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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2022-0129 / 0130

REBUTTAL TESTIMONY

OF

RONALD A. KLOTE

ON BEHALF OF

EVERGY MISSOURI METRO and EVERGY MISSOURI WEST

Kansas City, Missouri
July 2022

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REBUTTAL TESTIMONY

OF

RONALD A. KLOTE

Case No. ER-2022-0129 /0130

1 **I. INTRODUCTION AND PURPOSE**

2 **Q: Please state your name and business address.**

3 A: My name is Ronald A. Klote. My business address is 1200 Main, Kansas City, Missouri

4 64105.

5 **Q: Are you the same Ronald A. Klote who submitted direct testimony in these dockets**

6 **on January 7, 2022?**

7 A: Yes.

8 **Q: On whose behalf are you testifying?**

9 A: I am testifying on behalf of Evergy Metro, Inc. d/b/a Evergy Missouri Metro ("Evergy

10 Missouri Metro" or "EMM") and Evergy Missouri West, Inc. d/b/a Evergy Missouri

11 West ("Evergy Missouri West" or "EMW") (collectively, the "Company").

12 **Q: What is the purpose of your rebuttal testimony?**

13 A: The purpose of my rebuttal testimony is to respond to various Missouri Public Service

14 Commission Staff witnesses, the Office of Public Counsel ("OPC") witnesses and

15 Midwest Energy Consumers Group ("MECG") witness Greg Meyer. Specifically, I

16 respond to the following:

Topic	Witness
Plant-in-Service Capitalized Long-Term Incentive Compensation	Staff witness Keith Majors
Payroll Annualization	Staff witness Jared Giacone MECG witness Greg Meyer
Incentive Compensation	Staff witness Jared Giacone OPC witness Angela Schaben
Storm Reserve	Staff witness Karen Lyons OPC witness Angela Schaben MECG witness Greg Meyer
Winter Storm Uri – Jurisdictional Allocations (EMM only)	Staff witness Kimberly Bolin
Supplemental Executive Retirement Plan ("SERP")	Staff witness Jared Giacone
Uplight Software Accounting	OPC witness Angela Schaben

1

2 3 **II. PLANT IN SERVICE – CAPITALIZED LONG TERM INCENTIVE COMPENSATION**

4 **Q: Did Staff propose an adjustment to rate base for the capitalized portion of EMM**
5 **and EMW's long-term incentive compensation?**

6 A: Yes. Staff witness Keith Majors describes an adjustment to remove a portion of
7 capitalized long-term incentive compensation.

8 **Q: Does the Company agree with Staff's proposed adjustment?**

9 A: Partially. In the Company's last rate case this adjustment was agreed to by the Company
10 and was included in the true-up revenue requirement. The Company agrees this same
11 adjustment should be included in the true-up revenue requirement calculation in this rate
12 case as well.

13 What the Company does not agree with is the amount of the adjustment that Staff
14 has proposed. Since the last rate case plant in service associated with this adjustment has
15 depreciated. As such, removing the gross amount that was identified in the 2018 rate case
16 with no corresponding reserve adjustment would overstate the impact to plant-in service

in this rate case. As such, a reduced amount should be included in the true-up revenue requirement in this rate case.

Q: What does the Company propose to include in the true-up calculation in this rate case?

A: Since this adjustment relates to costs that are not tied to a single asset class, the Company proposes to include an adjustment that is reflective of amortizing the gross adjustment posted in the 2018 rate case over 20 years which approximates the average life of assets included in the Company's depreciation study. The amount of the adjustment that should be posted in the true-up revenue requirement in this rate case to the Plant Reserve is $973,292 for EMM and $623,269 for EMW.

Q: Has the Company made any changes in how it records long-term equity compensation in its accounting records?

A: Yes. In August of 2017, the Company ceased capitalizing long-term equity compensation. As such, since that time long-term equity compensation has not been recorded to plant-in-service accounts.

Q: Was the ceasing of capitalization completed for both EMM and EMW jurisdictions?

A: Yes, it was.

III. PAYROLL ANNUALIZATION

Response to Staff

Q: What is Staff's position regarding the payroll and payroll-related benefits adjustments included in their revenue requirement calculation?

A: For the most part Staff is in agreement with and followed the methodology used by the Company in its calculation of payroll and payroll-related benefits annualization

1 adjustments. Staff made three changes to the Company's calculation which the Company
2 does not agree with.

3 (1) Staff used inconsistent methodology to calculate overtime for Metro and
4 Wolf Creek employees.

5 (2) Staff did not apply an escalation factor to prior years in their overtime
6 calculations to reflect current wage rates.

7 (3) Staff used a period in time and calculated the Capitalization Ratio based
8 on the 12-months ending December 31, 2021 instead of using an historical average that
9 has been standard practice and is reflective of a ratio that can fluctuate up and down over
10 time.

