BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

DIRECT TESTIMONY OF

GEOFFREY T. LEY

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

IN THE MATTER OF THE APPLICATION OF
EVERGY KANSAS CENTRAL, INC. AND
EVERGY KANSAS SOUTH, INC. FOR APPROVAL TO MAKE
CERTAIN CHANGES IN THEIR CHARGES FOR ELECTRIC SERVICE
PURSUANT TO K.S.A. 66-117.

Docket No. 25-EKCE-294-RTS

January 31, 2025

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Geoffrey Ley. My business address is 1200 Main, Kansas City, Missouri 64105.

Q. By whom and in what capacity are you currently employed?

A. I am employed by Evergy Metro, Inc. and serve as Vice President of Corporate Planning and Treasurer for Evergy, Inc. and its operating utilities. The Evergy, Inc. operating utilities include Evergy Kansas Central, Inc. and Evergy Kansas South, Inc., collectively d/b/a as Evergy Kansas Central; Evergy Metro, Inc. d/b/a/ Evergy Kansas Metro; Evergy Metro, Inc. d/b/a Evergy Missouri Metro; and Evergy Missouri West, Inc. d/b/a Evergy Missouri West.

Q. What are your responsibilities as Vice President of Corporate Planning and Treasurer?

A. As Vice President of Corporate Planning and Treasurer, I am responsible for development and oversight of Evergy, Inc.'s and its subsidiaries' budget and long-term financial plans, which includes development of capital investment plans for Evergy. It also includes formulation and execution of financing strategies – inclusive of bank/credit facilities, long-term debt, equity, and hybrid financings – to fund the capital investment plans. As part of this, I manage and monitor liquidity, credit metrics, and rating agency relationships for Evergy, Inc. and its subsidiaries.

Q. Describe your educational background.

A. I received a bachelor's degree from Purdue University in Chemical Engineering and a Master of Business Administration from Southern Methodist University.

Q. Describe your relevant employment history.

A. I joined Evergy, Inc. in June 2021 as Vice President, Financial Planning & Analysis, and in December 2022, my role expanded to include the treasury function at which time my title was changed to Vice President, Corporate Planning and Treasurer. Prior to joining Evergy, Inc., I was the Vice President and Chief Financial Officer of Hunt Refining Company in 2019-2021, where I was responsible for the accounting, information technology, supply chain, and treasury functions. From 2014 to 2019, I was Vice President, Financial Planning & Analysis and Treasurer for Hunt Utility Services, LLC, the management company for a transmission & distribution utility in Texas known as InfraREIT, Inc. From 2007-2014, I worked at TXU Corp. and its post-merger successor, Energy Future Holdings Corp., in various financial planning & analysis and treasury-related management roles.

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

A. I have not previously testified in proceedings before the KCC, but I was a presenter at the November 20, 2024 workshop before the Commission (the "Capital Structure & Return on Equity Policy Workshop"). In a recent rate proceeding involving Evergy Missouri West, I sponsored capital structure testimony before the Missouri Public Service Commission.

Q. On whose behalf are you testifying in this proceeding?

A. I am testifying on behalf of the applicant, Evergy Kansas Central ("EKC" or "Company").

PURPOSE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your testimony?

A. The general purpose of my testimony is to address EKC's position on fair rate of return in the context of this rate case. Specifically, my testimony:

- Identifies and explains the components and standards governing fair rate of return determinations;
- States and supports EKC's requested return on equity (ROE) of 10.5%;
- Identifies and supports EKC's average cost of long-term debt and common equity balances at the end of the test year and projected balances as of March 31, 2025, and states the Company's recommended overall rate of return;
- Identifies EKC's projected actual capital structure as of March 31, 2025, and explains why adopting the Company's actual capitalization ratio is essential to determining a fair rate of return in this case; and
- Explains the Company's concerns with other proposed approaches to capital structure advanced in the 2023 rate cases filed by Evergy, Inc.'s Kansas operating utilities, EKC and Evergy Kansas Metro ("EKM").

Q. Please summarize your testimony, conclusions and recommendations.

A. Kansas is experiencing record levels of economic development opportunities, both from local business expansions and new business interests. To facilitate the continuation of Kansas' successful economic development achievements while providing dependable, efficient, and affordable service to our customers, EKC will continue to compete in the open market for external capital from debt and equity investors. The Company is asking the Commission to approve a fair and reasonable rate of return to ensure it can compete for that capital on a level playing field.

EKC's requested ROE is both fair and reasonable, and it is sufficient to attract the capital required to make infrastructure investments in new and existing generation plants and reliability, resiliency and capacity expansion investments in the transmission and distribution

grid, all of which support advancement of Kansas' important economic development efforts. The Company's requested capital structure – which is consistent with the generally accepted "standalone" approach, discussed in greater detail below – is fair and reasonable as well, providing optimal leverage risk while maintaining low capital costs borne by customers. The magnitude of EKC's capital investment requirements, including its ongoing need to finance regular business operations, necessitates a strong equity capital component to ensure access to capital funding on reasonable terms.

EKC's actual capital structure of 51.97% equity capitalization is consistent with the Company's prudent financial objectives and overall plan to maintain its ability to sustainably finance its utility operations at low rates beneficial for customers and is consistent with other regulated utility companies in the United States against whom EKC competes for capital. In accordance with Commission mandates, EKC operates as an independent corporate entity, maintains its own capital structure, issues its own debt without guarantees, maintains its own credit rating, and has its own integrated resource plan and capital expenditure program. Given these and other facts demonstrating EKC's financial independence, it would not be appropriate to assign any adjustment to EKC's actual operating capital structure that does not reflect or represent the capitalization ratio used by the Company to fund its utility operations.

EKC's rate recommendations in this case are designed to meet its obligations to current investors and to effectively compete for the capital required to meet the future needs of our electric utility operations for the benefit of our customers on a fair and cost-effective basis. Our recommended ROE, capital structure, and overall rate of return are just and reasonable and should be approved.

Q. Are you sponsoring any exhibits through your testimony?

A. Yes. I am sponsoring two exhibits: **Exhibit GTL-1** provides EKC's actual capital structure at the June 30, 2024 test year, and **Exhibit GTL-2** provides EKC's expected capital structure at the March 31, 2025 true-up date.

II. FAIR RATE OF RETURN

FAIR RATE OF RETURN ELEMENTS AND STANDARDS

Q. Please define "fair rate of return" and explain why the concept is important.

A. The "fair rate of return" concept is founded on the core principle that a regulated utility is entitled to charge rates that allow the utility to recover its full cost of service, including the cost of securing necessary capital to meet its obligations to investors and to compete on reasonable terms for capital to fund future service requirements. As I explain below, the United States Supreme Court has instructed that a fair return is a return that instills investor confidence in a utility's financial integrity and allows the utility to maintain and support its credit in order to attract needed capital. Consistent with federal precedent, the Kansas Supreme Court has instructed that the Commission is to balance the public need for adequate, efficient, and reasonable service with the utility's need for sufficient revenue to meet the cost of furnishing service and to earn a reasonable profit.[1]

Q. Identify the principal elements of a fair return in this proceeding.

A. The essential elements of a fair return in this proceeding include:

- A return on common equity capital established using multiple accepted methodologies to estimate a fair and reasonable ROE and comparing our requested ROE to requested

[1] *Danisco Ingredients USA, Inc. v. Kansas City Power & Light Co*., 267 Kan. 760, 773 (1999).

and authorized ROEs of similar vertically integrated electric utilities with similar business risks inclusive of the additional risk of nuclear operations;

- A return on debt capital established using the historical (contractual) embedded cost of debt; and
- A capital structure established using capitalization percentages that reflect the amount of debt and equity capital deployed to fund EKC's utility activities and operations.

Q. What constitutional standards govern fair rate of return determinations?

A. The standards for setting just and reasonable rates by way of a fair and reasonable rate of return are set out in a brief the Company is seeking authorization to file contemporaneously with this testimony. While I am not an attorney, the principles are well established and are enumerated in two U.S. Supreme Court cases: *Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm'n of W. Va.*, 262 U.S. 679 (1923) and *Fed. Power Comm'n v. Hope Nat'l Gas Co.*, 320 U.S. 591 (1944). Together, those cases instruct that a utility's authorized rate of return must meet the following standards:

- The return must be commensurate with returns on investments having corresponding risks (the "comparable investment" standard);
- The return must be sufficient to assure confidence in the utility's financial integrity (the "financial integrity" standard); and
- The return must be sufficient to maintain the utility's creditworthiness and its ability to attract capital on reasonable terms (the "capital attraction" standard).

