

Exhibit No. 4

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Witness: Ronald A. Klotz
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EA-2025-0075

DIRECT TESTIMONY

OF

RONALD A. KLOTE

ON BEHALF OF

EVERGY MISSOURI METRO AND EVERGY MISSOURI WEST

**Kansas City, Missouri
November 2024**

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DIRECT TESTIMONY

OF

RONALD A. KLOTE

I. INTRODUCTION AND PURPOSE

1

2 **Q: Please state your name and business address.**

3 A: My name is Ronald A. Klotz. My business address is 1200 Main, Kansas City, Missouri
4 64105.

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

6 A: I am employed by Evergy Metro, Inc. I serve as Senior Director – Regulatory Affairs for
7 Evergy Metro, Inc. d/b/a Evergy Kansas Metro (“EKM”), Evergy Kansas Central, Inc. and
8 Evergy South, Inc., collectively d/b/a as Evergy Kansas Central (“EKC”), Evergy Metro,
9 Inc. d/b/a as Evergy Missouri Metro (“EMM”), and Evergy Missouri West, Inc. d/b/a
10 Evergy Missouri West (“EMW”), the operating utilities of Evergy, Inc.

11 **Q: On whose behalf are you testifying?**

12 A: I am testifying on behalf of EMW and EMM (together as “Evergy” or “the Company.”)

13 **Q: What are your responsibilities?**

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

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

18 A: In 1992 I received a Bachelor of Science Degree in Accountancy from the University of
19 Missouri-Columbia. In May 2016, I completed my Master of Business Administration
20 Degree from the University of Missouri – Kansas City. I am a Certified Public Accountant

1 holding a certificate in the State of Missouri. In 1992 I joined Arthur Andersen, LLP
2 holding various positions of increasing responsibilities in the auditing division. I conducted
3 and led various auditing engagements of company financial statements. In 1995 I joined
4 Water District No. 1 of Johnson County as a Senior Accountant. This position involved
5 operational and financial analysis of water operations. In 1998 I joined Overland
6 Consulting, Inc. as a Senior Consultant. This position involved special accounting and
7 auditing projects in the electric, gas, telecommunications and cable industries.

8 In 2002 I joined Aquila, Inc. (“Aquila”) holding various positions within the
9 Regulatory Department until 2004 when I became Director of Regulatory Accounting
10 Services. This position was primarily responsible for the planning and preparation of all
11 accounting adjustments associated with regulatory filings in the electric jurisdictions. As
12 a result of the acquisition of Aquila by Great Plains Energy Incorporated (“GPE”), I began
13 my employment with Kansas City Power & Light Company (“KCP&L”) as Senior
14 Manager, Regulatory Accounting in July 2008. In April 2013 I joined the Regulatory
15 Affairs Department as a Senior Manager remaining in charge of Regulatory Accounting
16 responsibilities. In December 2015, I became Director, Regulatory Affairs continuing my
17 Regulatory Accounting responsibilities. In addition, I was responsible for the coordination,
18 preparation and filing of rate cases and rider filings in our electric jurisdictions. In October
19 2021, I became Senior Director of Regulatory Affairs and continue in that position today
20 with Evergy.

1 **Q: Have you previously testified in any proceedings before the Missouri Public Service**
2 **Commission (“Commission” or “MoPSC”) or before any other utility regulatory**
3 **agency?**

4 A: Yes. I have testified before the MoPSC, the Kansas Corporation Commission (“KCC”),
5 the California Public Utilities Commission, and the Public Utilities Commission of
6 Colorado.

7 **Q: What is the purpose of your testimony?**

8 A: The purpose of my testimony is (1) to request approval of construction accounting that
9 would allow the Company to continue to accrue Allowance for Funds used During
10 Construction (“AFUDC”), given the regulatory lag that the Company will suffer regarding
11 the new gas generating projects proposed in this case and to defer depreciation expense for
12 the projects during the Regulatory Loss Period (defined below), a deferral that has been
13 approved by the Commission in past cases involving other generation facilities; and (2) to
14 discuss the accounting process the Company will implement for the jointly owned natural
15 gas facilities in order to ensure costs are appropriately allocated according to each affiliate’s
16 ownership interest.

