BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Investigation into the Sustainability Transformation Plan of Evergy Metro, Inc., Evergy Kansas Central, Inc., and Evergy South, Inc. (collectively Evergy).	))))	Docket No. 21-EKME-088-GIE

COMMENTS OF THE CITIZENS' UTILITY RATEPAYER BOARD ON EVERGY'S SUSTAINABILITY TRANSFORMATION PLAN

COMES NOW, the Citizens' Utility Ratepayer Board ("CURB") and submits its comments in response to the Sustainability Transformation Plan ("STP") filed by Evergy on August 13, 2020.

Background

1. On June 18, 2020, the Kansas Corporation Commission ("KCC" or "Commission") issued an Order Opening General Investigation in Docket No. 20-EKME-514-GIE (20-514 Docket) to investigate an agreement ("Elliott Agreement"), dated February 28, 2020, by and between Evergy (the "Company") and Elliott Management Corporation ("Elliott").[1] The Elliott Agreement resulted in the appointment of two new members to the Company's Board and the creation of a Strategic Review & Operations Committee ("SROC") to explore ways to increase the Company's shareholder value.[2]

2. Pursuant to the Elliott Agreement, the SROC was to consider either a Modified Standalone Plan to cut operating and maintenance expenses and increase capital expenditures or a Merger Transaction, and to present its recommendation to the Company's Board for consideration and vote.[3] The Commission intended the general investigation to inform the Commission, the

[1] Petition of Commission Staff for Order Initiating Investigation, June 11, 2020.
[2] Ibid., ¶ 5.
[3] Ibid.

Company's customers and other stakeholders fully about the Board's analysis and rationale behind its decision to pursue either a Modified Standalone Plan or a Merger Transaction.[4] Further, the Commission's June 18, 2020, Order granted Staff, CURB, and any other intervenors an opportunity to file responsive comments no later than forty-five days after the Company submitted its report.[5]

3. The Company filed its report, which contained the outline of the STP, on August 13, 2020.[6] In that filing, the Company stated that it had decided against a strategic combination, i.e., a merger, and instead would remain a standalone enterprise. However, in view of concerns raised by Elliott, the Company outlined a series of capital spending increases and operating expense reductions that are designed to increase shareholder earnings over the next five years. The Company stated that its proposals will result in an earnings per share ("EPS") compound annual growth rate ("CAGR") of 6-8% from 2019-2024.[7]

4. On August 19, 2020, Staff requested that the Commission open this current docket "to evaluate the potential impact of the STP on the core elements of the merger agreement approved in Docket No. 18-KCPE-095-MER (18-095 Docket) and to gain an understanding of how the STP will affect service and rate trajectories."[8] The KCC opened this proceeding on August 27, 2020.

5. The KCC subsequently approved a procedural schedule that included a series of workshops to allow interested parties to more closely examine the STP and to initiate a dialogue with the Company on its provisions. Workshops were held on December 3, 2020, December 21, 2020, and January 20, 2021. CURB and its consultant participated in the three workshop sessions held to

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[4] Ibid., ¶ 6.

[5] CURB filed comments in the 20-514 Docket on September 28, 2020, stating its intent to fully participate in the 21-088 Docket proceedings. CURB's comments filed in the 20-514 Docket are incorporated herein.

[6] Ibid., ¶ 9.

[7] STP, page 4.

[8] Order Opening General Investigation, KCC Docket No. 21-EKME-088-GIE, page 3.

date. The procedural schedule also called for the filing of Intervenor comments and cross-answering comments on February 19, 2021, and March 5, 2021, respectively, with Evergy response comments to be filed on March 19, 2021, and a final workshop to be held on May 5, 2021. The Commission subsequently approved three extensions of the procedural schedule as requested by Staff. On April 8, 2021, the Commission granted Staff's Third Motion for Modification of Procedural Schedule.[9] Therefore, the deadlines for filing Intervenor comments and cross-answering comments are April 16, 2021, and April 30, 2021, respectively. Evergy's response shall be filed on or before May 14, 2021, and the workshop with Evergy's presentation after it incorporates feedback from comments is now scheduled for May 24, 2021.[10]

6. In addition to information provided during the three workshops, Evergy also responded to data requests submitted by the parties in this proceeding and provided other documentation, including minutes of various Board of Director meetings, a report prepared by the Boston Consulting Group ("BCG") in support of the STP, and other highly confidential supporting workpapers. The following comments are based on CURB's review of the STP, on its participation in the three workshops held to date, on its review of underlying supporting documentation, including the BCG report, and on Evergy's responses to data requests.

Elliott Agreement

7. While Evergy provided details of the STP and certain underlying supporting workpapers prior to and during the workshop process, there has been very little discussion to date

[9] Order Granting Staff's Third Motion to Modify Procedural Schedule, Docket No. 21-EKME-088-GIE, April 8, 2021.
[10] Order Granting Staff's Third Motion to Modify Procedural Schedule, p. 3.

about the event that triggered the STP, i.e., the letter sent by Elliott to Evergy expressing discontent with the Company's earnings. A copy of that letter is provided in Attachment A, which contains the entire News Release, dated January 21, 2020, from Elliott Management.

8. Elliott is a multi-strategy fund manager, and activist investor, with approximately $40.2 billion of assets. As of January 21, 2020, when Elliott released its letter to Evergy, Elliott had an economic interest in Evergy equivalent to 11.3 million shares, with a market value of approximately $760 million.

9. Elliott stated in its letter that "[w]e believe that Evergy's stock-price underperformance since the completion of the Great Plains / Westar Merger…reflects investors' increasingly skeptical outlook on the Company's long-term plan and its recent strategic decisions. Investors are especially skeptical regarding Evergy's current strategy of using capital to repurchase shares at the expense of increased investment in its infrastructure."

10. In its letter, Elliott noted that it had been engaged in a "private dialogue" with Evergy management over the past three months "on ways to maximize value for all of Evergy's key stakeholders." Elliott's letter states, "We currently appear to have differing views on the right path forward." Elliott noted that in response to its overtures, Evergy "chose not to engage with us on the merits of our suggestions but instead opted to make defensive changes to the Company's governance."

11. Elliott stated, "Based on this abrupt change to the Company's governance, limiting the ability of shareholders to nominate and elect directors, as well as lack of progress toward the exploration of any value-maximizing operational and/or strategic alternatives, we determined that it

would be in the best interest of all stakeholders to make our views public and facilitate a broader discussion of the best path forward for Evergy."

12. Elliott went on to state that decisions made by Evergy management had led to "bottom-quartile" performance in several areas, concluding that "[t]o put the Company back on a track where it can create sustainable value for all stakeholders, Evergy should immediately explore both of the following alternative paths:

- Standalone Path: Implement High-Performance Plan with Enhanced Oversight – Develop and implement a high-performance plan with the direct input of certain new highly-credentialed Board – and management-level leadership, to increase critical infrastructure investment and optimize operating costs, leading to annual rate-base growth of up to 10% with no expected overall rate impact on customer bills.
- Combination Path: Pursue Strategic Premium Merger Transaction - Explore a strategic combination via a premium stock-for-stock merger, following which Evergy's new partner would oversee the implementation of a high-performance plan, leading to value creation in which Evergy's current shareholders would be able to participate by receiving stock in the combined entity."

13. On August 5, 2020, Evergy announced the STP, which is intended to "drive increased value and benefits for all of the Company's stakeholders, including Evergy's shareholders, customers, employees, and the communities it serves." In its Press Release announcing the STP, Evergy stated that the plan was built around the following key tenets:

- Increasing investments in critical utility infrastructure to unlock significant operational efficiencies and keep customer electric rates competitive.

- Optimizing capital allocation to create a stronger grid for the future.
- Accelerating Evergy's transition to a clean energy provider.

14. In its August 5, 2020, Press Release, the Company also identified the following financial benefits of the STP, many of which are directed at increasing shareholder value:

- Increased system investment and rate base growth. The STP includes $8.9 billion of investment through 2024, an increase of approximately $1.4 billion over its original spending plan. These expenditures are expected to result in compound annual rate base growth of 5% to 6% from 2019 to 2024.
- Enhanced earnings growth. Evergy indicated that it was targeting an EPS compound annual growth rate of 6% to 8% through 2024, compared to its previous target of 5% to 7%.
- Continued cost discipline. Noting that Evergy has achieved merger savings in excess of $250 million, the Company indicated that it was well on its way to achieving a 25% reduction in operating and maintenance costs by 2024 from 2018 levels.
- Value creating total returns. The Company projected total annual shareholder returns of 9% to 11% through 2024, which reflect the current dividend yield of 3% and EPS growth in the top quartile of U.S. Electric companies.