A fair return also requires consideration of conditions facing the utility, which may change over time depending on opportunities for investment, the money market, and business conditions. Importantly, in these cases, the Supreme Court confirmed that this view is

appropriate.[2] This means that fair return determinations are forward-looking and require consideration of the financial and economic conditions facing the utility and not merely historical experience.

Q. Please elaborate on the "comparable investment" standard.

A. The "comparable investment" standard recognizes that a fair return is ultimately determined by the competitive capital markets and that capital deployment is driven by opportunity cost. It is important to remember that although regulated utilities are considered natural monopolies, they still must compete for capital in the open financial markets. Return follows risk, which is why a utility's authorized return must be determined based on returns available from alternative investments with comparable risk profiles.

Q. Please elaborate on the "financial integrity" and "capital attraction" standards.

A. The "financial integrity" and "capital attraction" standards recognize that a utility's rate of return is the cost of attracting and retaining common equity investment necessary to allow the utility to provide safe, reliable, and affordable service. Rating agencies and investors recognize that maintaining financial strength and flexibility is essential to a utility's ability to attract the capital it needs to fund infrastructure investments and debt repayments under a range of economic conditions.[3] Given the high operating leverage for regulated utilities, their ability to reliably provide a fair return to investors is essential to obtaining credit ratings for cost-effective capital acquisition.

[2] *Bluefield*, 262 U.S. at 692.

[3] *See, e.g.*, *Moody's Investor Service Rating Methodology*, *Regulated Electric and Gas Utility* (June 23, 2017), p. 20 (noting that "[f]inancial strength, including the ability to service debt and provide a return to shareholders, is necessary for a utility to attract capital at a reasonable cost in order to invest in its generation, transmission and distribution assets, so that the utility can fulfill its service obligations at a reasonable cost to ratepayers").

MARKET AND ECONOMIC CONDITIONS FACING EKC

Q. Please describe the market conditions facing EKC.

A. As Company witness Ann Bulkley observes in her direct testimony, core inflation and federal funds rates have experienced slight declines since the conclusion of EKC's last rate case; however, yields on long-term government bonds have actually increased during the intervening period. Additionally, core inflation remains significantly above the 2 percent rate targeted by the Federal Reserve. As a consequence, Ms. Bulkley concludes current capital market conditions are relatively consistent with those experienced at the time of the 2023 rate case settlement.[4]

Prospectively, key elements of the new administration's economic plan – which includes tariffs and tax cuts – are viewed as inflationary. In adhering to its dual policy objectives of slowing inflation while not unduly weakening economic activity, the Federal Open Market Committee ("FOMC") is expected to adopt a more gradual reduction in the federal funds rate. The anticipated inflationary pressures attributable to tariff and tax changes, and the FOMC's expected response to those pressures, largely account for the current increase in long-term government bond yields. They also underpin the investor expectation that bond yields and interest rates will remain elevated during the period rates established in this case will be in effect.

Q. Please describe the economic conditions facing EKC.

A. The electric utility industry in North America is experiencing sudden and unprecedented load growth with a corresponding need for significantly increased levels of investment within a relatively short timeframe. Grid planners anticipate a significant need for more energy in the

[4] Bulkley Direct Testimony, pp. 11-18.

coming years and expect our nation's energy load to grow at a 5% compound annual growth rate through 2028, hitting peak demand of 38 gigawatts by 2028.[5] The North American Electric Reliability Corporation (NERC) forecasts aggregated summer peak demand will rise by 79 GW and aggregated winter peak demand will rise by 91 GW from 2024 to 2033.[6] This paradigm-shifting surge in load growth has created the immediate need for new generation resources and supporting infrastructure throughout the North American continent.

For EKC, the need for new generation resources and supporting infrastructure is driven by a range of factors including electrification, the addition of new datacenters and other large-load customers; changes in the margin requirements and capacity accreditation standards prescribed by Southwest Power Pool, Inc. (SPP); and our ongoing efforts to responsibly retire coal-fired plants. These capital investments will be occurring during a period of relatively elevated interest costs and at a time when EKC and other electric utilities will be competing for capital to address increased demand, upgrades to grid resiliency, retirements of older generation facilities, and replacement and maintenance of aging transmission and distribution assets.

Q. Have industry analysts commented on the recent surge in load growth?

A. Yes. For example, according to the Deloitte Research Center,

> The electric power industry is preparing for as much as a tripling of U.S. electricity demand within the next couple of decades. Electrification of the transportation, building, and industrial segments continues to pick up speed in many parts of the country. At the same time, growth of data centers using energy-intensive applications such as AI is expected to further boost demand … Costs are mounting to upgrade and

[5] Wilson and Zimmerman, *The Era of Flat Power Demand is Over*, GridStrategies (December 2023), p. 3.

[6] NERC *2023 Long-Term Reliability Assessment* (December 2023), p. 33.

> modernize the grid, harden it against severe weather, prepare for rising demand, and source more renewable energy.[7]

According to S&P Global Ratings,

> While the industry's robust capital spending is necessary for prudent investments in safety, reliability, and energy transition, it is directly leading to high cash flow deficits. If these deficits are not funded with debt and equity in a balanced manner, credit quality will likely weaken.[8]
>
> The industry's capital spending on safety, reliability, and energy transition continues to grow at record levels … Under our base case, we expect that the industry's capital spending will continue to grow for at least the next decade.[9]

Q. Does EKC's 2024 capital investment plan reflect the immediate need for large-scale capital investment?

A. Yes, it does. EKC's projected capital expenditures for 2024 through 2028 total $6.6 billion, which is a 9.7% increase over the amount projected for 2023 through 2027, as reported in the Company's 2023 capital plan filing. Most recently, the Company publicly updated its capital investment plans on its November 7, 2024 earnings call.[10] EKC's projected capital expenditures for 2025 through 2029 total $7.4 billion, driven by the cost of new thermal and renewable generation resources and inflationary pressures on distribution component costs.

I would add that, like all public utilities, EKC's capital needs are driven by the Company's obligation and commitment to customers and the investments required to provide reliable, sufficient and efficient service and facilities for public use. As the need for investment

[7] *Power and Utilities Industry Outlook*, Deloitte Insights, Deloitte Research Center for Energy and Industrials (2024) at https://www2.deloitte.com/us/en/insights/industry/power-and-utilities/power-and-utilities-industry-outlook-2024.html.

[8] S&P Global, 2024 *Industry Credit Outlook*: *North American Regulated Utilities*, p. 362.

[9] *Id.* at 365.

[10] *See* Capital Investment Plan 2024 Update, *In the Matter of the Capital Plan Compliance Docket for Kansas City Power & Light Company and Westar Energy, Inc., Pursuant to the Commission's Order in 18-KCPE- 095-MER,* Docket No. 19-KCPE-096-CPL (Feb. 28, 2024).

to ensure reliable and affordable service to customers is ongoing, and while EKC optimizes financing terms to the best of its ability, it cannot always time its investments to coincide with favorable market and economic conditions. It is therefore critical for us to maintain a consistently strong financial profile to preserve our ability to access capital on reasonable terms on a sustained basis.

INVESTOR RISK FACTORS

Q. What risk factors generally influence utility investment decisions?

A. Utility investment risk can be divided into three broad categories: (1) business risk, (2) financial risk, and (3) regulatory risk.[11] These risks may be industrywide or specific to the operations of a specific utility. The risks perceived by utility investors are important considerations because risk is reflected in the utility's capital costs, which are ultimately passed on to customers.

Q. What business risk factors influence utility investment decisions?

A. Business risk factors are operating uncertainties that increase the probability that expected future cash flows to investors will not materialize. Business risk may arise from a variety of sources such as increased levels of necessary capital expenditures, market demand, economic growth, emerging technologies, and environmental compliance challenges. Investors and rating agencies also identify ownership of generation resources generally and nuclear power plants as a specific business risk due to the sizeable impact nuclear incidents and performance can have on the financial performance of the investor-owned utilities that operate them.

[11] In *Duquesne Light Co. v. Barash*, 109 S. Ct. 609 (1989), the U.S. Supreme Court held that regulatory risk is a special class of risk that must be recognized by regulators when setting the allowed rate of return.

