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large load customers

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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO EO-2025-0154

REBUTTAL TESTIMONY OF SHANA RAMIREZ

ON BEHALF OF

THE DATA CENTER COALITION

July 25, 2025

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1 **I. INTRODUCTION**

2 **Q. State your name, occupation, and business address.**

3 A. My name is Shana Ramirez, and I am a Director at Energy and Environmental Economics,
4 also known as E3. My business address is 44 Montgomery Street, Suite 1500, San
5 Francisco, CA 94104.

6 **Q. On whose behalf are you filing testimony?**

7 A. I am filing testimony on behalf of the Data Center Coalition (“DCC”).

8 **Q. Describe your professional background and experience.**

9 A. I bring over a decade of experience in the energy industry, with a focus on regulatory policy,
10 load forecasting, rate design, and renewable energy development. Prior to joining E3, I
11 held several positions at NV Energy, including in the Rates, Load Forecasting, and
12 Regulatory Affairs departments. Most recently, I served as Program Development Director
13 in the Renewables Department.

14 In that role, I led a team responsible for advancing innovative power supply
15 solutions and tariff designs for large-load customers, including data centers and other
16 energy-intensive users such as casinos and mines. This work required close coordination
17 with internal regulatory, legal, and resource planning teams, as well as extensive
18 engagement with external stakeholders such as customers, developers, and regulatory staff.

19 A key outcome of this work was the design and successful regulatory approval of
20 the Clean Transition Tariff by the Public Utilities Commission of Nevada. This tariff
21 enables large load customers to procure renewable energy resources to meet their
22 operational needs while aligning customer preferences with state policy objectives. My

1 role also involved negotiating and structuring contracts that included thorough assessments
2 of financial security requirements and risk mitigation provisions.

3 Earlier in my career, I worked in the insurance sector where I performed actuarial
4 analysis focused on risk assessment and modeling. These skills continue to inform my
5 approach to evaluating utility programs and contract structures.

6 **Q. Please describe E3.**

7 A. E3 is an economic consulting firm with more than 30 years of experience specializing in
8 the North American power sector. The firm provides data-driven insights and objective
9 recommendations to a diverse range of clients, including utilities, regulatory agencies,
10 government entities, project developers, investors, and non-profit organizations.

11 Through its work across all segments of the energy industry, E3 offers a
12 comprehensive understanding of energy markets, resource planning, public policy,
13 regulation, and environmental considerations. The firm is committed to producing clear
14 and impartial analyses. That is why my recommendations are fair and balanced, addressing
15 the needs of both the utility and large-load customers.

1 **Q. Have you previously testified before the Missouri Public Service Commission**
2 **(“Commission”)?**

3 A. I have not. However, I recently provided testimony before the Michigan Public Service
4 Commission¹ and Virginia State Corporation Commission,² both on behalf of DCC. Those
5 testimonies addressed topics similar to the topics I address in this testimony.

6 **Q. What topics are you addressing in your testimony?**

7 A. My testimony addresses financial security requirements for large load customers, including
8 data centers. I review Evergy Metro, Inc., d/b/a Evergy Missouri Metro and Evergy
9 Missouri West, Inc., d/b/a Evergy Missouri West’s (collectively, “Evergy” or the
10 “Company”) proposal, outline best practices for credit and collateral frameworks, and
11 recommend a holistic risk-appropriate financial security approach to the Commission. The
12 objective is to protect ratepayers while enabling equitable and scalable integration of large
13 loads into Evergy’s system.

14 **Q. How is your testimony structured?**

15 A. My testimony is organized in 4 sections:

16 **Section 1: Introduction**

17 This section presents my professional qualifications and describes E3’s expertise in electric
18 infrastructure planning, rate design, strategic planning, load forecasting, and market
19 analytics. It also outlines the purpose of my testimony.

¹ In the Matter of the Application of Consumers Energy Company for *Ex Parte* Approval of Certain Amendments to Rate GPD, Michigan Public Service Commission, Case No. U-21859, *Rebuttal Testimony of Shana Ramirez* (July 9, 2025).

² Application of Virginia Electric and Power Company For a 2025 Biennial Review of the Rates, Terms and Conditions for the Provision of Generation, Distribution and Transmission Services Pursuant to § 56-585.1 A of the Code of Virginia, Virginia State Corporation Commission, Case No. PUR-2025-00058, *Direct Testimony of Shana Ramirez* (Jul. 16, 2025).

Section 2: Large Load Interconnections & Financial Security Best Practices

This section identifies and discusses the financial and operational challenges introduced by large load interconnections. It sets forth core principles for designing effective credit and collateral frameworks and assesses the relevance of these principles in the context of Evergy's service territory. Specific areas of focus include customer creditworthiness, exemptions from collateral requirements, the adequacy of collateral forms, exit or capacity-reduction charges, and the importance of ongoing reporting and oversight mechanisms. The section concludes with a summary of my testimony's key insights, emphasizing recommended actions for utilities and regulators to improve financial risk management, enable sustainable infrastructure development, and promote equitable cost outcomes for all customer classes.

Section 3: Evergy's Financial Security Proposal and Industry Benchmarking

This section presents a qualitative review of Evergy's current credit and collateral proposal as part of this proceeding. It compares Evergy's approach to those of peer utilities across other regions, assessing alignment with industry standards, effectiveness in mitigating financial risk, and opportunities for refinement. It also highlights policy design features that reflect best practices, such as transparency, scalability, and balanced risk allocation, with a view to supporting beneficial load growth while protecting ratepayers.

Section 4: Recommendation to the Commission

The final section offers recommendations to the Commission. These recommendations address improvements to Evergy's credit and collateral policies to better manage financial risks, encourage responsible data center integration, and support long-term system planning objectives.

1 **Q. Before summarizing your recommendations, do you fully understand the Company's**
2 **financial security proposal?**

3 A. No, there is a discrepancy between the financial security proposal described by Company
4 witness Mr. Lutz and the language contained in the Large Load Power Service (“LLPS”)
5 tariff included in Schedule BDL-1. In fact, the discrepancies are significant, as illustrated
6 in Table 1 in the following question and answer. The tariff language is more favorable to
7 large load customers than the provisions outlined in Mr. Lutz’s testimony.

8 **Q. Please summarize your recommendations to the Commission.**

9 A. Table 1 below summarizes my financial security recommendations to the Commission. I
10 recommend that the Commission direct Evergy to revise its proposed credit and collateral
11 framework to better align with actual financial risk, reflect established regulatory
12 principles, and support continued data center and large-load development in Missouri. In
13 light of the discrepancies described above, I have incorporated both proposed requirements
14 as outlined in Mr. Lutz’s testimony and the LLPS tariff language in Schedule BDL-1 into
15 Table 1.

