**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

DIRECT TESTIMONY OF

JOHN M GRACE

ON BEHALF OF EVERGY METRO, INC., EVERGY KANSAS CENTRAL, INC. AND EVERGY KANSAS SOUTH, INC.

IN THE MATTER OF THE PETITION OF EVERGY KANSAS CENTRAL, INC., EVERGY KANSAS SOUTH, INC., AND EVERGY METRO, INC. FOR DETERMINATION OF THE RATEMAKING PRINCIPLES AND TREATMENT THAT WILL APPLY TO THE RECOVERY IN RATES OF THE COST TO BE INCURRED FOR CERTAIN ELECTRIC GENERATION FACILITIES UNDER K.S.A. 66-117.

Docket No. 25-EKCE-207-PRE

November 6, 2024

I. INTRODUCTION

Q: Please state your name and business address.

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

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

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

Q: On whose behalf are you testifying?

A: I am testifying on behalf of Evergy Kansas Central (also referred to as "EKC" or the "Company") and Evergy Kansas Metro (also referred to as "EKM").

Q: What are your responsibilities?

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

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

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

Q: Have you previously testified in any proceedings before the Kansas Corporation Commission ("Commission" or "KCC") or before any other utility regulatory agency?

A: Yes. I have previously filed written testimony before the KCC and the Missouri Public Service Commission.

Q: Please describe the purpose of your testimony.

A: The purpose of my testimony is to describe the Company's plan to finance new generation assets that match the needs identified in the Company's most recent integrated resource plan ("IRP"), which include Kansas Sky Solar, Viola Generating Station and McNew Generating Station. Specifically, I will discuss the following:

1. Financing Ability - Provide an overview of the Company's current investment grade credit ratings, available liquidity, and access to capital markets available to the Company to finance the projects during construction.
2. Combined-Cycle Projects - Discuss the ownership structure of the two combined-cycle projects, the benefits of utilizing the construction work in progress ("CWIP") rider that was recently made available per the passing of Kansas House Bill 2527[1]

[1] See Kansas Laws 2024, Ch. 60 (H.B. 2527), Sec. 4.

and utilizing the recently passed 10-year exemption for new dispatchable generation construction.[2]

3. Solar Project - Discuss the tax benefits available to support the investment in solar along with the proposed levelized revenue requirement rate-making treatment for the solar facility.

II. FINANCING ABILITY

Q: Please briefly describe the projects and the anticipated total project costs excluding AFUDC.

A: The Company is seeking predetermination for three separate generation projects that fulfill the capacity and energy needs identified in the Company's most recently filed IRP through 2030.

The Viola Generating Station is a 710 MW combined-cycle combustion turbine that would be located in Viola, Kansas, co-owned with Evergy Missouri West ("EMW") (each with a 50% ownership share) with an anticipated total 100% project cost excluding allowance for funds used during construction ("AFUDC") of [redacted]**. The McNew Generation Station is also a 710 MW combined-cycle combustion turbine that would be located in Hutchinson, Kansas, potentially jointly owned with other equity investors or solely owned by EKC with an anticipated total 100% project cost excluding AFUDC of **[redacted] The Kansas Sky Solar Facility is a 200 MW_{DC} (159 MW_{AC}) solar farm located in Douglas County, Kansas with an anticipated total project cost excluding AFUDC

[2] See Kansas 2024 Laws, Ch. 81 (S.B. 410), New Sec. 2.

of **[redacted]**. Company witnesses Kyle Olson and John Carlson describe these projects in more detail in their direct testimonies.

Q: Does the Company have access to available credit and other liquidity to help finance the project?

A: Yes. EKC has adequate short-term liquidity and access to adequate short-term liquidity. In August 2024, Evergy extended its $2.5 billion master credit facility from 2027 to 2028. The Company has borrowing capacity under that master credit facility with a current sub-limit of $950.0 million. This sub-limit can be adjusted unilaterally by Evergy for each borrower provided the sub-limits remain within the minimum and maximum sub-limits specified by the facility. As of September 30, 2024, the Company had $692.7 million borrowed under this credit agreement, with $257.3 million of remaining liquidity under the agreement. EKC sub-limits under the facility range between $750 million and $1.25 billion. EKC has FERC authority to issue up to $1.25 billion of short-term debt.