Q. What financial risk factors influence utility investment decisions?

A. Financial risk pertains to the variability of earnings available for common stockholders caused by the introduction of financial leverage into a company's capital structure. The higher the ratio of debt in the capital structure, the higher the financial risk to common equity owners. Thus, as a company's debt ratio increases, a higher ROE may be necessary to account for increased financial risk.

Construction risk is a material component of financial risk. Construction risk is risk related to tying up capital in projects that are either not earning returns or are not backed by sufficient capital to continue generating returns. Escalating costs, interconnection challenges, and litigation risk add considerable uncertainty to investment decisions because these factors create uncertainty surrounding whether or when a project will come on-line, threatening investors' ability to recoup their capital and/or earn a competitive return.

Q. What regulatory risk factors influence utility investment decisions?

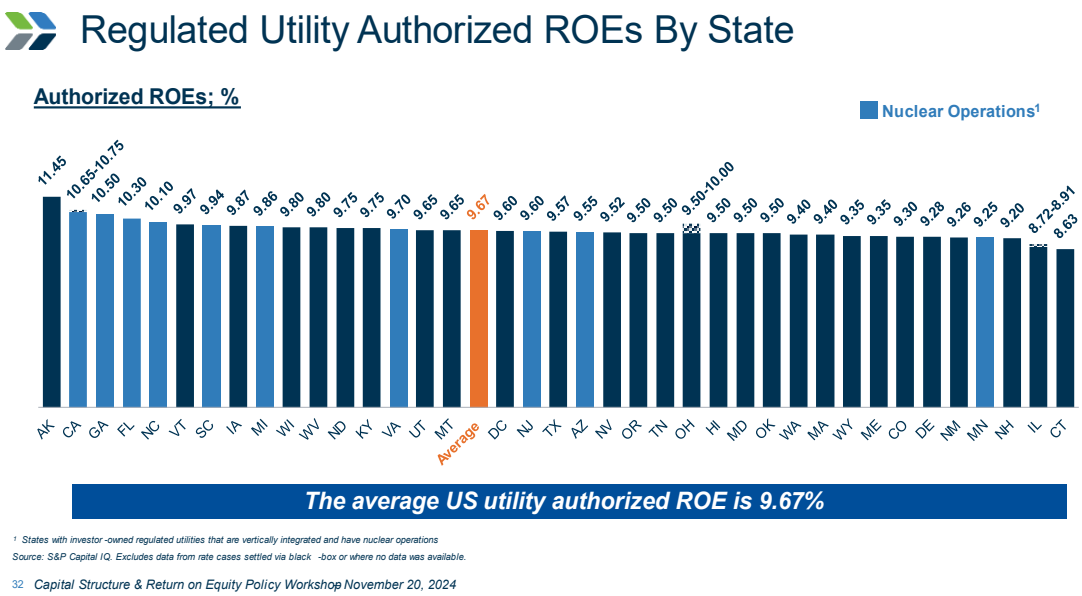
A. Regulatory decisions directly affect internal cash flows and, therefore, the financial metrics reviewed by ratings agencies. Investors value predictable, stable, and constructive regulatory environments, and regulatory actions provide signals to investors about the constructiveness of a state's regulatory environment and directly affect a utility's ability to cost-effectively meet its service obligations. According to S&P Global, "Given the significant capital spending, effective management of regulatory risk is important for the industry's credit quality. This includes constructive rate case orders, minimizing regulatory lag, earning its authorized return on equity, and managing the customer bill impact."[12] The regulatory climate in which a utility operates can impact overall credit quality more than any other risk factor.

[12] S&P Global, 2024 *Industry Credit Outlook*: *North American Regulated Utilities*, p. 362.

Q. Are there any company-specific risks that should be accounted for in this proceeding?

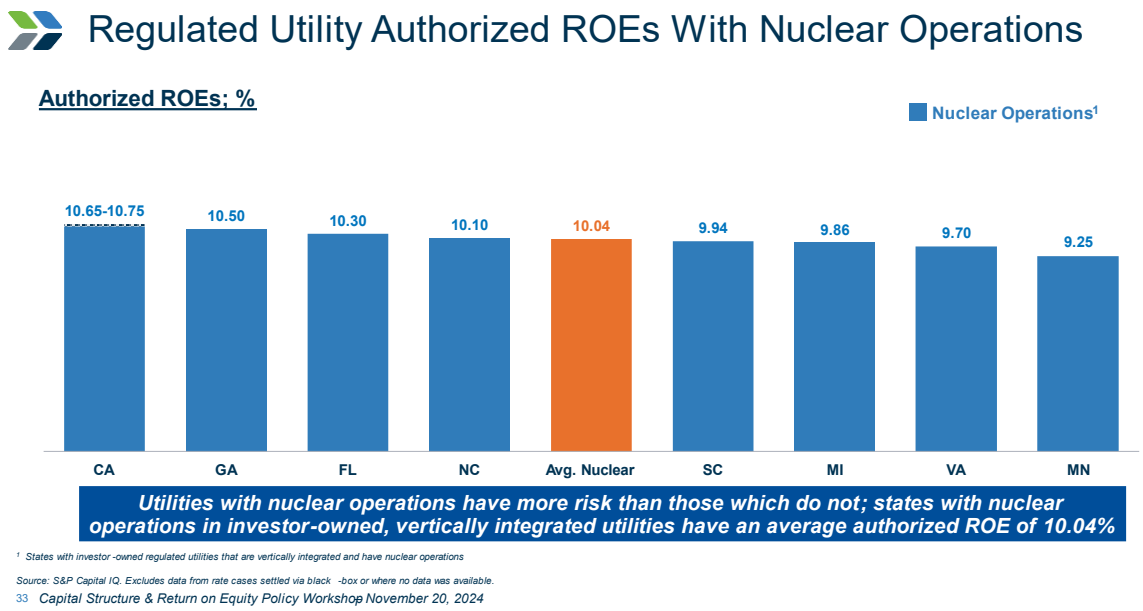
A. Ms. Bulkley identifies nuclear power operations as a relevant company-specific risk.[13] Utilities with nuclear operations across the industry have more risk and have historically been allowed higher ROEs. As shown in *Figure 1* and *Figure 2* below, the average authorized ROE across all states is approximately 9.67%, while the subset of states with nuclear operations in investor owned, vertically integrated utilities report an average authorized ROE of 10.04%. That represents a 0.37% premium in the average authorized ROE for states that have utilities with nuclear operations relative to the nationwide average. Such a differential is not surprising in light of the unique risks that credit rating agencies and investors recognize when it comes to utilities' ownership of nuclear generating assets.

Figure 1



[13] Bulkley Direct Testimony, pp. 47-51.

Figure 2



III. RETURN ON EQUITY

ROE RECOMMENDATION AND SUPPORT

Q. What ROE is EKC recommending the Commission authorize in this proceeding?

A. We are recommending the Commission authorize an ROE of 10.5 percent.

Q. What is the basis for your recommendation?

A. The primary basis for our recommendation is the detailed qualitative and quantitative analysis performed by Ms. Bulkley. Her analysis is founded on careful examination of business, financial, and regulatory risk; evaluation of a proxy group of utilities with comparable characteristics and risk profiles; application of several cost-of-capital models; and review and evaluation of recent regulatory decisions. Based on her comprehensive analysis, Ms. Bulkley concludes that the zone of reasonable ROEs for EKC in this proceeding is between 10.25

percent and 11.25 percent.[14] In giving consideration to customer affordability and rate competitiveness in Kansas, the Company's recommended ROE of 10.5 percent is in the bottom quartile of the zone of reasonableness indicated in Ms. Bulkley's direct testimony.

Q. What other considerations informed EKC's ROE recommendation?

A. Our ROE recommendation was informed by extensive experience with investors, equity analysts and credit rating agencies, and is the result of balanced consideration of the interests of all stakeholders in maintaining EKC's ability to provide efficient and sufficient electric service and facilities to customers at just and reasonable rates. In developing our recommendation, we considered both customer and investor interests, seeking to balance the objectives of affordability and regional rate competitiveness with the need to ensure earnings sufficient to maintain the integrity of invested capital and to attract new capital on reasonable terms under current and expected economic conditions.

