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Company's CS-11
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Witness: Jared Giacone
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ER-2022-0130
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MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL & BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

DIRECT TESTIMONY

OF

JARED GIACONE

**Evergy Metro, Inc., d/b/a Evergy Missouri Metro
Case No. ER-2022-0129**

**Evergy Missouri West, Inc., d/b/a Evergy Missouri West
Case No. ER-2022-0130**

*Jefferson City, Missouri
June 2022*

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1 **DIRECT TESTIMONY**

2 **OF**

3 **JARED GIACONE**

4 **Evergy Metro, Inc., d/b/a Evergy Missouri Metro**
5 **Case No. ER-2022-0129**

6 **Evergy Missouri West, Inc., d/b/a Evergy Missouri West**
7 **Case No. ER-2022-0130**

8 Q. Please state your name and business address.

9 A. My name is Jared Giacone and my business address is 615 East 13th Street,
10 Kansas City, MO 64106.

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

12 A. I am employed by the Missouri Public Service Commission as a Senior Utility
13 Regulatory Auditor.

14 Q. Have you previously filed testimony before this Commission?

15 A. Yes, please refer to Schedule JG-d1, attached to this direct testimony, for a list
16 of the major audits on which I have assisted and filed testimony.

17 **EXECUTIVE SUMMARY**

18 Q. What is the purpose of your direct testimony?

19 A. The purpose of my direct testimony is to discuss Staff's position in this
20 case regarding: payroll, cash working capital ("CWC"), property tax, pensions, other
21 post-employment benefits ("OPEBs"), supplemental executive retirement plans ("SERP"),
22 incentive compensation, leases, rate case expense, Wolf Creek water contract (Evergy Metro
23 only), and miscellaneous adjustments.

1 Q. Through this testimony, do you provide any recommendations for recommended
2 rate base and expense levels to be reflected in the revenue requirement ordered in this case?

3 A. Yes. I recommend several rate base and several expense levels to be reflected
4 in the revenue requirement ordered in this case, and will clarify in each section whether that
5 issue is related to an annual expense or a rate base valuation.

6 Q. Through this testimony, do you provide any recommendations that should be
7 specifically reflected in the Commission's Report and Order in this case?

8 A. While I will be making many recommendations for the level of annual expense
9 and rate base levels that will ultimately impact the ordered revenue requirement in this case,
10 the issues I address typically do not require specific ordered language.

11 **PAYROLL**

12 Q. How did Staff annualize Evergy's employee payroll?

13 A. Staff annualized Evergy's payroll based on actual employee levels as of the end
14 of the update period, December 31, 2021.

15 Q. Are there any notable changes to Evergy's payroll following the merger of Great
16 Plains Energy and Westar, Inc.?

17 A. Yes. This is the first general rate case where employees of Evergy Kansas
18 Central are included in total Evergy payroll. Wolf Creek and Jeffrey Energy Center employees
19 are also now included in total Evergy payroll as opposed to the former joint partner billing
20 process where Evergy Metro and Evergy West were billed based on their ownership share in
21 those generating stations. Evergy Metro now bills the remaining joint partners based on the
22 joint partners' ownership share in the generating stations. Evergy reflected the receipt of funds

1 from joint partner billings in their payroll adjustment as an offset to total payroll. I reviewed
2 and adopted the Evergy's method for receipt of funds from joint partner billings in my payroll
3 adjustment.

4 Q. How is payroll distributed to the different business units like Evergy Kansas
5 Central and Evergy Kansas Metro?

6 A. Evergy distributes total employee payroll between four (4) business units. The
7 business units and payroll percentage assigned to each are listed in the following table:

8

Evergy Business Unit Payroll Distribution	
Business Unit	Percent of Payroll Assigned
Evergy Missouri Metro	37.56%
Evergy Missouri West	15.25%
Evergy Kansas Central (formerly Westar), Evergy Kansas South (formerly Kansas Gas & Electric)	46.15%
Evergy, Inc. and non-regulated operations	1.03%

9

10 Q. Is the Evergy Missouri Metro payroll further allocated to Evergy Kansas Metro?

11 A. Yes, the payroll allocation for Evergy Kansas Metro is calculated through
12 the Evergy Missouri Metro jurisdictional allocation in Staff's Accounting Schedules.
13 Staff witnesses Alan J. Bax and Keith Majors address jurisdictional allocations in their
14 direct testimony.

15 Q. What is an Operations & Maintenance ("O&M") ratio?

16 A. The O&M ratio is a calculation of the split between the amount of payroll
17 that is expensed on the income statement (expense accounts) and the amount that is capitalized
18 on the balance sheet (plant accounts). The balance sheet (plant accounts) is a rate base item
19 which the Company earns a return on and of their investment as compared to the income

1 statement (expense accounts) which the Company earns a return of the expenses but not a return
2 on the items.