15. In addition to the STP filed with the Commission on August 13, 2020, the Company filed responses to various questions posed by the Commission in the 20-514 Docket. CURB notes that Elliott may not be finished in its pursuit of higher earnings for Evergy. Elliott Management issued a Press Release on November 10, 2020, discussing a possible reexamination of a merger between NextEra and Evergy, stating, "As one of Evergy's largest investors, Elliott believes that

Evergy's Board must act in accordance with its fiduciary duty to immediately reengage with NextEra and fully explore the possibility of a transaction that maximizes value for Evergy's stakeholders. With its best-in-class management team, NextEra is uniquely positioned to deliver superior benefits for all of Evergy's stakeholders, including providing lower electric rates for Evergy's customers compared to what Evergy can achieve on a standalone basis." In response, Evergy noted in a November 10, 2020, Press Release that its focus is on the execution of the STP, "While we are always open to new ideas and opportunities that have the potential to enhance shareholder value, we remain confident that the STP, which Elliott publicly endorsed when it was announced, is the best risk-adjusted path forward and that all appropriate steps are being and have been taken to maximize shareholder value. We will continue to act accordingly."

Summary of the Sustainability Transformation Plan

16. As it was released on August 13, 2020, the STP is a high-level outline of an incremental capital expenditure spending program and an operating and maintenance reduction program that together are intended to increase shareholder earnings over the next five years. With regard to capital expenditures, the Plan calls for $8.9 billion in investment from 2020-2024 for the Company's combined Kansas and Missouri territories, which represents an increase of $1.4 billion over the original capital plan.[11] The STP anticipates that non-fuel operating and maintenance costs ("NFOM") will be $330 million below 2018 levels by 2024 (a reduction of 25%).[12] While specific cost-reduction programs were not identified in the STP, the Company provided the following breakdown of NFOM savings – 25% Generation, 19% Transmission and Distribution, 14%

[11] Id.

[12] STP, page 3.

Administrative and General, 9% Customer and Community Solutions, 9% Information Technology, and 24% Other Technology Enabling Savings.[13] The Company stated in the STP that it has already realized $250 million in merger savings.[14] The Company also anticipates that the 2024 Fuel and Purchased Power Costs ("FPPC") will be approximately $145 million below 2019 levels.

17. The Company claims that the STP will result in net savings of $2.0 to $3.0 billion over the next 20 years on a net present value ("NPV") basis.[15] Approximately 50% of the savings are related to reductions in the social cost of carbon, which is a relatively subjective analysis.

18. The Company estimates that the rate impact of the STP will be an annual increase of 1.6% from 2020 to 2024 "across all our utility customers."[16] No actual rate changes will occur until after the end of the five-year rate moratorium that was agreed to as a condition of the merger in the 18-095 Docket.

19. The Company stated that it is targeting an 80% reduction in CO_2 emissions by 2050.[17] The Company states that additional decarbonization efforts could reduce CO_2 emissions by up to 85% by 2030, but no details are provided in the STP.[18] Instead, the Company indicates that the pace of decarbonization will be defined in collaboration with its stakeholders, presumably if agreement can be reached on stranded cost issues including securitization.

Concerns of CURB

20. This proceeding is unusual in at least two regards. First, the STP was not initiated by

[13] STP, Appendix II, page 4.
[14] STP, page 2.
[15] STP, page 19.
[16] STP, page 12.
[17] STP, page 24.
[18] STP, page 4.

the Company or by the Commission, but rather was initiated in response to a direct *shareholder* complaint that *shareholder* earnings were not sufficient. Second, this proceeding is purely informational in that Evergy is not seeking Commission approval for the STP. These two factors underlie CURB's comments and concerns, as discussed below.

Driver of the STP

21. The process that resulted in the STP was initiated by Elliott on the basis that shareholders were not achieving sufficiently high returns from their investment in the Company. Elliott has a reputation for taking a very proactive approach to its investments, not only with regard to its investment in Evergy but with several of its other investments as well. The Elliott Agreement was executed because Elliott believed that Evergy management was not maximizing value to shareholders, including Elliott. Elliott and Evergy therefore agreed that a review should be conducted to determine the best way to maximize that value – either through a sale / merger of Evergy or through some internal process to both increase capital expenditures and to reduce operating and maintenance expenses.

22. Shareholder returns are ultimately driven by capital investment. In the ratemaking process, a utility's authorized equity earnings are directly tied to two factors – the authorized weighted cost of equity and the amount of rate base authorized by the regulatory commission. Given today's historic low capital costs, which prevent utilities from increasing their authorized cost of equity, companies can still seek to increase their authorized returns by increasing investment in the utility.

23. In the short-term, utility earnings can also be increased by reducing operating and

maintenance costs. However, shareholders will only enjoy those increased earnings until there is another base rate case, when such expense reductions are likely to be passed on to utility ratepayers.

24. As a result of the Stipulation in the 18-095 Docket, which authorized the merger of Westar Energy, Inc. and Kansas City Power and Light Company to form Evergy, there is currently a moratorium on base rate increases for five years. This moratorium will expire in 2024. Therefore, until the expiration of the rate moratorium, the only way for Evergy's management to increase earnings is to reduce operating and maintenance costs.[19]

25. While increased capital expenditures will not result in higher earnings in the short-term, such expenditures will effectively position the Company for intended rate increase requests once the rate moratorium ends. Thus, the STP is largely a financial plan, designed to improve shareholder earnings. In the short-term, the STP is designed to increase earnings by reducing operating and maintenance costs. After the rate moratorium ends, the STP is designed to increase earnings through significant rate base increases.

26. Given the fact that a disgruntled shareholder prompted the STP, CURB's primary concern is to ensure that the STP does not result in higher costs to ratepayers or deterioration of utility service in an effort to increase shareholder earnings. It is important for the KCC to ensure that an effort to reduce operating expenses, during the five-year rate moratorium, does not result in deterioration of utility service. Therefore, the Company should be required to demonstrate that any operating expense reductions will not impact service quality in the short-term, and will not have a detrimental long-term effect on the integrity of the Company's operations.

27. After expiration of the rate moratorium, the Company will be permitted to seek

[19] While increased revenues could also result in higher earnings, Evergy's ability to influence retail sales is limited.

recovery of capital investments made over the five-year period of the rate moratorium, including the incremental investment outlined in the STP. Given the STP's focus on increasing shareholder earnings, CURB is concerned that during the next few years, the Company will have an incentive to increase investment as much as possible, so that in the next base rate case, the Company's rate base will be high resulting in significantly higher earnings for shareholders. It is imperative that investments that are eventually included in rates be necessary for the provision of safe and reliable utility service to Kansas ratepayers. The KCC should guard against claims for investments that have been undertaken with a primary goal to increase shareholder earnings. The Company should be required to support all capital investments made during the rate moratorium period as being reasonable and necessary to serve its customers. It should also be able to explain why the incremental $1.4 billion of investment included in the STP is reasonable, given that this investment was not included in the original capital program for this period developed by the Company.

28. Therefore, CURB's first recommendation is that the KCC recognize and acknowledge that the STP was designed to promote shareholder earnings – it was not designed to address any operational deficiencies in the utility. This does not necessarily prevent the STP from providing benefits to ratepayers. There may be parts of the STP that can benefit ratepayers while meeting the Company's earnings objectives, but the KCC should not lose sight of the fact that the STP would not have been developed absent the Elliott Agreement.

Commission Action

29. Keeping in mind that the STP is primarily being driven by the need for higher shareholder earnings, it is also important to take into account the overall purpose of this proceeding.

While this proceeding was initiated “to provide Staff, stakeholders, and Evergy an opportunity to collaborate and evaluate the STP,” this proceeding is not a pre-determination docket.[20] In filing the STP, the Company indicated that it envisioned two stakeholder processes to address the details of the STP and to gain consensus among stakeholders – a focused Integrated Resource Plan (“IRP”) process to address generation resources and a broader process with a more diverse group of stakeholders to address other issues. The Company had planned to file its 20-year IRP in Missouri in April 2021and to file an IRP in Kansas in July 2021[21], although CURB believes that these dates are subject to change. The IRP will examine the Company’s forecasted energy and demand requirements and examine resources options to meet those needs. Accordingly, to a large extent, the workshop process did not focus on the generation projects included in the STP.

30. While CURB believes that the workshop process has been helpful in examining certain details of the STP and has helped the parties to gain a better understanding of the underlying components, CURB also believes that any final determination on ratemaking issues should only be performed as part of a full base rate case. Indeed, Evergy is not seeking any predetermination in this docket. The parties participated in this docket with the clear understanding that they were under no obligation to accept, reject or file comments on any aspects of the STP. Therefore, CURB believes due process and fundamental fairness dictate that the KCC not predetermine any rate treatment until Evergy requests recovery in a base rate case.

31. Indeed, CURB views this proceeding simply as an informational proceeding. Therefore, it is CURB’s understanding that the STP will neither be accepted nor rejected by the KCC

[20] Order Opening General Investigation, KCC Docket 21-EKME-088-GIE, ¶ 7.

[21] The Company’s Kansas filing may cover a shorter period of time than the Missouri IRP, as stated on page 47 of the Evergy STP Report.

in this proceeding. However, it may be appropriate to establish some general guidelines to inform Evergy at this time regarding the factors that will be considered by the parties once the rate moratorium ends and the Company seeks recovery of the capital investments outlined in the STP. In these regards, CURB discusses some of these proposed guidelines below for the benefit of the Commission and the parties.

