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State Corporation Commission
of Kansas

**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 and Lost Revenues Related to the COVID-19 Virus.	))))))	Docket No. 20-EKME-454-ACT

NOTICE OF FILING OF STAFF'S REPORT AND RECOMMENDATION

The Staff of the State Corporation Commission of the State of Kansas (Staff and Commission, respectively), hereby files this Report and Recommendation (R&R), dated May 20, 2020.

Specifically, Staff recommends the Commission approve Evergy's request for an AAO authorizing it to defer to a regulatory asset all incremental costs and lost revenues associated with the COVID-19 pandemic. The deferrals are for accounting purposes only and will continue until Evergy's next general rate case or the official end of the COVID-19 pandemic, whichever occurs sooner. Staff further recommends the Commission defer ruling on what rate Evergy should be allowed to accumulate carrying charges on the balance of the AAO deferral until the next general rate case.

WHEREFORE, Staff requests the Commission consider its Report and Recommendation and for any other further relief as the Commission deems just and reasonable.

Respectfully submitted,

s/Cole Bailey

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REPORT AND RECOMMENDATION
UTILITIES DIVISION

TO: Chair Susan K. Duffy
Commissioner Shari Feist Albrecht
Commissioner Dwight D. Keen

FROM: Justin Grady, Chief of Accounting and Financial Analysis
Adam Gatewood, Senior Managing Financial Analyst
Jeff McClanahan, Director of Utilities

DATE: May 20, 2020

SUBJECT: Docket No. 20-EKME-454-ACT
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

EXECUTIVE SUMMARY

On May 6, 2020, Evergy Metro, Inc. (Evergy Kansas Metro, formerly KCP&L), Evergy Kansas Central, Inc. and Evergy Kansas South, Inc. (together as Evergy Kansas Central, formerly Westar) (collectively referred to herein as Evergy) filed a request for an Accounting Authority Order (AAO) to defer extraordinary costs and lost revenues, plus associated carrying cost, as a result of the COVID-19 pandemic.

In support of its Application Evergy summarized the types of extraordinary cost increases that it expects to experience, lost revenues that it expects to experience, and some related cost reductions that are expected, all of which would be tracked and included in the regulatory asset. Evergy also points to the significant number of states that have approved the deferral treatment requested in the Application, as well as several Commission Orders in Kansas that have allowed similar accounting treatment for the deferral of extraordinary, unusual, and non-recurring financial events that are outside of the control of utility management.

Lastly, Evergy requests that the Commission authorize it to record carrying charges on the balance of the deferral account, using its authorized after-tax weighted average cost of capital. The Application does not seek a ruling on the amortization period for the regulatory asset or the detailed review of the prudence or recoverability of costs included therein; instead these issues are deferred to Evergy's next general rate case.

Evergy proposes to file an annual report detailing the increased costs and decreased revenues it incurs as a result of the COVID-19 pandemic. These reports would be filed by May 1, 2021, and every May 1 thereafter until its next general rate case in Kansas.

Staff supports Evergy's request for Commission approval of an AAO related to increased costs and reduced revenues from the COVID-19 pandemic. The approval of this AAO is for accounting purposes only, with the detailed review of the reasonableness of the regulatory asset for recovery purposes occurring during Evergy's next rate case. Staff does not recommend the Commission rule on the application of carrying costs to the regulatory asset balance at this time. Similar to the amortization period for the regulatory asset, the Commission should wait to rule on these issues until Evergy's next general rate case.

As a condition for authorizing the creation of a regulatory asset to capture increased costs and decreased revenues, the Commission should require Evergy to file detailed reports providing the status of its customer counts, credit and collection practices, and entries into the regulatory asset. These reports should continue to be filed throughout the COVID-19 pandemic.[1] As detailed below, the reports detailing customer and collection activities should be filed monthly, and the reports detailing the financial impacts of COVID-19 should be filed quarterly. Because there is so much uncertainty regarding the ultimate economic impact of COVID-19 on customers and the utilities that serve them, these reports will help inform Staff and the Commission on the appropriate next steps to take. Staff intends to review these monthly and quarterly reports and recommend additional customer protections and/or measures to ensure the financial integrity of the utility if necessary.