3 Q. What O&M ratio did you apply to Evergy Metro's and Evergy West's payroll?

4 A. I used the last known ratio, calendar year 2021 O&M ratio for Evergy Metro and
5 Evergy West because the amount of payroll expensed since 2019 is in a confirmed downward
6 trend. That means more of the payroll is being capitalized through the plant accounts on the
7 balance sheet which indicates that construction work in progress ("CWIP") for plant account
8 projects has been increasing.

9 Q. Is this consistent with plans that Evergy has that further support the expensed
10 portion of payroll is decreasing and shifting towards capital projects, causing the capitalized
11 portion of payroll to increase?

12 A. Yes, I am aware that Evergy began the process of a five-year Sustainability
13 Transformation Plan ("STP") which is focused on capital investment and a reduction of O&M
14 costs. According to Evergy's August 4, 2020 press release the STP is focused on "rate base
15 growth of 5% to 6% from 2019 to 2024" and "builds a solid foundation for Evergy to achieve
16 its plan of 25% reduction in O&M costs by 2024 from 2018 levels"¹. This indicates that capital
17 projects and the associated capitalized portion of payroll for those capital projects is increasing,
18 which causes the expensed amount of payroll to decrease.

19 Q. Are any employee salaries covered through an alternative cost recovery
20 mechanism like the Missouri Energy Efficiency Investment Act ("MEEIA") rider?

¹ <https://newsroom.evergy.com/news-releases?item=122411> "Evergy Announces 'Sustainability Transformation Plan'"

1 A. Yes. I removed the salaries of MEEIA-related employees whose salaries are
2 recovered through the MEEIA rider.

3 Q. Did you make any adjustments to payroll for employee lobbying costs or
4 employee volunteer work?

5 A. Yes, I incorporated an adjustment through the methodology I used in calculating
6 the O&M ratio. Evergy employees use a timesheet coding system to assign their labor costs to
7 various functions. Labor costs like employee lobbying and volunteer work are reflected in
8 employee timesheets and charged to non-regulatory accounts, because those activities are not
9 essential to providing safe and adequate service. This adjustment ensures that time charged for
10 things like employee lobbying and volunteer work are paid for by shareholders. In calculating
11 the O&M ratio, I included amounts from non-regulatory accounts (assigned based on employee
12 timesheets) which makes the O&M calculation reflect time for non-essential work like
13 employee lobbying and volunteer work. In other words, the O&M ratio I used in determining
14 an amount of payroll to distribute to regulatory expense accounts is lower than it would have
15 been if I did not include non-regulatory accounts when I calculated the O&M ratio.

16 Q. How did you determine the amount of overtime to include in Staff's
17 recommended payroll annualization?

18 A. I reviewed historical data going back several years from 2021 and looked for
19 any trends in the level of overtime expense incurred by the Company. I also took into account
20 that 2020 was the start of the global COVID-19 pandemic that could have skewed the data.
21 I determined the most appropriate level of overtime expense to include for Evergy Metro and
22 Evergy West was the last known annual amount from calendar year 2021. For Wolf Creek
23 overtime, the 2020 data did not appear to be skewed by the pandemic so I used a 3-year average

1 | which would generally cover two refueling outage periods. Overtime specifically related to
2 | the refueling was excluded from my calculations as that was reviewed by Staff witness
3 | Antonija Nieto as part of the Wolf Creek Refueling Outage adjustment. However, there could
4 | be generation station events not directly charged to the Wolf Creek Refueling Outage project
5 | identification code on the general ledger that would deem a 36 month average or two 18-month
6 | refueling cycles appropriate.

7 | Q. How did you determine the amount of temporary employees to include?

8 | A. Due to the relative immaterial nature of temporary employee expense, I accepted
9 | the Company's position for temporary employee expense and reflected that in my payroll
10 | adjustment.

11 | Q. How did you determine the amount of premium, step-up and rest period pay to
12 | include?

13 | A. Premium, step-up and rest period pay are wage adders governed by various
14 | union contracts. Due to the relative immaterial nature of premium, step-up and rest period wage
15 | expense, I accepted the Company's position for temporary employee expense and reflected that
16 | in my payroll adjustment.

17 | Q. How did you determine the amount of payroll expense to include in the revenue
18 | requirement?

19 | A. I used actual employee and wage data as of the update period of December 31,
20 | 2021. That is the sum of total payroll, reduced for joint partner billings, allocated to Evergy
21 | Metro and Evergy West based on the business unit table mentioned above, adding in overtime,
22 | premium, step-up and rest period pay and adding in temporary employees then multiplying that

1 sum by the O&M ratio to determine the level of expense to distribute to payroll expense
2 accounts in Staff's Accounting Schedules.

3 Q. How did you determine which payroll expense accounts to distribute your
4 payroll expense level to after applying the O&M ratio?

