Exhibit No. 1

Evergy Missouri Metro – Exhibit 1
Michael Adams
Direct Testimony
File Nos. ER-2022-0129 & ER-2022-0130

Exhibit No.:	
Issue:	Cash Working Capital Lead/Lag Study, Property Tax Tracker
Witness:	Michael Adams
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Evergy Missouri Metro
Case No.:	ER-2022-0129
Date Testimony Prepared:	January 7, 2022

MISSOURI PUBLIC SERVICE COMMISSION

CASE NOS.: ER-2022-0129

DIRECT TESTIMONY

OF

MICHAEL ADAMS

ON BEHALF OF

EVERGY MISSOURI METRO

Kansas City, Missouri
January 2022

DIRECT TESTIMONY

OF

MICHAEL ADAMS

Case No. ER-2022-0129

INTRODUCTION AND WITNESS QUALIFICATIONS

Q: Please state your name and business address.

A. My name is Michael Adams. My business address is 293 Boston Post Road West, Suite 500, Marlborough, Massachusetts 01752.

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

A. I am a Senior Vice President with Concentric Energy Advisors, Inc. ("Concentric").

Q: Please describe Concentric.

A. Concentric is a management consulting and economic advisory firm focused on the North American energy and water industries. Concentric specializes in regulatory and litigation support, transaction-related financial advisory services, energy market strategies, market assessments, energy commodity contracting and procurement, economic feasibility studies, and capital market analyses and negotiations.

Q: What are your responsibilities in your current position?

A. As a consultant, my responsibilities include assisting clients in identifying and addressing business issues. My primary areas of focus have been regulatory-, financial- and accounting-related issues.

Q: Please describe your education.

A. I have an MBA in Finance from the University of Illinois – Springfield and a BS in Accounting from Illinois College. I am a member of the American Institute of Certified Public Accountants and the Illinois Society of Certified Public Accountants.

Q: Please describe your work experience.

A. I have worked for an investor-owned utility, a regulatory agency, and most recently as a consultant to the energy industry. A statement of my background and qualifications is attached as **Schedule MJA-1**.

Q: Have you ever testified in a regulatory proceeding?

A. Yes. I have provided expert testimony or reports before the Arkansas Public Service Commission; the City of El Paso; the Connecticut Public Utilities Regulatory Authority, the Federal Energy Regulatory Commission (FERC); the Georgia Public Service Commission; the Hawaii Public Utility Commission; the Idaho Public Utilities Commission; the Illinois Commerce Commission; the Maine Public Utilities Commission; the Maryland Public Service Commission; the Massachusetts Department of Telecommunications and Energy; the Missouri Public Service Commission; the New Hampshire Public Utilities Commission; the New Mexico Public Regulation Commission; the State of New Jersey Board of Public Utilities; the Oklahoma Corporation Commission; the Ontario Energy Board; the Pennsylvania Public Utility Commission; the Tennessee Public Utility Commission; the Public Utility Commission of Texas; the State Corporation Commission of Virginia; and the Public Service Commission of West Virginia.

PURPOSE AND SCOPE

Q: What is the purpose of your direct testimony?

A. I have been asked by Evergy Metro, Inc. d/b/a Evergy Missouri Metro ("Evergy Missouri Metro" or the "Company") to discuss a lead-lag study that was prepared and used to develop cash working capital ("CWC") factors and ultimately to calculate the Company's cash working capital requirements. I will provide national prospective on availability of similar mechanisms to the property tax tracker being requested by the Company and provide my assessment, based on my review of the requested tracker and the national comparables, of the reasonableness of the requested tracker.

CASH WORKING CAPITAL REQUIREMENT AND LEAD-LAG STUDY

Q: Please define what you mean by the phrase "cash working capital."

A. Cash working capital is the amount of funds required to finance the day-to-day operations of the Company.

Q: Are you sponsoring an schedules related to your analysis of cash working capital?

A. Yes. **Schedule MJA-2** has been prepared under my direction and supervision and is accurate and complete to the best of my knowledge and belief. Specifically, the schedule shows the revenue lag and expense leads. Missouri Metro's requested level of cash working capital is sponsored by Company witness Ronald Klote.

Q: For what period was the lead-lag study performed?

The lead-lag study analyzed the Company's cash transactions and invoices for the twelve months ended December 31, 2020, with the following exceptions. Transactions for coal were examined for the period January 2021 through June 2021, oil and natural gas transactions were examined for the period of July 2020 to December 2020, payroll and

benefits transactions were examined for the period May 2020 to April 2021 and Accounts Payable – Other O&M transactions were examined for the period March 2021 to June 2021. The leads and lags were applied to expense amounts for the test year ending June 30, 2021 and trued-up through May 31, 2022. The periods examined reflect the various practices and thus timing of the provisioning/receipt of services and the payment for such services.

Q: How should the results of the cash working capital analysis be treated for ratemaking purposes?

A: For ratemaking purposes, the cash working capital requirements should be included as part of Evergy Missouri Metro rate base.

Q: Is the analysis of the revenue lags and expense leads typically referred to as a lead-lag study?

A. Yes. Cash working capital requirements are generally determined by lead-lag studies that are used to analyze the lag time between the date customers receive service and the date customers' payments are available to the Company. This lag is offset by a lead time during which the Company receives goods and services but pays for them at a later date. The “lead” and “lag” are both measured in days. The dollar-weighted lead and lag days are then divided by 365 to determine a daily CWC factor. This CWC factor is then multiplied by the annual test year cash expenses to determine the amount of cash working capital required for operations. The resulting amount of cash working capital is then included as part of a given utility’s rate base. The test year adjusted operating expenses to which the leads and lags were applied in this proceeding are described in the testimony of Company witness Ronald Klote.