Table 1: Financial Security Recommendation Versus Evergy's Proposal

Category	Testimony Proposal Bradley D. Lutz' testimony³	Tariff Proposal LLPS Tariff Language in Schedule BDL-1⁴	DCC Recommendation to the Commission
Collateral Amount	Equal to two years of minimum monthly bills, recalculated annually	Equal to three years of maximum monthly bill, recalculated annually; customer to provide the recomputed amount if it is 10% or higher, greater than the current amount held	Equal to two years of minimum monthly bills, starting at ESA execution; ramps with investment, reaches full collateral at energization through the load ramp, then declines over the contract term
Exemption Criteria	None	Full exemption if company is rated at an investment grade of at least A- from S&P and A3 by Moody's, and holds liquidity of at least 10x the collateral amount	Full exemption if company is rated at an investment grade of at least A- from S&P or A3 by Moody's, and holds liquidity of at least 10x the collateral amount with no maximum
Partial Exemption	50% reduction if company is rated at an investment grade of at least A- from S&P or A3 by Moody's, and holds liquidity of at least 10x the collateral amount up to a \$150M maximum <i>or</i> 40% reduction if the customer does not qualify the credit rating threshold but hold liquidity of at least 10x the collateral amount up to a \$125M maximum	50% reduction if the company does not qualify for the credit rating threshold but maintains liquidity of at least 10x the collateral amount up to a \$250M maximum	50% reduction if company or parental, affiliate, tenant or 3rd party with financial interest in the customer guarantor holds liquidity equal to 5X the required collateral amount <i>or</i> 30% reduction if: - The company or parental, affiliate, tenant or 3rd party with financial interest in the customer guarantor maintains liquidity equal to at least 2X the required collateral amount with no maximum, <i>or</i> - Company provides a signed lease for the full ESA term and shows >50% of facility capacity is contracted to a qualified tenant. Tenant must meet credit rating threshold, not be on credit watch, a or maintain liquidity $\geq$ 2X required collateral
Acceptable Forms	Guarantee from parent/affiliate, full-value irrevocable letter of credit, or full cash deposit	Guarantee from parent/affiliate if guarantor, full-value irrevocable letter of credit, or full cash deposit. is rated at an investment grade of at least A- from S&P and A3 by Moody's, and holds liquidity of at least 10x the collateral amount	In addition to the forms proposed there should be alternative collateral options such as short/medium-term deposits, debt service reserve accounts (with interest), or bespoke insurance products. Customer may also post a guarantee from a parent, affiliate, tenant, or financially interested entity.
Interest Accrual	None – collateral does not accrue interest while held	None – collateral does not accrue interest while held	Should accrue interest and be accrued interest should be returned to the customer on a quarterly basis

1 **II. LARGE LOAD INTERCONNECTIONS & FINANCIAL SECURITY BEST**
 2 **PRACTICES**

3 **Q. What is financial security?**

4 A. Financial security refers to assets, credit instruments, collateral, or contractual assurances
 5 provided by large-load customers to the utility. It serves to mitigate the risk of non-payment
 6 or stranded assets, helping ensure that the cost of service is recovered and not shifted to
 7 other ratepayers.

8 **Q. What risks do large loads, including data centers, pose to utilities and other**
 9 **ratepayers?**

10 A. Large loads, such as data centers, pose several potential risks related to system reliability,
 11 cost impacts, and regulatory compliance. Rapid and substantial load growth can strain
 12 existing generation resources and create congestion on transmission and distribution
 13 networks. These pressures not only challenge the short-term reliability of the system but
 14 also complicate long-term resource and infrastructure planning.

15 From a financial standpoint, utilities may need to undertake significant capital
 16 investments in infrastructure upgrades, including new substations, transmission lines, and
 17 distribution enhancements along with investments to both maintain existing generation
 18 resources and to build new ones, to accommodate such loads. Should the customer reduce
 19 operations unexpectedly or exit the service territory, these investments may become
 20 stranded assets. In such cases, the financial burden could shift to other ratepayers,
 21 especially if adequate financial security protections are not in place to mitigate the impact.

³ Missouri Public Service Commission Case No. EO-2025-0154, *Direct Testimony of Bradley D. Lutz*, pp. 19-20 (Feb. 14, 2025).

⁴ *Id.* at Schedule BDL-1, p. 38.

1 The risk of non-payment or partial recovery of infrastructure costs also poses a liability for
2 the utility and its broader customer base.

3 **Q. What are the potential benefits of large load customers taking service in Evergy's**
4 **territory?**

5 A. Large load customers, including data centers, manufacturing facilities, and emerging
6 industries, provide substantial economic, operational, and strategic benefits to the utility
7 and the broader community. Economically, they contribute to job creation, attract private
8 investment, expand the tax base, and stimulate regional economic development. From a
9 system reliability perspective, their presence may support and even accelerate necessary
10 utility investments in aging infrastructure, ultimately enhancing service quality for all
11 customers.

12 Multi-year service commitments from large load customers enhance the utilization
13 of both existing and new generation and transmission assets. These customers also
14 contribute stable, long-term demand, which supports more efficient resource planning and
15 system modernization efforts.

16 Financially, large loads can increase and stabilize utility revenues by expanding
17 overall system usage. A higher total sales volume allows the utility to distribute fixed
18 system costs across more kilowatt-hours, which may help reduce costs for other ratepayers.

19 From a policy and compliance standpoint, many large load customers are actively
20 pursuing ambitious sustainability objectives. This creates opportunities for meaningful
21 collaboration on clean energy procurement, energy efficiency initiatives, and innovative
22 grid solutions. Furthermore, large, consistent loads may catalyze the deployment of
23 emerging technologies, such as advanced geothermal or nuclear power, hydrogen-based

1 fuels, and grid-scale energy storage as well as supporting a variety of grid-enhancing
 2 technologies. By serving as anchor customers or project sponsors, these entities can help
 3 advance alternative pathways to achieving the utility's clean energy and decarbonization
 4 goals especially if they are willing to take on more risk such as supporting first-of-a-kind
 5 technologies that is not appropriate for a utility to bear but could provide future benefits
 6 when those technologies are potentially de-risked.