5 A. I used the test year balances for each account in Staff's Accounting Schedule
6 and isolated the payroll charges for each expense account. I then used a sum of total test year
7 payroll and divided the test year payroll charges for each account by the total sum of test year
8 payroll to determine a percentage of payroll in each test year account. That percentage was
9 then applied to my payroll expense level for the update period of December 31, 2021, after
10 applying the O&M ratio in order to distribute the expense to each test year account that had
11 payroll charges to determine the amount of adjustment to make to each account.

12 **PAYROLL TAXES**

13 Q. What are payroll taxes?

14 A. Payroll taxes are Federal income taxes ("FICA"), Medicare, and State and
15 Federal unemployment taxes applicable to payroll.

16 Q. Do Evergy Metro or Evergy West pay State unemployment taxes in Missouri?

17 A. No. Evergy Metro and Evergy West qualify for the State of Missouri's tax
18 experience rate which is an employer specific tax rate based on the employer's historical
19 unemployment claims. Evergy Metro's and Evergy West's tax experience rate is 0% so they
20 do not pay Missouri unemployment taxes. Therefore, I did not include a Missouri
21 unemployment tax amount in my payroll tax adjustment.

1 Q. How did you calculate the amount of payroll taxes to include in Staff's
2 Accounting Schedule?

3 A. I calculated payroll taxes based on the payroll data discussed in the previous
4 section. I applied the current payroll tax rate to each employee's annualized level of payroll,
5 excluding employees whose salaries are recovered through the MEEIA rider since their
6 associated payroll taxes are also recovered in the MEEIA rider. I then calculated a composite
7 payroll tax rate by dividing the payroll taxes calculated on the annualized level of payroll by
8 the total annualized payroll. I applied the composite payroll tax rate to the three-year average
9 of Value-Link, Power Marketing and Wolf Creek incentive compensation amounts that are
10 discussed in the Incentive Compensation section later in this testimony. For the Executive
11 incentive compensation plan I assumed the maximum FICA limits were achieved through their
12 base payroll which would only leave the 1.45% Medicare tax rate to apply to their incentive
13 compensation. I also applied the current payroll tax rate to overtime (reduced by the O&M
14 percentage), temporary employees and premium, step-up and rest period wages.
15 The compilation of payroll taxes I just discussed were then reduced for the amount of
16 payroll taxes billed to joint partners and then I applied the same O&M ratio that I used for
17 payroll to get the annualized level of payroll taxes. I compared this annualized amount of
18 payroll taxes to the test year expense amount and reflected the appropriate adjustment in Staff's
19 Accounting Schedules.

20 **PAYROLL RELATED BENEFITS**

21 Q. What are payroll related benefits?

1 A. Payroll related benefits cover a variety items such as 401k matching and
2 employee insurance premium contributions made by the Company.

3 Q. How did you determine the level of payroll related benefits to include in Staff's
4 Accounting Schedules?

5 A. I reviewed the actual charges through the update period of December 31, 2021
6 and compared those costs to the test year and reflected the adjustment in Staff's Accounting
7 Schedules.

8 **CASH WORKING CAPITAL**

9 Q. What is cash working capital ("CWC")?

10 A. Cash working capital is the amount of cash necessary for a utility to pay the
11 day-to-day expenses incurred to provide utility service to its customers. When the Company
12 expands funds to pay an expense before its customers provide the cash, the shareholders are the
13 source of funds. Shareholder supplied CWC is reflected as an addition to rate base, which
14 compensates shareholders for their supply of CWC. Alternatively, customers supply CWC
15 when they pay for electric services received before the Company pays expenses incurred to
16 provide that service. Customer supplied CWC is reflected as a reduction to rate base, which
17 compensates customers for their supply of CWC.

18 Q. How is CWC determined?

19 A. CWC is determined by a lead/lag study which measures the timing of when
20 customer utility service is provided as well as when customers provide funds to the utility for
21 their utility service received, then compares that to when the utility must pay for expenses
22 incurred to provide the utility service to the customer.

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1 Q. Did Evergy perform a lead/lag study for this rate case?

2 A. Yes, the Company performed a comprehensive lead/lag study and provided a
3 copy of the study in their filing.

4 Q. Did you review Evergy's lead/lag study?

5 A. Yes.

6 Q. Does Staff agree with the Company's lead/lag study for Evergy Metro and
7 Evergy West?

8 A. Yes, with the exception of the PSC Assessment lag.

9 Q. Did the Company include a PSC Assessment lag in their lead/lag study?

10 A. No.

11 Q. Does Staff recommend a PSC Assessment lag?

12 A. Yes, Staff included a CWC lag for the PSC Assessment.

13 Q. Are there any non-cash items included in the CWC schedule?

14 A. Yes, bad debt and depreciation expense are two items where the utility collects
15 revenue for the expense but there are no subsequent payments. Since there is no cash flow
16 impact associated with bad debt expense and depreciation expense, Staff reflected a zero (0)
17 day lag to remove any impact of those items from CWC.