17 **Q: What are the new natural gas generating facilities that are described in the**
18 **Application?**

19 A: The Company is seeking certificates of convenience and necessity (“CCNs”) related to two
20 separate generation projects intended to assist in fulfilling the Company’s capacity and
21 energy needs through 2030. The first project is the Viola Generating Station, a 710 MW
22 combined-cycle combustion gas (“CCGT”) turbine plant to be located in Sumner County,
23 Kansas that will be co-owned by EMW with EKC (each with a 50% ownership share) with

1 an anticipated total project cost excluding AFUDC of ** [REDACTED] **. The
2 second project is the Mullin Creek #1 Generation Station, a 440 MW simple-cycle gas
3 turbine (“SCGT”) plant to be located in Nodaway County, Missouri with an
4 anticipated total project cost excluding AFUDC of ** [REDACTED] **.

5 As Evergy witness Kevin Gunn explains, we are also requesting flexibility for 50%
6 of a third plant: the McNew Generating Station, a 710 MW CCGT that would be located
7 in Reno County, Kansas. The ownership of the 50% share of the plant will potentially be
8 allocated to EMW or to EMM pursuant to the framework outlined in Mr. Gunn’s direct
9 testimony.

10 **II. REQUEST FOR CONSTRUCTION ACCOUNTING TREATMENT, GIVEN THE**
11 **REGULATORY LOSS ON THE GENERATING FACILITIES**

12 **Q: When will the Company’s rates reflect a return of and on its investment in these**
13 **generating facilities?**

14 **A:** Rates will not reflect a return on or of these investments until they are included in new base
15 rates after the plants are deemed to be in service. These projects have expected in-service
16 dates in 2029 and 2030. The Company cannot perfectly align a rate review with the date
17 when these new investments will go into service. The minimum time period between the
18 true-up date in a rate review and the effective date of new rates has typically been
19 approximately six months.

20 While a generation project is under construction and before it is placed in service,
21 EMW is permitted to accrue Allowance for Funds used During Construction (“AFUDC”).
22 AFUDC is a regulatory accounting method that allows utilities to capitalize the financing
23 costs incurred during the construction of a new plant. AFUDC is typically accrued at

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1 EMW's rate of return, and the balance is added to the cost of the plant to be recovered in
2 rates.

3 However, EMW is not permitted to accrue AFUDC after a plant is placed in service
4 unless authorized by the Commission. This means that there will be a lag between (a) the
5 in-service date when EMW will start incurring depreciation expense and operating and
6 maintenance ("O&M") expense without being permitted to accrue AFUDC, and (b) the
7 date when new customer rates become effective that include the investment in the natural
8 gas plants. The amount of lost recovery of EMW's return on and return of its investments
9 during this period of time would be significant. Without construction accounting, even if
10 we are able to optimize the timing of our next general rate case, EMW will experience at
11 least six months of regulatory lag on its investments. For an investment the size of the
12 Viola Generating Station, lost recovery of a return of and on the Company's investment
13 will total in excess of \$8 million per month.

14 With planned investments in natural gas generation, as discussed in this
15 Application, and in solar generation projects as proposed in pending Case No. EA-2024-
16 0292, EMW will be making extraordinarily large financial outlays for the construction of
17 new generation over the next six years. Therefore, EMW requests construction accounting
18 treatment in order to manage those large investments by eliminating one source of
19 regulatory lag. The Commission's approval of construction accounting treatment would
20 also signify its support for Evergy's investment in necessary dispatchable generation.

1 **Q. What is EMW requesting in order to ensure equitable treatment to allow it to avoid**
2 **the impact of regulatory lag, recover its costs, and earn a reasonable return on its**
3 **investment in natural gas generation?**

4 A. Evergy Missouri West requests that the Commission approve the use of construction
5 accounting through a deferral to a regulatory asset of AFUDC costs and depreciation
6 expense for the new natural gas facilities between the time they are placed in service on
7 EMW's books and the effective date of new rates that will reflect these investments in its
8 revenue requirement. This will allow EMW to continue to accrue AFUDC on these
9 projects and to defer the depreciation expense during the Regulatory Loss Period. EMW
10 requests this treatment for its investment in the Viola plant and the Mullin Creek 1 plant.

11 In the event that 50% of the McNew plant is allocated to EMW pursuant to the
12 decision framework discussed by Mr. Gunn, we would request construction accounting
13 treatment for the investment in that plant as well.

14 **Q. Has the Commission granted Construction Accounting in the past?**

15 A. Yes. Construction Accounting is a regulatory accounting concept that is well known and
16 has been utilized in the past. This type of accounting has been authorized by the
17 Commission to help utilities recover the cost of large construction projects. The
18 Commission has approved Construction Accounting in the following cases:

- 19 ■ No. EU-2014-0255: Kansas City Power & Light Co. regarding upgrades at the La
20 Cygne energy center in Kansas.
- 21 ■ No. EU-2011-0034: Kansas City Power & Light Co. regarding the Iatan 2 unit at
22 the Iatan energy center.