Q: What are the various leads and lags that should be considered in a cash working capital analysis?

A. Two broad categories of leads and lags should be considered: 1) lags associated with the revenues owed to the Company ("revenue lags") for services provided to its customers (i.e., gas and electric services); and 2) lead times associated with the payments for goods and services received by the Company ("expense leads").

Q: What is a revenue lag?

A. A revenue lag refers to the elapsed time between the delivery of the Company's product (i.e., electricity or natural gas) and the availability of funds received via customer payments for the delivery of the product.

Q: What is an expense lead?

A. In the context of the CWC study, an expense lead refers to the elapsed time from when a good or service is provided to the Company to the point in time when the Company pays for the good or service and the funds are no longer available to the Company.

Q: What was the source of information you employed to determine the leads and lags in your cash working capital analysis?

A. Data from the Company's Accounts Payable, Customer Service, Human Resources, Payroll, and Tax systems were used to calculate the revenue lag and expense leads. The information derived from these sources, together with analyses of specific transactions, led to the determination of the appropriate number of lead-lag days for Missouri Metro.

REVENUE LAG

Q: What are the components of the Revenue Lag?

A. The revenue lag consists of the following four components: 1) the service lag which represents the midpoint of the period for which service was provided to customers; 2) the billing lag which reflects the time that it takes from the end of the service period to when the Company mails bills to its customers; 3) the collection lag which represents the length of time from the mailing of the bill to receipt of customers' payments; 4) the payment processing lag that reflects the length of time from the receipt of customers' payments to when such funds are available to the Company.

Q: How was the Company's revenue lag determined?

A. The Company's actual billing and customer payment processing data for the twelve months ended December 31, 2020 was analyzed to calculate the lag for each component of the overall revenue lag. The lags include a service lag, billing lag, collections lag, and payment processing lag.

Q: Please explain what is meant by the term "service lag".

A. The service lag refers to the number of days from the mid-point of the service period to the meter reading date for that service period. Using the mid-point methodology, the average lag associated with the provisioning of service was determined to be 15.21 days (365 days in the year divided by 12 months divided by 2).

Q: What is meant by billing lag?

A. Billing lag refers to the average number of days from the date the customer's meter was read until the customer was billed. The billing lag was determined by analyzing the

Company's monthly billing schedules and meter reading records. The average billing lag was determined to be 1.44 days.

Q: What is a collections lag?

A. In the context of the cash working capital analyses, the collections lag refers to the average amount of time from the date the customer was billed for their energy service to the date that the Company received payment from its customers. For purposes of the cash working capital analyses, the Company's actual customer receivables during the twelve months ended December 31, 2020 were analyzed to determine the collections lag. Based on weighted average data from the Company and considering accounts receivables balances by days aged the average collection lag was determined to be 7.21 days.

Q: Does the Company sell portions of its accounts receivables?

A. Yes. Missouri Metro sells an undivided percentage ownership interest in its retail electric accounts receivable to independent outside investors. These sales are accounted for as secured borrowings with accounts receivable pledged as collateral and a corresponding short-term collateralized note payable recognized on the balance sheet.

Q: When determining the Company's cash working capital, should a service lag and billing lag be applied to the sold receivables?

A. Yes. The Company still has a lag in recovery of its costs from the period of time during which service was provided to its customers up to the point in time at which the receivables were sold. Therefore, a service lag and billing lag were applied when calculating the Company's cash working capital requirement.

Q: How was the sale of portions of the Company's accounts receivables treated in the lead-lag study?

A. During the test period, 75.52% percent of the Company's accounts receivables were sold. The sale of the receivables was presumed to occur instantaneously the day bills were issued, so no collection or payment processing lag was attributed to the sold receivables when determining the overall revenue lag.

Q: How was the collection lag associated with the 24.48 percent of Missouri Metro's receivables that were not sold determined?

A. The collection lag associated with the receivables that were not sold was determined by an aging analysis.

Q: Please explain how the aging of the receivables was calculated.

A. The monthly accounts receivable data, excluding the sold receivables, was categorized into aging "buckets" of 0-30 days, 30-60 days, 60-90 days, 90-120 days, 120-150 days and 150+ days. For purposes of calculating the collection lag, I have assumed the customers pay their bills ratably over the month. Therefore, the midpoint of the first month is 15 days (*i.e.*, 30 divided by 2). I apply the same assumption that customers will pay their bills ratably over the course of the month to each aging bucket. It is assumed that customers will pay their bills ratably over the course of the second month (the month that is 30-60 days after the bill was issued). Therefore, the midpoint of payments that are received 30-60 days after the bill is issued is 45 days (*i.e.*, 30 days outstanding from the first month plus the 15-day midpoint of the second month = 45 days). This same theory applies to the use of 75 days for payments that are received 60-90 days after the bill is issued, 105 days for payments that are received 90-120 days after the bill is issued, 135

days for payments received 121-150 days after the bill is received. The study capped the days outstanding at 150 days. The accounts receivable dollars in each bucket are then multiplied by the midpoint of each bucket to calculate the collections lag.

Q: Based upon your analysis, what collection lag should be assigned to retained receivables?

A. The collection lag to be applied to receivables collected via customer payments was determined to be 29.46 days.

Q: Have you calculated a weighted collection lag that should be reflected for purposes of determining the Company's cash working capital requirements?