18 Q. What does a positive CWC requirement indicate?

19 A. A positive CWC requirement indicates that in the aggregate, shareholders
20 provided the CWC.

21 Q. What does a negative CWC requirement indicate?

22 A. A negative CWC requirement indicates that in the aggregate, customers provide
23 the CWC.

1 Q. Does your CWC schedule result in an overall positive or overall negative CWC
2 requirement?

3 A. The overall CWC schedule results in a negative CWC requirement which means
4 that in the aggregate, the customer provided the CWC to the Company. Therefore, the
5 customers should be compensated for the CWC that they provide, which is done by a reduction
6 to Evergy Metro and Evergy West's rate base reflected in Staff's Accounting Schedules.

7 **PROPERTY TAX**

8 Q. What is property tax?

9 A. Property tax is an amount billed by local and state taxing authorities where
10 Evergy Metro and Evergy West have property.

11 Q. How did you determine the amount of property tax to include in Staff's
12 Accounting Schedules?

13 A. I used a ratio method of property tax paid in December 2021 compared to the
14 gross plant balances as of January 1, 2021 to get a property tax rate. I then applied that property
15 tax rate to the gross January 1, 2022 plant balance (excluding tax exempt plant) to calculate the
16 amount of property tax expense to include in Staff's Accounting Schedules.

17 Q. Why is the plant balance as of January 1 appropriate for calculating property tax
18 expense?

19 A. Tax bills for the year are assessed on the value of the property Evergy Metro and
20 Evergy West own exclusively on January 1 of that calendar year.

21 Q. When are property taxes due?

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1 A. In Missouri, property taxes are due by December 31st of each year. In Kansas,
2 there are two (2) payments made each year: one in December and one in May of each year.

3 Q. Did you include property tax on vehicles owned by the Company in your
4 property tax adjustment?

5 A. No. Property taxes on Company owned vehicles are handled through their
6 respective plant account and are not included in my adjustment. This property tax section of
7 my testimony relates to property tax other than vehicles.

8 Q. Is any of the property of Evergy Metro and Evergy West tax exempt?

9 A. Yes. In Missouri, solar energy systems not held for resale are tax exempt.
10 In Kansas, wind generation energy systems placed in service prior to 2016 are perpetually tax
11 exempt and systems placed in service after 2016 are tax exempt for a period of ten (10) years,
12 electric pollution control property is exempt for a period of ten (10) years for non-peak load
13 generation and for four (4) years for peak-load generation, and certain electric transmission line
14 property constructed after December 31, 2000 that is connected to a generation facility and is
15 at least five (5) miles in length and equal to or greater than 34.5 KV is exempt for ten (10) years.

16 Q. Did you exclude the tax exempt property in your calculation of property tax
17 expense to include in Staff's Accounting Schedules?

18 A. Yes.

19 Q. Did Staff make any other adjustments to property taxes?

20 A. Yes, Staff included Payments In Lieu Of Taxes ("PILOT") payments in its
21 recommended level of property taxes.

22 Q. What are PILOT payments?

1 A. PILOT payments are an agreement with a taxing jurisdiction to make payment
2 to the taxing jurisdiction instead of paying property taxes through the typical assessment
3 method outlined above.

4 Q. Has Staff historically used the “ratio method” to determine property tax for
5 Evergy Metro and Evergy West?

6 A. Yes.

7 Q. Does Staff recommend authorization of a property tax tracker?

8 A. No. I am aware that legislation, SB 745, was recently passed by the Missouri
9 legislature, however that bill has not yet been signed by the governor. Staff will address
10 Evergy’s property tax proposal in Staff’s rebuttal testimony.

11 **PENSIONS**

12 Q. What are pensions?

13 A. Pensions are a form of employee retirement plan that offer payments to
14 employees upon meeting the plan criteria for retirement. Pensions are largely funded by the
15 employer with little or no employee contribution required. Pension retirement plans were
16 historically offered by companies to their employees as part of an overall employee benefit
17 package to attract and retain employees. Over the last several years traditional pension plans
18 have been largely replaced by 401-k plans that are largely funded by the employee and
19 oftentimes partially funded with an employee contribution to the plan as well.

20 Q. What pension plans do Evergy Metro and Evergy West offer?

21 A. Evergy Metro and Evergy West have a joint trustee union plan and a separate
22 non-union plan. Evergy Metro is also responsible for paying a portion of the Wolf Creek

1 Pension plan. Evergy's joint trustee union plan is still open to new hire Union employees.
2 That is the only plan still open to new employees. The other plans are no longer offered to new
3 employees but the costs for those plans and funding requirements for the existing employees
4 covered under those plans remain in rates.

5 Q. Have the Company's pension costs historically been tracked?

6 A. Yes, historically the Company has agreed to a tracking mechanism for pension
7 costs to make the Company whole for pension costs incurred and to return any over recovery
8 of pension costs back to ratepayers?