Q. Why is a utility's authorized ROE important?

A. As Ms. Bulkley explains in her direct testimony, a utility's authorized ROE sends an important signal to investors regarding whether there is regulatory support for financial integrity, dividends, growth, and fair compensation for business and financial risk.[15] An authorized ROE below levels sufficient to be competitive with peers with similar risk profiles can restrict a utility's access to investor capital and dilute equity. By contrast, an authorized ROE that is sufficient to fairly compensate investors and maintain the utility's credit strength will allow the utility to attract the capital it needs to ensure safe and reliable

[14] Bulkley Direct Testimony, pp. 4-5.

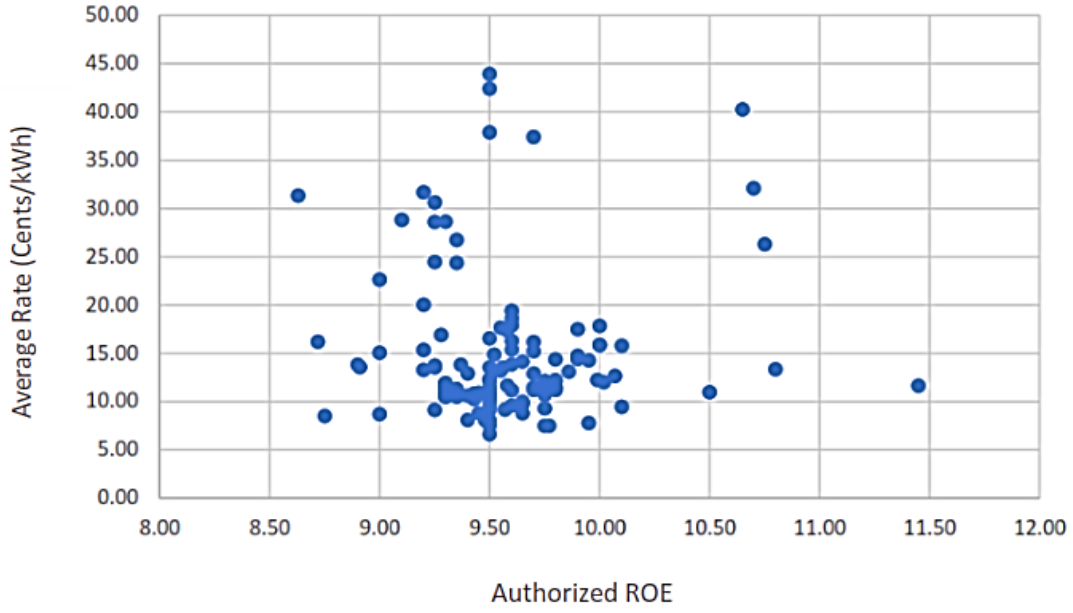
[15] *Id.* at p. 8.

service at a reasonable cost to customers. To support EKC's ready access to capital on competitive terms, an authorized ROE of 10.5 percent is fair and reasonable.

Q. Is there empirical evidence that lower authorized ROEs result in lower rates for customers?

A. First, it is important to remember that determining a regulated utility's allowed ROE is not a "zero-sum game." Although a myriad of factors affects customer rates, there is no discernable causal connection between authorized ROEs and customer rates. As shown in *Figure 3* below, if such a relationship did in fact exist, a positive trend line could be drawn from the data points on the lower left side of the diagram to the data points on the upper right side of the diagram. No such linear relationship can be inferred from these data points, however.

Figure 3: Relationship Between ROE and Electric Rates[16]



[16] Data sources: U.S. Energy Information Administration, Electric Sales, Revenue, and Average Price (2023), Table 10 – All Sectors, https://www.eia.gov/electricity/sales_revenue_price/xls/table_10.xlsx; Regulatory Research Associates, excludes utilities that have not had an ROE determination in last ten years

Q. Can a subpar authorized ROE actually harm customers?

A. Yes. A subpar authorized ROE can result in higher long-run capital costs for customers. The cost of an under-capitalized utility can be far greater in the mid-to-long run than any gains customers may realize in the short run. As the National Association of Regulatory Utility Commissioners ("NARUC") has observed,

> Customers benefit by having a financially stable utility that has the earnings and cash flow sufficient to attract equity and debt on reasonable terms, and the resulting ability to provide safe, reliable, and affordable utility service. Receiving a reasonable authorized ROE and capital structure from regulators is an important contributor to financial stability. The customer benefits that result from being served by a financially healthy utility outweigh the illusory short-term 'benefits' of a negative regulatory climate that heightens regulatory risk.[17]

The upshot is that the interests of all stakeholders are favorably aligned when a utility's authorized ROE is determined to be competitive with peers with similar risks and is sufficient to support a healthy balance sheet and cost-effective access to capital.

IV. COST OF DEBT AND COMMON EQUITY; OVERALL RATE OF RETURN

Q. What is the overall rate of return proposed for EKC?

A. Per *Table 1* below, the overall rate of return for EKC is 7.69 percent based on the projected weighted average cost of capital as of March 31, 2025. The overall rate of return will be updated for the actual weighted average cost of capital as of March 31, 2025.

Table 1: Weighted Average Cost of Capital / Overall Rate of Return

	Ratio	Cost	Weighted Cost
Long-Term Debt	48.03%	4.64%	2.23%
Common Equity	51.97%	10.50%	5.46%
Rate of Return			7.69%

[17] NARUC, *A Cost of Capital and Capital Markets Primer for Utility Regulators*, April 2020, p. 8.

Q. What is the cost of debt to be used to determine the overall rate of return for EKC?

A. The cost of debt included in the overall rate of return is 4.64 percent based on the details presented on **Exhibit GTL-2**. The actual long-term debt issuances and costs through the June 30, 2024 test year, and the calculation of the resulting weighted average cost of debt for EKC appear in **Exhibit GTL-1**.

However, the overall rate of return is based on the projected long-term debt balance and costs through the March 31, 2025 true-up date as shown in **Exhibit GTL-2**, which is a 4.64% weighted average cost of long-term debt with $4,933,231,986 of long-term debt forecasted to be outstanding (net of unamortized discounts and upfront fees) as of that date. The primary drivers of change in the weighted average cost of long-term debt from the actual as of June 30, 2024 to the projection as of March 31, 2025 are (1) exclusion of $250,000,000 of EKC first mortgage bonds due December 1, 2025, which will be current at the March 31, 2025 true-up date, and (2) inclusion of $600,000,000 of expected long-term debt issuance at EKC and/or EKS which is forecasted to occur prior to March 31, 2025.

Q. Will the Company update the cost of debt during the proceeding?

A. Yes. We will update the cost of debt to reflect EKC's actual weighted average cost of long-term debt as of March 31, 2025.

Q. Is the Company's average cost of debt reasonable?

A. Yes. Ms. Ann Bulkley performed an analysis to determine the reasonableness of the EKC's cost of long-term debt. Her review and analysis demonstrate that the proposed cost of debt is reasonable.[18]

[18] Bulkley Direct Testimony, p. 59.

Q. What is the common equity balance included in the overall rate of return?

A. The overall rate of return is based on an expected common equity balance for EKC, which we expect to be $5,337,669,012 as of March 31, 2025 as shown in **Exhibit GTL-2**.

The expected common equity balance as of March 31, 2025 increases from the $5,099,810,688 common equity balance as of June 30, 2024 due to actual and forecasted EKC earnings less actual and expected dividends to EKC's parent (Evergy, Inc.) over the period. We will update the overall rate of return based on EKC's actual common equity balance as of the March 31, 2025 true-up date.

V. CAPITAL STRUCTURE

STANDARDS GOVERNING SUBSIDIARY CAPITAL STRUCTURE DETERMINATIONS

Q. Please define "capital structure" and explain how a company's capital structure impacts the fair rate of return analysis.

A. Capital structure is the ratio of long-term debt and equity used by a utility to provide safe, reliable, and affordable service to its customers. A utility's allowed rate of return is determined by applying its authorized ROE and embedded cost of debt to its authorized capital structure. Because cost of capital is a significant part of a utility's total cost of service, and because cost of capital depends on how the utility is capitalized, capital structure is an essential element of a fair rate of return.

Q. What capital structure percentage is the Company recommending in this proceeding?

A We are requesting the Commission authorize a capital structure comprised of 51.97% common equity and 48.03% long-term debt, to be trued-up to EKC's actual capital structure as of March 31, 2025. These capitalization percentages are consistent with EKC's projected actual capital structure at March 31, 2025.