A. Yes. Given that the Company sold 75.52 percent of its receivables on day one and the remaining 24.48 percent of the receivables had an average collection lag of 29.46 days, the average collection lag was calculated to be 7.21 days, which is applied to the entire balance of the Company's accounts receivables.

Q: Have you calculated the lag associated with processing customer payments?

A. Yes. The payment processing lag was calculated to be 0.92 days. The calculation takes into account the various methods of payments that Missouri Metro's customers used to pay their bills, and the time that it takes, on average, to process the various forms of payment.

Q: What are the various forms of payments that Missouri Metro's customers use to pay their bills?

A. The forms of payment that Missouri Metro's customers use include ACH (i.e., electronic fund transfer), credit/bank card, cash, check, and other methods. The following table

provides a breakdown of the methods of payments used and the percentage of payments by type.

Payment Type	Weighting Factor	Average Lag Days	Weighted Payment Lag Days
ACH	49.8%	1.00	0.50
Card	12.9%	3.00	0.39
Cash	0.9%	3.75	0.03
Check	36.3%	0	0.00
Other (i.e., money orders)	0.2%	0	0.00
Total	100.0%		0.92

Q: Based upon your study, what is the Missouri Metro's total revenue lag?

A. The total revenue lag was determined to be 24.78 days. A breakdown of the total revenue lag is shown in the following table.

Component of Revenue Lag	Days
Service Lag	15.21
Billing Lag	1.44
Collections Lag	7.21
Payment Processing Lag	0.92
Total Days	24.78

Q: Was the base revenue lag adjusted for bulk power sales?

A. Yes. Revenues from bulk power sales were collected on average, within 37.45 days. Therefore, a weighted average of the revenue lag for tariffed revenues and bulk power sales was calculated. The resulting weighted revenue lag was determined to be 26.98 days.

Q: Was a separate revenue lag calculated for and applied to franchise taxes?

A. Yes. The revenue lag applied to franchise taxes was calculated to be 9.57 days. The revenue lag for franchise taxes excludes the lag associated with the service period. All

other components of the revenue lag (i.e., the billing lag, collection lag, and payment processing lag) are the same as that included in the revenue lag applied to all other expenses.

EXPENSE LEADS

Q: What expense-related leads were considered in the lead-lag analysis?

A: Lead times associated with the following expense categories were considered in the lead-lag study: a) payroll and withholdings; b) employee benefits; c) pensions; d) accrued vacation; e) incentive compensation; f) fuel, e.g., coal, oil and natural gas; g) purchased power; h) other operations and maintenance ("O&M") expenses; i) general taxes other than income taxes; j) federal income taxes; k) state income taxes; l) interest on long-term debt.

Q: When the Company paid an expense by check, was an incremental lead added to the overall expense lead to reflect a float time?

A. Yes. When paid by check, an incremental bank float of 16.90 days was added to the expense overall expense lead.

Q: Provide an explanation of the expense leads associated with the Company's payroll and withholdings expenses.

A. Missouri Metro's employees are paid bi-weekly, six days after the completion of a pay period, with the exception of Local Union 1464 which has a semi-monthly payroll. This results in an expense lead of 13.21 days for payroll and withholdings expenses.

Q: What expense lead was calculated related to the benefits provided to the Company's employees?

A. A weighted expense lead of 13.29 days was calculated for the administration and claims payments associated with the Company's group health and 401k benefit programs.

Q: Did the Company make contributions to its pension plan during the test year?

A. Yes. A weighted average expense lead of 42.25 days was calculated for the pension contribution expense.

Q: What expense lead was applied to the Company's vacation accrual expense?

A. An expense lead of 365 days was applied to the Company's vacation accrual expense.

Q. **How was the expense lead associated with incentive compensation determined?**

A. Eligible Evergy employees are awarded incentive compensation for a given year which is then paid in mid-March of the following year. As such, the expense lead for incentive compensation expense consists of the mid-point of calendar year, or 182.50 days (i.e., 365 divided by 2), plus 75 days representing the payment date of March 15th of the following year. The sum of the midpoint of the year for which the incentive compensation is earned and the payment in mid-March of the following year results in an expense lead of 257.50 days.

Q: What expense lead was calculated related to the Company's purchase of coal?

A. Based upon an analysis of the coal purchases from the various suppliers and the cost of rail transport, an expense lead of 12.42 days was calculated.

Q: What expense lead was calculated related to the Company's purchase of oil?

A. Based upon an analysis of the oil purchases from the Company's various suppliers an expense lead of 12.13 days was calculated.

Q: Was an expense lead also calculated related to the Company's purchase of natural gas?

A. Yes. Based upon an analysis of the natural gas purchases from the Company's various suppliers an expense lead of 38.00 days was calculated.

Q: What is the expense lead time associated with the Company's purchases of electricity?

A. Based on an examination of the service periods and payment dates for the Company's sources of purchased power, a weighted expense lead time of 37.45 days was determined. This lead time includes a half month of service lead time.

Q: What are other O&M expenses and what lead times were associated with such expenses?

A. The Company engages in transactions with other vendors for a variety of purposes including facility maintenance, system maintenance, and customer service. Accounts payable data was analyzed in order to calculate a lead time associated with payment for services related to other operations and maintenance activities. The analysis indicates that on average, invoices were paid by the Company 35.15 days after receipt. This lead time includes a half month of service lead time.

Q: What are the various general taxes considered in the analysis?