9 Q. What has been the historical amortization period of any prepaid pension asset or
10 liability that results from the tracking mechanism?

11 A. It has consistently been a five (5) year amortization recovery period.

12 Q. What are the Generally Accepted Accounting Principles ("GAAP") that relate
13 to pension and OPEB costs?

14 A. The GAAP related to pension and OPEB costs are in Accounting Standards
15 Codification ("ASC"), number 715—Compensation—Retirement Benefits.

16 Q. What standards were used prior to ASC 715?

17 A. Prior to ASC 715, GAAP for pension and OPEB costs were included in what is
18 known as Statement of Financial Accounting Standards ("FAS"), numbers 87, 88, 106, 112,
19 132(R) and 158.

20 Q. Does this testimony and your work product use the current ASC 715 language
21 or the original FAS references?

22 A. In order to be clear and consistent, I use the original FAS designations.

1 Q. What is FAS 87?

2 A. FAS 87 is the accrual accounting method for calculating pension cost for
3 financial reporting purposes.

4 Q. What is FAS 88?

5 A. FAS 88 is the accounting treatment for certain costs that result from settlements
6 and curtailments of defined benefit plans. FAS 88 requires immediate recognition of the
7 settlements and curtailments if they trigger a qualifying event. A qualifying event is met when
8 the dollar amount of settlements and curtailments meet reporting thresholds. They are
9 calculated and determined by the Company's actuary.

10 Q. Was Staff able to verify the balance in the regulatory asset for the pension
11 tracker?

12 A. No, Staff is working with the Company to verify the balances.

13 Q. What did Staff include for the balance of the regulatory asset and pension tracker
14 in Staff's Direct Accounting Schedules?

15 A. At this time Staff is including Evergy Metro and Evergy West's projected
16 balances through May 31, 2022. Staff will update these balances to actuals during the true-up
17 phase of this case.

18 **OTHER POST-EMPLOYMENT BENEFITS**

19 Q. What are other post-employment benefits ("OPEBs")?

20 A. OPEBs are costs that Evergy Metro and Evergy West incur to provide certain
21 retirement benefits to retirees. The primary benefit is medical insurance, but also include life,
22 dental and vision insurance benefits.

1 Q. How are OPEB expenses accounted for by the Company?

2 A. FAS 106 is the FASB approved accrual accounting method used for financial
3 statement recognition of annual OPEB costs and is also my recommended basis of rate recovery
4 for this item, with the exception of the Wolf Creek OPEB plan. The accounting of the cost of
5 OPEBs under FAS 106 is not based on the actual dollars the Company pays for OPEBs to
6 retirees currently, but is accrual-based in that it attempts to recognize the financial effects of
7 noncash transactions and events as they occur. These noncash transactions and events are
8 primarily an estimate of current benefits earned by employees before retirement, but will not
9 be paid until after retirement, as well as the interest cost arising from the passage of time until
10 those benefits are paid. Evergy Metro does not fund its share of Wolf Creek OPEB expense
11 based on FAS 106. Evergy Metro funds Wolf Creek OPEBs based on the actual amount of
12 benefits paid. This is generally referred to as “pay-as-you-go”. Accordingly, the Wolf Creek
13 OPEB costs are not included in the FAS 106 tracking mechanism, but are included
14 separately in Staff’s Accounting Schedules which represent a normalized level of the Wolf
15 Creek OPEB expense.

16 Q. Was Staff able to verify the balance in the regulatory liability for the OPEB
17 tracker?

18 A. No, Staff is working with the Company to verify the balance.

19 Q. What did Staff include for the balance of the regulatory liability and OPEB
20 tracker in Staff’s Accounting Schedules?

21 A. At this time Staff is including Evergy Metro and Evergy West’s projected
22 balances through May 31, 2022. Staff will update these balances to actuals during the true-up
23 phase of this case.

1 **SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN**

2 Q. What is a supplemental executive retirement plan (“SERP”)?

3 A. SERP is a non-qualified retirement plan for executive officers and other
4 highly-compensated former employees that provides additional pension benefits that these
5 individuals would have received under other company retirement plans, but for compensation
6 and benefit limits imposed by the Internal Revenue Service (“IRS”). Non-qualified means the
7 benefits exceed the limits imposed by the IRS. These supplemental pension benefits paid
8 to retired former executive officers and other highly-compensated individuals are in addition
9 to the cost of pension benefits Evergy Metro and Evergy West pay under their FAS 87
10 pension plan.

11 Q. Are SERP benefits externally funded to a trust?

12 A. SERP benefits are not externally funded to a trust by Evergy Metro or Evergy
13 West and the amounts Staff included in its cost of service are based on actual cash SERP
14 payouts to covered employees.