The Company also sells an undivided percentage ownership interest in its retail electric accounts receivable to an independent outside investor. These sales are accounted for as a secured borrowing with accounts receivable pledged as collateral and a corresponding short-term, collateralized note payable. Under this account receivable sales facility, EKC has the ability to borrow up to $185.0 million at any time subject to a borrowing base calculation, and to the extent the Company has qualifying accounts receivable and subject to the bank's discretion, it can borrow up to an additional $65.0 million.

Q: Does the Company also have access to markets to attract capital investment to provide additional financing for the project?

A: Yes, as evidenced by the $4.6 billion of long-term debt and $5.2 billion of shareholders' equity on EKC's balance sheet as of September 30, 2024. Most recently, EKC raised $700 million of long-term debt capital with durations of 10 and 30 years, during the calendar year 2023.

Q: What is the Company's overall plan for utilizing these components to finance the projects?

A: EKC will finance these projects in a responsible manner as it does with any other investment, balancing liquidity, open windows in the capital markets, and maintaining a capital structure indicative of its current credit ratings.

Q: What are EKC's current credit ratings at Standard and Poor's ("S&P") and Moody's?

A: EKC's current credit ratings are solid investment grade and are on stable outlook at both credit rating agencies. The table below reflects the current corporate, senior secured, and commercial paper credit ratings. These ratings will allow EKC to issue short-term and long-term debt capital on favorable terms for customers.

Table 1

Rating	Standard & Poor's	Moody's
Outlook	Stable	Stable
Corporate Credit Rating	BBB+	Baa1
Senior Secured Debt	A	A2
Commercial Paper	A-2	P-2

III. COMBINED-CYCLE PROJECTS

Q: Please describe the planned legal structure for ownership and operation of the combined-cycle projects?

A: The first combined-cycle unit, the Viola Generating Station, will be co-owned by EKC and EMW and operated by EKC. EKC and EMW will each own 50% of the generating station. The second combined-cycle unit, the McNew Generating Station, could have multiple equity owners or will potentially be 100% owned and operated by EKC. Mr. Klote describes in detail the Joint Ownership and Operating Agreement of Viola Generating Station, which would be a similar agreement for the McNew Generating Station if not fully owned by EKC. Both generating facilities will be operated by EKC.

Q: Which Company will finance the projects?

A: Each joint-owner will finance its proportionate share of each project during construction. This will ensure each utility's customers pay for only the portion of the facilities from which they are receiving energy and capacity benefits.

Q: Are you familiar with the amended predetermination statute and its provisions regarding recovery of costs pursuant to predetermination of rate-making principles?

A: I am generally familiar with those provisions, and I have an understanding of how the Company plans to petition for recovery of the costs of the two combined-cycle generating station projects during the construction phase and upon placing the projects in service.

Q: Please describe the processes the Company plans to utilize to recover those costs.

A: The Company first plans to request recovery of the return on 100% of all amounts recorded to construction work in process ("CWIP") up to the definitive cost estimate for each project, which EKC's proportionate 50% share of the Viola combined-cycle project cost estimate is **[redacted]** (excluding AFUDC) and the total cost estimate for the McNew combined-cycle project is **[redacted]** or **[redacted]** at a 50% ownership share (excluding AFUDC). The specific means and timing of recovery of these amounts recorded as CWIP under the new CWIP rider, which became available under the recently passed Kansas

House Bill 2527, are discussed in additional detail by Company witnesses Ron Klote and Darrin Ives.

Q: What are the benefits of recovery of costs pursuant to the CWIP Rider?

A: The benefits of timely recovery of costs utilizing the CWIP rider include reducing the overall project cost by minimizing AFUDC. This will also reduce the nominal value of related revenue requirements (return on the investment and recovery of depreciation) customers pay over the life of these generating facilities. If the Company charges customers under the CWIP rider, and then later decides to terminate construction or purchase of the facility, customers will be refunded the amounts previously charged. In addition, the credit rating agencies view the CWIP rider as a positive mechanism that supports the utility's credit worthiness. For example, Moody's lists authorized riders and trackers as credit strengths and specifically cites the passage of Kansas House Bill 2527 as a positive legislative development.[3] Maintaining current credit ratings on such large, multi-year investments will help the utility raise capital on favorable terms for customers.