Comments on the Workshop Process

32. Evergy offered three workshops in this case focused on the following three issues: Grid Modernization, Operational Efficiencies, and Enhanced Customer Experience. Prior to each workshop, the Company provided the parties with copies of the slide presentation that it planned to offer. Each workshop began with the Company's presentation, followed by questions from the Commissioners, CURB, Staff, and other interveners. Each workshop lasted most of the day.

33. CURB found the three workshops in this case to be very helpful. We thank the Commissioners and the Company for facilitating this process. Although the workshops were very helpful, it should be noted that due to the number of parties participating, each party was only given fifteen minutes to ask questions. In some cases, an additional fifteen minutes was allocated for questions about confidential information. Therefore, by necessity, the questions posed at the workshops tended to be at a high level. CURB anticipates that, in Evergy's next base rate case, the parties' questions will be appropriately more in depth.

34. Nonetheless, CURB notes that out of total capital expenditures of $8.9 billion for the 2020-2024 period, approximately $5.92 billion of that is earmarked for transmission and distribution

facilities, as shown by the chart below:[22]

Total Company STP Capex Forecast 2020-2024 ($ Millions)

Generating Facilities – New Renewables	$675
Generating Facilities – Other	$1,581
Transmission and Distribution Facilities (FERC)	$1,863
Transmission and Distribution Facilities (Other)	$4,063
General Facilities and Other	$723
Total	$8,905

35. Although generation expenditures were not a focus of any of the three workshops, and will be reviewed in more detail in the upcoming IRP proceedings, the STP does envision the retirement of a 500 MW coal unit, the addition of 700 MW of new solar generation, and Purchased Power Agreements ("PPAs") for an additional 200 MW of renewable generation. In addition to $675 million for new renewable generation, the STP also includes $1.581 billion in other generation expenditures. No specific generation projects were identified in the STP.

36. In the response to CURB 2-5, Evergy stated that the summer 2020 SPP reserve margin was 20.7%, well above the planning reserve margin of 12%. This response also indicated that Westar Energy has a current reserve margin of 24.07% and KCP&L has a current reserve margin of 16.35%. These margins suggest that there is sufficient capacity in the Evergy system, a fact that should be considered when evaluating the need for new generation. In addition, much of the projected spending associated with existing plants has been based on benchmarks of typical spending at other generation facilities of similar type and age, as discussed in the BCG Report. CURB's concern is that the desired level of capital spending appears to be driving at least some of these

[22] Evergy STP Report, page 28.

capital expenditures, instead of identifiable needs for either new generation or for plant upgrades. CURB would expect some of these issues to be examined in more detail in the IRP proceedings.

Workshop 1 – Grid Modernization

37. The first workshop held on December 3, 2020, focused primarily on grid modernization. The STP includes $5.6 billion in capital expenditures planned for Kansas, with approximately $3.5 billion of that amount earmarked for transmission, distribution and Information Technology ("IT") projects to support grid modernization. Similar to concerns expressed above with regard to generation expenditures, at least some of the capital expenditures included in the STP are based on spending benchmarks from a review of other utilities rather than on specific needs of the Evergy system. While all parties agree that reasonable grid modernization is a critical function of all electric utilities, grid modernization certainly should be undertaken in such a way as to provide a balance between ensuring resiliency and reliability of the system and ensuring reasonable utility rates. CURB appreciates that this balance is often difficult to achieve and that different parties can have different views about the relative value of grid modernization efforts.

38. CURB recognizes that replacement of aging infrastructure is an integral part of any utility's responsibility. Nevertheless, CURB is concerned that the incremental capital expenditures included in the STP were developed in response to shareholder concerns about earnings, not concerns about quality of service raised by customers. While the Company discussed the deterioration of its system and aging infrastructure during the workshop process, there is no evidence that the base line level of capital expenditures was inadequate to support the Company's service. While the Company attempted to justify the grid modernization programs included in the STP by

alluding to aging infrastructure and degradation of service, the Company's presentation completely ignored the fact that Elliott prompted development of the STP, and not concerns about service quality.

39. In fact, in its letter from January 21, 2020, Elliott clearly stated that capital investment should be used to increase earnings. In criticizing the Company's strategy to buy back stock, Elliott stated, "The math demonstrating why this strategy is suboptimal for Evergy shareholders is simple: Based on average authorized returns on equity, $1 of equity capital invested in rate base for most utilities can earn significantly more than double the return of $1 used to buy back stock. As a result, $1 invested in rate base is worth approximately $2.40 to shareholders, while $1 in share buybacks merely distributes $1 back to shareholders."

40. It is interesting to note that even before the STP was developed, Evergy was already focused on increasing capital expenditures. Following are the five-year capital budgets developed for 2019-2023 and for 2020-2024, both of which were reported in Evergy's 10K for the year ended December 31, 2019, as shown in the response to CURB 3-7. The 2019 capital budgets for the years 2020-2023 totaled $4.824 billion, while the 2020 capital budgets for those same years 2020-2023 totaled $6.189 billion, an increase of $1.365 billion or over 28.3%. Moreover, there were significant increases in all categories of capital expenditures including Generation, Transmission and Distribution, and General Facilities.

CURB 3-7, Capital Plan Developed in 2019, ($ Millions)

	2019	2020	2021	2022	2023	2024	2020-2023
Generating Facilities	458	497	383	306	425		1,611
T&D	678	497	383	306	425		2,837
General Facilities	142	127	94	89	66		376
Total	1,278	1,338	1,183	1,107	1,196		4,824

CURB 3-7, Capital Plan Developed in 2020, ($ Millions)

	2019	2020	2021	2022	2023	2024	2020-2023
Generating Facilities		487	555	563	455	263	2,060
T&D		893	914	886	867	1,006	3,560
General Facilities		238	117	122	92	94	569
Total		1,618	1,586	1,571	1,414	1,363	6,189

Difference	NA	280	403	464	218	NA	1,365
% Difference							28.3%

41. This increase suggests that prior to filing the STP, Evergy was already focused on using a significantly increased rate base as a possible means to increase shareholder earnings prior to the adoption of the STP. Yet, the STP contains capital spending at a significantly higher level. For the years 2020-2023, the STP includes capital expenditures of $7.404 billion, an increase of $1.2 billion or 19%, over the amounts projected in the 2020 capital budget. Relative to the 2019 capital budget, the STP capital spending projections for 2020-2023 reflect an increase from $4.824 billion to $7.404 billion, an increase of $2.58 billion or over 53%.

42. Moreover, much of this increase appears to be driven by the desire of Evergy's shareholders for higher earnings. As noted, at least a portion of the STP was developed based on benchmarks with expenditure levels at other companies and the perception that Evergy is not spending enough to enhance earnings. As noted by Elliott in its letter of January 21, 2020, "Evergy's resulting rate-base growth trajectory is worst-in-class among peers, despite the clear system investment opportunities available to the Company."

43. It is interesting to note that transmission expenditures are the largest segment of the grid modernization program that is currently planned for Kansas. This emphasis on transmission spending is of concern to CURB, for several reasons. First, according to the Company, only a very small portion of these expenditures relate to projects mandated by SPP. Therefore, the vast majority of these expenditures are the result of discretionary spending by Evergy. CURB does not mean to imply that all (or even any) of these discretionary expenditures are unnecessary. However, since these projects are not mandated by SPP, Evergy has a great deal of flexibility with regard to both the transmission projects included in the STP and the timeframe over which to undertake such projects. Accordingly, it is necessary to ensure that such projects are being undertaken because they are necessary and not because they will serve to increase earnings by increasing rate base.

44. Second, significant levels of transmission expenditures are also problematic because recovery of these costs is largely outside of the regulatory authority and control of the KCC. The revenue requirement associated with such transmission projects is a pass-through cost and the KCC has very limited flexibility with regard to rate treatment.

45. Another concern about high transmission expenditures is that these costs are unlikely to be offset by operating expense savings. In some cases, especially with distribution projects,

increased capital costs can result in operating and maintenance expense savings that help to mitigate the overall impact on ratepayers. However, there are few opportunities for such savings with regard to most transmission projects. Therefore, the Company has even more incentive to inflate transmission costs, since there will be little or no offset to its revenue requirement, and therefore to its earnings, as a result of these projects.

46. CURB also notes that while Evergy has presented documentation intended to support its grid modernization efforts, the STP is still very much a work in progress. Therefore, in spite of the material provided to date, there is no firm or fixed portfolio of specific capital programs to be undertaken and monitored during the term of the STP. In fact, several Company representatives indicated that the only thing that is certain is that "the plan will change."

Workshop 2 – Operational Efficiencies

47. Evergy's second workshop focused on Operational Efficiencies. The Company is projecting approximately $330 million in reductions to NFOM costs by 2024, representing a reduction of approximately 25%. Approximately $119 million of these reductions were already achieved by 2019, largely as a result of the merger. Evergy stated in its STP that as much as $250 million in NFOM cost savings had already been realized. In addition to NFOM savings, Evergy also projects fuel and purchased power savings of $145 million in 2024, relative to 2019 levels. Similar to the methodologies used to develop the capital expenditure plan, many of these NFOM initiatives are based on benchmarking costs at other companies and the assumption that Evergy can achieve similar outcomes.