BACKGROUND

On May 6, 2020, Evergy filed a request for an Accounting Authority Order (AAO) to defer extraordinary costs and lost revenues, plus associated carrying cost at the after-tax weighted average cost of capital, as a result of the COVID-19 pandemic. In support of its Application, Evergy explains the substantial costs that it has incurred and will continue to incur associated with its response to the COVID-19 pandemic and the governmental and private sector safety measures implemented in order to contain the spread of the virus. These costs include:

- Increased bad debt expenses associated with the prohibition on utility service disconnections and increased unemployment and economic weakness generally;
- The costs of customer programs aimed at rewarding customers who are making a good faith effort to make payments on their electric bills;
- Information technology and supply costs to enable its workforce to work from home;
- Additional cleaning and protective supply measures for employees who must continue to work onsite or in the field; and
- Costs associated with preparing for the possibility of sequestering electric generation operating and maintenance employees.

[1] In the event that the COVID-19 pandemic is resolved prior to Evergy's next general rate case and there is no longer a need to continue the reporting, Staff intends to propose a process to review all submitted entries to the regulatory asset and resolve the outstanding issues of what carrying costs should apply to the regulatory asset, if any, and the appropriate amortization period for the regulatory asset.

Evergy also notes that not all cost increases associated with the pandemic have been identified or anticipated at this point. Additionally, Evergy points out that it is likely that several areas will experience cost reductions, such as outside travel and training costs, and decreased electricity usage at its headquarters building. These cost reductions will be tracked and used to offset the regulatory asset.

Evergy also refers to the substantial lost revenues that it has experienced, explaining that 62 out of the top 200 of its customers have experienced some form of a shutdown or reduced employment during the pandemic. Additionally, Evergy explains that it has waived the assessment of late fees and interest on delinquent customer balances, which will result in foregone fee revenue.

Evergy's Application details several Commission Orders that have authorized regulatory assets and liabilities to capture the effects of extraordinary, unusual, and material financial impacts to a utility that are outside of management's control. Examples included in the Application are the depreciation and carrying costs associated with a new environmental retrofit going into service, the cost to rebuild the electric system after ice storm damages, and extraordinary bad debt expenses associated with severe natural gas price spikes during the heating season. Additionally, Evergy points to the states of Connecticut, Texas, Nevada, Arkansas, Maryland, Georgia, Idaho, Mississippi, District of Columbia, Iowa, Virginia, Louisiana, Wisconsin, and Alaska as having recently approved deferral of extraordinary costs associated with COVID-19.

Evergy contends that the COVID-19 pandemic will have substantial negative financial effects on utilities, including Evergy. Because these costs are outside of management control and are not included in current base rates, Evergy requests the Commission capture the effects of these extraordinary costs and lost revenues for evaluation in rates during its next general rate case. In highlighting the importance of this issue to the capital markets, Evergy points to the recent report by S&P that it was lowering the credit outlook of the utility sector to negative on coronavirus risk.[2]

Evergy commits 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 its next general rate case filings, setting forth its costs incurred and revenues lost relating to COVID-19 during the preceding calendar year. Evergy explains that 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 the amortization period for the regulatory asset in a future rate proceeding.

ANALYSIS

Staff supports Evergy's request for an AAO to defer the financial effects of COVID-19, including lost revenues, to a regulatory asset for consideration in Evergy's next general rate case. The extraordinary expenses and lost revenues that Evergy has experienced during the COVID-19 pandemic are the textbook example of the type of financial event that should be deferred to a regulatory asset in order to be considered for inclusion in rates in the next rate case. These costs/lost revenues are extraordinary, material, unusual, unforeseen, likely non-recurring, and are outside of the control of management. All of these factors make it difficult to capture and reflect the effects of a financial event like this in the traditional ratemaking process absent Commission

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

approval of an AAO to defer the effects into a regulatory asset/liability for consideration in a future rate case. The Commission has utilized AAOs to defer the effects of these types of financial events, both increasing and decreasing expenses, in several dockets over the last twenty years. Examples include costs associated with the cleanup of manufactured gas plants[3], costs associated with responding to an ice storm[4], the windfall associated with the Tax Cuts and Jobs Act[5], and several others. In addition, Staff recently recommended that the Commission authorize any utility in the State that requested an AAO be allowed to defer the costs associated with increased bad debt expense and forgone fee revenue associated with the waiver of late fees and interest payments during the COVID-19 pandemic.[6]