7 **Q. What is your position on requiring financial security for large load customers?**

8 A. I support requiring financial security from large load customers as a means of protecting
 9 utilities and their ratepayers from potential financial risks, including stranded assets,
 10 project delays, and customer default. Large load projects often require substantial
 11 infrastructure investment. If such projects are canceled, delayed, or significantly reduced,
 12 the resulting sunk costs may ultimately be shifted to other ratepayers. Financial assurances
 13 such as collateral, guarantees, or prepayments work in tandem with others rate payer
 14 protections such as capacity reduction penalties and exit fees. These mechanisms
 15 collectively ensure that customers assume appropriate responsibility for the risks they
 16 introduce and that the utility can recover its costs.

17 **Q. At a high level, how should the utility approach the design of financial security**
 18 **requirements for large load customers?**

19 A. Utilities should design financial security requirements that are proportionate to the specific
 20 risks associated with each large-load project. In many cases, these customers are supported
 21 by financially stable sponsors and long-term commercial commitments. Applying a
 22 uniform or overly rigid approach to all customers may unintentionally discourage low-risk,

1 high-value projects. A more effective framework would recognize differences in project
2 profiles and adopt a flexible, risk-based approach to credit assurance.

3 One recommended strategy is a staged or milestone-based structure, in which
4 financial security requirements begin conservatively but evolve over time. As customers
5 advance their projects, demonstrate meaningful progress, and commit capital, the utility's
6 exposure to financial risk diminishes. Accordingly, financial requirements should adjust to
7 reflect that reduced risk. This approach encourages responsible project development while
8 still protecting the utility and its ratepayers.

9 Utilities should also offer a range of acceptable credit instruments, including surety
10 bonds, parent guarantees, and upfront financial contributions. Providing flexibility in the
11 form and timing of collateral allows creditworthy customers to meet requirements without
12 unnecessary liquidity strain. Tailoring financial security to the customer's credit quality
13 and project status promotes transparency, supports scalable growth, and reduces the
14 likelihood of inefficient capital allocation.

15 In addition, utilities should consider evaluating financial risk at the cluster level
16 when appropriate. Similar to how interconnection studies assess multiple projects based on
17 shared geographic or operational characteristics, financial risk can also be aggregated and
18 managed across groups of customers. This can be particularly useful in areas where many
19 similar large-load projects are requesting service simultaneously.

20 Finally, the utility's financial security framework should account for how customers
21 perceive risk in the service territory. Excessive or inflexible collateral requirements,
22 particularly when combined with uncertainty in interconnection timelines or lack of
23 procedural transparency, can materially increase the cost of development. Customers

1 incorporate these factors into their risk assessments when deciding whether to move
2 forward with a project or cite a project in a specific utility territory. If the perceived risk
3 outweighs the potential benefit, projects may be delayed, reprioritized, or abandoned. This
4 can lead to reduced load growth, underutilized infrastructure, and unintended consequences
5 for ratepayers.

6 **Q. Is there a risk aligned framework that can be replicated when designing credit and**
7 **collateral requirements?**

8 A. Yes, E3 has created a risk aligned framework that I will detail below that recognizes the
9 risks associated with large load interconnections while enabling responsible large load
10 growth. I recommend the Commission consider the following core design principles
11 when considering Evergy's financial security proposal:

12 **1. Balance**

13 Credit and collateral frameworks should be calibrated to reflect genuine financial risk,
14 including the potential for stranded costs or revenue volatility. A well-balanced structure
15 considers the specific characteristics of the load, the development phase of the project, the
16 financial standing of the sponsor, and the degree of capital commitment. A balanced
17 framework should:

- 18 • Distinguish between perceived risks and those supported by objective data,
19 historical performance, or clear precedent.
- 20 • Align both the timing and magnitude of collateral requirements with the utility's
21 true financial exposure. This helps address the asymmetry that may exist
22 between the utility's understanding of demand risk and the data center's

1 understanding of utility-related risks, such as delays or infrastructure
2 constraints.

- 3 • Include clear and predictable mechanisms for reducing or releasing collateral
4 as the customer's risk profile improves over time. This may occur through
5 demonstrated performance, credit enhancements, or progression through
6 defined project milestones.

7 **2. Equity**

8 While large loads such as data centers may introduce new operational profiles, the
9 application of established regulatory principles remains paramount. Specifically, the
10 principles of cost causation and nondiscriminatory treatment must guide policy design. An
11 equitable framework should:

- 12 • Avoid the use of arbitrary thresholds or the imposition of sector-specific
13 requirements that are not clearly tied to measurable risk.
- 14 • Apply consistent standards to similarly situated customers. Large, high-load-
15 factor customers in the industrial, manufacturing, or other commercial sectors
16 should be treated comparably in terms of financial security requirements.
- 17 • Align with regulatory expectations for fairness in cost allocation, access to
18 service, and the design of rates and terms. This ensures that customers are not
19 unfairly disadvantaged based on industry classification or business model.

20 **3. Optionality**

21 Rigid or one-size-fits-all credit requirements may unintentionally exclude financially
22 sound projects that are structured differently. Introducing optionality into credit

frameworks allows utilities and customers to address risks pragmatically and equitably. An optionality-based approach should:

- Allow the use of various credit instruments, including but not limited to Contributions in Aid of Construction (“CIAC”), surety bonds, irrevocable letters of credit, guarantors and liquidity. These tools provide flexibility while still securing the utility's financial interests.
- Enable utilities to match credit instruments to the specific type and timing of risk. For example, requirements may differ between construction-phase exposure and longer-term credit risk during ongoing operations.

4. Scalability

As Missouri experiences sustained growth in large load interconnection requests, Evergy’s credit and collateral policies must evolve accordingly. Scalability is essential to ensuring timely and efficient processing without compromising risk mitigation or fairness. A scalable policy framework should include:

- Objective eligibility benchmarks and project development milestones that determine when collateral is required, in what amount, and under what conditions.
- Streamlined administrative processes for credit evaluation, application submission, and ongoing compliance, ensuring timely review and reducing resource burdens on both the utility and the customer.
- Transparent communication of expectations, responsibilities, and timelines, ensuring all parties have a shared understanding of the process and requirements.

1 **Q. What are the best practices that define the risk aligned framework identified by E3?**

2 A. The best practices within the risk aligned framework aim to ensure cost recovery, support
3 responsible load growth, and promote fair treatment of all customers.

4 A key principle is aligning financial security requirements with actual risk
5 exposure. This involves using a phased or milestone-based structure in which collateral
6 levels adjust based on the project's stage and the utility's financial commitment. Early-
7 stage projects, which carry higher risk, should provide greater upfront security that can be
8 reduced as the project advances through permitting, financing, construction, and operation.

9 Another best practice is offering a standardized set of acceptable collateral
10 instruments. Utilities should accept various forms of security, such as surety bonds;
11 guarantees from a parent, affiliate, tenant, or other entity with a financial interest in the
12 customer; sponsor support agreements; and CIAC. This flexibility accommodates different
13 customer financial structures while maintaining utility protection.

