BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Application of Evergy Metro, Inc., Evergy Kansas Central, Inc. and Evergy Kansas South, Inc. for an Accounting Authority Order Allowing the Companies to Record and Preserve Costs Related to COVID-19 Expenses	)))))	Docket No. 20-______-ACT

APPLICATION OF EVERGY METRO, INC., EVERGY KANSAS CENTRAL, INC. AND EVERGY KANSAS SOUTH, INC. FOR ACCOUNTING AUTHORITY ORDER RELATED TO COVID-19 COSTS AND FINANCIAL IMPACTS

COME NOW Evergy Metro, Inc. ("Evergy Kansas Metro"), Every Kansas Central, Inc. and Evergy Kansas South, Inc. (together as "Evergy Kansas Central") (collectively referred to herein as "Evergy"), and file this Application for an accounting authority order ("AAO") permitting Evergy to accumulate and defer to a regulatory asset for consideration of recovery in proceedings before the Commission certain extraordinary costs and financial impacts incurred as a result of the COVID-19 pandemic, plus associated carrying costs. In support of the Application, Evergy states as follows:

I. Introduction

1. As this Commission is well aware and recognized in its Emergency Order Suspending Disconnects issued on March 16, 2020, in Docket No. 20-GIMX-393-MIS ("Emergency Order"), the current Coronavirus ("COVID-19") pandemic is confronting the world and the United States with a variety of fundamental and even unprecedented health, economic and social challenges. As a result, Evergy has and will continue to incur extraordinary costs related to COVID-19, which it could not have anticipated and which are not currently included in the operating utilities' base rates.

2. A number of governmental and private sector measures aimed at restricting travel, crowd sizes, the operation of schools, businesses, and churches as well as sporting and other events have been implemented in an effort to mitigate the spread and impact of COVID-19. A large number of commercial and industrial businesses across Evergy's territory have significantly reduced operations or temporarily shut down. These contractions and closures as a result of the pandemic have reduced Evergy's revenues substantially and will continue to do so for an as yet unknown period of time into the future. For example, in Evergy's Kansas territory, 62 of the top 200 customers have had at least a partial shutdown and/or reduced employment. Spirit AeroSystems shut down for all Boeing-related production for a period of time and levels continue to fluctuate; Textron Aviation furloughed 7,000 employees; Goodyear closed its plant for three weeks; Hallmark Cards shut down its Lawrence and Leavenworth plants indefinitely; Kansas Star and Kansas Crossing Casinos are shut down indefinitely; Simon Properties temporarily closed the entire Towne East Mall in Wichita; and all universities and school districts in the territory are closed through the summer. There is already a mechanism in place – the utilities' fuel clauses – which will allow all reduction in the variable fuel costs related to this reduced load to flow back to customers. As discussed below, allowing Evergy to defer the lost revenue will ensure symmetrical treatment of the impacts of these extraordinary circumstances.

3. Unemployment claims across the country and in Kansas have significantly risen as a result of COVID-19. Consistent with the Commission's Emergency Order and subsequent orders in the docket, Evergy has suspended disconnections related to non-payment and suspended the accumulation of interest and late fees related to non-payment through at least June 1, 2020 for all but our largest business customers. Evergy is offering customers flexible payment arrangements over a 12-month period and working case-by-case with commercial and industrial customers on

payment arrangements as needed. As a result of these actions and the economic impact the pandemic is having on people's ability to pay bills generally, arrearages have substantially increased and will continue to rise and Evergy expects this to result in significantly higher bad debt expense.[1] Evergy is also developing new options for implementing programs to assist customers affected by the pandemic – those who are making good faith efforts to make payments – with paying their electric bills and intends to roll out such a program when the options are finalized. The costs of such programs should also be deferred for consideration in the next rate case because the program is expected to lower overall costs of operations related to disconnections as well as mitigate the potential for increased bad debt expense.