48. CURB has several concerns about the areas of operational efficiencies. CURB notes

that operating efficiencies, i.e., cost reductions, are the only way that Evergy can increase its earnings without a base rate case. During the rate moratorium period, the KCC should ensure that Evergy's quality of service does not suffer as a result of efforts to achieve these operational efficiencies. In addition, assuming that these efficiencies can be achieved without negatively impacting the quality of service, then one must ask why Evergy management did not pursue these cost efficiencies prior to the actions that were prompted by the Elliott Agreement.

49. There is also extensive overlap between the $330 million of NFOM contained in the STP and the merger commitments previously made by Evergy in the Merger Docket. While the Company has periodically been reporting merger savings, it is CURB's understanding that the Company will attribute future savings to both merger initiatives as well as to the STP. This may make it difficult to evaluate the impact of the STP separate and apart from the impact of the merger. In fact, assuming that at least $250 million in merger savings has already been achieved, then the additional impact of the STP may be limited to $80 million, which is not inconsequential but is significantly less than the $330 million that that is being announced to ratepayers. CURB recommends that Evergy be required to track STP savings separately from merger savings, and to clearly identify and quantify any savings that it attributes to both the STP and to the merger in any future reporting mechanisms.

Workshop 3 – Enhanced Customer Experience

50. The third workshop on January 20, 2021, was on the Enhanced Customer Experience, which includes programs designed to interact with customers in new ways as well as new business opportunities for Evergy. Similar to some of CURB's concerns regarding capital expenditures, it is

not clear if customers even need an enhanced customer experience – or if the "Enhanced Customer Experience" is really just a forum for selling new services, including unregulated services and products, such as smart thermostats, provided by Evergy partners to its existing customer base.

51. Some of the stated customer benefits encompass existing benefits from current technologies. For example, advanced metering infrastructure ("AMI") has already been completed in the Company's service territory and, although certain features may not yet be fully functional, AMI already enables enhanced reporting of usage data to customers in billing statements and through various tools available on the Company's website.

52. Another touted benefit for customers comes in the form of automation. Yet, we have all had the experience of contacting a call center only to find ourselves endlessly pushing buttons as we attempt to navigate through various options. Or attempting to utilize a "chat" function only to quickly realize that we are being responded to not by an individual, but by a mechanized bot that can only answer the most routine questions. Evergy must ensure that its basic customer experience is effective prior to introducing an Enhanced Customer Experience. Even then, Evergy should have to demonstrate that Enhanced Customer Experience investments are required for sufficient and efficient utility service. In addition to programs relating to customer contact, this third workshop also addressed issues such as more "equitable" rates, "modernization" of rate structures, beneficial electrification and performance-based programs.

53. The Company is also envisioning exploiting opportunities for cross-selling, which are dependent upon "implementing a continuous improvement and delivery method across our customer and IT organizations."[23] It is CURB's view that the Enhanced Customer Experience workshop

[23] Per the response to CURB-2-14.

provided few specifics, and therefore it is difficult to determine the value of many of these programs at this time. CURB urges the KCC to carefully evaluate future expenditures related to enhancing the customer experience to make sure that the underlying projects are actually needed (or wanted) by Kansas ratepayers and are not simply being undertaken in an effort to either inflate rate base or to exploit its Kansas customer base in an effort to sell new services.

Measurement and Review

54. One area of concern that spans all three of the workshop presentations is that there does not seem to be a process for measuring the progress of the STP or benefits to ratepayers. This is not surprising, since the ultimate STP is still a work in progress. Moreover, other than increasing shareholder earnings, the Company has not provided specific goals that it is attempting to achieve with the STP. In CURB-3-3, the Company identified four key areas with specific metrics for internal monitoring of the STP but the Company has not identified specific benchmarks for these metrics. The Company also indicated that it did not plan to report to the Commission "beyond already established reporting that tracks our operational and service performance, which is well aligned with the STP." The Company should continue to report on merger savings and should also separately develop a reporting mechanism for projects conducted pursuant to the STP.

55. The fact is: the overall impact of the STP is unknown at this time. While the Company claims that the STP will result in a net present value benefit of $2.0 - $3.0 billion over the next twenty years, approximately 45% of this benefit relates to the social cost of carbon. Another 30% relates to improved reliability and customer experience, which is very difficult to quantify accurately. Therefore, the quantifiable benefits of the STP are limited and the overall net present

value impact of the STP is questionable. This uncertainty over the benefits of the STP is particularly worrisome because once the Company has made these investments, it may be very difficult to undo the effects upon ratepayers in future rate cases. However, the Company should be on notice that inclusion of a project in the STP does not guarantee future recovery and that its shareholders bear the risk that the Commission may lawfully disallow some or all of the investment included in the STP in a future base rate case. Indeed, Evergy has acknowledged throughout its workshops that these proceedings do not and should not relieve Evergy from its burden of proving in a rate case that all investments and expenses are prudent and necessary for adequate and sufficient service.

56. CURB is also concerned about what happens after the five years outlined in the STP. Will there be another STP, or will capital expenditures revert to pre-STP levels? If interest rates stay low, preventing the Company from achieving increased earnings through higher authorized equity returns, will the Company have a continued incentive to pump more dollars into its capital program and perhaps seek to then implement STP Version 2?

Securitization

57. The STP discusses, in broad terms, a further acceleration of the decarbonization effort "with constructive regulatory support," including the possible securitization of stranded costs associated with units that are retired prior to the end of their useful lives. Securitization of stranded assets would require legislative approval. CURB is generally supportive of securitization for those stranded costs resulting from decarbonization efforts that the KCC determines should be recovered from ratepayers. Therefore, CURB has worked with Evergy, Staff and other stakeholders on legislation (Senate Bill 245 and Substitute for House Bill 2072) that would authorize Evergy to file

an application with the KCC seeking to securitize the retirement of coal-burning generation plants prior to the end of their useful lives, among other purposes. CURB has supported the legislation because it provides general but appropriate safeguards to ensure that the residential and small commercial ratepayers receive immediate quantifiable benefits from the securitization. This legislation is now enrolled, effective upon its publication in the Kansas Register.

58. In regards to its support of this legislation, CURB believes that the most important aspect of any securitization legislation is to retain the KCC's ability to limit stranded cost recovery, if the KCC so determines. In addition, any such legislation should also provide the KCC with the ability to determine whether securitization of any stranded costs is in the best interests of Kansas ratepayers. CURB recognizes that any financing order issued by the KCC will have to contain specific provisions in order to assure the purchasers of any securitization debt that the debt service will be paid. Yet, the KCC should retain the right to allocate debt service costs among customer classes and to make other ratemaking determinations if appropriate. The Commission should also ensure that any cost savings resulting from securitization are immediately flowed back to Kansas ratepayers. CURB interprets the securitization legislation as broadly granting discretion to the KCC to make decisions about asset retirement and stranded cost recovery and to establish other ratemaking parameters and regulatory accounting measures to credit customers with the benefits from retirement of the electric public utility generating assets, among establishing other ratepayer safeguards.

Transaction Costs

59. CURB notes that the process that resulted in the STP has been a costly one for

Evergy. As shown in the responses to CURB-2-1 (Confidential) and CURB-2-2, Evergy has incurred millions of dollars of consulting and legal fees associated with the STP. While these costs are unlikely to be claimed by Evergy for recovery in future rate cases, the KCC should make it clear that any such claim would be denied. The STP was driven by shareholders and so shareholders should absorb any costs associated with development of the STP and review of other strategic alternatives.

60. In addition to transaction costs, CURB also notes that Evergy has lost two key members of its management team since the STP was announced. Executive Vice President and Chief Financial Officer Tony Somma announced on January 8, 2021, that he was leaving Evergy after 27 years of service. Chief Executive Officer Terry Bassham announced his departure on August 27, 2020. CURB presumes that both Mr. Somma and Mr. Bassham were instrumental in the development of the STP. While we do not know the impact of the STP on these departures, we do find it significant that both of these individuals are being replaced by individuals from outside Evergy, rather than by internal personnel.

Rate Impact

61. While it is clear that the STP has been driven largely by shareholders' desires for higher earnings, a corresponding issue is: What impact will the STP have on customer rates in Kansas? Evergy has indicated that the STP will result in an average compound annual growth rate of 1.6% across its system. Given the five-year rate moratorium, a 1.6% average compound growth rate could be expected to increase rates by more than 8.0% over five years.

62. In its second workshop, Evergy provided a breakdown of the projected rates resulting

from the STP. For Evergy Kansas Central, the Company projects an increase in the overall average rate of 9.1% from 2020 to 2024, for a compound annual growth rate of 2.2%. For Kansas Metro, the Company projects a decrease in the overall average rate of 1.8%, or a compound annual rate decrease of 0.5% from 2020 to 2024.