A. The following general taxes were considered in the study: a) Missouri and Kansas Sales and Use Taxes; and b) Fuel Tax; c) Occupational License Tax, and d) Heavy Vehicle Use Tax. Based upon the weighting and timing of the payment of the various taxes, an expense lead of 7.94 days was calculated.

Q: Does the Company pay Corporation Franchise Taxes and Gross Receipt Taxes?

A. Yes, the Company pays such taxes to various municipalities either on a monthly, quarterly, semi-annual, or annual basis, depending upon the jurisdiction. Based upon the weighting and timing of the payments to the various municipalities, an expense lead of 48.89 days was calculated. Float time was added when payment was made by check.

Q: What expense lead was calculated for property/real estate taxes?

A. The Company pays property taxes and/or payments in lieu of taxes to a number of taxing authorities in multiple states. The dollar weighted expense lead applied to property/real estate tax expense considered the beginning and ending date of the tax period by jurisdiction, as well as the date the taxes were paid to arrive at the dollar weighted expense lead of 227.12 days applied to property tax expenses. Float time was added when payment was made by check.

Q: How did your study address federal income taxes?

A. The lead time associated with federal income tax payments was based on the provisions of the Internal Revenue Code that require estimated tax payments of 25 percent of total income taxes due each quarter of the current year. Taking this schedule into consideration a lead time of 38.00 days for federal income taxes was determined.

Q: How did the study address state income taxes?

A. The Company makes quarterly payments to the state. Taking this statutory payment schedule into consideration, a weighted expense lead time of 38.00 days for state income tax payments was determined. Since payments are made electronically, no additional float time was included.

Q: Provide a description of how lead times associated with the Company's long-term interest expenses were addressed by the study.

A. The Company made semi-annual long-term interest payments on its long-term debt throughout the test year. Using the midpoints of the semi-annual service periods, a dollar-weighted lead of 91.50 days for long-term interest payments was determined.

Q: Based upon the results of the lead-lag study and the level of expenses sponsored by Company witness Ronald Klote, what level of cash working capital requirements should be included in Evergy's rate base?

A. Company witness Ronald Klote sponsors the requested level of cash working capital that should be included in Evergy Metro's rate base.

PROPERTY TAX TRACKER

Q: Is Evergy requesting the approval of a tracker related to recovery of property taxes?

A: Yes, the Company is requesting the approval of a property tax tracker to recover property tax expense above those reflected in the base rates set in this proceeding. The request for the property tax tracker is discussed by Company witnesses Darrin Ives and Melissa Hardesty. The property tax tracker will capture the differences between the Company's actual property tax expense and the level of property tax expense that is included in base rates as a result of this proceeding.

Q: Why is such a tracker appropriate?

A. The level of most expenses incurred can be influenced, managed and controlled by the Company. Traditional cost of service ratemaking is appropriate for costs which can be managed and influenced by the Company. For costs that are not directly manageable by

the Company, however, a tracker such as that proposed by the Company is appropriate. In the case of property taxes, the Company essentially has no control over the level of property taxes assessed by taxing bodies/authorities. The valuation and assessed tax rate are assessed solely by the taxing body. Further, the level of property taxes paid by the Company is material and tends to only trend upward.

Q: Have you reviewed the historical trends related to the level of the Company's property taxes paid?

A. Yes, on page 15 of Company witness Melissa Hardesty's testimony, she compares the historical trajectory of property tax expense paid by the Company. As the chart shows, property tax expenses have increased approximately $12.3 million over the period from when rates last went into effect to the estimated 2021 tax levels. This represents an approximate 12 percent increase in property tax expense over that period. The projections shown in Ms. Hardesty's testimony show the upward trend is expected to continue. As a result of the lack of control over the level of property taxes assessed, the materiality of the expense, and the variability of the expense, the Company's request for approval of a mechanism by which to track and recover actual incurred property tax related expenses is reasonable and prudent. The request for approval of the rider/tracker is discussed in the direct testimony of Company witnesses Darrin Ives and Melissa Hardesty.

Q: Has the Company historically been able to recoup the level of property taxes paid from rates established in prior rate proceedings?

A. No. The Company is not currently allowed to recover any under collection between the actual level of property tax expense paid and the amount allowed in the Company's last rate proceeding.

Q: Have you reviewed the property tax recovery mechanism proposed by the Company?

A. Yes, I have.

Q: Please provide your thoughts and observations regarding the Company's proposed mechanism.

A. Property taxes support the communities in which the Company operates, and the Company is required to pay those taxes. In recent years, however, property tax expenses billed to the Company by the various communities/taxing authorities have been highly variable. The services provided by taxing authorities, while associated with critical services for citizens and businesses, are not associated with the services provided by the Company, and the level of expense billed to the Company by the taxing bodies is beyond the Company's control. Therefore, a tracker is an appropriate method by which to allow the Company to recoup its actually incurred property tax expenses. The tracker will be a two-way mechanism, so if the actual amount of property tax expense turns out to be less than the amount included in the forecast, customers will be protected by adjustments to amounts recovered via the tracker. Therefore, the Company should not experience a lag in collecting those taxes from customers.

Q: Are you aware of other State regulatory jurisdictions that have approved alternative property tax expense recovery mechanisms?