4. As a result of shelter-at-home orders in both Kansas and Missouri, many of Evergy's employees are working from home. Evergy has incurred incremental costs in order to provide the necessary technology and supplies needed for those employees to work from home. Evergy is also implementing social distancing procedures and additional cleaning and protective supply measures for those employees who must physically be present at work and implementing a process to do temperature checks for those employees. Additionally, for certain employees who are critical to keeping the electric system running – such as power plant employees and generation operators – Evergy is preparing for the possibility of needing to sequester those employees at their respective work locations in order to keep them healthy and allow them to maintain the reliability of the system.

[1] *See* "Heard on the Street," The Wall Street Journal at B12 (May 5, 2020) ("Delinquencies will get worse given the lagging nature of billing cycles. While businesses and households suddenly without income may have enough saved up to cover their bills in the first month or two, prolonged lockdowns or a deep recession may exhaust them").

5. It is also likely that there will be other costs incurred related to the COVID-19 pandemic that Evergy has not yet identified or anticipated. Evergy also expects that there are certain areas of costs that will be reduced due to the COVID-19 pandemic, such as external travel and training, among others, and Evergy will reflect any such decrease in costs attributable to the pandemic as reduction to the regulatory asset balance.

II. Legal Authority

6. The Commission has recognized that it is appropriate to allow a utility to defer into a regulatory asset costs associated with providing reliable electric service during extraordinary events. "Accounting orders are appropriate mechanisms to address extraordinary events. Extraordinary and unforeseeable expenses or revenues that cannot be considered in the normal ratemaking process may be preserved for future rate consideration when 'justice and equity require that adjustments be made for unforeseen windfalls or disasters.'"[2]

7. In the past, the Commission has allowed Kansas utilities to defer and amortize significant, extraordinary costs that are incurred to deal with the effects of natural disasters, like ice storms. This treatment allows the Company the opportunity to collect prudently incurred expenses from customers.[3] The Commission has also recognized that it is appropriate for a utility

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[2] In the Matter of the Investigation of Actions of Western Resources, Inc. to Separate its Jurisdictional Electric Public Utility Business from its Unregulated Businesses, Docket No. 01-WSRE-949-GIE, Order, ¶ 26 (March 26, 2002).

[3] *See, e.g.,* In the Matter of the Application of the Empire District Electric Company for an Accounting Order Allowing the Utility to Record and Preserve Costs Related to Ice Storm Damage, Docket No.08-EPDE-714-ACT, Order Approving Application for Accounting Order, ¶ (Jan. 31, 2008); In the Matter of the Application of Westar Energy, Inc. and Kansas Gas and Electric Company for an Accounting Order Allowing the Companies to Record and Preserve Costs Related to Ice Storm Damage, Docket No. 08-WSEE-690-ACT, Order (Jan. 18, 2008); In the Matter of the Application of Westar Energy, Inc. and Kansas Gas and Electric Company for an Accounting Order Allowing the Companies to Record and Preserve Costs Related to Ice Storm Damage, Docket No. 05-WSEE-645-ACT, Order (March 22, 2005).

to defer financial impacts such as increased levels of bad debt in a regulatory asset for consideration by the Commission in a future rate case.[4]

8. Similarly, the Commission has authorized construction accounting, which consisted of an accounting authority order that allowed the utility to defer the monthly depreciation and amortization expense recorded for an environmental retrofit project from the time the project went into service and the time it was placed into rates. This treatment provided a deferral mechanism for carrying costs associated with the project.[5] The Commission granted the AAO due to the potential financial impact on the utility without the accounting treatment and unusual scheduling and cost impacts on the Commission and Staff that would result absent the treatment.[6]

9. A number of other states have authorized regulatory assets for utilities to defer impacts related to COVID-19, including Connecticut, Texas, Nevada, Arkansas, Maryland, Texas,