Q. Please describe how EKC manages its corporate capital structure?

A. Actual capital structure choices are important. Consistent with sound financial practice, and based on well-informed managerial judgment, EKC's capital structure is evaluated continuously to optimize our long-term strategy regarding timing of financing, capital plans, and rating agency views to ensure consistent and reliable access to competitively priced capital. Our goal is to target an optimal mix of debt and equity capital to achieve a low weighted average cost of capital while preserving the Company's financial integrity and ability to attract capital on reasonable terms – which supports strong credit ratings and reduces long-term borrowing costs to customers.

Q. Is adopting the actual capital structure of a subsidiary utility a generally accepted ratemaking approach?

A. Yes. To appropriately align equity capitalization with a subsidiary utility's investment risk profile, application of the standalone principle is both generally accepted and reasonable. Under the standalone principle, a subsidiary's weighted cost of capital is calculated using the subsidiary's actual capital structure, cost of debt, and cost of equity. This approach is consistent with case law in Kansas and in other jurisdictions and is in keeping with longstanding Commission policy. As reflected in the Commission's final order in Docket No. 16-KCPE-593-ACQ, it has been the Commission's policy to adopt the capital structure ratios used by a utility to fund its regulated utility operations.[19] The standalone approach is also consistent with the 2018 financial merger conditions. These conditions require, among

[19] Order, *In the Matter of the Joint Application of Great Plains Energy Incorporated, Kansas City Power & Light Company and Westar Energy, Inc., for Approval of the Acquisition of Westar Energy, Inc. by Great Plains Energy Incorporated*, Docket No. 16-KCPE-593-ACQ (April 19, 2017) ("16-593 Order"), pp. 41-42.

other things, that EKC's cost of service and rates be set commensurate with financial and business risks attendant to their individual regulated utility operations.[20]

The standalone approach has also been adopted by the Federal Energy Regulatory Commission (FERC). In calculating rate of return for wholly owned subsidiaries, FERC uses the actual capital structure of a subsidiary utility so long as the subsidiary issues its own non-guaranteed debt, has a bond rating, and has an equity ratio within the historical range approved by the FERC. If the operating utility meets these criteria, it has made a prima facie showing of financial risk separation between the operating company and the parent company.[21] FERC has rejected capital structure challenges in cases where there was no showing that the capital structures employed were inaccurate, unreflective of their actual capitalizations, or inconsistent with previously approved capital structures. The courts have upheld this approach.[22]

Q. Has the National Association of Regulatory Utility Commissioners (NARUC) provided guidance to utility regulators on this issue?

A. Yes, in a recent publication titled *A Cost of Capital and Capital Markets Primer for Utility Regulators*, NARUC offers the following guidance:

> A utility management must be permitted latitude, discretion, and flexibility in managing capital structure ratios. Since there is no practical methodology to pinpoint theoretically optimal capital structure ratios, targeted ratios can only be broadly conceptualized. Appropriate ratios may shift over time as capital market conditions or business risk characteristics change. Additionally, the timing of upcoming issuances and maturities may influence the capital structure ratios because both the size and frequency of issuances are affected by the relative cost-effectiveness of various issuance increments … Given these practical considerations, capital structure ratios cannot be deemed to be inappropriate

[20] *See* Order, Docket No. 18-KCPE-095-MER, Attachment A, pp. 8-10 at ¶¶ 23, 24 and 26; p. 12 at ¶ 30.

[21] *Transcontinental Gas Pipe Line Corp*. ("*Transco"*), Opinion No. 414-A, 84 FERC ¶ 61,084, at 61,413-15, reh'g denied, Opinion No. 414-B, 85 FERC ¶ 61,323 (1998), petition for review denied sub nom. *N.C. Utils. Comm'n v. FERC*, D.C. Cir. Case No. 99-1037 (Feb. 7, 2000) (per curiam).

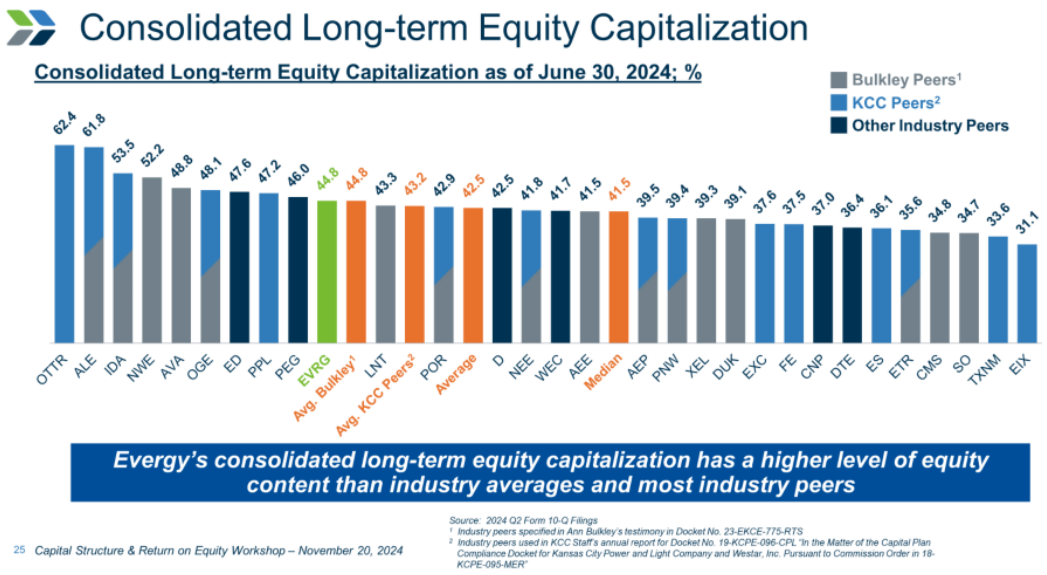
[22] *See Missouri Pub. Serv. Comm'n v. Federal Energy Reg Comm'n*, 215 F.3d 1, 342 U.S. App. DC. 1 (D.C. Cir. June 27, 2000).

unless the ratios greatly diverge from sound industry practice and cause a lack of financial flexibility that may lead to higher overall costs.[23]

Q. Is there empirical evidence that regulators generally do not rely on holding company capital structures when determining the ratemaking capital structure for an operating utility?

A. Yes. In preparation for the ROE/Capital Structure Workshop in November 2024, EKC and its consultants looked at the capital structures authorized for electric operating companies owned by 29 holding companies in their most recent rate proceedings. Those holding companies are identified in *Figure 4* below.

Figure 4: Consolidated Long-term Equity Capitalization of Industry Peers



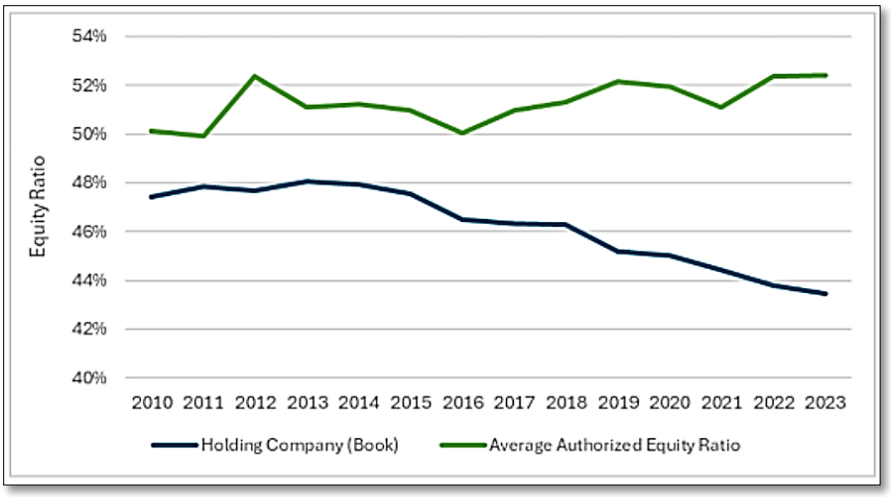
Review of 109 rate case decisions for these companies did not find an instance in which the regulator explicitly allocated or imputed parent level holding company debt to the

[23] NARUC, *A Cost of Capital and Capital Markets Primer for Utility Regulators* (April 2020), p. 11 (emphasis added).

operating company. This shows that imputing holding company debt to the operating company is highly irregular and inconsistent with typical regulatory practice.