14 Avoiding redundancy is also important. Utilities should not impose overlapping
15 forms of security that address the same risk, such as combining CIAC, exit fees, and
16 demand guarantees without clear justification. Credit frameworks should include
17 evaluation tools, such as a credit efficiency index or "scorecard," to assess the adequacy of
18 existing protections and calibrate requirements appropriately.

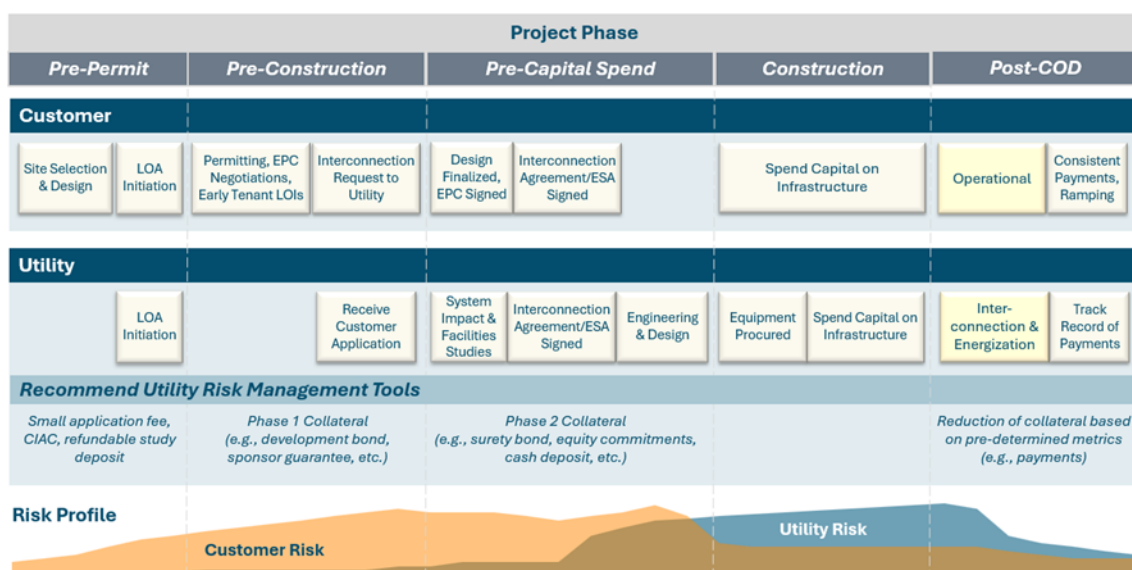
19 Transparency and consistency are essential. Utilities should define clear credit
20 evaluation criteria, including liquidity thresholds, credit ratings, and exemption standards.
21 Frameworks must also be scalable and adaptable to accommodate growing and evolving
22 large load interconnection requests.

Together, these practices provide a disciplined and balanced approach that protects ratepayers, supports infrastructure investment, and ensures a fair and efficient interconnection process.

Q. Please provide more details on the milestone-based approach.

A. A milestone-based approach to financial security ties the level and type of collateral to key stages in the development of a large load project and the customer's lifecycle. Rather than imposing a fixed collateral requirement, this approach adjusts financial security obligations as the utility's exposure evolves over time. Figure 1 demonstrates the risk borne by the customer and utility at project milestones and risk management tools correlating with the milestone.

Figure 1: Project Development Timeline from the Utility and Customer Perspective



Financial security requirements should begin when the utility starts making financial commitments on behalf of the customer and increase as those investments grow. Financial security requirements could be in the form of partial collateral or, as is the case

1 with Evergy, other forms of financial assurances. At the customers' facility commercial
2 operation date and throughout the load ramp period, full collateral should be held to
3 incentivize customers to meet their ramp targets and to mitigate the risk of underutilized
4 assets. Once the customer has fully ramped their load, collateral should be gradually
5 reduced to reflect the declining risk to the utility and ratepayers. This reduction should
6 continue month by month as the customer meets its contractual obligations, aligning
7 financial security with actual performance and risk.

8 The milestone-based framework offers a transparent, scalable, and disciplined way
9 to manage financial security. It balances ratepayer protection with flexibility for
10 responsible, creditworthy customers and aligns financial obligations with both project risk
11 and utility investment timing.

12 **Q. Please expand on the standardized menu of acceptable collateral instruments.**

13 A. A standardized menu of acceptable collateral instruments is essential to a transparent and
14 effective financial security framework for large load customers. It provides clarity and
15 consistency by listing approved financial tools that customers may use to meet collateral
16 obligations. This approach promotes fairness and allows customers to select instruments
17 that align with their financial structure, while ensuring the utility remains protected.

18 Common instruments include letters of credit, guarantees, surety bonds, and cash
19 deposits. Letters of credit must be issued by a U.S. bank or a U.S. branch of a foreign bank
20 with a minimum credit rating, typically BBB- or higher from S&P and a Baa3 or higher
21 from Moody's. These letters must meet requirements for term length and automatic
22 renewal. Parent or affiliate guarantees must come from entities with sufficient credit quality
23 and liquidity to support the obligation. Surety bonds, issued by qualified insurers, can be a

1 cost-effective option. Cash collateral, though less flexible, offers strong security and is
2 universally accepted.

3 Including these instruments, along with clear eligibility standards, ensures the
4 utility's financial exposure is adequately managed without imposing excessive burdens on
5 customers. The availability of multiple options supports a range of financial profiles and
6 simplifies compliance and enforcement. This structure helps maintain equitable treatment,
7 operational efficiency, and a balanced approach to risk management.

8 **Q. Should there be collateral exemptions?**

9 A. Yes. Collateral exemptions are appropriate because financial security requirements should
10 reflect the actual risk posed by each customer. Applying uniform collateral across all large
11 load customers can lead to overcollateralization and create unnecessary barriers,
12 particularly for financially stable and low-risk entities.

13 Exemptions should be based on objective criteria as discussed in the previous
14 answer. For example, a customer with an investment-grade rating and liquidity exceeding
15 ten times the required collateral should not be subject to the same obligations as a customer
16 with speculative credit and low liquidity. Customers without formal ratings but with strong
17 liquidity and financial transparency should also qualify for partial exemptions.

18 Establishing structured, risk-based exemptions allows utilities to maintain
19 necessary protections while promoting fairness and investment. A balanced exemption
20 framework ensures accountability, avoids unnecessary cost burdens, and protects
21 ratepayers without discouraging viable large load development.