The illustrative charts below, based on a $1 billion investment, demonstrate how the CWIP rider will both reduce project costs for customers and reduce the

[3] "Credit Opinion: Evergy, Inc. Update to credit analysis" at 2 and 5, Moody's Investor Services, Inc. (June 13, 2024).

revenue requirement customers pay related to the investment costs of the generating stations over the life of the projects.

Chart 1

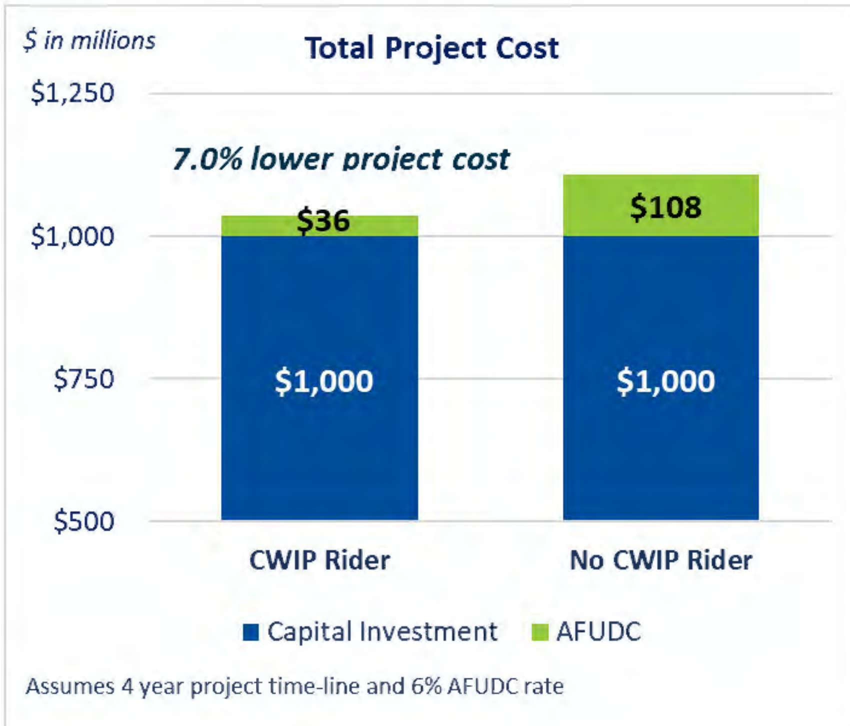
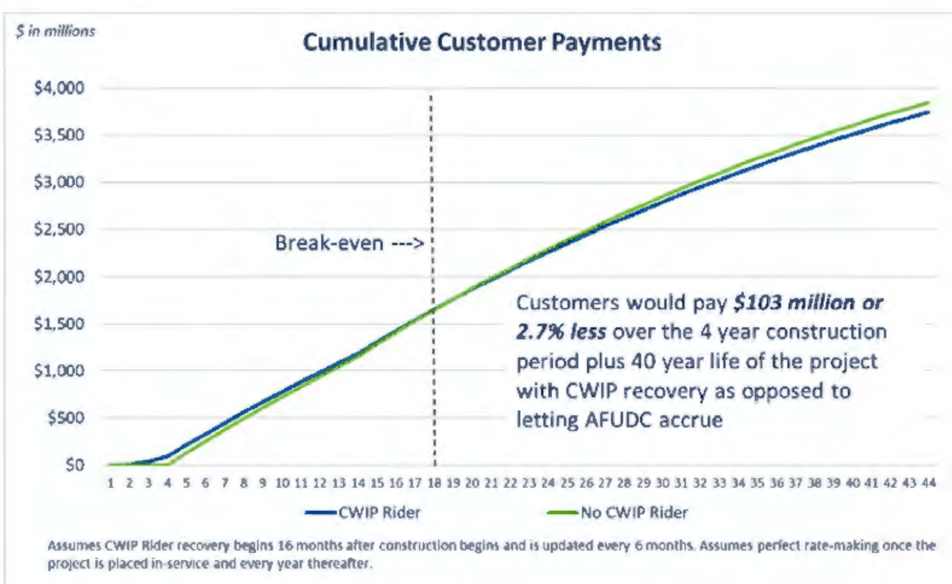


Chart 2



Q: Please provide an example of why the rating agencies view the CWIP rider as a credit strength?