Additionally, as shown in *Figure 5* below, we compared authorized equity ratios for vertically integrated utilities versus holding company book equity ratios, which included some of the 29 holding companies in the above chart and other companies as well. The data illustrates that authorized equity ratios for vertically integrated electric utilities have differed significantly from electric holding company book equity ratios, which is a broad indication that, consistent with the standalone principle discussed earlier in my testimony, commissions do not appear to have relied substantially on holding company capital structures when determining the ratemaking capital structure at the operating company level and that such determinations would have been extreme outliers during the period (if they even occurred at all).

Figure 5 – Average Authorized Equity Ratio for Vertically Integrated Electric Utilities vs. Average Holding Company Book Equity Ratios [24]



[24] Source: Regulatory Research Associates. Authorized equity ratios for vertically integrated electric utilities. Excludes limited issue rider cases. Excludes decisions from states that include non-investor supplied capital (Arkansas, Florida, Indiana, Michigan). Includes decisions that use short-term debt in the ratemaking capital structure. Holding company average excludes pure play natural gas holding companies and holding companies whose electric operations are primarily T&D.

Q. Although the standalone approach is the generally accepted standard for subsidiary capital structure determinations, are there instances where it may not be appropriate to use a subsidiary's actual capital structure for purposes of ratemaking?

A. There are certain discrete instances where it may be appropriate to compute a subsidiary utility's cost of capital using consolidated data from the parent company and its operating subsidiaries. For example, when corporate affiliates are financed as an integrated whole or when there is evidence that capital structures have been manipulated to increase returns for equity investors, adopting consolidated capital structure data may be warranted. However, the consolidated approach is applicable "only in special cases, while the 'independent company' [standalone] approach is both consistently and universally appropriate."[25]

A hypothetical capital structure also may be assigned in instances where "[t]he utility's capital structure is deemed to be substantially different from the typical or 'proper' utility capital structure" or where "[t]he utility is funded as part of a diversified organization whose overall capital structure reflects its diversified nature rather than its utility operations only."[26] However, as Professor Bonbright explains in his treatise *Principles of Public Utility Rates*, a hypothetic capital structure should be used only when actual capital structures are "clearly unsound" or "extravagantly conservative," reasoning that using hypothetical capitalization ratios "substitutes an estimate of what the capital cost would be under non-existing conditions for what it actually is or will soon be under prevailing conditions."[27]

[25] Richard H. Pettway and Bradford D. Jordan, *Diversification, Double Leverage, and the Cost of Capital*, Journal of Financial Research, Vol. VI, No.4 (Winter 1983).

[26] David C. Parnell, *The Cost of Capital – A Practitioner's Guide* (2010 ed.), p. 47.

[27] James C. Bonbright, *Principles of Public Utility Rates* (New York: Columbia University Press, 1961), p. 243-44.

Q. What factors are typically evaluated in determining whether a parent company's capital structure should be considered in determining the capital structure of a subsidiary?

A. The factors typically evaluated in determining whether to consider a subsidiary utility's actual capital structure or the parent company's capital structure are distilled in David C. Parnell's *The Cost of Capital – A Practitioner's Guide* ("CRRA Guide"), prepared for the Society of Utility and Regulatory Financial Analysis ("SURFA") and provided as the study guide to candidates for SURFA's Certified Rate of Return Certification Examination. The CRRA Guide lists four factors that typically guide the analysis. They are:

(1) whether the subsidiary utility obtains all its capital from its parent;

(2) whether the parent guarantees any of the securities issued by the subsidiary;

(3) whether the subsidiary's capital structure is independent of its parent's capital structure; and

(4) whether the parent is diversified into non-utility operations.[28]

Q. Are there any grounds in this case to supplant EKC's actual capital structure with a consolidated capital structure or to assign a hypothetical capital structure that does not reflect the Company's actual capitalization?

A. No. EKC's regulatory capital structure should be based on its actual capital structure, which is the capital structure used to fund EKC's utility operations and capital investments. EKC maintains its own separate capital structure and is separately rated by the major credit rating agencies. The Company has issued approximately $4.6 billion of long-term debt to fund its utility operations and capital investments, and that debt is nonrecourse to Evergy, Inc.

[28] David C. Parcell, *The Cost of Capital – A Practitioner's Guide*, p. 46.

Furthermore, EKC's recommended standalone capital structure is in line with its historical capital structure and, as Ms. Bulkley explains in her direct testimony, is well within the range of capital structures assigned to companies within the selected utility proxy group.[29]

The capital structure on EKC's balance sheet is the Company's true capital structure, and the assets that serve EKC customers are financed in a manner consistent with that structure. The Company's projected actual capital structure and the credit metrics that derive in part from that structure support EKC's strong investment-grade credit ratings, which will facilitate the Company's timely access to the capital markets and ability to execute prospective debt financings at reasonable rates.

I would also note that EKC has complied with the financial separation conditions prescribed by the 2018 merger order. Those conditions require, among other things, that Evergy, Inc. and its corporate affiliates (1) maintain separate capital structures to finance their separate utility activities and operations; (2) maintain separate debt at required levels without provision for guarantees or cross defaults; (3) maintain accounting procedures to protect against cross-subsidization; and (4) have their cost of service and rates set commensurate with financial and business risks attendant to their individual regulated utility operations.[30] EKC's strict compliance with those merger conditions is compelling evidence that the presumption of corporate separateness should hold in this case.

Q. Why are unwarranted deviations from the standalone approach problematic?

A. The regulatory objective should be to determine an appropriate ROE and capital structure that accurately reflects the operating utility's actual cost of obtaining funds necessary to

[29] Bulkley Direct Testimony, pp. 5-6.

[30] *See* Order, Docket No. 18-KCPE-095-MER, Attachment A, pp. 8-10 at ¶¶ 23, 24 and 26; p. 12 at ¶ 30.

provide utility service to its customers. The standalone approach advances this fundamental ratemaking principle because it holds that an operating utility is entitled to have its rates computed based on the actual cost of capital under its own capital structure, without attribution of its parent's capital costs, unless there is sufficient evidence to justify disregarding the company's actual capital structure.

Additionally, under the Supreme Court's "comparable investment" standard, a utility's authorized rate of return must be commensurate with returns on investments having corresponding risks. [31] Thus, a utility's rate of return, measured by its cost of capital, should be based on the risk to which the capital is exposed and the opportunity cost of that capital, which is estimated based on returns available from alternative investments with comparable risk profiles. The financing costs of the utility's parent company should not be part of the calculus. In keeping with this constitutional mandate, the Commission's longstanding capital structure policy requires that a utility's regulatory capital structure be representative of utility operations.[32] And, consistent with this policy, the 2018 financial merger conditions require, among other things, that the cost of service and rates of Evergy, Inc.'s operating utilities, including EKC, be set commensurate with the financial and business risks attendant to their individual regulated utility operations.[33]

Q. Please continue.

A. The unwarranted assignment of a consolidated or hypothetical capital structure violates the "comparable investment" standard, Commission policy, and the 2018 merger standards because it artificially and unfairly skews the utility's cost of capital, resulting in an allowed

[31] *See Bluefield,* 262 U.S. at 692.

[32] *See* 16-593 Order, pp. 41-42.

[33] Order, Docket No. 18-KCPE-095-MER, Attachment A, p. 12 at ¶ 30.

rate of return that is not commensurate with returns on investments having corresponding risks. Moreover, when an artificially deflated equity ratio is assigned to an operating utility's capital structure, the utility is not able to recover the costs associated with the benefits customers receive from a stronger utility balance sheet. I would note, too, that these problems are exacerbated when a consolidated capital structure is imputed without adjustments to the utility's cost of incremental debt or cost of equity to reflect the additional financial risk associated with imputing parent company debt.

Q. Has the Company voiced its objections to the unwarranted use of consolidated regulatory capital structures in past Commission proceedings?