1 **Q. What is your stance on collateral reduction?**

2 A. Collateral reduction is a critical component of a well-designed financial framework. As a
3 large-load project advances through development, enters commercial operation, and the
4 utility begins recovering its capital investment, the financial risk to the utility and its
5 ratepayers declines. Collateral requirements should be structured to reflect this declining
6 risk, decreasing over time or upon the achievement of clearly defined milestones.

7 For example, once a customer has completed construction, initiated commercial
8 operations, and established a record of timely payments, the likelihood of default or early
9 termination is significantly reduced. Continuing to require the full collateral amount
10 beyond this point imposes unnecessary capital constraints on the customer.

11 Holding millions of dollars in collateral for the full term of the Electric Service
12 Agreement restricts the customer's ability to deploy capital toward other productive
13 investments, including those that support reliability, innovation, or sustainability. A
14 declining collateral schedule that tracks actual risk exposure helps ensure that financial
15 security policies are both protective and practical.

16 **Q. Do you recommend a certain form of collateral?**

17 A. No. There is no single form of collateral suitable for all utilities or large load customers.
18 Risk preferences vary by utility, and customer financial structures differ widely. A rigid,
19 uniform approach is often impractical and may lead to unintended consequences.

20 Collateral options should include cash deposits, standby letters of credit from
21 investment-grade institutions, surety bonds from qualified insurers, and guarantees from a
22 parent, affiliate, tenant or other entity with a financial interest in the customer and

1 supported by strong credit and liquidity. Each instrument carries distinct costs, risks, and
2 administrative considerations.

3 Providing a standardized menu of approved collateral types allows utilities to
4 manage risk effectively while giving customers flexibility to meet requirements in a
5 manner consistent with their financial strategy. This approach encourages participation,
6 streamlines project development, and upholds ratepayer protection through enforceable,
7 risk-aligned instruments.

8 **Q. Why are scalability and adaptability in credit frameworks important?**

9 A. Scalability and adaptability are essential for managing the increasing number and diversity
10 of large load customers, including data centers, electric vehicle charging hubs, hydrogen
11 production facilities, and other emerging technologies. This framework is also applicable
12 to existing manufacturers and new industrial large loads. A scalable credit framework
13 enables utilities to apply consistent processes across a wide range of project sizes and
14 customer types. This promotes efficiency, reduces administrative burden, and supports fair
15 and timely evaluation of interconnection requests.

16 Adaptability ensures that the credit framework remains responsive to changes in
17 market conditions, regulatory objectives, and customer risk profiles. As new customer
18 categories emerge or financial conditions evolve, utilities must have the ability to adjust
19 credit thresholds, collateral requirements, and exemption criteria without overhauling the
20 entire policy structure. This flexibility allows utilities to maintain a consistent approach
21 while addressing unique risk characteristics in a practical and efficient manner.

22 Together, scalability and adaptability provide the foundation for a stable,
23 transparent, and future-ready credit policy. They allow utilities to protect ratepayers from

1 financial exposure while facilitating the reliable and equitable integration of large loads
2 into the electric grid. Importantly, credit policies should not be limited to near-term
3 concerns or tailored narrowly to one customer segment. Rather, they should be designed
4 with a long-term, system-wide perspective that supports the anticipated growth and
5 diversification of large load interconnections. A forward-looking framework that is both
6 scalable and adaptable will enable utilities to manage emerging risks effectively while
7 supporting innovation, investment, and sustained grid reliability.

8 **Q. How transferable are these credit and collateral best practices across utilities of**
9 **different sizes, ownership model, interconnection queues, or regulatory jurisdictions?**

10 A. The principles of effective credit and collateral policy, such as proportionality,
11 transparency, and flexibility, are broadly applicable across utilities regardless of size,
12 ownership, or jurisdiction. While implementation may vary, these practices can be adapted
13 to reflect local conditions.

14 The key factor is the relative scale of the interconnecting load. For example, a 50
15 megawatt (“MW”) data center may present similar financial risk to a small municipal utility
16 as a 500 MW cluster would to a large investor-owned utility. In each case, credit policies
17 should reflect the utility’s actual exposure rather than applying a uniform standard.

18 Utilities with smaller interconnection queues or less experience may require more
19 conservative protections, while those with larger queues and more established procedures
20 may support more flexibility. Ownership structure influences internal requirements, but
21 risk-based credit frameworks can be designed to suit any utility model.

1 Across jurisdictions, adaptable best practices have proven effective in managing
2 risk and enabling large load development. A tailored approach aligns financial safeguards
3 with actual risk, benefiting utilities, ratepayers, and customers alike.

4 **III. EVERGY'S FINANCIAL SECURITY PROPOSAL AND INDUSTRY**
5 **BENCHMARKING**

6 **Q. Earlier in your testimony, you noted a discrepancy between Evergy's financial**
7 **security proposal as described by Mr. Lutz and the language in the LLPS tariff**
8 **contained in Schedule BDL-1. How do you intend to address this issue?**

9 A. As noted previously, there is a significant discrepancy between the financial security
10 provisions described in Mr. Lutz's testimony and those set forth in the LLPS tariff. In the
11 remainder of my testimony, I will examine both versions of the proposal in detail. I will
12 begin by describing the financial security provisions outlined in the LLPS tariff included
13 in Schedule BDL-1, followed by a description of the financial security framework as
14 presented in Mr. Lutz's testimony. I will then highlight the key differences between the
15 two, including how each would impact large load customers. Finally, I will provide my
16 evaluation and position on both proposals, including whether either is appropriate and
17 justified in the context of the LLPS offering.

18 **Q. What is your understanding of Evergy's financial security proposal language in the**
19 **LLPS tariff in Schedule BDL-1?**

20 A. Under the LLPS tariff contained in Schedule BDL-1, Evergy proposes a collateral
21 requirement equal to three years of maximum monthly bills, to be held for the duration of
22 the 15-year contract term. This amount would be recalculated annually, with the customer

1 required to provide additional collateral if the updated amount exceeds the previous year's
2 requirement by 10 percent or more.

3 Customers with a credit rating of at least A- from S&P and A3 from Moody's, and
4 with liquidity exceeding ten times the collateral requirement, would be fully exempt from
5 the collateral requirement. Customers who do not meet the credit rating thresholds but
6 maintain liquidity greater than ten times the collateral requirement would be eligible for a
7 50 percent exemption, capped at \$250 million.

8 Acceptable forms of collateral include a parental or affiliate guarantee meeting the
9 same credit rating and liquidity thresholds, a full-value irrevocable letter of credit, or a full
10 cash deposit.