15 Q. Are SERP payments monthly annuities or lump-sum payouts?

16 A. SERP payments consist of either monthly annuity payments or lump-sum
17 distributions. Lump-sum payments can be significant and the timing of them is difficult to
18 predict. Therefore, I converted the lump-sum payouts using a conversion factor of 14.3² to
19 approximate equivalent annuity payments as if the lump-sum payout was not elected. This
20 allows for a normalized level of converted lump-sum payments.

21 Q. What is your recommendation for the amount of SERP expense to include in
22 Staff’s Accounting Schedules?

² The 14.3 conversion factor obtained from GPE’s actuary in KCPL Rate Case ER-2014-0370.

1 A. I reviewed actual SERP payouts from 2018, 2019, 2020, and 2021 for the legacy
2 Great Plains Energy (“GPE”), now known as Evergy, Inc., SERP plan. I used a four year
3 average of monthly annuity payments and added the converted lump-sum payments based on
4 the 14.3 ratio discussed above. For the Wolf Creek SERP plan, I used the last known calendar
5 year 2021 SERP payments. For the legacy Aquila plan impacting the Evergy West revenue
6 requirement, I included last known SERP payments reduced for non-regulated operations and
7 further reduced by legacy Aquila allocation factors. I included this compilation of SERP
8 payments in Staff’s Accounting Schedule as the amount of SERP expense that I recommend be
9 included in rates.

10 Q. Are SERP payments capitalized?

11 A. They are. Therefore, I reduced my recommended amount of SERP
12 commensurate with the O&M rate that I used for payroll.

13 **INCENTIVE COMPENSATION**

14 Q. What is incentive compensation?

15 A. Incentive compensation is a structured program with criteria for employees to
16 potentially earn additional compensation if target performance criteria are met.

17 Q. Will you briefly describe Evergy’s incentive compensation programs?

18 A. Yes, Evergy offers the following incentive programs:

- 19 1. Value-Link Plan (for non-executive, non-union employees)
- 20 2. Annual Executive Incentive Plan (for senior management employees)
- 21 3. Power Marketing Plan
- 22 4. Wolf Creek Plan

23 Q. Do the target performance criteria change from year to year?

1 A. Yes, the target performance criteria are outlined for a calendar year at a time.
2 There are some target performance criteria that remain the same from year to year but the
3 weighting of each criteria may change. For example, earnings per share (EPS) related metrics
4 may have a 50% rating in one plan year and a 35% weighting in another plan year.

5 Q. Did you include incentive compensation amounts related to EPS in your
6 recommended level of incentive compensation expense that is in Staff's Accounting Schedules?

7 A. No, in my adjustment I removed incentive compensation amounts that were
8 related to EPS based on the last known 2022 plan year goal criteria. The Company also made
9 adjustments to remove incentive compensation amounts related to EPS in their adjustment.

10 Q. Does the Company offer a stock-based incentive compensation plan?

11 A. Yes.

12 Q. Did you include the stock-based incentive compensation plan amounts in Staff's
13 Accounting Schedules?

14 A. Stock-based incentive compensation amounts were removed by the Company
15 with their miscellaneous adjustment CS-11 that Staff reviewed and adopted. Staff's Accounting
16 Schedules reflect the removal of stock-based incentive compensation plan amounts from the
17 test year.

18 Q. Does the Company capitalize a portion of the stock-based incentive
19 compensation?

20 A. No, I reviewed the Company's capitalization for incentive compensation for the
21 calendar years 2018, 2019, 2020, and 2021, and verified stock-based incentive compensation
22 was not capitalized.

23 Q. What is Staff's recommendation for incentive compensation?

1 A. Accounting for the items addressed above, Staff included a four-year average of
2 incentive compensation cash payouts made during 2019, 2020, 2021 and 2022.

3 **LEASES**

4 Q. What are leases?

5 A. Leases are a contractual agreement for the use of items like land, buildings,
6 equipment, and transmission lines in exchange for payment.

7 Q. What types of leases do Evergy Metro and Evergy West have?

8 A. The prominent leases that Evergy Metro and Evergy West have are leases for
9 their corporate headquarters building, unit-trains used for coal shipments, land leases for
10 equipment storage, multi-function printers, and transmission lines.

11 Q. What did Staff review for lease expense?

12 A. Staff reviewed the lease expenses in the test year 12-months ended June 30, 2021
13 and through the update period of December 31, 2021. Staff reviewed whether the leases were
14 currently in effect and whether the lease expense amounts included in the test year were planned
15 to remain in effect at the same rate in order to determine an appropriate level of lease expense
16 to include in the cost of service.

17 Q. Did you review the corporate headquarters lease abatement regulatory liability?

18 A. No. Staff witness Matthew R. Young addressed the corporate headquarters lease
19 abatement regulatory liability adjustment.