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[4] In the Matter of the Joint Application of Greeley Gas Company, a division of Atmos Energy Corporation, Kansas Gas Service Company, a Division of ONEOK, Inc., and UtiliCorp United Inc., d/b/a Peoples Natural Gas Company and Kansas Public Service Company (Collectively the "Kansas LDC Group") for Approval of an Adjustment to their Respective Purchase Gas Adjustment (PGA) and/or Cost of Gas Recovery (COGR) Tariff to Allow Them to Include an Extraordinary Bad Debt Cost Recovery Factor, Or, in the Alternative, the Kansas LDC Group Seeks Approval of a Deferred Accounting Order to Recovery Extraordinary Uncollectible Account Levels Experienced by Them During the 2000-2001 Heating Season, Docket No. 02-GRLG-259-MIS, Order, ¶ 6 and 10 (Jan. 16, 2002) (approving deferral of extraordinary bad debt expense associated with the 2000-2001 winter heating season" which involved "record cold temperatures and dramatic gas price spikes" and preserving the opportunity for utility to "argue for additional compensation for their claimed extraordinary bad debt expense in their next rate case").

[5] In the Matter of a Joint Application Requesting Approval of Certain Timing and Process Terms Regarding the 2015 and 2016 Rate Applications of Kansas City Power & Light Company, Westar Energy, Inc. and Kansas Gas and Electric Company, Docket No. 15-GIME-025-MIS, Order Approving Joint Application (Sept. 9, 2014).

[6] *Id*. at ¶¶ 32 and 34 ("Absent approval of the accounting treatment requested in the Joint Application, Westar and KCP&L will suffer negative financial impacts to their earnings. These impacts would likely result in Westar and KCP&L simultaneously filing general rate cases in 2015 or in back-to-back rate cases filings to recover their investment in the Project. Simultaneous general rate case filings would decrease Staff's and CURB's ability to comprehensively and efficiently review the 2015 rate case filings and may also increase the rate case expenses if Staff has to hire outside consultants to adequately investigate both cases. Back-to-back rate cases would also be costly and time-intensive and the rate case expense for the back-to-back cases would also be passed through to customers . . . The accounting treatment and proposed procedural schedules for the companies' 2015 general rate cases are reasonable mechanisms to address and mitigate the financial impact that would otherwise occur for the Companies as a result of the investment in the Project and regulatory lag and the procedural impacts that would result from the simultaneous and/or back-to-back filings of general rate cases").

Georgia, Idaho, Mississippi, District of Columbia, Iowa, Virginia, and Louisiana. Wisconsin has opened a docket to consider the possibility of cost recovery and Alaska's legislature is considering legislation that would allow the creation of a regulatory asset.

10. The Maryland Commission stated:

> The Commission acknowledges **the potential for significant financial implications** that compliance with these emergency orders may have on Maryland Utilities and service providers. Consequently, in light of the extraordinary circumstances and in an effort to minimize adverse financial impacts to Maryland Utilities, the Commission authorizes each Utility to create a regulatory asset to record the incremental costs related to COVID-19 prudently incurred beginning on March 16, 2020, by the Utility to ensure that Maryland residents have essential utility services during this period. The Commission finds that the creation of the regulatory asset for COVID-19-related expenses will facilitate the recovery of those costs prudently incurred by the Utilities in their efforts to serve customers during this period, and the Commission finds that deferral of such costs is appropriate because **the current catastrophic health emergency is outside the control of the Utility and a non-recurring event**. Such incremental costs shall also include any assistance or benefit received by the Utilities in connection with COVID-19, regardless of form, that would offset any COVID-19-related expenses.[7]

11. On March 26, 2020 the Wyoming Public Service Commission recognized that the majority of its utilities, like the Evergy companies, have suspended "discontinuation of service, imposition of late charges and similar rules … to mitigate the negative effects on customers of the public health emergency related to the COVID-19 virus."[8] Holding that applications to take such

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[7] State of Emergency and Public Health Emergency in the State of Maryland due to COVID-19, Case No. 9639, Order Authorizing Establishment of a Regulatory Asset for COVID-19 Related Incremental Costs, pp. 2-3 (April 9, 2020) (emphasis added).