A: The below example, using the same illustrative $1 billion investment, illustrates EKC's actual 2023 cash from operations to total debt metrics with *pro forma* adjustments layering in the $1 billion investment with and without the CWIP rider.

Table 2

Moody's Cash from Operations (pre-working capital) to Total Debt:

		pro forma 2023 for years during construction			
	2023	Year 1	Year 2	Year 3	Year 4
Ratio with CWIP Rider	18.7%	18.4%	18.2%	17.8%	17.8%
Ratio without CWIP Rider	18.7%	18.4%	18.0%	17.3%	16.7%
CWIP Rider Benefit		***0.0%***	***0.2%***	***0.5%***	***1.1%***

S&P's Funds from Operations to Total Debt:

		pro forma 2023 for years during construction			
	2023	Year 1	Year 2	Year 3	Year 4
Ratio with CWIP Rider	16.8%	16.6%	16.4%	16.1%	16.1%
Ratio without CWIP Rider	16.8%	16.6%	16.3%	15.6%	15.1%
CWIP Rider Benefit		***0.0%***	***0.2%***	***0.5%***	***1.0%***

As Table 2 illustrates, all else being equal or assuming no additional action on the Company's part, the CWIP rider provides a clear benefit to credit metrics and will help EKC maintain its investment grade credit rating. Maintaining current credit ratings while undertaking large capital investment projects that span multiple years will directly benefit customers by keeping capital costs lower than what they otherwise might be.

Q: Are there additional benefits to the Company's customers and shareholders from the Company's plan to utilize the process provided under the amended predetermination statute?

A: Yes. The predetermination process also allows the Commission and intervenors to discuss the merits, needs, estimated cost, and rate-making principles of the projects before any significant investment is made. In this docket the three projects under review total over **[redacted]** dollars of investments that will be spent over several years. Receiving assurance of rate-making principles and support for these investments before material amounts of spending occurs helps mitigate the risk of potential unnecessary investments made on behalf of customers and lowers the risk of significant disallowances on the investments for investors. Predetermination helps provide a level of certainty for customers, investors, developers, and construction partners that stakeholders support the projects and rate-making principles.

Q: How does the Company plan to recover depreciation and return on investment during the time period between the combined-cycle projects being placed into service and being reflected in retail rates through a general rate proceeding?

A: The Company plans to request recovery of deferred deprecation including a carrying charge on plant balances not currently recovered in the CWIP rider as described and allowed for under the new predetermination statute.

Q: Will the costs exceeding the definitive cost estimate, and the Company's method for recovering those costs, be subject to further review and approval by the Commission?

A: Yes. The Commission will be able to review and scrutinize these additional costs in the course of a separate general rate case to determine whether they are reasonable and prudent, and the Commission will be able to review whether the Company's proposed means of recovery of those costs are reasonable and prudent in that same proceeding. This will further ensure that the construction of the plants will be done in a manner and at a cost that is reasonable and prudent and that the entire process is open and transparent.

Q: Has the Company calculated the expected rate impacts on customers from recovery of costs under the CWIP Rider?

A: The Company's estimate of rate impacts from implementation of the CWIP Rider is discussed in more detail in the direct testimony of Ron Klote. In summary, however, the Company estimates the CWIP rider will increase average retail rates about 0.58% in the first update year and hit the high point at about a 3.82% average retail rate increase towards the completion of the Viola Generating Station and when construction activity is well underway at the McNew Generating Station.

Q: Has the Company calculated the expected impact on the calculation of its revenue requirement for additions to base rates based on construction costs estimated for these projects?

A: Again, the Company's estimate of the expected impacts on the calculation of its revenue requirement for addition to base rates related to construction costs estimated for these projects are more thoroughly discussed in the testimony of Ron Klote. In summary, however, the Company estimates that each 50% ownership position of the combined-cycle plants will increase average retail rates about 4.3% in the first full year following a general rate case.

Q: Are there other mechanisms the Company is utilizing to limit tax costs incurred by the project?