A. Yes. As Company witness Darrin Ives explains in his direct testimony, in EKC's and EKM's 2023 general rate case, Docket No. 23-EKCE-775-RTS (the "23-775 Docket"), Evergy, Inc.'s operating utilities provided undisputed proof of compliance with the financial merger conditions and offered a detailed analysis showing that their financial operations remain separate and that parent company debt has not been used to fund utility operations. EKC and EKM also provided expert testimony confirming that their proposed regulatory capital structures reflected the actual debt and equity ratios on their separate books and were optimal, consistent with good utility practice, and solidly within the range of peer utility companies. Still, despite this undisputed evidence, arguments were advanced urging the Commission to abandon the standalone approach in favor of a consolidated approach to capital structure. These arguments advocated imputing significant amounts of parent company debt not used for utility investment, which increased EKC's and EKM's debt ratios and reduced the weighted average required rate of return for each utility. Notably, the arguments advanced in support of abandoning the standalone approach in the

23-775 Docket were inconsistent with the approach used to derive the remaining revenue requirements calculations, which were properly developed using standalone costs and revenues. What is more, proponents of imputing Evergy, Inc.'s parent company debt to EKC and EKM did not recommend an increase in the utilities' ROEs to account for the imputed debt, which would have been necessary if the utilities had in fact taken on that debt.

Q. How did industry analysts react to the arguments advanced in the 2023 rate cases advocating for abandoning the standalone approach?

A. Industry analysts did not react favorably. Below are examples of analyst comments made after these arguments were advanced in the 2023 rate case:

- "We continue to share investor concern around the Kansas baseline and the potential for the KCC to remain sympathetic to Staff's surprising leverage arguments." (*Guggenheim, September 2023*)

- "The global settlement removes the immediate overhang of a protracted case process that, in our view, could have seen the Commission finishing not far removed from Staff's draconian opening mark. By not fighting Staff's earlier surprise double leverage look-through, the issue seems to remain open for another day, a prospect that we believe will remain an overhang …." (*Guggenheim, October 2023*)

- "We thought EVRG took all the right steps into the Kansas case – keeping rates flat for years amidst rampant inflation and rising regional peer rates, regularly reviewing the capex plan with the KCC, agreeing to lower transmission ROEs, and even declining to sell the company back when Elliott was involved. But that seemed to go unappreciated with KCC Staff testimony at the end of August. This saw a recommended rate decrease and an equity ratio that imputed parent debt unlike most other states (and Kansas itself when EVRG was over-equitized coming out of the GXP/WR merger) … Execution on cost control has been strong and we like the mgmt. team… EVRG has seemingly done all the right things in Kansas – keeping rates flat and aligning with stakeholders on a variety of issues. But if rates can't be raised and ROEs/equity ratios are weaker than peers, we struggle to see investor sponsorship for the jurisdiction." (*Wolfe Research, September 2023*)

Q. Describe the practical consequences of adopting an equity ratio below EKC's projected actual equity ratio.

A. If the Commission were to reject EKC's projected actual capitalization ratios and assign an unrealistic consolidated or hypothetical capital structure, it could raise investor and rating agency concerns surrounding the supportiveness of Kansas' regulatory environment and weaken EKC's credit metrics. Granted, it is difficult to forecast the precise impacts of such a regulatory action but, as discussed above, previous investor reaction demonstrates that these decisions are closely monitored and can have cascading impacts on the utility credit metrics. And weakened credit metrics invariably lead to additional financial risk along with the potential for a ratings downgrade, which would impose unwarranted and unnecessary constraints on the Company's financial flexibility to be a supportive partner in achieving positive economic outcomes for the state of Kansas.

VI. CONCLUSION

Q. How would you summarize the importance of a competitive overall rate of return, inclusive of an allowed ROE and capital structure that is at least consistent with utilities across the country against whom EKC competes for capital?

A. Key take-aways I would like to highlight for the Commission are:

- Alignment of Commission and State financial policies is important to demonstrate to investors that Kansas will provide a competitive return on investor capital deployed. Investor capital is critical to support economic development through infrastructure investment.

- Large-load customers across multiple industries, including datacenters, are targeting our region at previously unseen levels, which could bring significant benefits to the Kansas economy and will require substantial investment by Evergy.
- Competitive equity capitalization and returns provide the necessary cash flow to attract additional capital for future investments while benefiting customers.
- Utilities with nuclear operations across the industry have historically been granted higher ROEs and equity capitalizations given their importance to power supply and the business risk involved in their operation.
- It is the utility industry norm to use the capital structure of the utility company (i.e., without reference to the parent company) to establish base rates appropriately aligning equity capitalization with investment risk profile.
- Fixed income investors assess the financial risk of companies which impacts their willingness to provide debt capital at competitive rates. Equity capitalization and ROE play critical roles.
- Rating agencies assess financial health and provide more favorable ratings to utilities who receive consistent and predictable regulatory treatment, which can result in lower costs for customers.
- Competitive returns are critical to accessing capital.
- Access to capital at competitive terms is vital during generational capital cycle for utilities.
- ROE and equity capital structure compared to the national average is key to whether investors choose Kansas or another state for infrastructure investments.

Q. Do you have any closing remarks?

A. Yes. In closing, I would like to emphasize that the recommendations I have made here on behalf of EKC merit favorable regulatory consideration because they are supported by substantial competent evidence, are consistent with applicable law and KCC policy, are in the public interest, and would result in just and reasonable rates for both shareholders and customers.

Q. Does this conclude your testimony?

A. Yes.

Evergy Kansas Central Electric Utility

Capital Structure and Rate of Return

Actual June 30, 2024

Summary

	Balance	Weight	Rate	Rate of Return
Long-term Debt*	**4,581,849,549**	47.33%	4.490%	2.125%
Common Equity	**5,099,810,688**	52.67%	10.500%	5.531%
Total Capitalization	**9,681,660,237**	**100.00%**		**7.656%**

*Includes unamortized debt expenses and discounts. **Excludes** current maturities of long-term debt of which there are none as of June 30, 2024.

Long-Term Debt

Description	Date of Settlement	Date of Maturity	Interest Rate	Principal Amount of Issue	Net Proceeds	Yield to Maturity	Outstanding Debt Capital	Cost of Debt	Net Premium, Discount & Expense	Net Proceeds Percent of Original Issue
WR 2015 FMB 3.25% Due 2025	11/13/15	12/01/25	3.2500%	250,000,000	247,949,597	3.3466%	250,000,000	8,366,599	2,050,403	99.179839%
WR 2016 FMB 2.55% Due 2026	06/20/16	07/01/26	2.5500%	350,000,000	345,238,685	2.7057%	350,000,000	9,470,010	4,761,315	98.639624%
KGE 1994 La Cygne PCB Variable Due 2027	04/28/94	04/15/27	3.8400%	21,940,000	20,763,492	4.1395%	21,940,000	908,211	1,176,508	94.637613%
WR 2017 FMB 3.10% Due 2027	03/06/17	04/01/27	3.1000%	300,000,000	296,205,083	3.2481%	300,000,000	9,744,272	3,794,917	98.735028%
KGE 2016 PCB 2.50% Due 2031	06/01/16	06/01/31	2.5000%	50,000,000	48,015,631	2.8265%	50,000,000	1,413,230	1,984,369	96.031261%
WR 1994 St. Marys PCB Variable Due 2032	04/28/94	04/15/32	3.8400%	45,000,000	43,694,021	3.9890%	45,000,000	1,795,039	1,305,979	97.097824%
WR 1994 Wamego PCB Variable Due 2032	04/28/94	04/15/32	3.8400%	30,500,000	29,576,046	3.9957%	30,500,000	1,218,675	923,954	96.970643%
KGE 1994 St. Marys PCB Variable Due 2032	04/28/94	04/15/32	3.8400%	14,500,000	14,015,257	4.0122%	14,500,000	581,767	484,743	96.656946%
KGE 1994 Wamego PCB Variable Due 2032	04/28/94	04/15/32	3.8400%	10,000,000	9,647,351	4.0219%	10,000,000	402,189	352,649	96.473508%
WR 2023 FMB 5.90% Due 2033	11/15/23	11/15/33	5.9800%	300,000,000	297,018,720	6.1143%	300,000,000	18,342,898	2,981,280	99.006240%
KGE 2007 FMB 6.53% Due 2037	10/15/07	12/15/37	6.5300%	175,000,000	173,937,727	6.5756%	175,000,000	11,507,337	1,062,273	99.392987%
KGE 2008 FMB 6.64% Due 2038	05/15/08	05/15/38	6.6400%	100,000,000	100,175,656	6.6264%	100,000,000	6,626,442	(175,656)	100.175656%
WR 2012 FMB 4.125% Due 2042	03/01/12	03/01/42	4.1250%	550,000,000	511,982,336	4.5496%	550,000,000	25,022,808	38,017,664	93.087697%
WR 2013 FMB 4.10% Due 2043	03/28/13	04/01/43	4.1000%	430,000,000	417,173,662	4.2774%	430,000,000	18,392,704	12,826,338	97.017131%
WR 2013 FMB 4.625% Due 2043	08/19/13	09/01/43	4.6250%	250,000,000	246,658,133	4.7085%	250,000,000	11,771,226	3,341,867	98.663253%
KGE 2014 FMB 4.30% Due 2044	07/02/14	07/15/44	4.3000%	250,000,000	246,453,918	4.3853%	250,000,000	10,963,295	3,546,082	98.581567%
WR 2015 FMB 4.25% Due 2045	11/13/15	12/01/45	4.2500%	300,000,000	233,257,431	5.8269%	300,000,000	17,480,643	66,742,569	77.752477%
WR 2019 FMB 3.25% Due 2049	08/19/19	09/01/49	3.2500%	300,000,000	294,168,487	3.3531%	300,000,000	10,059,417	5,831,513	98.056162%
WR 2020 FMB 3.45% Due 2050	04/09/20	04/15/50	3.4500%	500,000,000	477,284,920	3.7019%	500,000,000	18,509,687	22,715,080	95.456984%
WR 2023 FMB 5.70% Due 2053	03/14/23	03/15/53	5.7000%	400,000,000	393,333,583	5.8181%	400,000,000	23,272,325	6,666,418	98.333396%
Miscellaneous loss on reacquired debt (c)								1,914,023		
Total				**4,626,940,000**	**4,446,549,736**		**4,626,940,000**	**207,762,797**	**180,390,265**	