It is in the public interest to allow Evergy to defer the financial effects of the COVID-19 pandemic into a regulatory asset because these costs could not have been anticipated and, thus, are not included in the rate structure of the Evergy utilities. The significance of these costs, and the lack of inclusion of these costs in current rates, has resulted in significant uncertainty for financial markets regarding the degree to which these costs will affect the financial health of utilities. The S&P report referred to in Evergy's Application is just one example of one credit rating agency that has expressed these concerns. There have been other reports of credit spreads widening for the utility industry and even a complete shutdown of the commercial paper market for a brief period in March.[7]

A utility's ability to defer these costs into an AAO prevents the deterioration of the utility's earnings that would otherwise occur. To the extent that this action helps sustain the utility's continued access to low cost debt and equity capital, ratepayers receive a direct benefit because they ultimately pay these capital costs through rates. Furthermore, if a utility's request for an AAO is denied, its only other option might be to file a full general rate case, which would not be in the public interest, especially if it resulted in every utility in the State filing a rate case during the same general time.

These facts have driven a wave of AAO filings and Commission approvals across the country, and Kansas is no different. Every large investor-owned utility in Kansas now has an AAO filing pending before the Commission.[8] Evergy mentions in its Application that the states of Connecticut, Texas, Nevada, Arkansas, Maryland, Georgia, Idaho, Mississippi, District of Columbia, Iowa, Virginia, and Louisiana have allowed AAO deferrals for the utilities in those states. In addition to this list, Staff's research indicates that the states of South Carolina, Michigan, Wisconsin, Alaska, Illinois, California, Hawaii, Minnesota, and Oklahoma have also allowed some form of an AAO for the utilities in those states. Applications and cost recovery proceedings are pending in several other states.

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[3] *See* Docket No. 17-KGSG-455-ACT.
[4] *See* Docket Nos. 08-EPDE-714-ACT and 08-WSEE-690-ACT.
[5] *See* Docket No. 18-GIMX-248-GIV.
[6] *See* Staff Report and Recommendation filed on May 6, 2020 in Docket No. 20-GIMX-393-MIS.
https://estar.kcc.ks.gov/estar/ViewFile.aspx/S20200506092436.pdf?Id=c1c9e5db-ca5b-47fe-b336-a358b60d6aff
[7] *See* https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/utilities-call-on-fed-to-expand-access-to-short-term-debt-as-nonpayments-spike-57962376.
[8] Atmos Energy, Kansas Gas Service, and Black Hills have pending AAO requests in Docket No. 20-GIMG-423-GIV and Empire District Electric Company has an AAO request pending in Docket No. 20-EPDE-427-ACT.

There exists considerable uncertainty regarding the ultimate impact of COVID-19 on Evergy's customers, Evergy, and the broader economy. As a result, Staff recommends a different, more flexible, and data dependent approach to the pending AAO requests than has previously been the case with AAO Dockets. Typically, AAO Dockets are the result of a single quantifiable event that is relatively short lived and definite. After an Application and Commission Order, the issue is not usually considered again until the next rate case. In this case, Staff recommends the Commission require, as a condition to approval of the AAO, significant ongoing reporting throughout the course of the COVID-19 pandemic so that Staff and the Commission can remain apprised of the facts and circumstances affecting Evergy and its customers. Staff recommends using the data provided by these reports to inform the next steps the Commission can take to provide customer protections or to ensure the financial stability of the utility.

Staff recommends the following reports be filed by Evergy in a compliance filing opened upon approval of Evergy's requested AAO.

1. One month from a Commission Order approving the AAO, Evergy shall file a detailed narrative, with numerical examples if possible, describing the processes and procedures it plans to utilize to identify and track all cost increases and decreases associated with its response to COVID-19. Additionally, the utility should report on its proposed methodology for quantifying any lost revenues that it has experienced during the COVID-19 pandemic.