A. Yes. The following are examples of State regulatory commissions that have approved recovery mechanisms such as the one proposed by Evergy Metro/West:

- **Arizona -** Southwest Gas ("SWG") was permitted to implement a Property Tax Mechanism that establishes a regulatory asset account to defer any changes in property tax expense for recovery in the Company's next general rate case.[1] The mechanism tracks differences in annual property tax expense versus the amount of property tax expense in the authorized cost of service.
- **Arkansas -** Southwestern Electric Power Company's Residential Tariff includes a Tax Adjustment which states "In addition to all other charges, the amount of the Customer's bill will be increased by proportionate part of any new tax or increased rate of tax in accordance with the Tax Adjustment Rider – Arkansas. The tariff schedule provides for the Company to pass directly to its customers within a municipality the proportionate part of any franchise or street rental taxes levied or imposed on the Company by that municipality on gross revenues from those customers.
- **Colorado -** The Public Service Company of Colorado proposed to continue the property tax tracker based upon the forecasted amount of property tax expense in 2022. The deferral is based upon an amount set in the test year in the 2019 Electric Phase I. Property taxes incurred beginning in 2022 that are greater or lower than the property tax baseline level will be deferred in a regulatory asset or regulatory liability

[1] Docket No. 2019.08.047. August 7, 2019.

account, and any regulatory asset or liability would be recovered or refunded in a future rate case.

- **Kansas -** Kansas Statute 66-117 states: Whenever, after the effective date of this act, an electric public utility, a natural gas public utility or a combination thereof, files tariffs reflecting a surcharge on the utility's bills for utility service designed to collect the annual increase in expense charged on its books and records for ad valorem taxes, such utility shall report annually to the state corporation commission the changes in expense charged for ad valorem taxes. For purposes of this section, such amounts charged to expense on the books and records of the utility may be estimated once the total property tax payment is known. If found necessary by the commission or the utility, the utility shall file tariffs which reflect the change as a revision to the surcharge. Upon a showing that the surcharge is applied to bills in a reasonable manner and is calculated to substantially collect the increase in ad valorem tax expense charged on the books and records of the utility, or reduce any existing surcharge based upon a decrease in ad valorem tax expense incurred on the books and records of the utility, the commission shall approve such tariffs within 30 days of the filing. Any over or under collection of the actual ad valorem tax increase charged to expense on the books of the utility shall be either credited or collected through the surcharge in subsequent periods. The establishment of a surcharge under this section shall not be deemed to be a rate increase for purposes of this act. The net effect of any surcharges established under this section shall be included by the commission in the establishment of base rates in any subsequent rate case filed by the utility.

- **Minnesota -** CenterPoint Minnesota has an approved property tax tracker designed to ensure recovery of actual property tax paid by the Company less the amount included in rates, and less any amounts recovered in litigation that the Company has filed or may file regarding its property tax assessments.
- **Montana -** Section 69-3-308 of the Montana Code Annotated 2021 requires the Commission to allow a public utility to file rate schedules containing provisions for the automatic adjustment and tracking of Montana state and local taxes and fees, except state income tax, paid by the public utility. The resulting rate schedule changes must include: (A) adjustments for the net change in federal and state income tax liability caused by the deductibility of state and local taxes and fees; (B) retroactive tax adjustments; and (C) adjustments related to the resolution of property taxes paid under protest.
- **New Hampshire -** Liberty Utilities (EnergyNorth Natural Gas Corp.) requested approval of a property tax recovery mechanism to capture the impact of annual property tax increases that were beyond the Company's control as a result of the implementation of the statutes.[2] Part of the referenced statues required the Commission to establish by order a rate recovery mechanism for the property taxes paid by a public utility. In 2019, the Legislature passed, and the Governor signed HB 700, which established a new method for municipalities to assess utility property and provided for a new mechanism for utilities to adjust rates annually to recover (or refund) changes in property taxes. The guidelines for the new mechanism are codified at Revised Statutes Annotated ("RSA") 72:8-b.

[2] Docket DG 20-105, July 30, 2020.

- 72:8-e Recovery of Taxes by Electric, Gas and Water Utility Companies. For the implementation period of the valuation of utility company assets under RSA 72:8-d, VI and terminating with the property tax year effective April 1, 2024, the public utility commission shall by order establish a rate recovery mechanism for any public utility owning property that meets the definition of utility company assets under RSA 72:8-d, I [1] Such rate recovery mechanism shall either:
  1. Adjust annually to recover all property taxes paid by each such utility on such utility company assets based upon the methodology set forth in of RSA 72:8-d; or
  2. Be established in an alternative manner acceptable to both the utility and the public utility commission.

  A settlement was reached resolving all the issues in the proceeding except the recovery of cost associated with the Granite Bridge project. The Settlement Agreement included a local property tax adjustment mechanism consistent with RSA 72:8-e. The mechanism allowed Liberty recovery or refund of local property expense that differ from the amount included in the base rates, beginning with the April 1, 2020, tax year. (Order on Settlement Agreement and Permanent Rates No. 26,505. July 30, 2021).

- **Oregon -** Pacific Power Schedule 104 (Oregon Corporate Activity Tax Recovery Adjustment, or OCAT) facilitates recovery of the annual forecast amount of the OCAT and a true-up of the previous year's over- or under-recovery via an Automatic Adjustment Clause. A balancing account is maintained to accrue any difference between the Company's actual OCAT expense and the amount collected from consumers through the adjustment rate. Any over- or under-collection of the OCAT expense is considered when the OCAT Rate is periodically reviewed.

- **Pennsylvania -** The Pennsylvania Public Utility Commission approved an order that allows Emporium Water Company to increase rates associated with the assessment imposed on utilities by the Pennsylvania Department of Revenue. Utilities can apply to the PUC for the right to pass on to customers the Public Utility Realty Tax Assessment ("PURTA") tax which is a tax in lieu of property taxes.