11 **Q. What is your understanding of the collateral requirements proposed in the testimony**
12 **of Mr. Bradley Lutz?**

13 A. Mr. Lutz's testimony refers to two years of maximum bill as collateral requirement with no
14 option for a full exemption. He proposed exemptions of 50% up to a maximum of \$150
15 million for customers credit rating of at least A- from S&P and A3 from Moody's, and with
16 liquidity exceeding ten times the collateral requirement and a 40% exemption if the
17 customers do not have a credit rating but hold ten times liquidity with the exemption
18 maximum of \$125 million. He does not state if the guarantee from a parent or affiliate are
19 subject to credit or liquidity terms and the other forms of collateral are the same as the
20 tariff.

21 **Q. What is your position on both of Evergy's proposals?**

22 A. As demonstrated above, the proposals presented in the tariff and in Mr. Lutz's testimony
23 differ significantly. From a risk management perspective, the tariff language reflects a more

1 reasonable and balanced approach, even though it does not fully align with best practices.
2 A requirement of two years of maximum monthly bills, as proposed by Mr. Lutz, is
3 generally consistent with industry norms. However, the three-year requirement described
4 in the tariff is not unreasonable when paired with flexible exemption provisions.

5 The tariff allows for a full exemption for companies that meet high credit quality
6 and liquidity thresholds. Specifically, a company must have a credit rating of at least A-
7 from S&P and A3 from Moody's, and liquidity greater than ten times the collateral
8 requirement. This approach is consistent with standard business practices in other
9 industries. Companies that meet these criteria present very low risk of default or non-
10 payment, especially when combined with other protective measures proposed in this
11 proceeding, such as early termination fees and minimum monthly bills.

12 Mr. Lutz's proposal, by comparison, is more restrictive. It does not provide a full
13 exemption under any circumstances. Instead, it allows for only partial exemptions, with
14 stricter credit requirements and caps on the exemption amounts. These caps, set at \$150
15 million and \$125 million depending on credit status, may exclude larger projects that
16 otherwise meet the risk criteria. This cap-based approach is problematic because it does
17 not apply a consistent, risk-based standard. A customer either qualifies or does not.
18 Imposing a cap is effectively discriminatory toward larger projects, whose minimum
19 monthly bills could easily exceed the exemption limits. There is no evidence suggesting
20 that larger projects pose greater risk than smaller ones. Neither proposal allows for the
21 collateral to be returned prior to the termination of the contract as the risk of stranded or
22 underutilized assets is reduced with multiple years of on time payments and appropriate
23 demand.

1 Further, Mr. Lutz does not clarify whether a parent or affiliate guarantee must meet
2 the same credit or liquidity thresholds. The limited options for providing collateral under
3 both proposals could also hinder participation from a diverse set of large load customers.
4 Finally, the absence of interest accrual on posted collateral is inconsistent with basic
5 financial principles.

6 **Q. Are you aware of any quantitative risk analysis done by Evergy that underlines their**
7 **collateral proposal?**

8 A. No, I am not aware of any quantitative risk analysis conducted by Evergy to support the
9 specific structure or level of collateral proposed. The absence of such analysis suggests that
10 Evergy's perceived risk is likely different than its actual risk, particularly with collateral
11 exemptions and reductions. In the absence of data and analysis that suggests otherwise, the
12 Commission should consider a more moderate and calibrated collateral structure.

13 **Q. Why should the Commission consider additional flexibility in the Evergy financial**
14 **security proposals?**

15 A. Missouri's regulatory framework includes an additional layer of oversight through the
16 Certificate of Convenience and Necessity ("CCN") process. As noted in the testimony of
17 Mr. Gunn, the CCN requirement can extend the timeline needed to secure new capacity,
18 particularly as the size and complexity of the interconnection queue grow.⁵ While I do not
19 take a position on the necessity of the CCN process itself, it is important to recognize that
20 delays in energization represent a material risk for large load customers when evaluating
21 where to site projects. The combination of a lengthy regulatory approval process and

⁵ Missouri Public Service Commission Case No. EO-2025-0154, *Direct Testimony of Kevin D. Gunn*, p. 9 (Feb. 14, 2025).

1 stringent financial security requirements may discourage high-quality projects from
2 selecting Missouri as a host jurisdiction. Introducing greater flexibility in Evergy's
3 financial security provisions could help offset the potential deterrent effect of these
4 regulatory hurdles and improve the state's competitiveness in attracting large load
5 development.

6 **Q. What gaps or limitations exist within Evergy's current approach to collateral and risk**
7 **management when compared with other industry-wide practices?**

8 A. Evergy's current approach to collateral and risk management reflects several notable gaps
9 and limitations when assessed against risk assessment best practices. While the objective
10 of safeguarding ratepayers from financial exposure is appropriate, the means by which
11 Evergy seeks to achieve that objective are more restrictive and less flexible than necessary
12 given the risk profile associated with qualified customers, particularly once they are fully
13 ramped. These limitations fall into several key areas: (1) misalignment between collateral
14 requirements and actual risk exposure; (2) limited collateral exemptions and stringent
15 liquidity guidelines; (3) insufficient forms of collateral; and (4) asymmetrical collateral
16 flexibility.

17 **Q. Please explain what you mean by "misalignment between collateral requirements**
18 **and actual risk exposure."**

19 A. Collateral should be tied to specific and time-based risks, such as the risk of non-
20 performance during project construction or failure to meet ramped load commitments.
21 Evergy's approach collects collateral and holds it throughout the entire contract term,
22 without regard to risk reduction over time.

1 Once a customer is fully ramped, operating at its contracted demand, and has
2 established a record of timely payment, the financial risk to the utility declines
3 significantly. Yet, under the current proposal, the collateral remains unchanged. This failure
4 to reduce collateral in response to reduced risk does not reflect best practices, where
5 collateral is adjusted based on credit performance, service history, or operational
6 milestones.

7 By retaining collateral indefinitely, the policy overstates the utility's exposure and
8 may discourage otherwise viable projects. A more appropriate approach would align
9 collateral with actual risk: initiating requirements closer to when capital is committed and
10 scaling them back as customers demonstrate reliability and financial strength.

11 **Q. Please explain what you mean by “limited collateral exemptions and stringent**
12 **liquidity guidelines.”**

13 A. Limiting the total amount of collateral exemption is arbitrary and unnecessary, suggesting
14 misalignment between perceived and actual risk. This policy creates an uneven playing
15 field that unfairly discriminates against larger customers and may limit investment from
16 well-qualified customers.

17 Further, Evergy's requirement that customers demonstrate liquidity greater than or
18 equal to ten times the collateral amount in order to qualify for an exemption is unreasonably
19 stringent. This threshold excludes otherwise creditworthy entities, including those with
20 strong ratings, reliable capital structures, and long-term commitments to the region. Such
21 customers may not maintain that level of available liquidity as a matter of financial policy,
22 yet they pose minimal risk to the utility or its ratepayers.