11 *Overtime*

12 **Q: What is the Company's position regarding the EMM employees overtime**
13 **calculations made by Staff?**

14 A: The Company and Staff have both used a 3-year average calculation to determine
15 ongoing overtime costs in the past several rate cases. In this case, Staff has deviated from
16 this practice and has used the 12-months ending December 31, 2021 for EMM employees
17 and 3-year average for Wolf Creek employees. Staff states that it relied on a 12-month
18 calculation because the amount of payroll expensed since 2019 is in a downward trend
19 and Evergy's five-year plan supports more payroll being charged to capital projects in the
20 future. Using a 3-year average is meant to capture fluctuations over time. The Company
21 believes a 3-year average has adequately addressed fluctuations over time and is
22 consistent with past overtime calculations used for the payroll adjustment. Furthermore,
23 reductions in payroll charged does not necessarily relate to overtime charges being

1 reduced and in fact it could result in quite the opposite and more overtime charges in
2 future years. In addition, the capitalization rate, which is discussed below, has increased
3 significantly over prior cases and accounts for the impacts of increased payroll cost being
4 charged to capital projects and should not impact the analysis of overtime fluctuations
5 over time.

6 *Escalation Factor*

7 **Q: Why is it appropriate to apply an escalation factor in the overtime calculations?**

8 A: When prior year overtime dollars are included in an average, an adjustment is needed to
9 bring those dollars to current year values because actual overtime expense in prior years
10 does not reflect pay increases that have occurred since those prior periods. In order to
11 obtain a true overtime cost value to be applied to the revenue requirement in this case, an
12 escalation factor of prior period amounts must be developed and applied to prior period
13 overtime dollars that are used in the calculation of averages.

14 **Q: What is the Company's position regarding the Wolf Creek overtime calculation?**

15 A: While the Company agrees with Staff's use of a 3-year average for Wolf Creek overtime,
16 the prior years must be adjusted appropriately with an escalation factor as previously
17 discussed in order to bring the prior period overtime dollars to current year values.

18 *Capitalization Ratio*

19 **Q: What does the capitalization ratio represent?**

20 A: The capitalization ratio is a calculation that examines total payroll costs and develops a
21 ratio of the amount of payroll costs that have been charged to operation and maintenance
22 expense versus the amount that has been charged to capital accounts. This amount can

1 fluctuate from year to year based on the amount of internal labor support that is provided
2 to capital expenditures.

3 **Q: What capitalization ratio has the Staff included in its payroll annualization?**

4 A: Staff has chosen to use the time period of the 12 months ending December 2021 for both
5 EMM and EMW. The capitalization ratios that Staff included (which are at their lowest
6 point in the last 10 years) are 63.66% for EMM and 51.32% for EMW (after EMW Staff
7 correction).

8 **Q: What is the Company's position regarding the Capitalization Ratio calculation?**

9 A: The Company believes that a multi-year average should be used, historically a 3-year
10 average, to smooth out periods that are higher and lower over historical norms. This is
11 much like how overtime is calculated.

12 **Q: Why is a multi-year average important in this case?**

13 A: The Company's capitalization rate has fluctuated from year to year over the last ten
14 years. This is simply an effect of varying levels of labor that support capital projects on a
15 year over year basis. The capitalization rate has trended up (less labor recorded to
16 expense) in recent years and the 3 year average included in the Company's revenue
17 requirement is reflective of this trend. Internal labor can be impacted by a variety of
18 factors like the availability of internal labor considering work required for storm
19 restoration and other unexpected maintenance work year-to-year. Additionally, much of
20 our capital work is supported heavily by contractors and the availability of contractors
21 year-to-year can also impact use of internal resources on capital projects (positively and
22 negatively). These externalities among others support the use of a multi-year average to
23 normalize the capitalization ratio included in this rate case. Further, in 2021 the Company

1 experienced its lowest capitalization rate in the last ten years. Setting a capitalization rate
2 at the lowest point in the last ten years would artificially lower the cost of service in this
3 rate case. That is precisely why in historical cases and in this case a multi-year average
4 has and should be used.

5 **Q: What capitalization ratio does the Company propose to use in this case?**

6 A: The Company believes that a capitalization ratio should be built on multi-years and not
7 just a single period in time as proposed by Staff. The capitalization rate does increase
8 and decrease over time. The Company proposes to include the latest period available
9 through the true-up of May 31, 2022 and include a multi-year average covering the
10 period from 12-months ending December 31, 2020, Test Year 12-months ending June 30,
11 2021, and the True-Up 12-months ending May 31, 2022. The resulting capitalization
12 ratios that the Company proposes for the True-Up using this methodology are 63.77% for
13 EMM and 54.26% for EMW.

14 **Response to MECG**

15 **Q: Did MECG take issue with payroll costs included in the revenue requirement in this**
16 **case?**

17 A: Yes. MECG witness Greg Meyer's took issue with severance costs, overtime costs and
18 joint-partner billings.

19 *Severance*

20 **Q: What is Mr. Meyer's position regarding severance costs?**

21 A: Mr. Meyer claims that if severance costs are included in cost of service, then ratepayers
22 would end up paying for labor dollars that no longer exist.

1 **Q: Did the Company include severance costs in the revenue requirement calculation in**
2 **this rate case?**
3 A: No. The Company removed severance costs from the test year in adjustment CS-11. As
4 such, the Company is not certain what severance costs witness Meyer is referring to.