63. For Evergy Kansas Central, over 76% of the projected increase relates to the Transmission Delivery Charge ("TDC"). As noted earlier, transmission expenditures are of particular concern because of the limited oversight that the KCC has with regard to rates resulting from these expenditures. While Kansas electric rates became more competitive in 2019 relative to the US average electric rate, Kansas rates are still high relative to many of its neighbors. According to a February 4, 2021, presentation by Staff, the average electric retail rate in Kansas was 10.26 cents per kWh in 2019, well above its regional neighbors' rates of 9.68 cents in Missouri, 9.08 cents in Nebraska, and 7.86 cents in Oklahoma.

64. As it examines the actual costs of the STP in Evergy's next base rate case, the KCC should closely examine the impact on Kansas ratepayers. The Company should be required to demonstrate that its investment in the STP has not increased the disparity between utility rates in Kansas and those in neighboring states. In addition, given the fairly significant increases for at least some Kansas ratepayers, the Company may want to consider the benefits of a less aggressive investment program, or a program that extends the capital expenditures outlined in the STP over a period of more than five years.

Summary

65. The STP was developed by the Company in an effort to achieve higher earnings for

shareholders, and was not driven by specific infrastructure needs in Kansas. Many of the costs included in the STP were based on industry-wide benchmarks that may have limited applicability to Evergy. CURB is particularly concerned about the significant level of transmission spending in the STP, given that the KCC has limited authority over recovery of transmission costs.

66. There is significant overlap of the STP savings and the merger savings, making it difficult to track and measure the benefits of the STP. Indeed, even the stated NPV benefits of the STP are based primarily on subjective benefits that are difficult to quantify such as the social cost of carbon and the benefits resulting from increased reliability.

67. Evergy is not seeking predetermination of any particular project or ratemaking treatment in this proceeding. The Company and its shareholders should bear the risk that some of the investments included in the STP may be disallowed in the next base rate case. However, the STP could have a significant impact on the Company's requested electric rates when the rate moratorium ends in 2024. In evaluating recovery of investment in the STP in future rate proceedings, the KCC should consider many factors, including the level of rate increases being requested and the extent to which Evergy's rates are competitive with electric rates in neighboring states.

68. CURB looks forward to continuing this dialogue with the parties at the remaining workshop on May 24, 2021, as well as in the IRP proceedings this year.

WHEREFORE, CURB respectfully submits the foregoing comments regarding the STP and requests the Commission duly consider the same.

Respectfully submitted,

David W. Nickel

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VERIFICATION

STATE OF KANSAS)
) ss:
COUNTY OF SHAWNEE)

I, David W. Nickel, of lawful age and being first duly sworn upon my oath, state that I am an attorney for the Citizens' Utility Ratepayer Board; that I have read and am familiar with the above and foregoing document and attest that the statements therein are true and correct to the best of my knowledge, information, and belief.

David W. Nickel

David W. Nickel

SUBSCRIBED AND SWORN to before me this 16th day of April, 2021.

DELLA J. SMITH
Notary Public - State of Kansas
My Appt. Expires January 26, 2025

Notary Public

My Commission expires: 1/26/2025

Elliott Management Sends Letter to Board of Directors of Evergy, Inc.

Highlights Readily Achievable $5 Billion Value Creation Opportunity

Identifies Tangible Benefits Available for All Key Stakeholders: Customers, Employees and Local Communities

Outlines Two Clear Paths For Long-Term Improvement

Recommends Increased System Investment, Including Increased Deployment of Renewables

Full Letter Available at EnergizeEvergy.com

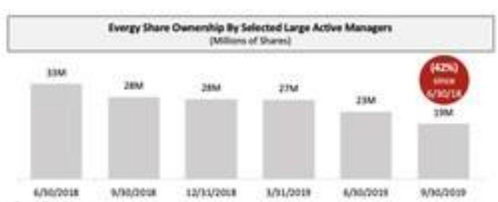
NEWS PROVIDED BY
Elliott Management Corporation
Jan 21, 2020, 09:02 ET

NEW YORK, Jan. 21, 2020 /PRNewswire/ -- Elliott Management Corporation ("Elliott"), which manages funds that currently own an economic interest equivalent to 11.3 million shares in Evergy, Inc. (the "Company," or "Evergy"), equating to approximately $760 million in current market value, today released a letter to Evergy's Board outlining steps which should result in high-certainty, line-of-sight equity value creation of up to $5 billion, with opportunities for significant additional value creation over time.

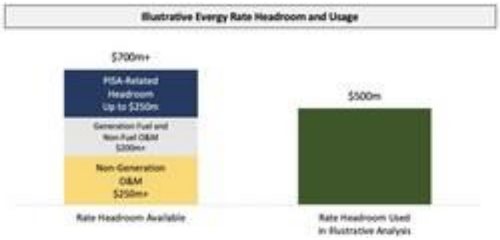
Evergy Underperformance Since Completion of Merger (PRNewsfoto/Elliott Management Corporation)

Shareholder Value Creation Comparison (PRNewsfoto/Elliott Management Corporation)

Rate Base Growth of Nerby Regulated Utilities (PRNewsfoto/Elliott Management Corporation)

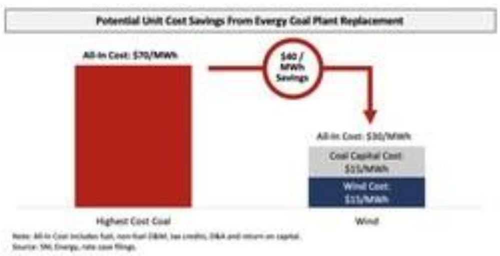


Evergy Share Ownership By Selected Large Active Managers (PRNewsfoto/Elliott Management Corporation)

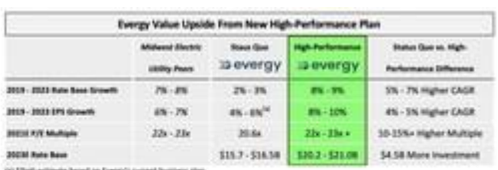


Illustrative Evergy Rate Headroom and Usage (PRNewsfoto/Elliott Management Corporation)

Evergy Unit Non-Generation O&M Comparison (PRNewsfoto/Elliott Management Corporation)



Potential Unit Cost Savings From Evergy Coal Replacement (PRNewsfoto/Elliott Management Corporation)



Evergy Value Upside From New High-Performance Plan

	Midwest Electric Utility Peers	Status Quo evergy	High-Performance evergy	Status Quo vs. High-Performance Difference
2019 - 2023 Rate Base Growth	7% - 8%	2% - 3%	8% - 9%	5% - 7% Higher CAGR
2019 - 2023 EPS Growth	6% - 7%	4% - 6%[a]	8% - 10%	4% - 5% Higher CAGR
2023E P/E Multiple	22x - 23x	20.6x	22x - 23x +	10-15%+ Higher Multiple
2023E Rate Base		$15.7 - $16.5B	$20.2 - $21.0B	$4.5B More Investment

(a) Elliott estimate based on Evergy's current business plan.

Evergy Value Upside From New High-Performance Plan (PRNewsfoto/Elliott Management Corporation)

Utility Rate Base Growth Comparison (PRNewsfoto/Elliott Management Corporation)

The Performance / Value Matrix (PRNewsfoto/Elliott Management Corporation)

According to the letter, Elliott sees a clear opportunity to achieve this significant increase in shareholder value while providing tangible benefits to all of Evergy's key stakeholders, including customers, employees and the broader communities its utilities serve. The letter asserts that a renewed focus on improving core utility operations and investing in Evergy's critical system infrastructure can rectify its prolonged underperformance, discounted valuation and associated increased cost of capital.

In the letter, Elliott stated that increased system investment would not only provide meaningfully more value to shareholders than the current strategy to repurchase shares, but would also provide clearly superior benefits to Evergy's other stakeholders, help facilitate the Company's deployment of renewables and reduce its carbon footprint. Elliott urged Evergy to immediately explore both of the following alternative paths:

- **Standalone Path: Implement High-Performance Plan with Enhanced Oversight –** Develop and implement a high-performance plan with the direct input of certain new highly-credentialed Board- and management-level leadership, to increase critical infrastructure investment and optimize operating costs, leading to annual rate-base growth of up to 10% with no expected overall rate impact on customer bills.
- **Combination Path: Pursue Strategic Premium Merger Transaction** – Explore a strategic combination via a premium stock-for-stock merger, following which Evergy's new partner would oversee the implementation of a high-performance plan, leading to value creation in which Evergy's current shareholders would be able to participate by receiving stock in the combined entity.

Elliott believes either path, if executed properly, should result in high-certainty, line-of-sight equity value creation of up to $5 billion, with opportunities for significant additional value creation over time.

Elliott noted that it sought to engage the Evergy Board on a private basis in October 2019. However, in response to Elliott's outreach, the Board chose not to engage with Elliott on the merits of its suggestions but instead opted to make defensive changes to the Company's governance. Based on this abrupt change, Elliott determined that it would be in the best interest of all stakeholders to make public its views and facilitate a broader discussion of the best path forward for Evergy.

The letter can be downloaded at EnergizeEvergy.com.