- 1 ▪ No. EO-2010-0262: Empire District Electric Co. regarding the Plum Point energy
2 center in Arkansas.
- 3 ▪ No. ER-2010-0036: Union Electric Co. d/b/a Ameren Missouri regarding the Sioux
4 energy center’s scrubber project.
- 5 ▪ No. EO-90-114: Missouri Public Service Co. regarding the Sibley generating
6 station.

7 Most recently, the Commission approved Construction Accounting for Ameren Missouri’s
8 Castle Bluff Project in Case No. EA-2024-0237. The Commission determined
9 Construction Accounting was appropriate in all of the above cases which support the
10 requests in this proceeding.

11 **Q: What request are you making for EMM with respect to Construction Accounting?**

12 A: In the event that 50% of the McNew plant is allocated to Evergy Missouri Metro, pursuant
13 to the framework discussed by Mr. Gunn, we request Construction Accounting treatment
14 for EMM’s investment in that plant as well.

15 **Q: How would the request for Construction Accounting be impacted if the Plant in
16 Service Accounting (“PISA”) statute (Section 393.1400, et al.) is revised as a result of
17 current discussions?**

18 A: As Mr. Gunn explains, we would ask the Commission to be clear in its order that if the
19 PISA statute is amended so that it applies to the natural gas facilities proposed in this
20 Application or if any other statute applies to those facilities that results in deferral and
21 recovery of return on and of investment from the in-service date to the effective date of
22 new rates, then no Construction Accounting will be applied.

1 Olson, because EKC will be the operator for those two plants. The costs will then be
2 allocated to the affiliate owners based on their ownership percentages. EKC and EMW
3 have executed an agreement that outlines their respective responsibility for the costs
4 incurred as a result of the Reservation Agreement for the Viola plant as 50-50 owners of
5 that plant. That agreement between EKC and EMW will be provided along with the other
6 workpapers in support of Mr. Olson's testimony.

7 **Q: How will the Company account for costs related to the jointly owned natural gas**
8 **plants in order to ensure their costs are assigned appropriately based on ownership**
9 **interest?**

10 A: We will manage the accounting for costs related to the jointly owned natural gas plants in
11 the same manner that we currently manage costs for the other plants that are jointly owned
12 by affiliates which are the plants at the Iatan, LaCygne, and Jeffrey Energy Centers. For
13 example:

- 14 ▪ Construction costs, removal costs, and/or net salvage incurred by EKC as the
15 operator will be accounted for in accordance with the FERC Uniform System of
16 Accounts and with Generally Accepted Accounting Principles ("GAAP").
- 17 ▪ The Joint Owners will share all construction costs, removal costs, and/or net
18 salvage in proportion to their ownership share.
- 19 ▪ Cost of construction, removal and salvage will be specifically identified. EKC will
20 record and track costs directly assignable to each of the jointly owned natural gas
21 plants in separate and distinct projects within its accounting system, to allow for
22 appropriate and accurate reporting and allocations to the co-owners. Allocation of

1 costs will occur on a monthly basis when books are closed. We will use
2 intercompany accounts to record the payables and receivables between affiliates.

- 3 ■ Once the jointly owned plants are in-service, EKC will operate the natural gas
4 plants pursuant to the JOA and will incur expenses associated with operating and
5 maintaining those plants. EKC will record and track labor and other costs directly
6 assignable to the jointly owned natural gas plants in separate and distinct projects
7 within its accounting system to allow for appropriate and accurate reporting and
8 allocations to the co-owners. Allocation of costs will occur on a monthly basis
9 when books are closed, and we will use intercompany accounts to record the
10 payables and receivables between affiliates.

- 11 ■ Each co-owner will report to the appropriate taxing authority its ownership share
12 subject to real estate and personal property taxes and will make timely payment of
13 all taxes levied thereon. Each co-owner will record its property tax expense directly
14 on its own books.

- 15 ■ Each co-owner will own an interest in the inventory of materials and supplies in
16 proportion to its ownership share. At the time of purchase, inventory items will be
17 identified for the natural gas plant they relate to. The associated cost of inventory
18 will be allocated to each co-owner based on the respective percentage of ownership
19 share.

20 Just as we do for the other jointly owned plants, we will ensure that the accounting
21 for any capital or expense related to a jointly owned natural gas plant will be managed in a
22 way that ensures the appropriate allocation of the responsibility of costs to each owner
23 based on its ownership share.

1 Q: Does this conclude your testimony?

2 A: Yes, it does.

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

Docket No.: EA-2025-0075

Date: October 25, 2024

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