5 *Overtime*

6 **Q: What is MECG's position regarding the normalized level of overtime in the payroll**
7 **adjustment included in the Company's revenue requirement calculation?**
8 A: Mr. Meyer claims that the level of overtime dollars included in the case is excessive
9 when compared to the historical levels of overtime. He claims overtime dollars have
10 stabilized at approximately $31.8 million dollars for both EMM and EMW operations.
11 **Q: Does the Company wish to point out any flaws in witness Meyer's Table 9 –**
12 **Historical Level of Overtime Dollars on page 35 of his direct testimony?**
13 A: Yes. Mr. Meyer's comparison of prior years' overtime to current levels is flawed.
14 Witness Meyer's table which purports to provide prior years' levels of overtime does not
15 include Wolf Creek overtime while his rate case level does include Wolf Creek overtime.
16 As such, the comparison he makes is not valid since the years do not include the same
17 data sets. These amounts would need to be corrected in order to show a true trend of
18 historical overtime.
19 **Q: Has the Company corrected the tables provided in Mr. Meyer's testimony?**
20 A: Yes. Below is the corrected table which includes Wolf Creek overtime in all years. This
21 demonstrates that there is fluctuation between years but using two, three and four year
22 averages provide consistent results over time to smooth out the yearly fluctuations.

Period	Overtime	Averages
2018	$35,820,066	4 yr - $33,521,571
2019	$33,976,969	3 yr - $32,755,406
2020	$28,937,587	2 yr - $32,144,624
2021	$35,351,661	
Rate Case	n/a	

*amounts before escalation to current dollars

Period	Overtime	Averages
2018	$39,538,651	4 yr - $35,567,502
2019	$36,330,974	3 yr - $34,243,786
2020	$30,164,932	2 yr - $33,200,192
2021	$36,235,453	
Rate Case	$34,808,110	

*overtime escalated to current dollars

1
2 **Q: What does the Company conclude regarding Mr. Meyer's argument.**

3 A: After correcting the flawed data set that was used by Mr. Meyer, the multi-year averages
4 provide a level of consistency that should be used in this rate case. The Company
5 included a 3-year average in this rate case and proposes to use a 3-year average in its
6 true-up filing in this case covering the periods 2019, 2020 and 2021.

7 **Q: Does the Company have any other issues with MECG's position on overtime?**

8 A: Yes. Witness Meyer argues that if the Commission does side with the Company and
9 allow a 3-year average of historic overtime, then these amounts should not be factored up
10 to current dollars.

11 **Q: Does the Company agree with this methodology?**

12 A: No. As described earlier in my testimony, when prior year overtime dollars are included
13 in an average, they are included at wage levels that are different than current wage levels.
14 An escalation factor must be used to adjust those dollars to current year values.

15 *Joint Partner Billings*

16 **Q: Please describe MECGs position on joint partner billings.**

17 A: Mr. Meyer points out that the Company has applied an escalation of 2.5% to the base
18 salaries of its employees to reflect merit increases prior to the true-up date. The
19 Company then reduces these salaries by the amounts billed out to joint partners, but that

1 amount does not reflect that same escalation. Mr. Meyer argues that payroll expense
2 should be lowered to reflect the escalation of joint partner billing.

3 **Q: Does the Company agree with this position?**

4 A: No. The Company plans to use actual salaries and actual joint partner billings at May 31,
5 2022 at the true-up filing in this rate case. In addition, at the true-up date base salaries
6 have actually decreased and the level of joint partner billings has increased substantially
7 since the amounts included in the direct filing.

8 *Conclusion*

9 **Q: What is the Company's conclusion with regard to these differences in**
10 **methodology?**

11 A: The Commission should adopt the Company's methodology with regards to overtime
12 (including Evergy Missouri Metro and Wolf Creek overtime). In addition, a 3-year
13 average for the Capitalization Ratio should be used to apply to gross labor amounts in
14 order to obtain a reasonable amount of labor expense in the revenue requirement in this
15 rate case.

16 **Q: If changes are made to the payroll annualization calculation, what impact does it**
17 **have on other adjustments?**

18 A: If Staff's payroll annualization adjustment is changed then the corresponding changes
19 should be reflected in the payroll taxes adjustment. In addition, if capitalization rate
20 changes are made then corresponding adjustments should be made in the incentive
21 compensation and benefit amount adjustments calculated and included in this rate case
22 proceeding.

1 **IV. INCENTIVE COMPENSATION**

2 **Q: What other Company witnesses are addressing the merits of the Company's**
3 **incentive Compensation plan?**

4 A: Company witnesses Kelly Murphy and Darrin Ives are addressing aspects of the incentive
5 compensation expense.

6 **Q: What approach did the Company use in developing an annualized level of incentive**
7 **compensation?**

8 A: A three-year average was calculated in the direct filing which is consistent with the
9 method proposed in the past several cases. A multiyear average is used to smooth out
10 years that are higher or lower than a typical incentive annual expense. Each year the
11 incentive plan is based off achievement to different metrics that are important to business
12 objectives. The actual incentive expense does vary year to year and using an average of
13 these different annual levels is important to provide a more normalized annual level.