The full text of the letter follows:

January 21, 2020

The Board of Directors
Evergy, Inc.
1200 Main Street
Kansas City, Missouri 64105

Dear Members of the Board:

We are writing to you on behalf of Elliott Associates, L.P., Elliott International, L.P. and affiliates (together "Elliott" or "we"). We have followed certain of Evergy's utility companies dating back more than 15 years. Elliott currently owns an economic interest equivalent to 11.3 million shares in Evergy, Inc. (the "Company," or "Evergy"), approximately $760 million in market value.

Over the past three months, we have been engaged in a private dialogue principally with Evergy management on ways to maximize value for all of Evergy's key stakeholders. We appreciate your time and participation in this private dialogue and, while we currently appear to have differing views on the right path forward, we are hopeful that this discussion can continue.

We have made such a large investment in Evergy because we believe a clear opportunity exists to create significant shareholder value. This would lower the Company's cost of capital and provide tangible benefits to all of Evergy's key stakeholders, including customers, employees, regulators and the broader communities its utilities serve. We believe Evergy's valuation does not properly reflect the value of its collection of high-quality regulated utilities in Kansas and Missouri, and that a renewed focus on improving core utility operations and investing in Evergy's critical electric infrastructure can rectify its prolonged underperformance, discounted valuation and associated increased cost of capital.

We believe that Evergy's stock-price underperformance since the completion of the Great Plains / Westar Merger (the "Merger") reflects investors' increasingly skeptical outlook on the

Company's long-term plan and its recent strategic decisions. Investors are especially skeptical regarding Evergy's current strategy of using capital to repurchase shares at the expense of increased investment in its infrastructure. As we lay out below, increased system investment would not only provide meaningfully more value to shareholders than buybacks, but would also provide clearly superior benefits to Evergy's customers, employees, regulators and the broader communities Evergy's utilities serve, in addition to helping to facilitate the Company's deployment of renewables and reducing its carbon footprint.

This long-term plan and current operating and strategy decisions have led to bottom-quartile (and in some instances bottom-decile) operating-cost performance, system capital investment, rate-base growth, and cost of capital among U.S. mid- and large-cap regulated utilities. Fortunately, we believe these strategic, operating-plan and capital-allocation issues can be addressed in the near term, allowing Evergy's utilities to become high-performing electricity providers. To put the Company back on a track where it can create sustainable value for all key stakeholders, Evergy should immediately explore both of the following alternative paths:

- **Standalone Path: Implement High-Performance Plan with Enhanced Oversight** – Develop and implement a high-performance plan with the direct input of certain new highly-credentialed Board- and management-level leadership, to increase critical infrastructure investment and optimize operating costs, leading to annual rate-base growth of up to 10% with no expected overall rate impact on customer bills.
- **Combination Path: Pursue Strategic Premium Merger Transaction** – Explore a strategic combination via a premium stock-for-stock merger, following which Evergy's new partner would oversee the implementation of a high-performance plan, leading to value creation in which Evergy's current shareholders would be able to participate by receiving stock in the combined entity.

We believe either path, if executed properly, should result in high-certainty, line-of-sight equity value creation of up to $5 billion, with opportunities for significant additional value creation over time. In addition, we believe the business improvements envisioned under either path will leave Evergy better positioned to serve all of its key stakeholders, with stronger corporate governance and a greater commitment to renewable energy.

The purpose of today's letter is to share our thoughts with investors on the opportunities available at Evergy to create shareholder value and provide tangible benefits to its key stakeholders and constituent communities. Given our interactions with management and the Board to date as well as Evergy's persistent share-price underperformance, we believe the time has come for a full public discussion regarding the best path forward for Evergy.

We have organized our thoughts in the following manner:

(i) Elliott's Investment in Evergy;
(ii) Evergy's Collection of High-Quality Regulated Utilities;
(iii) Evergy's Current Plan and Resulting Underperformance;
(iv) Opportunity for Value Creation at Evergy;
(v) High-Performance Paths Forward for Evergy; and
(vi) Next Steps.

Elliott's Investment in Evergy

Elliott is a multi-strategy investment firm that was founded in 1977 and has more than $40 billion in assets under management today. We have a strong track record of investing in the power, utility and energy sectors and working with companies to create long-term stakeholder value.

We first approached management and the Board on a private basis in early October 2019 and hoped to work privately to identify the best path forward for Evergy. **However, in response to our outreach, the Board chose not to engage with us on the merits of our suggestions but instead opted to make defensive changes to the Company's governance.**

Based on this abrupt change to the Company's governance, limiting the ability of shareholders to nominate and elect directors, as well as a lack of progress toward the exploration of any value-maximizing operational and/or strategic alternatives, we determined that it would be in the best interest of all stakeholders to make our views public and facilitate a broader discussion of the best path forward for Evergy.

Evergy's Collection of High-Quality Regulated Utilities

Evergy is composed of three coveted regulated utilities in constructive regulatory jurisdictions. With the right stakeholder-focused capital plan and an operating strategy centered around enhanced system investment to bolster safety, reliability, customer service, security and renewables, Evergy can become a highly valued utility with a lower cost of capital. This should result in Evergy's rate-base and earnings growth coming at least in-line with other leading regulated electric utilities in nearby states in the Midwest, West, Southwest and Southeast regions of the U.S.

Notable features that distinguish Evergy from certain other utility companies include:

- **High-quality regulated utilities:** Evergy is a collection of high-quality, 100% regulated utilities across two states – Kansas and Missouri.

- **Regulatory certainty with constructive regulatory backdrop:** Evergy's current multi-year regulatory agreements in Kansas and Missouri provide an extended period of regulatory and rate certainty.
- **Strong core investment growth opportunities:** Evergy has the continued opportunity to increase core system capital spending in areas that will lead to hardening, modernization, enhanced safety, reliability, security and customer service performance metrics, all on a rate-friendly basis to customers.
- **Strong investment opportunities around renewables:** Evergy's advantageous geographic location in the wind corridor of the U.S. should provide ample capital deployment opportunities across its business – in transmission and distribution to facilitate greater renewables penetration, and in generation to transition Evergy's aging coal fleet to renewable energy.
- **Strong financial metrics:** Evergy has moderate overall financial leverage with no need to issue equity in the near term. However, the Company's use of over $3.5 billion to repurchase shares has already somewhat weakened Evergy's holding company balance sheet and increased leverage by ~1.5x, thereby limiting overall flexibility and ability to maintain a proactive strategic posture.
- **No overhangs:** Evergy is not exposed to merchant generation, foreign subsidiaries, mega-project construction risk or other unregulated businesses.

Evergy's Current Plan and Resulting Underperformance

Despite its positive base business and broader environmental attributes, Evergy has meaningfully underperformed peers, resulting in a notable undervaluation and associated increased cost of capital. Since the Merger, Evergy's total shareholder return ("TSR") has lagged similarly situated Midwest electric utility peers by 25 percentage points.[1] While Evergy was valued at a slight premium to peers on a P/E basis for several months following the Merger, it is now valued at a significant discount.

See "Evergy Underperformance Since Completion of Merger" charts.

We believe the key reasons for Evergy's underperformance, discounted valuation and associated increased cost of capital can be clearly explained and grouped into two categories:

1) **Suboptimal Plan and Strategy:** Evergy's current capital plan and operating strategy have led to justifiable concerns around the Company's ability to create long-term value on a standalone basis.

2) **Loss of Management and Board Credibility:** Operating issues at Great Plains as well as continued operating, accountability and

communications issues since the Merger have further eroded investor confidence at Evergy.

Suboptimal Plan and Strategy

Following the Merger, Evergy implemented a unique strategy premised on using cash flow and excess capital to repurchase shares rather than driving sustainable value creation by making critical long-term system investments. Specifically, Evergy's current business plan relies on holding rate base growth to 2-3% for multiple years while relying on share buybacks to manufacture near-term growth in earnings per share.

The math demonstrating why this strategy is suboptimal for Evergy shareholders is simple: Based on average authorized returns on equity, $1 of equity capital invested in rate base for most utilities can earn **significantly more than double** the return of $1 used to buy back stock. As a result, $1 invested in rate base is worth approximately $2.40 to shareholders, while $1 in share buybacks merely distributes $1 back to shareholders.[2]

See "Shareholder Value Creation Comparison" charts.

Following completion of the Merger, Evergy's decision to use $3.5 billion of capital to buy back stock instead of using that capital to make system investments will cause utility stakeholders to forego meaningful tangible benefits and **translates into approximately $4 billion of shareholder value destruction.**

Unsurprisingly, Evergy is an outlier in pursuing this unusual capital-allocation strategy, as other major utilities in the U.S. have sought to invest in critical infrastructure for the benefit of the customers and communities they serve, while minimizing the impact on customer bills by improving efficiency. **Indeed, there simply is no recent evidence of value creation in the regulated utility industry from maneuvers such as large-scale levered share-repurchase programs**.

Evergy's resulting rate-base growth trajectory is worst-in-class among peers, despite the clear system investment opportunities available to the Company. The map below throws the contrast between Evergy and its peers into stark relief:

See "Rate Base Growth of Nerby Regulated Utilities" map.