A: Yes. Section 2 of Kansas Senate Bill 410, passed in 2024, provides a 10-year exemption from property taxes for any "new electric generation facility," which is defined in the statute to include dispatchable natural gas generation facilities.[4] Therefore, the two combined-cycle natural gas generation facilities would likely be exempt from ad valorem taxation for at least 10 years after completion of construction. This will help reduce the overall cost of service related to the combined-cycle units for customers. The Company will negotiate payment-in-lieu-of-taxes ("PILOT") with the counties where the projects reside to ensure the communities where these projects are located receive a financial benefit during the 10-year property tax exemption for partnering with Company on projects that will serve to benefit our entire customer base.

IV. SOLAR PROJECT

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

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

Q: Are there tax credits available for the Kansas Sky Solar Facility presented in this case?

A: Yes.

Q: What tax credits will Kansas Sky qualify for under the Inflation Reduction Act?

A: Kansas Sky will qualify for either the investment tax credit ("ITC") or production tax credits ("PTC"), which will reduce the cost to customers once reflected in retail

[4] *See* Kansas 2024 Laws, Ch. 81 (S.B. 410), New Sec. 2.

rates. Although the magnitude of the credit is not currently known, Kansas Sky may qualify for up to a 40% ITC or 110% PTC, which includes an additional 10% Energy Community Bonus credit due to the fact that the project is located nearby the Lawrence Energy Center.

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

A: PTCs are based on generation from the solar facility during the first 10 years of operation and the PTC requirements that the solar facility meets. Assume, for example, that each MWh of energy produced from a solar facility that qualifies for a 100% PTC currently generates a $30 credit. If the solar facility meets the 110% PTC requirement, then a $33 credit is currently generated for each MWh of energy produced. Customers would receive the grossed-up for income-tax value of these PTC's once the solar farm is reflected in retail rates.

The ITC is based on qualified project costs. Qualified project costs include the total project cost excluding AFUDC, internal costs, purchased land, fencing, and ground restoration. For example, assume a solar facility qualifies for the 40% ITC and the total project cost is $300 million. Then assume that of the $300 million total project costs, $260 million are ITC eligible project costs. The ITC value would be 40% of $260 million or $104 million. Customers would receive the grossed-up for income-tax value of the $104 million ITC over the life of the solar facility once the Company utilizes the tax credit and that facility is reflected in retail rates.

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

A: No. The Company has not elected the preferred tax treatment, but if the proposed rate-making principles offered in this case are agreed to and approved by the Commission, the PTC election will be the most economical choice for customers.

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

A: Yes. The solar energy produced by these projects will generate renewable energy credits ("REC") which can be used to certify that the power they produce is renewable or that the REC's may be sold with their proceeds going to reduce customer rates.

Q: What rate-making treatment is EKC proposing for Kansas Sky?

A: EKC is proposing a levelized revenue requirement for Kansas Sky, much like the rate-making treatment the Commission approved for the Western Plains Wind Farm in Docket No. 18-WSEE-328-RTS and the Persimmon Creek Wind Farm in Docket No. 23-EKCE-775-RTS. Under the approach, we propose that customers will pay a stable price for this generation resource over the initial book life of the solar farm, 30 years. This approach will remove the drastic swing in revenue requirements when the production tax credits expire and the 10-year property tax exemption for the renewable resource expires.

Q: What is the current estimated annual levelized revenue requirement for Kansas Sky?

A: The current estimated annual levelized revenue requirement for Kansas Sky Solar utilizing production tax credits with the 10% Energy Community Bonus credit is **[redacted]**.