- **South Dakota -** The South Dakota Public Utilities Commission established an Infrastructure Rider for Northern States Power Company dba Xcel Energy as a means to recover specific major capital additions that were placed into service in late 2012 or were expected to be placed into service in 2013, and additionally, any changes in 2013 property taxes from the property taxes included in the 2011 test year. These specific projects were nearing completion, significant in cost, and were not included in the 2011 rate base used to develop final rates in Docket No. EL12-046. The Infrastructure Rider adjustment factor to recover the South Dakota jurisdictional portion of the revenue requirements related to the Rider's seven specific capital projects located throughout its service territory, in addition to incremental 2013 property taxes over the 2011 approved level included in base rates.[3] Given property taxes are assessed by government agencies and not within the Company's control, inclusion of the 2013 incremental property taxes was also approved for inclusion within the rider.[4]
- **Washington -** Puget Sound Energy's Property Tax Tracker (Schedule No. 140)- passes through the cost of all property taxes incurred by the Company. The mechanism acts as a tracker schedule wherein it collects the total amount of property taxes assessed, as billed by counties or states from the last tax cycle. With implementation of the tracker mechanism, in addition to removing the cost of all property taxes from general rates, the tracker is adjusted each year in May based on that year's Assessed Property Taxes. If the current year's property taxes exceed that of the previous year, the difference will result in an overall increase to customer rates.[5]

[3] Docket No. EL12-046, pp. 1-2.
[4] *Id.*, p. 3.
[5] Puget Sound Energy, Inc. Schedule No. 140, Property Tax Tracker, WN U-60.

Q: Have some State regulatory jurisdictions expanded the tracker concept to effectively true-up the regulated companies' actual level of operating expenses?

A. Yes. Below are a few examples of State regulatory jurisdictions that have approved broader cost recovery mechanisms to allow recovery of actual prudently incurred expenses:

- **Alabama -** Energy companies operate under a "Rate Stabilization and Equalization Factor (RSE)" which is designed to lessen the impact, frequency, and size of retail rate increase requests by permitting the Company, through the operation of a filed and approved rate, to adjust its charges more readily to achieve the rate of return allowed it in the rate order of the Commission. By provisions in the rate, the charges are increased if projections for the upcoming year show that the designated rate of return range will not be met and are decreased if such projections show that the designated rate of return range will be exceeded.
- **Indiana -** Indiana Michigan Power Company received approval of a rate schedule entitled Transmission, Distribution, and Storage System Improvement Charge (TDSIC) rider that allows the periodic adjustment of I&M's basic rates and charges to provide for the timely recovery of eighty percent of approved capital expenditures and TDSIC costs including the pre-tax return on electric plant in service TDSIC capital investment, associated depreciation expense, property tax expense, and operation and maintenance (O&M) expense associated with the TDSIC capital investments, as well as other TDSIC O&M expense related to I&M's 7-year electric plan.
- **Massachusetts -** The Massachusetts Department of Public Utilities' Grid Modernization Factor provides for the recovery of incremental costs associated with

the Company's Grid Modernization Plan. Property taxes will be excluded in the GMP Revenue Requirement in the first Recovery Year following the GMP Investment Year in which the eligible taxable plant went into service. Property taxes will be included in the GMP Revenue Requirement beginning in the second Recovery Year at 50% of the annual property tax amount. In subsequent years, the GMP Revenue Requirement will reflect a full year of property taxes.

Q: When the Tax Cuts and Jobs Act ("TCJA") was passed, did Commissions approve tracking mechanisms or rate adjustments to reflect changes in income tax expenses?

A. Yes. Most State regulatory jurisdictions promptly adjusted regulated utilities' authorized income tax expenses when the TCJA was passed. Commissions across the country adjusted regulated companies' rates to reflect the changed income tax rates and required that collected income tax above the revised federal tax rate be returned to customers. The rationale adopted by most State regulatory jurisdictions in response to the TCJA being passed, applies to property tax expenses.

Q: What is your recommendation regarding the Company's requested property tax tracker?

A. The Company's proposed property tax tracker is reasonable and appropriate and should be approved by the Commission. The tracker will allow the Company to recover its actual incurred level of property taxes paid, an expense over which the Company has no control. Such a mechanism is consistent with those approved by other State Regulatory Commissions.

Q: Does this conclude your direct testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Evergy Metro, Inc. d/b/a Evergy Missouri Metro's Request for Authority to Implement A General Rate Increase for Electric Service	))))	Case No. ER-2022-0129

AFFIDAVIT OF MICHAEL ADAMS

STATE OF MASSACHUSETTS)
) ss
COUNTY OF MIDDLESEX)

Michael Adams, being first duly sworn on his oath, states:

1. My name is Michael Adams and I am employed by Concentric Energy Advisors, Inc. as Senior Vice President.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Evergy Missouri Metro consisting of twenty-four (24) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

Michael J. Adams

Michael Adams

Subscribed and sworn before me this 6th day of January 2022.

Laureen Sasseville

Notary Public

My commission expires: October 19, 2023

Laureen G_ Sasseville

Digitally signed by Laureen G_ Sasseville
DN: C=US, OU=Notary Public, O=Commonwealth of Massachusetts, CN=Laureen G_ Sasseville, E=lsasseville@ceadvisors.com
Reason: I attest to the accuracy and integrity of this document
Location: Middlesex County
Date: 2022-01-06 12:11:52
Foxit PhantomPDF Version: 9.7.5

MICHAEL J. ADAMS
Senior Vice President

Mr. Adams has over thirty-five years of direct experience in the public utility industry. He has worked for an investor-owned utility, a regulatory agency, and most recently as a consultant to the utility industry.