20 Q. Did you make any adjustments to the test year amount for lease expense?

21 A. Yes Staff made 3 adjustments to the test year lease expense:

- 1 1. An adjustment to exclude lease expense for a crane because the crane was
2 purchased and the lease ended in December 2020 which means the test year
3 lease expense will not be an ongoing cost
- 4 2. An adjustment to exclude lease expense for a 345 KV transmission line
5 between Wolf Creek and LaCygne because the transmission line was
6 purchased and the lease ended in December 2021 which means the test year
7 lease expense will not be an ongoing cost
- 8 3. An adjustment to exclude lease expense for the Evergy Central Machine
9 Facility because the facility is no longer in use according to Evergy's response
10 to Staff Data Request No. 0016.5

11 **RATE CASE EXPENSE**

12 Q. What is rate case expense?

13 A. Rate case expense is the sum of the costs a utility incurs in preparing and filing
14 a rate case.

15 Q. What are some examples of the costs a utility incurs in preparing and filing a
16 rate case?

17 A. Utilities might incur costs related to outside legal counsel, consultants,
18 mailing expenses for rate case notifications to customers and depreciation study expenses to
19 name a few.

20 Q. What is Staff's recommendation for recovery of rate case expense?

1 A. Staff recommends full recovery of rate case expenses incurred to comply with
2 statutory requirements but a 50/50 split of remaining discretionary rate case expense between
3 ratepayers and shareholders.

4 Q. What rate case expenses were incurred to comply with statutory requirements?

5 A. Every incurred expenses for a depreciation study and a line loss study that are
6 required to be performed every five (5) years according to statute.

7 Q. Why does Staff recommend a 50/50 sharing of the remaining discretionary rate
8 case expenses?

9 A. Staff recommends this sharing of expenses is appropriate in this proceeding for
10 the following reasons:

- 11 1) Rate case expense sharing creates an incentive on the utility's part to control
12 rate case expenses and not spend excessively on rate case expenses since 50%
13 of the costs incurred would be borne by shareholders;
- 14 2) Generally, both ratepayers and shareholders benefit from the rate case process.
15 The process ensures ratepayers are receiving safe and adequate service at a just
16 and reasonable rate and the process ensures shareholders receive an opportunity
17 to receive an adequate return on investment;
- 18 3) It is reasonable for shareholders to contribute to at least some of the expenses
19 since ratepayers pay for all regulatory and legal internal payroll costs regardless
20 of the sharing mechanism; and
- 21 4) It is probable that some recommendations advocated by utilities in the rate case
22 process will ultimately be found by the Commission to not be in the public
23 interest.

24 Q. How did you determine the amount of discretionary rate case expense?

25 A. I used the amount of rate case expense incurred through the update period of
26 December 31, 2021. I will review rate case expense again in the true-up phase of this case.

27 Q. Does Staff amortize rate case expense?

1 A. Typically, this cost is not “amortized” for ratemaking purposes, and the utility’s
2 recovery of this expense in rates is not tracked against its actual rate case expense for
3 consideration of over or under recovery. Staff generally divides rate case expense over the
4 period of time it estimates will pass before the utility’s next rate case and includes an annual
5 amount in the utility’s revenue requirement. This is referred to as a normalization.

6 Q. What is Staff’s recommendation for the inclusion of rate case expense in Evergy
7 Metro and Evergy West’s Cost of Service?

8 A. In the current case, Staff recommends a four year normalization of rate case
9 expenses after Staff’s recommended 50% sharing. Staff has also included depreciation study
10 and line loss study expenses over four years with no sharing.

11 **WOLF CREEK WATER CONTRACT**

12 Q. What is the Wolf Creek water contract?

13 A. The Wolf Creek water contract is a monetary agreement with the Kansas Water
14 Office to use water from the Neosho River (supplied by the John Redmond Reservoir) at the
15 Wolf Creek nuclear generation facility. The water usage is metered and is used for sanitary
16 (restroom and sink), reactor circulating cooling and steam supply purposes.

17 Q. Will you briefly describe the contract charges?

18 A. Yes, there is a minimum annual billed amount required regardless of usage plus
19 a surcharge. The minimum billed amount is invoiced in November for the following calendar
20 year’s usage and any usage above the minimum billed amount is invoiced in January of the year
21 following the calendar year usage period. The minimum annual billed amount is the volumetric
22 charge multiplied by half of the maximum water usage allowed in the contract. The surcharge

1 is based on the remaining half of contracted water above the half of water usage included in the
2 minimum. The surcharge is offset if annual water usage exceeds the usage included in the
3 minimum billed amount. Any water usage above the minimum annual billed amount is billed
4 at the volumetric rate up to the maximum water usage allowed in the contract. Any usage above
5 the minimum annual billed amount is invoiced in January for the preceding year's usage with
6 an offset for a portion of the surcharge.

7 Q. Does this adjustment apply to Evergy Metro and not Evergy West?

8 A. The water contract involves water usage at the Wolf Creek nuclear generation
9 facility, in which Evergy Metro has 47% ownership. Evergy West does not have any ownership
10 in the Wolf Creek generation facility. Therefore, this an Evergy Metro adjustment only.