Evergy's low rate base growth and its overreliance on share buybacks have created deep concerns among investors over Evergy's long-term growth outlook and its ability to create value after the share buybacks are completed in mid-2020. These concerns have been highlighted by the equity-research analyst community:

> *"So these updates put in to question not only the near term earnings profile…but also the L-T growth profile of the company after the financial engineering associated with their share buyback and synergy harvesting from the merger runs its course." – Evercore ISI, 2/24/19*

> *"Longer term, EVRG has regulatory certainty with 4-5 year rate case stay outs in Missouri/Kansas, but there are concerns around earnings power given very modest rate base growth ." – Wolfe, 8/8/19*

These research analysts have followed Evergy (and its predecessor companies) for years. Their views are therefore shaped by deep institutional knowledge of Evergy and generally reflect the views of its shareholders.

This lack of confidence in Evergy's current direction is perhaps best illustrated by the fact that Evergy received two separate downgrades by equity research analysts shortly after management presented its business plan at the EEI conference in mid-November 2019.

Loss of Management and Board Credibility

Evergy's performance has been further hampered by consistently subpar execution, representing a continuation of the poor track record of Great Plains prior to the Merger:

- **Consistent Under-Earning:** During the Evergy senior team's tenure at Great Plains, its utilities failed to consistently earn their authorized ROEs and routinely under-earned by 100-200 basis points. This stands in stark contrast to the vast majority of U.S. regulated utilities, including those in Kansas and Missouri, which have been able to earn their authorized returns on equity. Earning at authorized levels is critical for a utility's ability to achieve access to plentiful, low-cost capital.
- **Failed LBO Attempt of Westar:** In 2017, Great Plains, a $5 billion market cap company at the time, attempted to acquire Westar at a 36% premium for $8.6 billion in a highly leveraged 85% cash / 15% stock transaction. The transaction was widely criticized by virtually all Great Plains stakeholders, including shareholders, ratepayer advocates and regulators, all of whom expressed grave concerns about the leverage used in the transaction. The

Kansas Corporation Commission roundly rejected the transaction, noting that the transaction would leave the new entity with "little financial flexibility and very little margin of error."

Although Great Plains and Westar ultimately consummated a revised, all-stock transaction, Great Plains' aggressive, ill-conceived attempted leveraged buyout of Westar unnecessarily extended the timeline of the transaction and led to heightened regulatory scrutiny.

While investors were hopeful that Evergy would have a fresh start, the record of subpar execution at Great Plains unfortunately has carried over to the combined Company, as evidenced by issues that have emerged since the Merger:

- **Negative Guidance Revision:** In February 2019, Evergy reported a meaningful earnings miss and lowered rate-base growth guidance from an already meager 3-4% down to 2-3%. This shift in the growth trajectory of the Company only nine months following the completion of the Merger led to widespread investor frustration and further management and Board accountability and credibility issues.
- **Regulatory Issues:** Continued regulatory issues related to the Sibley coal plant retirement and Jeffrey Energy Center stake acquisition again raised the specter of under-earning, despite regulatory certainty provided by rate stay-outs. Additionally, it appears the Sibley issue was self-inflicted and could have been avoided by fully settling the issue as part of the 2018 rate case.
- **Inadequate Carbon Reduction Targets:** Evergy's intention of operating its coal plants until the end of their useful lives (2040-2050) is uninspired and economically inefficient. Evergy lags behind leading peers that have pledged to reduce carbon emissions by 70-80% by 2030 and achieve net zero emissions by 2050.

Investors have been keenly aware of Evergy's issues, as evidenced by declining ownership in Evergy by large active stock managers:

See "Evergy Share Ownership By Selected Large Active Managers" chart.

Nor have these issues gone unnoticed by the analysts who follow the Company:

> *"The management track record here is checkered with regard to delivering consistent financial results—more so on the GXP side of the house than the WR side—and the market reaction to the financial update is in part a function of skepticism that the newly merged companies will have to fight to overcome." – Evercore ISI, 2/24/19*

> *"Entering 2019, we considered EVRG to be a relatively low risk/high visibility play…that narrative changed, however, on the year-end earnings call as management talked down the growth rate through 2021…and laid out lackluster rate base growth of 2-3% through 2023. We were most disappointed by the 2021 guidance revision as that was the first target established for the merger of equals, representing the first critical step to building a track record as EVRG." – Wells Fargo, 3/19/19*

The unfortunate result of these missed targets, mishandled regulatory issues and other execution missteps has been a profound loss of investor confidence and an unwillingness on the part of the investment community to invest behind this management team and Board. Current and prospective shareholders see this fact pattern and cannot help but conclude that Evergy's leadership team places little emphasis on providing shareholders with a strong value-proposition to buy and hold Evergy stock. There is a strong case to be made that a combination of changes in direction and oversight are needed to restore investor confidence and remedy the Company's chronic underperformance.

Opportunity for Value Creation at Evergy

We believe robust investment in critical system infrastructure forms the foundation of the investor-owned utility model. U.S. regulated utilities are granted a monopoly franchise with authorized rates of return in order to access abundant low-cost capital to make critical infrastructure investments. The purpose of this model is to benefit customers, create opportunities for employees, and achieve various community objectives, including boosting local economic growth. Evergy's current strategy of limiting system investment and instead using excess capital to repurchase shares is both suboptimal and runs counter to the regulatory compact.

System investment is in fact encouraged by Evergy's regulators. In 2018, the Missouri legislature passed Senate Bill 564 ("SB 564") to encourage additional investment in the state's electrical grid. Missouri Public Service Commission Chairman Ryan Silvey recently commented in a conference call for the investment community: "We expect to see some capital invested in the grid, which was the point of the legislation. So we're hopeful that it results in a lot of upgrades to the grid. That's something that we are in need of." Since the passage of SB 564, both of Missouri's other investor-owned utilities, Ameren and Empire District Electric, have announced the largest capital plans in their respective companies' histories. Ameren expects to grow Missouri rate base at an 8% CAGR, and Empire District Electric expects to grow rate base at a 12% CAGR.

Evergy has significant runway to make much-needed investments in critical electric infrastructure across its system, including in the key areas of safety and reliability, grid hardening and modernization, and physical and cybersecurity infrastructure. **Additionally,**

because of the strength of the wind resource in Evergy's service territory, Evergy stands to be a leader in de-carbonization system investments that facilitate renewables growth and help transition its coal fleet (which still accounts for 40% of its generation capacity) to renewable resources. To frame the opportunity, the U.S. Department of Energy estimates Kansas and Missouri have potential for 785 GW of wind capacity compared to 7 GW installed today.[3]

Quantifying the Evergy Opportunity

Evergy should reasonably be able to create *more than* $700 million of high-certainty, line-of-sight, balanced rate headroom, on a standalone basis to support incremental system investment based on:

1) More than $250 million of non-generation operating & maintenance ("O&M") efficiencies;

2) More than $200 million of generation-related fuel and non-fuel O&M savings from replacing only a small portion (~20%) of remaining inefficient coal generation with renewables; and

3) Up to $250 million of rate headroom within the 3% annual limitation imposed by SB 564.

See "Illustrative Evergy Rate Headroom and Usage" chart.

As $1 of rate headroom can be translated into $8-$9 of rate base investment, deploying just $500 million of the above-identified annual rate headroom should result in an **additional $4.5 billion of rate base by 2023 compared to Evergy's current plan.** Because the bulk of the investment program is funded with ongoing fuel and O&M cost savings rather than rate increases, the overall annualized rate impact to customers is expected to be well below the rate of inflation and likely overall rate neutral.[4]

Non-Generation O&M Efficiencies: Benchmarking Evergy's non-generation O&M performance against similarly-situated U.S. regulated utilities shows clear evidence that Evergy operates with a bottom-quartile controllable cost structure, with unit costs nearly 50% higher than the median and 80% higher than top-quartile. The fact that Evergy is one of the highest-cost utilities in the U.S. is surprising given that the cost of living in its service territory is below the national average. Improving Evergy's cost structure from bottom-quartile to not even the median would result in incremental savings of more than $350 million and create ***more than* $250 million in**

additional headroom above and beyond Evergy's anticipated Merger savings.[5] We anticipate that these cost savings would be achieved in the next few years.

See "Evergy Unit Non-Generation O&M Comparison" chart.

Generation-Related Fuel and Non-Fuel O&M Savings: Transitioning a portion of Evergy's environmentally unfriendly, high-cost coal generation to new renewables generation should yield significant savings in fuel and non-fuel O&M. Illustratively, replacing 5.0 TWh (~20%) of Evergy's highest cost, most inefficient coal generation with wind resources should yield ***more than*** **$200 million of savings**. This transition can also create opportunities for incremental rate base investment into flexible, low-cost storage or capacity to enhance system reliability.

See "Potential Unit Cost Savings From Evergy Coal Replacement" chart.

PISA Legislation: Missouri SB 564 enables the implementation of plant-in-service accounting ("PISA"), allowing for more timely recording of earnings associated with capex investments. Under the PISA election, Evergy would be subject to a 3% annualized cap on rate increases from 2018 to 2023. We believe Evergy has **up to $250 million of rate headroom** under the cap that can be used for investment.