While employed by Illinois Power Company, Mr. Adams monitored project expenditures associated with gas and electric distribution, transmission and generation capital projects.

While employed by the Illinois Commerce Commission, Mr. Adams initially evaluated the rate filings of regulated utilities and provided expert testimony regarding the reasonableness of the requests. Mr. Adams was subsequently charged with developing and managing a management and operations audit program to evaluate company management policies, procedures and performance, as well as operational efficiency and effectiveness. Mr. Adams served as the Deputy Executive Director of the agency at the time of his departure. As a consultant, Mr. Adams has provided consulting services to regulatory agencies and regulated utilities on an array of operational and financial issues since 1995.

Prior to joining Concentric, Mr. Adams was a Managing Director of Navigant Consulting, Inc. Mr. Adams is a Certified Public Accountant, a graduate of Illinois College and holds an M.B.A. from the University of Illinois, Springfield.

Mr. Adams provides financial, regulatory, strategic, operational and litigation support to his energy clients. provides a wide array of services to his energy clients in preparation for, and support of regulatory filings. He has assisted clients with regulatory/legislative initiatives related to the approval and implementation of alternative regulation plans as well as the preparation and support of regulatory filings under alternative rate plans. Mr. Adams also provides advisory services in the areas of mergers and acquisitions. As a consultant, Mr. Adams has provided expert testimony or reports before State and Federal regulatory agencies.

PROFESSIONAL HISTORY

Concentric Energy Advisors, Inc.
Senior Vice President
Vice President

Navigant Consulting, Inc.
Managing Director

L.E. Burgess Consultants, Inc.

Illinois Commerce Commission
Accounting/Rate Case Staff
Director, Management Audit/Studies
Deputy Executive Director

Illinois Power Company
Accounting/Auditing Department

EDUCATION

University of Illinois at Springfield
M.B.A., Finance

Illinois College
B.S., Accounting

REPRESENTATIVE PROJECT EXPERIENCE

Audits/Special Studies

- Management audits
- Regulatory reviews/audits
- Project performance monitoring/reviews
- Prudence reviews
- Commission ordered studies
- Audit prep and support
- Project controls and assessments

Affiliate Transactions

- Code of Conduct
- Shared Services reviews
- Cost controls

Benchmarking

- O&M costs
- Capital expenditures
- Shared Services
- Operational performance
- Customer service
- Reliability

Due Diligence/Litigation/Special Projects

- Assessment of cost controls
- Financial outlook
- Historical/future performance assessment
- Merger Synergies
- Regulatory environment/assessment

Expert Witness

- Regulatory proceedings
- Civil litigation

Litigation Support

- Data review and analyses
- Position development and review
- Research
- Expert testimony and reports

Regulatory Proceedings

- Revenue Requirement
- Cash working capital
- Benchmarking
    - O&M
    - Capital
    - Shared Services
- Case development/management
- Multi-year rate plans
- Research
- Performance based regulation

DESIGNATIONS AND PROFESSIONAL AFFILIATIONS

Certified Public Accountant

American Institute of Public Accountants

Illinois Society of Certified Public Accountants

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Arkansas Public Service Commission				
Arkansas Oklahoma Gas Corporation	2002	Arkansas Oklahoma Gas Corporation	02-024-U	Reasonableness of ratemaking adjustments
Centerpoint Energy Arkla	2005	Centerpoint Energy Arkla	04-121-U	Cash Working Capital
Connecticut Public Utilities Regulatory Authority				
Connecticut Natural Gas	2013	Connecticut Natural Gas	13-06-08	Cash Working Capital
Federal Energy Regulatory Commission				
Granite State Gas Transmission	2010	Granite State Gas Transmission	RP10-896	Revenue Requirement
Georgia Public Service Commission				
Atlanta Gas Light Company	2019	Granite State Gas Transmission	42315	Cash Working Capital
Hawaii Public Utilities Commission				
Hawaii Electric Light Company, Inc.	2005	Hawaii Electric Light Company, Inc.	05-0315	Allowance for Funds Used During Construction
Idaho Public Utilities Commission				
Intermountain Gas Company	2016	Intermountain Gas Company	INT-G-16-2	Cash working capital, prepared/supported benchmarking for client
Illinois Commerce Commission				
Illinois Power Company	1999	Illinois Power Company	99-0120/99-0134 (Cons.)	Functionalization/Unbundling of General and Intangible Assets and Administrative and General expenses.
Illinois Power Company	2004	Illinois Power Company	04-0476	Cash working capital and asset separation
Ameren Illinois Utilities	2006	Ameren Illinois Utilities	06-0070/06-0071/06-0072 (Cons.)	Functionalization of Assets, Cash Working Capital, Shared Services Costs, Benchmarking
Ameren Illinois Utilities	2007	Ameren Illinois Utilities	07-0585/07-0586/07-0587/	Shared Services Costs, Asset Separation, Cash Working