14 **Q: Does this approach agree with MPSC Staff's approach to incentive compensation?**

15 A: Yes. Staff used a multi-year average approach as well to compute incentive
16 compensation. Staff computed a 4-year average for incentive compensation. The
17 Company will agree with this multi-year approach in order to smooth annual fluctuations
18 and will utilize this 4-year average approach in its True-Up filing.

19 **V. STORM RESERVE**

20 **Q: As context for this section of your testimony, please explain the Company's**
21 **proposed storm reserve.**

22 A: As discussed in my Direct Testimony, storms are a normal occurrence in our service
23 territory. When they occur, they can be devastating in many ways and have a significant

1 financial impact on the utility. Commissions have granted regulatory mechanisms which
2 allow for the establishment of operating reserves for future contingencies that may be
3 significant. The Company proposes to establish this type of operating reserve and initially
4 fund it with funds that have already been collected in other liability/reserve accounts, and
5 then to maintain it at a normal operating level that would have been included in base rates
6 if the storm reserve was not established. The establishment of an operating reserve for
7 storm costs would provide funds to be used specifically for unpredictable yet expected
8 events in our service territory.

9 **Q: What are the positions of Staff, OPC and MECG on the establishment of a storm**
10 **reserve?**

11 A: Staff, OPC and MECG are all generally opposed to the establishment of a storm reserve.
12 Staff witness Karen Lyons states the Staff is opposed to the establishment of the storm
13 reserve. OPC witness Angela Schaben states that she does not believe there is a need for
14 it, but acknowledges that storms are a normal part of the utility's business. MECG
15 witness Greg Meyer characterizes the storm reserve as a tracker mechanism and states the
16 Company has not provided sufficient evidence for a storm reserve and characterizes the
17 request as not significant to Evergy's operations.

18 **Q: Do you agree with MPSC Staff, OPC or MECG?**

19 A: No. The Company believes it is important to establish such a reserve and believes that
20 this is the appropriate time to do so.

21 **Q: Is there another Company witness providing testimony on this issue?**

22 A: Yes. Company witness Bruce Akin is providing testimony on this issue from an
23 operational perspective and why it is important to establish for customers.

1 **Q: Please explain what you see as the benefits to the establishment of the storm reserve.**

2 A: As discussed in my Direct Testimony, the storm reserve will be used to levelize
3 expenditures associated with significant storms benefitting both the customers, through
4 reduced rate volatility, and the Company by lessoning the financial burden of a storm by
5 smoothing of month-to-month expenditures associated with unpredictable but likely
6 significant storm events. The reserve allows for recovery of storm costs at an established
7 threshold and helps reduce earnings volatility for investors which can help reduce the
8 utility's cost of debt benefitting customers. Further, it bears noting that Evergy already
9 maintains a storm reserve in its Evergy Kansas Central jurisdiction. One of the key
10 initiatives that Evergy has commenced since the merger in 2018 is to create more
11 accounting consistency between the utilities. By establishing a storm reserve in all
12 jurisdictions, the accounting processes will be more efficient and consistent between the
13 jurisdictions for a cost that is known to be part of the overall revenue requirement. In
14 addition, if there is a meaningful increase or decrease in the reserve between rate cases
15 the amount in the revenue requirement in that next rate case will be assessed with the
16 updated historical storm impacts and the revenue requirement will be set with
17 consideration given to the changed reserve balance.

18 **Q: Why does the Company believe this is a good time to establish the storm reserve?**

19 A: The Company believes this is the right time to establish the reserves because no
20 additional funds are needed to establish the reserve since there are already excess
21 reserves in place available to begin the storm reserves. In addition, the revenue
22 requirement amount that will be used to prospectively maintain funds in the storm reserve
23 will be the same impact to cost of service that would already be included in the revenue

1 requirement through maintenance costs under traditional methods. As such, no additional
2 amounts are being requested in cost of service from customers beyond what would
3 already have been included in maintenance expense proposals in this rate case.

4 **Q: Does the Company agree that an AAO request is always an option if a storm is**
5 **significant enough in nature?**

6 A: Yes. As discussed in my Direct Testimony if a storm becomes so significant that an
7 AAO request would be needed the utility would still ask that option to be available to
8 them.

9 **Q: Does filing a AAO request come at cost to the utility and its ratepayers?**

10 A: Yes. It is important to note that any regulatory request to establish an AAO comes at cost
11 to the utility and its ratepayer due to the regulatory process established to approve such a
12 request. Establishing a storm reserve could have the potential to reduce an AAO request
13 that might be significant but have the ability to be absorbed by the storm reserve and
14 eliminate the need for potentially costly regulatory proceedings in the process.