[8] *See* Order Authorizing Suspension of Certain Tariff Rules at 2, In re Commission's Consideration on its own Motion of a Temporary Grant of Auth., Docket No 90000-151-XO-20 (Mar. 26, 2020) (emphasis added).

measures were "not reasonable or necessary under these circumstances" as they "would delay actions beneficial to customers," it declared: "Public utilities that anticipate applying for the authority **to recover, through rates, any foregone revenue** or extraordinary costs related to [such] actions … shall file an application to establish a deferred accounting order."[9]

12. The Connecticut Public Utilities Regulatory Authority last week allowed its utilities to establish regulatory assets to track incurred COVID-19 incurred costs and requiring them "to maintain a **detailed record of costs incurred and revenues lost**" as a result of implementing a COVID-19 Payment Program.[10]

13. The Texas Public Utility Commission recently "authorized[d] each electric water, and sewer utility to record as a regulatory asset expenses resulting from the effects of COVID-19, **including but not limited** to non-payment of qualified customer bills …."[11]

14. The Federal Energy Regulatory Commission ("FERC") has also recognized the substantial financial impact the COVID-19 pandemic is having on utilities and the fact that "the reliability and security of our Nation's vital energy infrastructure" are "critical to meeting the energy requirements essential to the American people."[12] FERC committed to expeditiously process any requests for cost recovery and stated:

> Entities regulated by the Commission have had to take unprecedented actions in response to the emergency conditions, including directing staff to work remotely for an extended period, which may disrupt, complicate, or otherwise change their normal course of business operations.

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[9] *Id*.

[10] *See* Interim Decision, In re Emergency Petition of Att'y Gen. to Establish a State of Emergency Util. Shut-off Moratorium, Docket No. 20-03-15 (Conn., Public Util. Regul. Auth., April 29, 2020).

[11] *See* Order related to Accrual of Regulatory Assets, Issues related to the State of Disaster for the Coronavirus Disease 2019, Project No. 50664 (Tx. P.U.C., Mar. 26, 2020) (emphasis added).

[12] Business Continuity of Energy Infrastructure, Docket No. PL20-5-000, Statement of Policy (F.E.R.C. April 2, 2020).

> In light of the President's proclamation, the Commission believes it is appropriate to provide regulatory guidance on certain energy infrastructure, market, reliability and security matters. We understand that regulated entities may need to implement new procedures, update and/or suspend existing procedures, and take other measures to safeguard the business continuity of their systems. We are aware that such regulated entities may have questions about their ability to meet regulatory requirements and/or recover the expenses necessary if they take steps to safeguard the business continuity of their systems during the national emergency.[13]

III. Request for Accounting Authority Order

15. The circumstances that exist in conjunction with the COVID-19 pandemic clearly meet the Commission's standard for approval of an accounting authority order. As FERC and multiple other state commissions have recognized, the existence of such a public health emergency is an extraordinary event that is outside the utilities' control and will have substantial financial impacts on utilities, including Evergy. The COVID-19 pandemic has caused Evergy to incur extraordinary costs that are not currently included in base rates and those extraordinary costs will continue to be incurred for an as yet undetermined period of time into the future.

16. Although Evergy may experience some areas where its costs are reduced, a significant amount of those cost reductions will automatically flow through to customers. For example, any reductions in fuel costs that result from the decreased load during the pandemic will automatically flow through to customers through Evergy's fuel clauses. Thus, it is appropriate for the Commission to authorize Evergy to defer the increased costs and lost revenues it is experiencing that otherwise would not be collected from customers. However, as discussed below, where Evergy experiences reductions in costs as a result of COVID-19 that are not automatically

[13] *Id*.

passed on to customers, Evergy will track those reductions as a reduction to the amounts tracked and deferred in the regulatory asset established.