1 **Q. Please explain what you mean by “insufficient forms of collateral.”**

2 A. Evergy’s proposed financial security framework fails to recognize alternative forms of
3 collateral that may be available to customers. These include guarantees from entities with
4 a direct financial interest in the customer, such as a parent company, affiliate, tenant, or
5 third party. In addition, customers may be able to demonstrate substantial lease
6 commitments from creditworthy tenants that align with the term of the Energy Service
7 Agreement (“ESA”). Such arrangements materially reduce the customer’s risk profile and
8 provide meaningful assurance of payment performance. By excluding these risk-mitigating
9 mechanisms from its credit policy, Evergy’s proposal adopts an overly prescriptive
10 approach that may discourage participation from a diverse set of large load customers with
11 varying financial structures.

12 **Q. Please explain what you mean by “asymmetrical collateral flexibility.”**

13 A. The tariff language proposed by Evergy grants the utility the unilateral right to request
14 additional collateral on an annual basis if the recalculated value of a customer’s maximum
15 bills exceeds the amount currently held by 10 percent or more. It is unclear whether Mr.
16 Lutz supports this provision, as it is not addressed in his testimony. Notably, the proposed
17 tariff does not appear to include a reciprocal mechanism that would allow customers to
18 recover excess collateral in the event that their recalculated obligation falls below the
19 amount previously posted. This lack of symmetry in the treatment of financial adjustments
20 creates an imbalance in how financial risk is allocated and is fundamentally inequitable to
21 the customer.

Q. What credit and collateral requirements do other utilities in the region have for large load customers?

A. Table 2 summarizes the credit and collateral requirements of selected regional utilities for large load customers.

Table 2: Credit and Collateral Proposed or Approved Requirements of Regional Utilities

<u>ATTRIBUTE</u>	<u>INDIANA MICHIGAN POWER</u>	<u>COMED</u>	<u>CONSUMERS ENERGY</u>	<u>DOMINION ENERGY VIRGINIA</u>
<u>CUSTOMER TYPE</u>	<u>Loads >70 MW or 150 MW aggregated</u>	<u>Large Commercial / Industrial</u>	<u>Data centers ≥100 MW</u>	<u>GS-5 customers ≥25 MW & ≥75% load factor</u>
<u>COLLATERAL REQUIREMENT</u>	<u>24×max monthly bill</u>	<u>Negotiated under PJM ESA</u>	<u>Negotiated; up to 100% of projected cost</u>	<u>\$1.5M / MW</u>
<u>CREDIT EXEMPTION / REDUCTION</u>	<u>Full waiver if credit & liquidity requirements met, partial waiver if only liquidity requirement met</u>	<u>Waived / reduced under PJM standards</u>	<u>Waived / reduced with guarantees or rating</u>	<u>70% reduction if credit & liquidity requirements met</u>
<u>FORMS OF COLLATERAL</u>	<u>LOC, guarantee, cash</u>	<u>Negotiated (LOC, guarantee, bond)</u>	<u>Negotiated (LOC, guarantee, bond)</u>	<u>LOC, surety bond, cash, parent guarantee</u>

IV. RECOMMENDATION TO THE COMMISSION

Q. Based on the financial security best practices framework explained earlier, what are your recommendations on financial securities in this case?

A. Evergy should adopt the collateral framework I describe below, which balances ratepayer protection with proportionality, transparency, and administrative efficiency. It is also a solid

1 middle ground approach until Evergy has the data or complete analysis that show what
2 actual risk large load customers pose to the Company. I recommend the following structure:

3 1. **Collateral Amount and Duration:** The collateral amount should be equal to two years
4 of minimum monthly bills which is consistent with what Mr. Lutz proposes in his
5 testimony. This amount reflects a reasonable estimate of potential financial exposure to
6 the utility in the event of customer default. The actual collateral required from any
7 individual customer would be contingent on whether that customer qualifies for a credit
8 rating-based exemption or reduction. Customers that meet the exemption criteria would
9 have their collateral obligations adjusted accordingly, ensuring that the requirements
10 remain proportionate to the customer's financial risk profile. Evergy should require
11 10% at ESA execution, ramp up linearly with investments made for interconnection,
12 and reach the full amount at energization. This collateral should remain in place through
13 the load ramp-up period.

14 This level of collateral provides sufficient "skin in the game" to demonstrate
15 the customer's commitment to project development. Maintaining the collateral during
16 the ramp period also serves as an incentive for the customer to achieve full load ramp,
17 thereby reducing the risk of cost shifts to other customers. Although instances of
18 customer default are rare, in such cases, two years of non-fuel revenue would be
19 sufficient to cover the carrying costs of underutilized assets until the associated capacity
20 can be reassigned to one or more new customers and those customers become
21 operational. Additionally, the use of two years of minimum monthly bills as a collateral
22 benchmark is increasingly common across the industry, as more utilities including
23 Evergy propose similar requirements in their filings.

- 1 2. **Ramp-Down Schedule:** After one year of operations at contracted capacity, collateral
2 should be reduced by 10 percent annually, reaching zero by the end of the contract term.
3 If the contract is extended, no new collateral should be required unless additional utility
4 investments are necessary. The 10 percent reduction annually mirrors the reduced risk
5 to Evergy and ratepayers of non-payment or stranded assets.
- 6 3. **Credit Rating-Based Exemptions:** The following are my recommendations for
7 financial security exemptions:
- 8 I. Accept Evergy's proposal that customers holding credit rating of at least A- (S&P)
9 or A3 (Moody's), and liquidity of at least ten times the collateral amount, should be
10 eligible for a full exemption without limit. These entities should be required to
11 certify their rating and liquidity annually.
- 12 II. Where a customer or the customer's guarantor (which can be a parent, affiliate,
13 tenant or third party with financial interest in the customer) maintains liquidity of
14 at least five times the collateral amount, the customer should be eligible for a 50
15 percent exemption from the collateral requirement. These entities should be
16 required to certify liquidity annually. This represents a more reasonable and
17 inclusive threshold than Evergy's proposed requirement of ten times the collateral
18 amount, while still providing meaningful financial assurance to the utility.
- 19 III. Rather than adopting the 40 percent exemption level as proposed by Evergy, I
20 recommend lowering the exemption to 30 percent while increasing the flexibility
21 of eligibility criteria. This adjustment balances risk management with broader
22 access and will allow a more diverse range of customers to qualify.