15 **Q: MECG witness Meyer refers to the storm reserve as a tracker. Is this an accurate**
16 **characterization?**

17 A: No. The storm reserve does not work like a tracker. Instead, it provides a reserve for the
18 utility to be used in times when unpredictable storms occur. The difference between a
19 tracker and the storm reserve request is that a storm reserve request does not track all
20 storm expenses. First, it has set a minimal threshold of cost that a storm must incur in
21 order to be recorded against the reserve. Second, unlike how trackers are accounted for,
22 once the storm reserve is expended actual storm expenses will be recorded to expense and
23 not tracked as a deferral on the balance sheet. In a year which is heavily impacted by

1 storms, if the storm reserve has been expended then storm expenses in excess of the
2 reserve will be required to be recorded to expense on the income statement and not
3 deferred on the balance sheet. These costs would not be recovered the way they would
4 be in a tracking mechanism. In addition, reserves to establish the storm reserve have
5 already been collected from customers and no additional request in the cost of service
6 beyond what would normally be requested in maintenance is needed to fund the storm
7 reserve. The annualized level of storm costs that are already being included in
8 maintenance costs and charged to customers in a typical rate case will be used to
9 prospectively maintain the reserve which will be used to pay for the future unpredictable
10 storm costs that will occur.

11 **VI. WINTER STORM URI – JURISDICTIONAL ALLOCATIONS (EMM ONLY)**

12 **Q: Please describe the jurisdictional allocation issue pertaining to Winter Storm Uri**
13 **Staff Witness Kimberly Bolin discusses in her testimony.**

14 A: As discussed by Staff, Evergy Missouri Metro generated substantial off-system sales
15 revenues during Winter Storm Uri. The issue at hand is the jurisdictional allocation of
16 off-system sales across Missouri and Kansas.

17 This issue was first included as part of EMM's Accounting Authority Order File
18 No. EU-2021-0283 that was filed on June 30, 2021. This case was subsequently
19 suspended on April 13, 2022. In that filing, the Company made the Commission aware
20 of jurisdictional allocation issues that have impacted the Company for some time and
21 were significantly exacerbated by the extraordinary events of Winter Storm URI. In
22 particular, the differences in jurisdictional allocations between Missouri and Kansas
23 results in Evergy refunding more than 100 percent of its actual off-system sales across

1 Missouri and Kansas and can prevent EMM from recovering all of the costs (net
2 revenues) it incurs to serve its customers.

3 In the Suspension Order in File No. EU-2021-0283, the Commission states:

4 *On April 12, 2022, the Staff of the Commission (Staff) filed a motion to*
5 *suspend the procedural schedule. The motion states that the deferral of*
6 *Evergy Missouri Metro amounts related to the current jurisdictional*
7 *allocation methodology should be addressed in Evergy Missouri Metro's*
8 *general rate case, File No. ER-2022-0129.*

9 **Q: Please describe why this jurisdictional allocation issue exists.**

10 A: The jurisdictional allocation issue arises from the fact that EMM provides retail service to
11 customers in both Missouri and Kansas. It does business in Missouri as Evergy Missouri
12 Metro; in Kansas it does business as Evergy Kansas Metro. The retail rates of EMM in
13 Missouri are set by this Commission; in Kansas they are set by the Kansas Corporation
14 Commission ("KCC").

15 When costs that Evergy Metro, Inc. incurs can be identified as serving retail
16 customers only in Missouri or only in Kansas, those costs are directly assigned to that
17 jurisdiction. However, where it is not possible to determine that costs are only serving
18 retail customers in Missouri or Kansas, they are allocated among the jurisdictions.
19 Because Missouri and Kansas authorized the use of different allocation methods, Evergy
20 Metro, Inc., unlike a utility that provides retail service in a single state (or rate
21 jurisdiction), is currently unable to recover all of the costs that have historically been
22 found to be recoverable by this Commission and the KCC.

23 **Q: What are the differences in the allocation methods utilized by the Missouri and**
24 **Kansas Commissions?**

25 A: There are two main differences: (1) a difference in the allocation of the costs associated
26 with the utility's generation and transmission plant which Missouri Commission Staff

1 calls "demand-related" costs[1] and KCC Staff calls "capacity-related" costs[2]; and (2) a
2 difference in the allocation of the fuel, purchased power and off-system sales through the
3 fuel clauses. Both of these differences have historically caused Evergy Metro, Inc. to
4 under-recover its authorized costs.

5 The ongoing impact of the first jurisdictional difference is addressed by Company
6 witness John Wolfram. Specifically with respect to the one-time extraordinary event of
7 Winter Storm Uri, however, the allocation of off-system sales revenue credited to
8 customers is the allocation issue causing a significant impact to EMM's recovery of its
9 storm-related costs which I discuss in more detail below.

10 **Q: Have both this Commission and the KCC recognized this issue?**

11 A: Yes, they have. In its July 22, 2011 Order Directing Filing, the Commission stated that in
12 KCP&L's most recent rate case it "learned of differences in the ways" that it and the
13 KCC ordered KCP&L to allocate its non-firm off system sales. The Order noted that as a
14 result, "KCP&L may actually lose money" on the sales which "could result in KCP&L
15 being unable to meet its authorized rate of return in either or both jurisdictions and, more
16 importantly, may act as a disincentive to KCP&L making off-system sales that benefit
17 ratepayers."[3] The Order recognized that under Section 386.210.7 it can conduct a joint
18 investigation with another public utility commission, hold joint hearings, and issue joint
19 or concurrent orders.

