West's retail cost of service. Depending on the time between project completion and the conclusion of the rate case, the Company will apply PISA treatment to the projects as authorized by Section 393.1400 of the Missouri Revised Statutes and related provisions of law.

Q: Does that conclude your testimony?

A: Yes, it does.

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 Permission and Approval of a Certificate of Public Convenience and Necessity	))))	Case No. EA-2024-0292

AFFIDAVIT OF JOHN M. GRACE

STATE OF MISSOURI)) ss COUNTY OF JACKSON)

John M. Grace, being first duly sworn on his oath, states:

1. My name is John M. Grace. I work in Topeka, Kansas and I am employed by Evergy Kansas Central, Inc. as Senior Director, Corporate Planning and Financial Performance.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Evergy Missouri West consisting of eleven (11) 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.

John M. Grace

John M. Grace

Subscribed and sworn before me this 25th day of October 2024.

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

SCHEDULE JMG-1
CONTAINS CONFIDENTIAL
INFORMATION
NOT AVAILABLE TO THE PUBLIC.

ORIGINAL FILED UNDER SEAL.

Evergy Metro, Inc. d/b/a Evergy Missouri Metro and
Evergy Missouri West, Inc. d/b/a Evergy Missouri West

Docket No.: EA-2024-0292
Date: October 25, 2024

CONFIDENTIAL INFORMATION

The following information is provided to the Missouri Public Service Commission under CONFIDENTIAL SEAL:

Document/Page	Reason for Confidentiality from List Below
Grace Direct, p. 3, lns. 11-12	3, 4, and 6
Schedule JMG-1	4

Rationale for the "confidential" designation pursuant to 20 CSR 4240-2.135 is documented below:

1. Customer-specific information;

2. Employee-sensitive personnel information;

3. Marketing analysis or other market-specific information relating to services offered in competition with others;

4. Marketing analysis or other market-specific information relating to goods or services purchased or acquired for use by a company in providing services to customers;

5. Reports, work papers, or other documentation related to work produced by internal or external auditors, consultants, or attorneys, except that total amounts billed by each external auditor, consultant, or attorney for services related to general rate proceedings shall always be public;

6. Strategies employed, to be employed, or under consideration in contract negotiations;

7. Relating to the security of a company's facilities; or

8. Concerning trade secrets, as defined in section 417.453, RSMo.

9. Other (specify) ____.

Should any party challenge the Company's assertion of confidentiality with respect to the above information, the Company reserves the right to supplement the rationale contained herein with additional factual or legal information.