Customers should qualify for a 30 percent exemption from the collateral requirement if any of the following conditions are met:

- i) The customer or their guarantor maintains liquidity equal to two times the required collateral amount, subject to annual certification, or
- ii) The customer provides a signed lease agreement for the full term of the Electric Service Agreement and demonstrates that more than 50 percent of the facility's capacity is contracted to a qualified tenant. The tenant should be required to have an investment grade credit rating of at least BBB from S&P or Baa3 from Moody's, should not be on credit watch, and should be required to maintain liquidity equal to at least two times the required collateral amount. This arrangement must also be supported by annual certification.

There should be no maximum dollar thresholds for collateral reduction.

4. Case-by-Case Bilateral Financial Assurance with Commission Review: Evergy and a customer should be permitted to enter into a bilateral agreement that outlines alternative financial assurances or other structural terms. These agreements should reflect the specific risk profile of the customer and may result in partial or full exemption, as appropriate. The proposed terms should be submitted to the Commission for review and approval to ensure consistency with public interest objectives and adequate protection for ratepayers.

5. Additional Forms of Collateral and Guarantees: Evergy should consider alternative forms of collateral such as short/medium term deposits or debt service reserve account that provide interest or bespoke insurance products. The customer should have the option of posting collateral in the form of a guarantee from a parent, affiliate, tenant or

1 other entity with a financial interest in the customer. Imposing overly prescriptive
2 limitations on acceptable forms of collateral may unnecessarily restrict customer
3 participation, particularly when there is no demonstrated risk-based justification for
4 denying reasonable flexibility. Such rigidity can have a negative impact on the diversity
5 of large load customers, limiting Evergy's ability to attract a broad range of financially
6 viable projects with varying corporate structures.

- 7 **6. Collateral in the form of Cash:** If collateral is posted in the form of cash, it should
8 accrue interest while held by Evergy. Any accrued interest should be returned to the
9 customer on a regular basis, such as through quarterly payments or credits. This
10 treatment aligns with standard financial practices and ensures that customers are not
11 unfairly penalized for providing liquid collateral.

12 Additionally, the Commission should require Evergy to clearly explain how
13 cash collateral will be safeguarded in the event of utility insolvency or bankruptcy.
14 Customers providing cash should have confidence that these funds are protected and
15 recoverable under such circumstances. This clarification is essential to ensure the
16 integrity of the financial security framework and to prevent unintended financial harm
17 to customers in the event of unforeseen utility distress.

- 18 **7. Drawing Collateral at Default:** Evergy should be required to exhaust all collection
19 remedies prior to drawing down collateral in the event of default.

- 20 **8. Use of Collateral Proceeds:** If Evergy draws on posted collateral, the proceeds should
21 be used to offset costs for remaining ratepayers to ensure the financial security serves
22 its intended purpose to offset costs for all ratepayers.

This structure protects ratepayers while avoiding excessive financial obligations for large customers. It ensures recovery of utility costs through a fair, risk-based mechanism that supports investment and operational equity.

Q. Provide an example of the difference in what a customer would pay under Evergy's proposal as compared to your recommendation.

A. Consider an illustrative data center customer with a contracted demand of 100 MW ~~and a typical load factor of 85 percent~~. Under Evergy's Proposed LLPS Rate, an estimate of the customer's annual cost for electric service would be approximately \$2~~7~~8 million.⁶

Under Evergy's proposal, which requires collateral equal to 2 years of expected, non-energy revenues, this customer would be obligated to provide \$5~~3~~6 million in collateral to the utility for a period of 15 years. Assuming Evergy's pre-tax weighted average costs of capital ("WACC") of 8.9 percent as the discount rate over the 15-year term, the net present cost of this collateral commitment would be approximately \$3~~7~~6 million.

A more proportionate and risk-aligned collateral framework considers the same \$5~~3~~6 million in anticipated customer non-energy charges over two years; however, a milestone approach can be used to gradually step down the collateral commensurate with declining risk following the initial ramp period. Applying the same WACC to these assumptions and modeling a return of collateral in equal monthly installments over a 10-year period, the net present cost to the customer would be approximately \$2~~8~~9 million.

⁶ The minimum monthly bill includes Customer Charge, Grid Charges, and 80% of Demand Charges.

1 This example of collateral posted in cash form, held by the utility without accruing
2 interest, underscores the significant financial burden imposed by the proposed collateral
3 structure. This highlights the need for a more balanced and scalable approach to credit
4 requirements. While cash collateral imposes an immediate and direct strain on a customer's
5 liquidity, alternative forms of collateral such as letters of credit or performance bonds can
6 provide equivalent financial security with significantly less impact on cash flow.

7 As shown in Table ~~32~~ below, excessive collateral obligations may deter investment
8 by increasing the cost of capital and creating financial uncertainty. This risk is amplified if
9 the utility does not meet interconnection timelines, as customers may be forced to carry
10 collateral for extended periods, resulting in substantial carrying costs. In some cases, this
11 could result in project delays or abandonment.

12 A well-calibrated, risk-based collateral framework helps mitigate these risks by
13 aligning financial requirements with the actual creditworthiness of the customer and the
14 project's development stage. Such an approach protects ratepayers and preserves utility
15 financial integrity, while also supporting investment in large load projects that can improve
16 grid efficiency and long-term affordability.

1

Table **32**: Collateral Cash Flow Illustrative Example

Period (Year)	Cash Flow		
	2-Yr Collateral & No Recovery	2-Yr Collateral & 10-Yr Recovery	
1	\$ (5 36)	\$ (5 36)	<i>Upfront Collateral</i>
2	\$ 0	\$ 0	<i>Credit</i>
3	\$ 0	\$ 0	<i>Credit</i>
4	\$ 0	\$ 0	<i>Credit</i>
5	\$ 0	\$ 0	<i>Credit</i>
6	\$ 0	\$ 5. 36	<i>Credit</i>
7	\$ 0	\$ 5. 36	<i>Credit</i>
8	\$ 0	\$ 5. 36	<i>Credit</i>
9	\$ 0	\$ 5. 36	<i>Credit</i>
10	\$ 0	\$ 5. 36	<i>Credit</i>
11	\$ 0	\$ 5. 36	<i>Credit</i>
12	\$ 0	\$ 5. 36	<i>Credit</i>
13	\$ 0	\$ 5. 36	<i>Credit</i>
14	\$ 0	\$ 5. 36	<i>Credit</i>
15	\$ 5 36	\$ 5. 36	<i>Credit</i>
	\$ (3 76)	\$ (2 98)	<i>Approximate NPV</i>

2 Q. Does this conclude your testimony?

3 A. Yes.