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[1] See Commission Staff Report, § IX (Jurisdictional Allocations) at 164-66, In re Kansas City Power & Light Co., No. ER-2018-0145 (filed June 19, 2018).

[2] See Order on KCP&L's Application for Rate Change at 4-5, In re Kansas City Power & Light Co., No. 12-KCPE-764-RTS (Kan. Corp. Comm'n, Dec. 13, 2012).

[3] See Order Directing Filing at 1, In re Exploration of a Joint Proceeding with the Kan. Corp. Comm'n to Investigate Off-System Sales Methods of KCP&L, No. EO-2012-0020 (July 22, 2011).

1 In a letter dated September 15, 2011 the Chairman of this Commission suggested that
2 such a joint investigation might examine whether the two states' allocation methods
3 "result in the over-allocation of off-system sales margins and an under-allocation of
4 demand related costs," and whether "the Kansas or Missouri Commissions should change
5 the method used to allocate capacity-related power supply costs and related production
6 operations costs."[4]

7 The Chair of the KCC declined the invitation because of a pending KCP&L case.
8 However, he recognized that the "regulation of a utility that serves customers in multiple
9 states is challenging …."[5]

10 **Q: Please describe the allocation issue that is related to fuel, purchased power and off-**
11 **system sales that impacts Evergy Kansas Metro's ability to fully recover its fuel and**
12 **purchased power costs under the FAC.**

13 A: As a result of different allocation methodologies that have been ordered by each of the
14 Missouri and Kansas Commissions, the calculations that occur under the Company's fuel
15 recovery mechanisms result in an under-recovery of purchased power expenses and an
16 over-recovery of fuel expenses incurred to serve Missouri and Kansas customers, and
17 provide customers in both states with a credit for off-system sales that is in excess of
18 actual sales. If no adjustments are made to correct this allocation issue, Evergy Metro
19 experiences a total net under-recovery of these extraordinary costs of approximately
20 $10.1 million in total between Missouri and Kansas.

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[4] See Correspondence between Commission Chairman Kevin Gunn (dated and filed on Sept. 15, 2011) and KCC Chairman Mark Sievers (dated Oct. 17, 2011; filed Oct. 4, 2012) & Notice Closing Case (Oct. 5, 2012), In re Exploration of a Joint Proceeding with the Kan. Corp. Comm'n to Investigate Off-System Sales Methods of KCP&L, No. EO-2012-0020.
[5] Id.

1 **Q: Please explain what causes this allocation issue for fuel, purchased power and off-**
2 **system sales.**
3 A: The Missouri and Kansas Commissions have required Evergy Metro, Inc. to utilize
4 different fuel component allocation methodologies for cost recovery and for the
5 allocation of off-system sales revenues returned to customers as part of the calculation of
6 rates under both states' respective fuel clauses in place for Evergy Metro. The
7 inconsistency between the Kansas and Missouri Commissions' allocation factors results
8 in recovery from Evergy Metro customers for fuel and purchased power costs, net of off-
9 system sales revenues, that deviates from actual Evergy Metro incurred costs and off-
10 system sales revenues.
11 In other words, although Evergy Metro should be allowed to recover no more and
12 no less than 100% of its prudently incurred fuel and purchased power costs, and be
13 directed to provide customers a credit for 100% of its off-system sales revenues, the use
14 of different allocation methods by the Missouri and Kansas Commissions does not
15 provide regulatory treatment for 100% of those costs and revenues. Instead, the
16 conflicting methodologies provide recovery for less than 100% of fuel and purchased
17 power costs, and provide customers a "windfall" credit for off-system sales revenues in
18 excess of 100% of actual off-system sales revenues. In essence, customers receive a
19 benefit for off-system sales revenues that Evergy never received.
20 **Q: What are the allocation methodologies that are used between the two states that**
21 **impact the fuel, purchased power and off-system sales?**
22 A: There are two allocation methodologies that mainly impact off-system sales revenues and
23 fuel and purchased power costs. These allocation methodologies are:

- Energy Allocator: The Energy Allocator, used in Missouri, is derived from the total kilowatt-hour usage by the Missouri and Kansas retail customers and the firm wholesale jurisdiction.
- Unused Energy ("UE1") Allocator: The Unused Energy Allocator, used in Kansas, is derived from the Demand and Energy allocators. It is calculated by subtracting the actual energy usage from the "available energy". The available energy is defined as the average of the 12 coincident peak demands multiplied by the total hours in the test period.

Q: How does the issue with the allocation methodologies used for fuel, purchased power, and off-system sales impact Evergy Metro's recovery of costs related to Winter Storm Uri?

A: Winter Storm Uri resulted in significantly greater than normal off-system sales revenues attributable to the Evergy Metro operations, which must be allocated between the Kansas and Missouri rate jurisdictions. Because each state uses a different method – with Missouri using the Energy Allocator and Kansas using the Unused Energy ("UE1") Allocator – to allocate off-system sales revenues, the credit provided to customers for Evergy Metro's Kansas and Missouri jurisdictions combined totaled approximately 107% of Evergy Metro's actual off-system sales revenues. The result of using these two different allocation methods in Kansas and Missouri is an inappropriate credit that would be provided to retail customers in both states, in the aggregate, that is $11.2 million greater than the off-system sales revenues that were actually realized.