   Staff anticipates that an appropriately responsive filing would detail the accounting controls and processes to identify and track cost increases <u>and</u> decreases, the specific methodology behind identifying the baseline from which these costs will be compared, cost categories and account codes anticipated to be utilized, and other utility-specific details. This filing should be updated as additional information becomes available that changes the content of the original filing.

2. At the end of the quarter ending June 30, 2020, and every quarter thereafter, Evergy shall file the following:
   a. A detailed identification of all COVID-19 related cost increases and decreases that Evergy has tracked to date. These costs should be separated and reported by detailed cost category and by month;
   b. A detailed identification of revenue changes by customer class, both increases and decreases, during the COVID-19 pandemic;
   c. The impact COVID-19 has had on the Evergy's capital expenditure program during the previous quarter;
   d. Any issuances of short-term and long-term debt during the previous quarter and the all-in costs at which that financing was issued;
   e. The embedded cost of short-term debt for that quarter;
   f. Updated and most recent credit metrics calculated by Evergy or provided to the company by nationally recognized credit rating agencies;
   g. Any correspondence with nationally recognized credit rating agencies and equity analysts during the previous quarter; and

h. Copies of credit rating agencies and equity analysts' reports published during the previous quarter.

3. As soon as possible after the Commission issues an Order approving the AAO, and monthly thereafter, Evergy shall file the following statistics, by customer class, as well as how these statistics differ from 2019 for the equivalent time period:
   a. A quantification of total past-due customer bills (arrearages) and number of customer experiencing arrearages, that are at 30-days late, 60-days late, and 90-days late;
   b. Number of current customers receiving utility service;
   c. Number of voluntary and involuntary utility disconnections; and
   d. Number of utility reconnections.

4. As soon as possible after the Commission issues an Order approving the AAO, and monthly thereafter, Evergy shall file the following statistics, by customer class:
   a. Number of customers accepting a COVID-19 payment plan;
   b. Average number of months to pay COVID-19 payment plans;
   c. Average monthly payment amount for the COVID-19 payment plan; and
   d. Number of customers that have broken two COVID-19 payment plans, and thus been disconnected.

5. One month from a Commission Order approving the AAO, Evergy shall file a detailed narrative describing what customer programs/protections it has implemented to assist its customers as a result of the COVID-19 pandemic. This is an opportunity for Evergy to highlight the customer assistance it is providing over and above the minimum or baseline customer protections that the Commission requires for all regulated utilities. Additionally, if Evergy has made charitable donations to customer assistance organizations or provided other direct customer financial assistance, those efforts should be detailed here. This filing should be updated as additional information becomes available that changes the content of original filing.

Lastly, Staff does not recommend that the Commission rule on Evergy's request to allow it to accumulate carrying charges on the balance of the deferral at its after-tax weighted average cost of capital. Staff's review of several other AAO approvals in the country indicate that most public utility commissions are deferring this issue for determination until the utility requests approval of the regulatory asset/liability in the next rate case. Staff suggests this is appropriate in this case as well, especially because there is so much uncertainty as to how significant the deferral balance will be and because there are likely to be many varied opinions about what level of carrying costs, if any, should be allowed. Staff recommends the Commission defer this issue as well as the amortization period that would apply to any recovery of the deferral until Evergy's next general rate case.

RECOMMENDATION

Staff recommends the Commission approve Evergy's request for an AAO authorizing it to defer to a regulatory asset all incremental costs (net of any cost decreases) and lost revenues associated with the COVID-19 pandemic. These deferrals are for accounting purposes only and should continue until Evergy's next general rate case or the official end of the COVID-19 pandemic, whichever occurs sooner. All deferred costs and lost revenues will be reviewed for prudence and reasonableness and ratepayer recovery will be decided in Evergy's next rate case. Additionally, Evergy shall file the reports described above in the Analysis section as long as it continues to record entries to the regulatory asset. Staff further recommends that the Commission defer ruling on what rate Evergy should be allowed to accumulate carrying charges on the balance of the AAO deferral, if any, until the next general rate case.

CERTIFICATE OF SERVICE

20-EKME-454-ACT

I, the undersigned, certify that a true and correct copy of the above and foregoing Notice of Filing of Staff's Report and Recommendation was served via electronic service this 20th day of May, 2020, to the following:

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