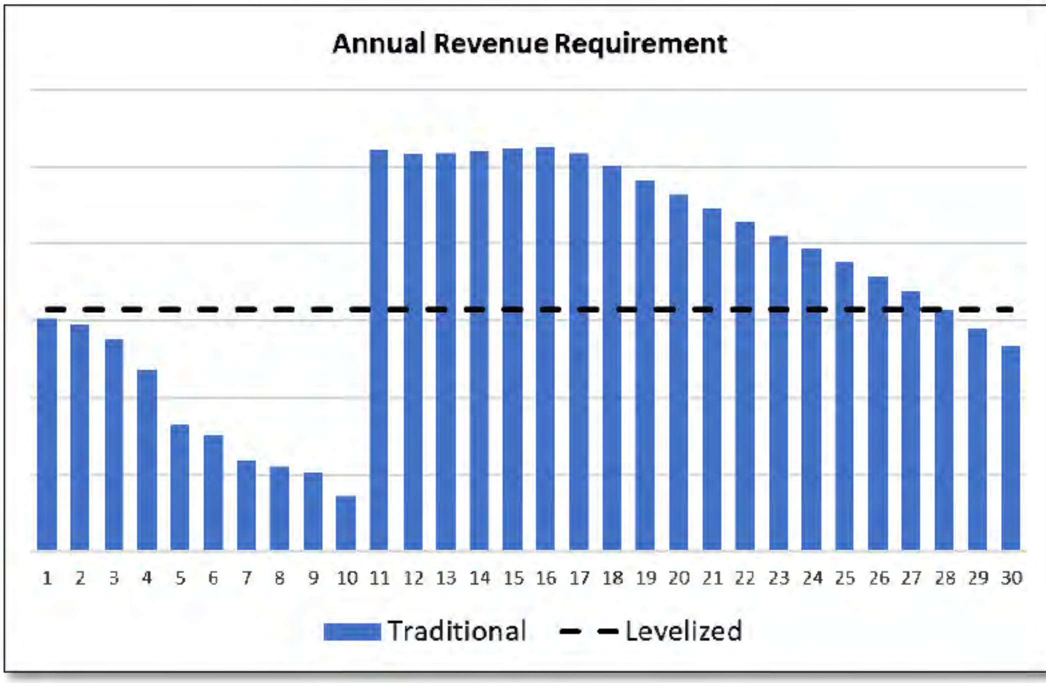
Q: Why is EKC proposing the levelized revenue requirement approach?

A: Production tax credits will provide a tremendous value for solar generation, more so than the ITC due to normalization rules. While tax credits contribute to the economic competitiveness of solar, the schedule at which the value is realized, over the first ten years of operation rather than over the entire life of the plant which would be the case if the ITC was utilized, creates an inconsistent annual revenue requirement. Under traditional ratemaking, the inconsistent revenue requirement potentially creates intergenerational inequities.

The levelized revenue requirement structure we are proposing for Kansas Sky would allow customers to pay and EKC to recover the total revenue requirement associated with the ownership of the solar facility through consistent, levelized prices over the expected life of the facility. The present value of the total revenue requirement would be spread evenly across the total expected production throughout the 30 years of the solar facility's initial operating life. This would create a static annual cost that can be used to set a levelized revenue requirement rather than setting the revenue requirement based on the specific costs incurred in a test year as is done under traditional ratemaking. This levelized approach decreases intergeneration inequities such that a customer in year one or year 20 will receive the same benefit of the solar facility for nearly the same cost.[5] Figure 1, below, illustrates the economic impact of this alternative ratemaking treatment and difference between traditional revenue requirements and levelized revenue requirements.

[5] The amount of energy produced from the solar facility is anticipated to be reduced slightly each year due to panel degradation of ~0.4% annually.

Figure 1



EKC requests that an estimate for inverter replacements be included in the levelized revenue requirement since that is a commonly anticipated replacement cost of solar facilities over their initial useful life.