Weighted Average Cost of Debt Capital: **4.490%**

KS Central Consolidated	
Unamort Debt Exp	**31,284,484.00**
Unamort Disc	**(13,805,967.00)**
	(45,090,451.00)

Evergy Kansas Central Electric Utility

Capital Structure and Rate of Return

Projected March 31, 2025

Summary

	Balance	Weight	Rate	Rate of Return
Long-term Debt*	4,928,452,513	48.03%	4.641%	2.229%
Common Equity	5,332,530,551	51.97%	10.500%	5.457%
Total Capitalization	**10,260,983,064**	**100.00%**		**7.686%**

*Includes unamortized debt expenses and discounts. **Excludes** current maturities of long-term debt of which there is $249.9 million due in December 2025 (per adjustment in row 63 below).

Long-Term Debt

Description	Date of Settlement	Date of Maturity	Interest Rate	Principal Amount of Issue	Net Proceeds	Yield to Maturity	Outstanding Debt Capital	Cost of Debt	Net Premium, Discount & Expense	Net Proceeds Percent of Original Issue
WR 2016 FMB 2.55% Due 2026	06/20/16	07/01/26	2.5500%	350,000,000	345,238,685	2.7057%	350,000,000	9,470,010	4,761,315	98.639624%
KGE 1994 La Cygne PCB Variable Due 2027	04/28/94	04/15/27	3.7000%	21,940,000	20,763,492	3.9939%	21,940,000	876,271	1,176,508	94.637613%
WR 2017 FMB 3.10% Due 2027	03/06/17	04/01/27	3.1000%	300,000,000	296,205,083	3.2481%	300,000,000	9,744,272	3,794,917	98.735028%
KGE 2016 PCB 2.50% Due 2031	06/01/16	06/01/31	2.5000%	50,000,000	48,015,631	2.8265%	50,000,000	1,413,230	1,984,369	96.031261%
WR 1994 St. Marys PCB Variable Due 2032	04/28/94	04/15/32	3.7000%	45,000,000	43,694,021	3.8459%	45,000,000	1,730,669	1,305,979	97.097824%
WR 1994 Wamego PCB Variable Due 2032	04/28/94	04/15/32	3.7000%	30,500,000	29,576,046	3.8525%	30,500,000	1,175,005	923,954	96.970643%
KGE 1994 St. Marys PCB Variable Due 2032	04/28/94	04/15/32	3.7000%	14,500,000	14,015,257	3.8687%	14,500,000	560,956	484,743	96.656946%
KGE 1994 Wamego PCB Variable Due 2032	04/28/94	04/15/32	3.7000%	10,000,000	9,647,351	3.8782%	10,000,000	387,817	352,649	96.473508%
WR 2023 FMB 5.90% Due 2033	11/15/23	11/15/33	5.9800%	300,000,000	297,018,720	6.1143%	300,000,000	18,342,898	2,981,280	99.006240%
KGE 2007 FMB 6.53% Due 2037	10/15/07	12/15/37	6.5300%	175,000,000	173,937,727	6.5756%	175,000,000	11,507,337	1,062,273	99.392987%
KGE 2008 FMB 6.64% Due 2038	05/15/08	05/15/38	6.6400%	100,000,000	100,175,656	6.6264%	100,000,000	6,626,442	(175,656)	100.175656%
WR 2012 FMB 4.125% Due 2042	03/01/12	03/01/42	4.1250%	550,000,000	511,982,336	4.5496%	550,000,000	25,022,808	38,017,664	93.087697%
WR 2013 FMB 4.10% Due 2043	03/28/13	04/01/43	4.1000%	430,000,000	417,173,662	4.2774%	430,000,000	18,392,704	12,826,338	97.017131%
WR 2013 FMB 4.625% Due 2043	08/19/13	09/01/43	4.6250%	250,000,000	246,658,133	4.7085%	250,000,000	11,771,226	3,341,867	98.663253%
KGE 2014 FMB 4.30% Due 2044	07/02/14	07/15/44	4.3000%	250,000,000	246,453,918	4.3853%	250,000,000	10,963,295	3,546,082	98.581567%
WR 2015 FMB 4.25% Due 2045	11/13/15	12/01/45	4.2500%	300,000,000	233,257,431	5.8269%	300,000,000	17,480,643	66,742,569	77.752477%
WR 2019 FMB 3.25% Due 2049	08/19/19	09/01/49	3.2500%	300,000,000	294,168,487	3.3531%	300,000,000	10,059,417	5,831,513	98.056162%
WR 2020 FMB 3.45% Due 2050	04/09/20	04/15/50	3.4500%	500,000,000	477,284,920	3.7019%	500,000,000	18,509,687	22,715,080	95.456984%
WR 2023 FMB 5.70% Due 2053	03/14/23	03/15/53	5.7000%	400,000,000	393,333,583	5.8181%	400,000,000	23,272,325	6,666,418	98.333396%
Forecasted 2025 Debt 5.16% due 2035	03/01/25	03/01/35	5.1600%	600,000,000	594,000,000	5.2901%	600,000,000	31,740,350	6,000,000	99.000000%
Miscellaneous loss on reacquired debt								1,914,023		
Total				**4,976,940,000**	**4,792,600,139**		**4,976,940,000**	**230,961,385**	**184,339,862**	

Weighted Average Cost of Debt Capital: **4.641%**

Common Equity

	Last Actual Balance	Projected Earnings (Losses)	Projected Dividend Payments	Total
Balance 09/30/2024	5,215,025,498			5,215,025,498
Oct-24		24,494,827	-	24,494,827
Nov-24		31,149,035	-	31,149,035
Dec-24		29,405,679	(45,000,000)	(15,594,321)
Jan-25		43,332,964	-	43,332,964
Feb-25		26,974,679	-	26,974,679
Mar-25		27,147,868	(20,000,000)	7,147,868
Projected Balance	**5,215,025,498**	**182,505,053**	**(65,000,000)**	**5,332,530,551**

Long-Term Debt

	Last Actual Balance	L-T Debt Maturities	Projected L-T Debt Issuances	Total
Balance 09/30/2024	4,582,654,901	-	-	4,582,654,901
Oct-24	268,451	-	-	268,451
Nov-24	268,451	-	-	268,451
Dec-24	268,451	-	-	268,451
Jan-25	268,451	-	-	268,451
Feb-25	268,451	-	-	268,451
Mar-25	268,451	(249,863,093)	594,050,000	344,455,358
Projected Balance	**4,584,265,605**	**(249,863,093)**	**594,050,000**	**4,928,452,513**

STATE OF KANSAS)
) ss:
COUNTY OF SHAWNEE)

VERIFICATION

Geoffrey Ley, being duly sworn upon his oath deposes and states that he is the Vice President, Corporate Planning and Treasurer, 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.

Geoffrey Ley

Subscribed and sworn to before me this 31st day of January 2025.

Notary Public

My Appointment Expires May 30, 2026

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