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
			07-0588/07-0589/07-0590 (Cons.)	Capital
The Peoples Gas Light and Coke Company, Inc. and North Shore Gas Company	2007	The Peoples Gas Light and Coke Company, Inc. and North Shore Gas Company	07-0241/07-0242 (Cons.)	Cash working capital
Northern Illinois Gas Company	2008	Northern Illinois Gas Company	08-0363	Cash working capital
Ameren Illinois	2015	Ameren Illinois	16-0262	Benchmarking of Utility Performance
Maine Public Utilities Commission				
Emera Maine	2017	Emera Maine	Docket No. 2017-00198	Cash working capital
Versant Power	2020	Versant Power	Docket No. 2020-00316	Cash working capital
Maryland Public Service Commission				
Constellation Energy	2009	Constellation Energy	Case No. 9173, Phase II	Shared Services, Benchmarking
Massachusetts Department of Public Utilities				
Massachusetts Distribution Companies	2002	Massachusetts Distribution Companies	DTE-99-84	Reliability standards and the appropriateness of utilizing data for benchmarking purposes
Missouri Public Service Commission				
AmerenUE (Union Electric Company)	2002	AmerenUE (Union Electric Company)	EC-2002-001	Cash working capital
AmerenUE	2003	AmerenUE	GR-2003-0517	Cash working capital
AmerenUE	2007	AmerenUE	ER-2007-0002	Cash working capital
AmerenUE	2008	AmerenUE	ER-2008-0318	Cash working capital
Missouri Gas Energy	2006	Missouri Gas Energy	GR-2006-0422	Cash working capital
Ameren Missouri Gas	2010	Ameren Missouri Gas	GR-2010-0363	Cash working capital
Ameren Missouri Electric	2010	Ameren Missouri Electric	ER-2011-0028	Cash working capital

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Ameren Missouri	2012	Ameren Missouri	ER-2012-0166	Cash working capital
Ameren Missouri	2014	Ameren Missouri	ER-2014-0258	Affiliate transactions, Benchmarking
New Hampshire Public Utilities Commission				
National Grid Energy North	2010	National Grid Energy North	DG 10-017	Revenue Requirement
New Mexico Public Utility Regulation Commission				
New Mexico Gas Company	2019	New Mexico Gas Company	19-00317-UT	NMGC's future test year cost of service model
State of New Jersey Board of Public Utilities				
PSEG	2018	PSEG	ER18010029 & GR18010030	Benchmarking
Oklahoma Corporation Commission				
Arkansas Oklahoma Gas Corporation	2003	Arkansas Oklahoma Gas Corporation	PUD200300088	Cash working capital
Ontario Energy Board				
Hydro One Distribution Business	2005	Hydro One Distribution Business	-	Cash working capital
Hydro One Transmission Business	2006	Hydro One Transmission Business	-	Cash working capital
Toronto Hydro	2006	Toronto Hydro	-	Cash working capital
Pennsylvania Public Utility Commission				
Allegheny Power	2004	Allegheny Power	M-00991220	Reliability data and reasonableness of established standards
T.W. Phillips Gas and Oil Company, Inc.	2006	T.W. Phillips Gas and Oil Company, Inc.	R-00051178	Cash working capital
Tennessee Public Utility Commission				
Chattanooga Gas Company	2018	Chattanooga Gas Company	18-00017	Cash working capital
Public Utility Commission of Texas				
Texas-New Mexico Power Company	2008	Texas-New Mexico Power Company	36025	Revenue Requirement

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
El Paso Electric Company	2012	El Paso Electric Company	40094	O&M Benchmarking
El Paso Electric Company	2014	El Paso Electric Company	-	Benchmarking of New Generation Costs
El Paso Electric Company	2015	El Paso Electric Company	44941	Benchmarking of costs of new generation units
Public Service Commission of West Virginia				
Appalachian Power Company	2018	Appalachian Power Company	18-0646-E-42T	Cash working capital
Tennessee Public Utility Commission				
Chattanooga Gas Company	2018	Chattanooga Gas Company	18-00017	Cash working capital
Virginia State Corporation Commission				
Virginia Natural Gas	2012	Virginia Natural Gas	PUE-2010-00142	Cash Working Capital
Virginia Natural Gas	2017	Virginia Natural Gas	-	Shared Services Review, Benchmarking, Cash Working Capital

Evergy Metro Missouri
Lead-Lag Exhibit

Line No.	Description	Revenue Lag	Expense Lead	Net Lag	CWC Factor
	(A)	(B)	(C)	(D)	(E)
1	Payroll and Withholdings [1]	26.98	(13.21)	13.77	0.0377
2	Employee Benefits [1]	26.98	(13.29)	13.69	0.0375
3	Pension Expense [1]	26.98	(42.25)	(15.27)	(0.0418)
4	Accrued Vacation	26.98	(365.00)	(338.02)	(0.9261)
5	Incentive Compensation	26.98	(257.50)	(230.52)	(0.6316)
6	Other Operations and Maintenance Expenses	26.98	(35.15)	(8.17)	(0.0224)
7	Corporation Franchise Taxes/Gross Receipts Taxes	9.57	(48.89)	(39.31)	(0.1077)
8	Property/Real Estate Taxes	26.98	(227.12)	(200.14)	(0.5483)
9	Missouri & Kansas Sales Tax and Use Tax, Fuel Tax, Occupational License Tax, and Heavy Vehicle Use Tax	9.57	(7.94)	1.63	0.0045
10	Federal Income Tax	26.98	(38.00)	(11.02)	(0.0302)
11	State Income Tax	26.98	(38.00)	(11.02)	(0.0302)
12	Fuel - Coal	26.98	(12.42)	14.56	0.0399
13	Fuel - Oil	26.98	(12.13)	14.85	0.0407
14	Fuel - Gas	26.98	(38.00)	(11.02)	(0.0302)
15	Interest Expense	26.98	(91.50)	(64.52)	(0.1768)
16	Purchased Power	26.98	(37.45)	(10.47)	(0.0287)

Notes
[1] Expense Lead calculation is the same as Evergy Missouri West; employee time is allocated to companies.