17. While there is not substantial precedent with the Commission for the deferral of lost revenues, it is appropriate in this instance given the extraordinary circumstances that exist as a result of the COVID-19 pandemic, including the government-ordered shut-down of businesses discussed above and the substantial financial impact the pandemic is having, and is expected to have over an as yet unknown period of time, on the utility sector. For example, on April 2, 2020, partly influenced by coronavirus-related concerns, S&P Global Ratings lowered its outlook for the North American regulated utility sector to "negative" from "stable."[14] The credit markets, credit rating agencies, and investors are closely watching the actions state commissions take to support the financial strength of the utilities they regulate.

18. Therefore, Evergy requests an AAO permitting it to identify, track, document, accumulate and defer in a regulatory asset from March 1, 2020, forward for: (1) its actual reasonable and prudently incurred costs related to the COVID-19 pandemic, including but not limited to new or incremental operating and maintenance expense related to protecting employees and customers and plan for and communicate about impacts of the pandemic, increased bad debt expense to the extent they exceed levels included in the cost of service, costs related to preparing for and the actual sequestration of employees, and costs related to new assistance programs implemented to aid customers with payment of electric bills during the pandemic; (2) lost revenues related to the COVID-19 pandemic; (3) less costs avoided related to COVID-19 and (4) carrying costs. These items will be tracked and deferred for consideration by the Commission for rate

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[14] *See* https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/s-plowers-north-american-utilities-outlook-to-negative-on-coronavirus-risk-57886477.

recovery in the operating utilities' next general rate cases. Carrying costs will be calculated using each respective operating utility's cost of capital, exclusive of related taxes, as determined in its most recent rate case.

19. It is unknown at this time how long the extraordinary impacts associated with COVID-19 will prevail; however, Evergy agrees to track all specific expenses and financial impacts, including revenue degradation, it includes in the regulatory asset and retain all appropriate support documents for those for those calculations for the Commission's consideration in the operating utilities' next general rate cases.

20. Evergy will also track offsets to the cost increases it has experienced – instances where the COVID-19 situation has actually reduced expenses for the Company – and will reduce the amount of the regulatory asset by the amount of the offsets. Such offsets might include reduction in travel and mileage costs, reduction in electricity and other costs at offices, and any related increase in residential revenues that occurs as a result of more people staying at home during the day.

21. Evergy further agrees to file an annual report, with the first report filed no later than May 1, 2021, and no later than May 1 for each succeeding year until each of the operating utilities' next respective general rate case filings, setting forth its costs incurred and revenues lost relating to COVID-19 during the preceding calendar year.

22. In future rate proceedings, the COVID-19 expenses and lost revenues will be fully subject to review for reasonableness and accuracy. Evergy is also requesting that the Commission consider, in the future rate proceedings, other issues such as the appropriate form and period of recovery (amortization period) for the approved amount of regulatory assets and other related matters.

23. Therefore, Evergy requests that the Commission grant it the authority to track and defer in a regulatory asset all incremental expenses and other financial impacts including lost revenues, related to the COVID-19 pandemic, as discussed in detail above.

Respectfully submitted,

/s/ Cathryn Dinges

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ATTORNEY FOR
EVERGY METRO, INC., EVERGY KANSAS CENTRAL, INC., AND EVERGY KANSAS SOUTH, INC.

VERIFICATION

STATE OF KANSAS)
) ss
COUNTY OF SHAWNEE)

The undersigned, Cathryn Dinges, upon oath first duly sworn, states that she is Corporate Counsel for Evergy Metro, Inc. Evergy Kansas Central, Inc. and Evergy Kansas South, Inc., that she has reviewed the foregoing pleading, that she is familiar with the contents thereof, and that the statements contained therein are true and correct to the best of her knowledge and belief.

Cathryn Dinges

Cathryn Dinges

Subscribed and sworn to before me this 6 th day of May 2020.

NOTARY PUBLIC - State of Kansas
LESLIE R. WINES
My Appt. Exp. 5/30/22

Leslie R. Wines

Notary Public

My appointment expires: May 30, 2022