It should be noted that this jurisdictional allocation issue has, over time, consistently resulted in a mismatch, in the aggregate for Evergy Metro, Inc., between costs actually incurred that should be eligible for recovery under the fuel clauses in both states and the revenues authorized for recovery under the fuel clauses in both states. Under typical operating conditions, this "mis-match" does not have significant financial impacts favorable or unfavorable – on Evergy or its customers. However, the extreme

1 and atypical operating conditions resulting from Winter Storm Uri have increased the
2 magnitude of this mis-match, and it would be unreasonable not to mitigate those material
3 impacts. Granting a deferral and amortization of the excess off-system sales is a
4 necessary step to mitigating that financial impact.

5 **Q: When off-system sales are at less significant levels, does the difference in allocation**
6 **methodologies have a material impact?**

7 A: Although providing a credit in the fuel clause calculation for Kansas and the fuel clause
8 calculation in Missouri for off-system sales revenues in excess of actual sales that occur
9 is problematic, in recent years the off-system sales revenues have not been as significant
10 of an issue. As a result of Winter Storm Uri when off-system sales revenues totaled
11 approximately $192.4 million (after subsequent SPP resettlements) for Evergy Metro,
12 Inc., the over-allocation of off-system sales revenues under Commission approved
13 methods was, as I noted previously, very significant. This extraordinary and material
14 impact is very problematic as significant credits would be provided to customers in
15 excess of actual off-system sales solely due to the different allocation methodologies
16 ordered by the Kansas and Missouri Commissions. In other words, customers would
17 receive credits for $11.2 million of off-system sales revenues that were not received by
18 Evergy Metro.

19 **Q: What does the Company propose to include in the true-up revenue requirement**
20 **calculation based on the Commission's Order in File No. EU-2021-0283?**

21 A: The total amount of under-recovery associated with Winter Storm Uri's fuel, purchased
22 power and off-system sales revenue is approximately $10.1 million after all SPP
23 resettlements to date. Evergy Metro has determined that $5.4 million of this total amount

1 of under-recovery should be allocated to Missouri customers. EMM proposes to defer
2 the amount to a regulatory asset account and amortize it over four years in the true-up
3 revenue requirement in this rate case proceeding. Evergy Metro has proposed similar
4 treatment in Kansas.

5 **Q: How did you determine the portion of the under-recovery that should be attributed**
6 **to Missouri customers?**

7 A: The portion of under-recovery that is attributable to Evergy Missouri Metro customers
8 was calculated using the following steps:

9 1. Three categories of revenues and costs were analyzed which included off-system
10 sales, fuel and purchased power.

11 2. Total Evergy Metro revenues and costs that actually occurred for the month of
12 February in each category were identified. This is the actual amount of either a
13 credit to customers for revenue or costs that was recorded on the income
14 statement for Evergy Metro for the month of February.

15 3. Total Evergy Metro revenues and costs that would be actually credited or charged
16 to customers through their respective fuel recovery mechanisms was identified
17 using the current allocation methodology and accounting processes in place.

18 4. The actual total revenue and costs identified in step 2 compared to the total
19 revenue and costs to be charged using the current allocation methodology as
20 identified in step 3 were compared which identified a total resulting amount of
21 under- or over-recovery that was caused by Winter Storm Uri in the month of
22 February for the three categories. The three categories resulted in an ultimate
23 under-recovery for Evergy Metro.

1 5. In order to allocate the total under- or over-recovery for each revenue and cost
2 category for Evergy Metro, a ratio was established which used the sum of each
3 state's (Missouri and Kansas) allocation methodology as the denominator and the
4 allocation for each individual state as the numerator. The resulting ratio for
5 Evergy Missouri Metro was applied to the total under- or over recovery amount
6 identified in step 4 above to obtain the total under- or over-recovery for each
7 revenue and cost category assigned to Evergy Missouri Metro.
8 6. The total net amount from the three categories of revenues and costs in step 5
9 resulted in an under-recovery from customers.

10 **Q: What allocation methodology did the Staff recommend?**

11 A: Staff continues to advocate for the use of the energy allocator as they have historically
12 done. Ms. Bolin did not address the merits of the Company's deferral request as
13 identified in the AAO request and included in the motion to suspend the procedural
14 schedule in EU-2021-0283 that was ultimately approved by the Commission.

15 **Q: How has the Kansas share of excess off system sales been handled in its Winter**
16 **Storm Uri AAO docket?**

17 A: In a recently approved Nonunanimous Stipulation and Agreement in Docket No. 21-
18 EKME-329-GIE, the Kansas Commission ordered the following:

19 *The Parties agree that Evergy Kansas Metro should not offset the*
20 *regulatory liability to be returned to customers with the under-recovery*
21 *caused by the historically different allocation methodologies that have*
22 *been used by the Kansas and Missouri Commissions. However, the Parties*
23 *agree that Evergy Kansas Metro should be permitted to defer as a*
24 *regulatory asset that amount of that under-recovery that is attributable to*
25 *Kansas customers, approximately $4.7 million at February 28, 2022, to be*
26 *considered for recovery from customers in Evergy Kansas Metro's*
27 *upcoming 2023 general rate case.*

1 **Q: What is your recommendation to the Commission regarding this Jurisdictional**
2 **allocation issue that was heavily impacted by the extraordinary events of Winter**
3 **Storm Uri?**
4 A: The Company requests that the Commission grant the Company's Winter Storm Uri
5 deferral request to a regulatory asset in this rate case proceeding and requests a four-year
6 amortization of the regulatory asset.