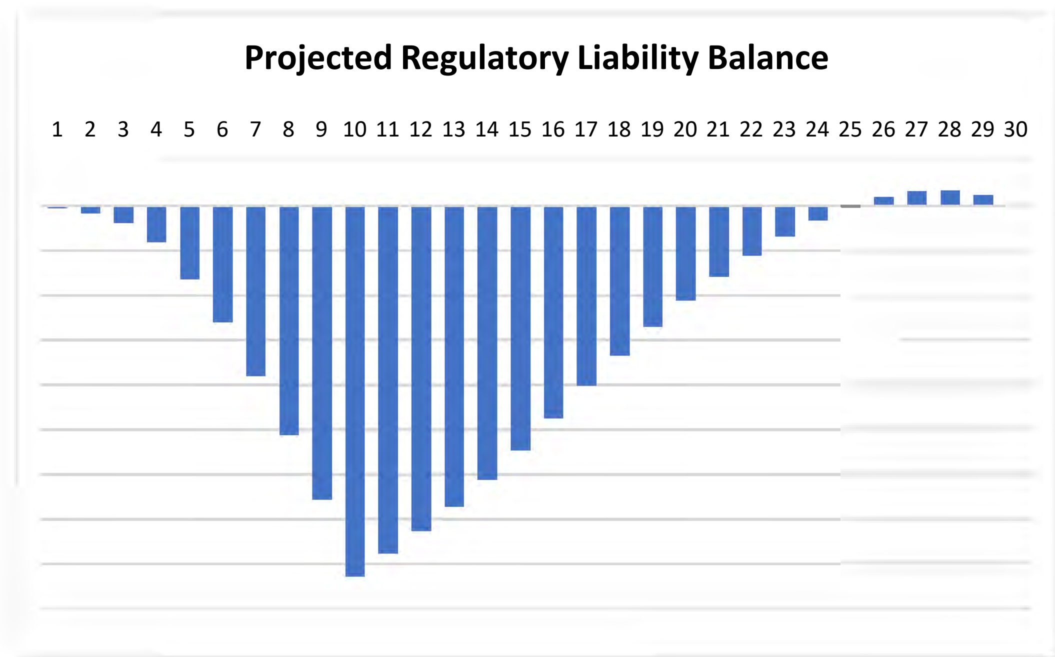
Also, just as in previous Commission orders, in the event of changes in law or regulations, or the occurrence of events outside the control of EKC that result in a material adverse impact to EKC with respect to recovery of the Kansas Sky revenue requirement, EKC, as applicable, would request the ability to file an application with the Commission proposing methods to address the impact of the events.

Q: Please provide details on how a levelized revenue requirement would be accounted for.

A: A levelized revenue requirement utilizes Financial Accounting Standards Board ("FASB") Statement 71, accounting for the effects of certain types of regulation, to smooth the tax credits, as well as any other cost differences, to provide consistent costs to customers, while ensuring EKC does not over or under earn on this investment in a given year.[6] FASB Statement 71 allows EKC to record a deferred regulatory liability to offset the differences between the levelized revenue requirement and traditional revenue requirement, along with a carry charge at the authorized cost of capital, to comply with generally accepted accounting principles. Figure 2 illustrates the projected deferred liability schedule expected over the life of the solar facility. During the first 10 years, EKC would anticipate to receive more revenue through the levelized approach than it would under traditional ratemaking until the PTC's and property tax exemption expire. After 10 years, EKC will begin receiving less revenue from the levelized approach and therefore will start reducing the regulatory liability balance. By the end of the remaining useful life of the solar facility, the deferred liability balance would return to zero, where the total revenue requirement of both the levelized and traditional ratemaking are equal. This levelized revenue requirement approach allows EKC to provide low-cost renewables to customers at a static annual rate, while not materially affecting the economics of ownership for EKC.

[6] The exception being if the difference between the traditional revenue requirement and levelized revenue requirement is in a net regulatory asset position. Since a levelized revenue requirement would be considered a phase-in-plan under Generally Accepted Accounting Principles ("GAAP"), a net regulatory asset position cannot be recorded.

Figure 2



Q: Is the Company requesting any other rate treatment for the Kansas Sky solar facility?

A: Yes. As further described in Ron Klote's direct testimony, the Company is requesting to be permitted to defer and recover as a regulatory asset over the remaining life of the Kansas Sky generating plant the pretax rate of return, depreciation expense, and actual operating and maintenance expense, offset by the value of the production tax credits, incurred between the time the Kansas Sky solar facility is placed in service and the effective date of rates that include the levelized revenue requirement. Recovery of the regulatory asset will begin in the next general rate case after inclusion of the levelized revenue requirement in rates and recovered over the life of the plant.

Q: Does this conclude your testimony?

A: Yes.

STATE OF KANSAS)
) ss:
COUNTY OF SHAWNEE)

VERIFICATION

John Grace, being duly sworn upon his oath deposes and states that he is the Sr Director Corporate Planning and Financial Performance, for Evergy, Inc., that he has read and is familiar with the foregoing Testimony, and attests that the statements contained therein are true and correct to the best of his knowledge, information and belief.

John Grace

Subscribed and sworn to before me this 6th day of November 2024.

Leslie R. Wines
Notary Public

My Appointment Expires: May 30, 2026

NOTARY PUBLIC - State of Kansas
LESLIE R. WINES
MY APPT. EXPIRES 5/30/2026