11 Q. Will you briefly describe your adjustment?

12 A. Yes, I reviewed water usage reports from 2018 through 2021 to determine a
13 normalized annual usage amount and compared that to the usage amount included in the
14 minimum required charge. The 4-year average usage did not exceed the usage amount included
15 in the minimum charge. Therefore, the last known minimum billed amount for calendar year
16 2022 (invoiced in November 2021) was used in the adjustment and I also included a 4-year
17 average of the surcharge amounts.

18 Q. Is your adjustment in general agreement with the Company's adjustment?

19 A. Yes, with the exception of a normalized amount of surcharge costs that
20 I included in my adjustment. The Company did not include any surcharge amounts in their
21 adjustment which resulted in a lower expense amount included in their revenue requirement.
22 My adjustment resulted in a slightly higher expense amount included in the revenue
23 requirement than the Company's due to the normalized amount of surcharge costs included.

1 **MISCELLANEOUS EXPENSE**

2 Q. What miscellaneous adjustments do you address?

3 A. Staff recommends adjustments to these items:

- 4 1. Remove equity compensation from the test year
- 5 2. Remove non-recoverable items from the test year (bonuses,
6 non-regulatory lease expense, officer expense reports)
- 7 3. Remove deferrals from the test year (PISA, COVID, Montrose, Sibley)

8 These adjustments were included in Evergy's direct filing as adjustment CS-11. Staff reviewed
9 the adjustments and agrees they are appropriate, with the exception of the incremental cost
10 adjustment. The incremental cost adjustment is for a Research and Development Agreement
11 on decarbonization. The cost was not incurred during the test year period of July 1, 2020
12 through June 30, 2021, but was expected to occur prior to the true-up period ending May 31,
13 2022. Staff reflected the remaining adjustments in Staff's Accounting Schedules for
14 Evergy Metro and Evergy West, with the exception of the incremental cost adjustment proposed
15 by the Company.

16 Q. Does this conclude your direct testimony?

17 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) Case No. ER-2022-0129
Implement a General Rate Increase for Electric)
Service)

In the Matter of Evergy Missouri West, Inc.)
d/b/a Evergy Missouri West's Request for) Case No. ER-2022-0130
Authority to Implement a General Rate)
Increase for Electric Service)

AFFIDAVIT OF JARED GIACONE

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)


COMES NOW JARED GIACONE and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Direct Testimony of Jared Giacone*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.


JARED GIACONE

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of JACKSON, State of Missouri, at my office in Kansas City, on this 6th day of June 2022.


Notary Public



EBONEY JACKSON-SPOTWOOD
My Commission Expires
April 8, 2023
Clay County
Commission #19065798

Jared Giacone

Present Position:

I am a Senior Utility Regulatory Auditor with the Missouri Public Service Commission. I have been employed by the Missouri Public Service Commission Since April 2019.

Educational Background and Work Experience:

I earned a Bachelor of Science degree in Business Administration with an emphasis in Accounting in 2007 from DeVry University in Kansas City, MO. I was previously employed in sales and finance operations for semi-truck dealerships. Prior to that, I was a Compliance Auditor with the Missouri Gaming Commission for 6 years.

Case Participation:

<u>Company Name</u>	<u>Case Number</u>	<u>Case Type</u>	<u>Utility Type</u>
Evergy Missouri Metro	ER-2022-0129 ***In Progress***	Rate case (increase)	Electric
Evergy Missouri West	ER-2022-0130 ***In Progress***	Rate case (increase)	Electric
Evergy Missouri Metro Evergy Missouri West	EA-2022-0043	Certificate of Convenience and Necessity (CCN)	Electric— New Solar
Spire	GR-2021-0108	Rate case (increase)	Gas
Missouri-American Water Company	SA-2021-0074	Certificate of Convenience and Necessity (CCN)	Sewer— Acquisition
Spire	GO-2021-0030	Infrastructure System Replacement Surcharge (ISRS)	Gas
Raytown Water Company	WR-2020-0264	Rate case (increase)	Water
Spire	GO-2020-0230	Infrastructure System Replacement Surcharge (ISRS)	Gas
Spire	GO-2020-0229	Infrastructure System Replacement Surcharge (ISRS)	Gas
Empire	ER-2019-0374	Rate case (increase)	Electric
Spire	GO-2019-0357	Infrastructure System Replacement Surcharge (ISRS)	Gas
Spire	GO-2019-0356	Infrastructure System Replacement Surcharge (ISRS)	Gas
Missouri-American Water Company	SA-2019-0367 (Dismissed by company)	Certificate of Convenience and Necessity (CCN)	Sewer— Acquisition
Missouri-American Water Company	WA-2019-0366 (Dismissed by company)	Certificate of Convenience and Necessity (CCN)	Water— Acquisition