7 **VII. SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN**

8 **Q: What is SERP?**
9 A: The SERP plan are additional retirement benefits that are paid to executives and a cost to
10 the Company that represent amounts that would have been paid to executives through
11 existing compensation and benefit plans but for IRS limits that are imposed on
12 compensation and benefits. As such, a normalized annual amount of actual SERP
13 payments is calculated based on lump sum and annuity payments over a period of time.
14 **Q: What approach did Staff use to annualize SERP expenses?**
15 A: Staff witness Giacone has chosen to use a similar methodology as the Company in
16 spreading lump sum payments out over 14.3 years. Yet, Staff has selected 4 years of
17 lump sum payments to determine their normalized level.
18 **Q: How did Staff's approach differ from the approach used by the Company?**
19 A: Given the variability of SERP total cash payments each year using a multi-year average is
20 important to obtain a normalized annual amount of SERP cost to include in cost of
21 service. Under the Evergy SERP plan, SERP costs are funded when the benefit is paid.
22 Given that some plan participants elect a lump-sum payment method rather than an
23 annuity, annual funding requirements can vary significantly between years. By

1 calculating an average of total funding over a typical single life annuity period of 14.3
2 years for lump-sum payments, the adjustment reflects actual cash payments spread over
3 time. Monthly annuity payments were normalized using a five-year average. Since the
4 Company is spreading annuity payments over a 14.3-year life it is important that the
5 averaging calculation includes a larger amount of periods to determine what the true
6 normalized cost to the utility is. Since the Company is spreading lump sum payments
7 over a 14-year period an argument could be made to use 14 years. For simplicity of data
8 the Company has continued to propose 5 years which covers one third of the period the
9 payments are spread over. This is consistent with the methodology used in prior cases.
10 Anything less than this is creating a simplification that is not representative of the
11 Company's true normalized annual cost.

12 **Q: Does the Company have any other issues with Staff's SERP adjustment?**

13 A: Yes. The Company believes that a capitalization amount should be removed from the
14 test year in EMM and EMW's SERP adjustments. However, discussions are still
15 ongoing with the Staff on this issue.

16 **VIII. UPLIGHT SOFTWARE ACCOUNTING**

17 **Q: Does OPC witness Angela Schaben take issue with the Company's investment in**
18 **Uplight software?**

19 A: Yes. Company witness Charles Caisley is addressing the issues OPC witness Schaben
20 has with the Uplight software solution.

21 **Q: Does witness Schaben question how the Uplight software is accounted for?**

22 A: Yes. In testimony it appears she is questioning how it is accounted for.

1 **Q: How is the Uplight software accounted for on the Company's books and records?**

2 A: The Uplight software is recorded on EMM's books and records similar to how most
3 common software packages are recorded. As with many common software packages the
4 Uplight software is part of the common use billing process and billed to EMW. The
5 Uplight software was put into service prior to the true-up date of May 31, 2022 in this
6 rate case.

7 **Q: Why is the Uplight software accounted for in this way to the Missouri jurisdictions?**

8 A: As explained in the testimony of Company witness Caisley, the Uplight software has
9 many functions including the Connect and Marketplace platforms in order to serve and
10 interact with our customers. At this time the Company has only implemented platforms
11 that are available to Missouri customers. As such, only the EMM and EMW
12 jurisdictions customers participate in the platforms and the costs are appropriately
13 allocated to those jurisdictions.

14 **Q: Does this conclude your testimony?**

15 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
In the Matter of Evergy Missouri West, Inc. d/b/a Evergy Missouri West's Request for Authority to Implement A General Rate Increase for Electric Service	))))	Case No. ER-2022-0130

AFFIDAVIT OF RONALD A. KLOTE

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Ronald A. Klote, being first duly sworn on his oath, states:

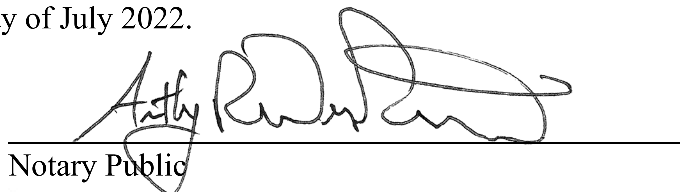
1. My name is Ronald A. Klote. I work in Kansas City, Missouri, and I am employed by Evergy Metro, Inc. as Senior Director – Regulatory Affairs.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Evergy Missouri Metro and Evergy Missouri West consisting of twenty-six (26) 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.

Ronald A. Klote

Subscribed and sworn before me this 13th day of July 2022.



Notary Public

My commission expires: 4/26/2025