As discussed earlier, this high-performance plan can be implemented either by Evergy on a standalone basis with enhanced oversight or by a strategic transaction partner. Either option would result in significant value creation above and beyond Evergy's current plan.

See "Evergy Value Upside From New High-Performance Plan" table.

The analysis reflected above does not take into account key upside factors that could create meaningful additional efficiencies to facilitate even more investment and/or reduce customer rates:

- Additional technology-enabled savings created directly by capital investments, as other utilities have experienced;
- Additional non-generation O&M savings from achieving actual median, top-quartile or top-decile cost performance;
- Substantial additional generation fuel and non-fuel O&M-related savings over time from retiring additional coal-plant capacity and replacing with renewables on an accelerated basis; and
- Non-generation O&M, generation fuel and non-fuel O&M, corporate G&A and cost-of-capital synergies from a strategic merger transaction.

Growing Rate Base While Limiting Impact on Customer Bills is a Well-Established Strategy

The "capex for opex" strategy is not novel. The best-run regulated utilities in the U.S. have long used this best-in-class strategy to drive robust rate-base growth with limited-to-no rate impacts on customer bills. For these companies, system investment and operational focus have led to improved safety and reliability, lowered costs of capital, increased service offerings for customers, stronger local economic growth, and climate leadership. For shareholders, this has translated into above-average rate-base growth, above-average earnings-per-share growth and significant long-term total return outperformance. Some examples of high-performance U.S. utilities are:

- **NextEra Energy (FPL):** NextEra's Florida Power & Light utility ("FPL") subsidiary has been able to grow rate base at a 10% CAGR from 2008 to 2018 while reducing customer bills by 6% and obtaining industry-leading metrics for reliability and carbon emissions. FPL anticipates continuing to grow rate base at a 9% CAGR from 2018-22 while further reducing customer bills.
- **NextEra Energy (Gulf Power):** Following its acquisition by NextEra in 2019, Gulf Power expects to grow rate base at a 16% CAGR over three years while reducing customer bills by 9% in real terms, improving service reliability by 20% and reducing carbon emissions by 40%.
- **WEC Energy Group:** From 2015 to 2019, WEC was able to grow rate base in Wisconsin at a 7-8% CAGR despite a four-year base-rate freeze following its acquisition of Integrys.
- **Xcel Energy:** Through its "Steel for Fuel" program and disciplined O&M cost management, Xcel was able to keep customer bills flat from 2013 to 2018 while continuing robust capital investment in its system.
- **CMS Energy:** From 2013 to 2019, CMS was able to keep residential bills flat to down (on a weather-normalized basis) while growing total rate base at a 7%+ CAGR.

See "Utility Rate Base Growth Comparison" chart.

High-Performance Paths Forward for Evergy

We believe a full revamp of Evergy's long-term capital plan and operating strategy is necessary to address underperformance and unlock full value for the benefit of all key stakeholders. This can be accomplished either (i) on a standalone basis with the adoption of an improved capital plan and operating strategy in conjunction with enhanced Board- and management-level oversight, or (ii) via a premium stock-for-stock merger transaction where a tried-and-true strategic partner would accomplish the same. Both paths are superior to the status quo plan and either should allow Evergy to cross the chasm from low-performance / low-value to high-performance / high-value, creating meaningful shareholder value. These paths should be explored now, transparently and in parallel:

See "The Performance / Value Matrix" chart.

Standalone Path: Implement High-Performance Plan with Enhanced Oversight

- Evergy should reasonably be able to create more than $700 million in high-certainty, line-of-sight, balanced rate headroom to facilitate more than $4.5 billion in potential increased system capital investment. This would accelerate rate-base growth to up to 10% per year with no expected overall rate impact on customer bills.
- Implementation of such a high-performance plan would require enhanced Board oversight through the addition of highly qualified directors with fresh perspectives and deep utility operating experience. Of Evergy's current *15-member* Board, outside of the Chairman and CEO, only three possess any relevant utility industry expertise.
- Likewise, given Evergy's record to date, management should include highly experienced utility executives, credentialed in and capable of executing a high-performance plan.
- To facilitate the formulation and implementation of a high-performance plan, Elliott has identified (i) highly qualified independent Board member candidates with deep industry, regulatory, energy policy, renewable energy and leadership experience; and (ii) former senior utility managers that have successfully developed, implemented and overseen high-performance plans at leading U.S. utilities.

Combination Path: Pursue Strategic Premium Merger Transaction

- Evergy's core regulated utility franchises are some of the most pristine electric systems in the U.S. as evidenced by supportive regulatory environments and strong growth potential. We believe that both mid- / large-cap utilities from nearby states and large- / mega-cap diversified utility holding companies, several of whom have seen a meaningful re-rating in their own share prices, would have a keen interest in transacting with Evergy and working to create value for all of Evergy's key stakeholders.
    - True scarcity value exists in the mid- / large-cap regulated utility industry in the U.S., which should accrue to the benefit of Evergy. Evergy's Chairman Mark Ruelle noted this when discussing the strategic rationale for utility mergers during regulatory proceedings, stating "we have gone from more than 100 electric utilities in the country to 50 in just a couple of decades."[6]

- There is a demonstrated record of strong, clear interest in Westar (which accounts for more than 50% of Evergy) from the prior M&A process, in which six bidders (in addition to Great Plains) offered substantial premiums for Westar.

- A transaction with the right strategic partner and with the right stock / cash mix would be well-positioned to obtain regulatory approvals in Kansas and Missouri. Any transaction partner would likely use predominantly stock consideration in a merger with Evergy, avoiding the failed leveraged buyout strategy that doomed the original Great Plains transaction.
- A strategic transaction would eliminate Evergy's valuation discount, lower its cost of capital on an accelerated timeframe, capture merger premium and allow shareholders to retain strong upside potential from mainly stock consideration while locking in high utility-sector valuations (consistent with the continued low point in interest rate cycle) from potential partial cash consideration.
- Importantly, we believe a strategic transaction provides clear benefits to all key stakeholders:
    - **Customers / Ratepayers:** Synergy cost savings; lower overall cost of capital; better technologies for customers / more customer offerings; sharing of best practices.
    - **Employees:** Increased opportunities through increased system investment.
    - **Regulators / Legislators / Local Communities:** Increased system investment providing safer, more reliable and cost-efficient service critical for local economic growth; maintenance of local leadership presence and current headquarters; facilitation of accelerated and more aggressive carbon-reduction targets.
    - **Investors:** Certain, premium value; future upside potential; increased geographic / regulatory diversification; mitigation of potential operational risk.
- Interestingly, in the prior Merger-related regulatory proceedings, Tony Somma's testimony revealed:

  Guggenheim Securities, the financial advisor to Westar, conducted an analysis related to the benefits of increased size and scale from the perspective of regulated utilities and their customers… [and] found the following correlations with increased size and scale: 1) higher earned returns for larger utility holding companies; 2) lower non-fuel O&M costs as a percentage of property, plant and equipment balances for larger utility holding companies; and 3) lower effective borrowing costs for larger utility holding companies.[7]

We believe the same logic would apply today were Evergy to engage in the right strategic combination.

Next Steps

We believe Evergy is at a critical juncture in its history, as more than 19 months have elapsed since the completion of the Merger. Evergy must now determine the best path forward to create sustainable value for all key stakeholders.

Elliott strongly believes that renewed focus on critical system investment is clearly the best strategy and creates tangible benefits for all key stakeholders. As we outlined in this letter, a high-performance path can be achieved either on a standalone basis with enhanced Board oversight and management expertise or through a transaction with a respected strategic partner.

Elliott looks forward to engaging with other Evergy shareholders and stakeholders regarding our ideas, and we are committed to a transparent process to keep all key stakeholders fully informed.

We thank the Board for considering our thoughts and look forward to continuing our discussions to unlock Evergy's full potential. We hope to work constructively with you on the changes needed at Evergy – the changes all key stakeholders deserve.

Sincerely,

Jeff Rosenbaum
Senior Portfolio Manager

About Elliott

Elliott Management Corporation manages approximately $40.2 billion of assets. Its flagship fund, Elliott Associates, L.P., was founded in 1977, making it one of the oldest funds under continuous management. The Elliott funds' investors include pension plans, sovereign wealth funds, endowments, foundations, funds-of-funds, high net worth individuals and families, and employees of the firm.

[1] Midwest electric utility peers: XEL, WEC, AEE, CMS, LNT.
[2] $1.00 of equity investment can be levered against $1.00 of debt to create $2.00 of rate base, which would be valued at approximately $3.40 in the market (1.7x rate base). The market value of the equity investment would be approximately $2.40 ($3.40 less $1.00 of debt).
[3] Source: https://windexchange.energy.gov.
[4] Overall annualized rate increase on average across Evergy's service territory.
[5] Evergy is targeting $100 million of incremental non-generation Merger savings from 2018-

2023.

[6] Source: Direct Testimony of Mark Ruelle in 16-KCPE-593-ACQ from June 2016.

[7] Source: Direct Testimony of Anthony Somma in EM-2018-0012 from August 2017.

SOURCE Elliott Management Corporation

CERTIFICATE OF SERVICE

21-EKME-088-GIE

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