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MISSOURI PUBLIC SERVICE COMMISSION

INDUSTRY ANALYSIS DIVISION

TARIFF AND RATE DESIGN DEPARTMENT

DIRECT TESTIMONY

OF

KEITH MAJORS

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
2022

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Case No. ER-2022-0130

Q. Please state your name and business address.

A. Keith Majors, Fletcher Daniels Office Building, 615 East 13th Street, Room 201, Kansas City, Missouri, 64106.

Q. What is your current position at the Missouri Public Service Commission ("Commission")?

A. In 2022, I was promoted to my current position of Utility Regulatory Audit Supervisor within the Auditing Department, within the Financial and Business Analysis Division, of the Staff of the Commission.

Q. What is your educational background and work experience?

A. I attended Truman State University in Kirksville, Missouri, where I earned a Bachelor of Science degree in Accounting in 2007. I have been employed by the Missouri Public Service Commission ("Commission") since June 2007 within the Auditing Unit. I have been employed by the Commission as an auditor for 14 years.

Q. Have you previously filed testimony before this Commission?

A. Yes. A listing of the cases in which I have previously testified, or authored a Staff recommendation or memorandum, and the issues which I addressed in those filings, is attached as Schedule KM-d1 to this direct testimony.

Q. What knowledge, skills, experience, training and education do you have in the areas of which you are testifying here?

A. I have acquired knowledge of the ratemaking and regulatory process through my employment with the Commission and through my experience and analyses in numerous prior rate cases. I have assisted, conducted, and supervised audits and examinations of the books and records of public utility companies operating within the state of Missouri. I have participated in examinations of electric, industrial steam, natural gas, water, sewer and I have participated in in-house and outside training, and attended seminars on technical and general ratemaking matters while employed by the Commission.

I have been assigned to several Evergy Metro, formerly known as Kansas City Power & Light Company ("KCPL") and Evergy West, formerly known as KCP&L Greater Missouri Operations Company ("GMO") rate case matters during my employment at the Commission:

Utility	**Case No.**
KCPL – Electric	ER-2009-0089
GMO – MPS and L&P Electric	ER-2009-0090
GMO – L&P Steam	HR-2009-0092
KCPL – Electric	ER-2010-0355
GMO – MPS and L&P Electric	ER-2010-0356
KCPL – Electric	ER-2012-0174
GMO – MPS and L&P Electric	ER-2012-0175
KCPL – Electric	ER-2014-0370
GMO – MPS and L&P Electric	ER-2016-0156
KCPL – Electric	ER-2016-0285
KCPL – Electric	ER-2018-0145
GMO – Electric	ER-2018-0146

EXECUTIVE SUMMARY

Q. What is the purpose of your direct testimony?

A. I will provide direct testimony concerning these Evergy Metro and Evergy West issues:

- Bad Debt Expense
- Test year revenue adjustments
- Transource, Inc. incentives
- Regulatory Assessments
- Jurisdictional Allocations – Evergy Metro Only
- Sibley Accounting Authority Order ("AAO") – Evergy West Only
- Crossroads Transmission and Rate Base Valuation – Evergy West Only

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

A. Yes. Bad Debt Expense, Transource, Inc. incentives, regulatory assessments, Sibley AAO, and Crossroads have impacts on the expense levels in the revenue requirement. The Sibley AAO and Crossroads issues have impacts on the rate base levels in the revenue requirement.

Q. Through this testimony, do you provide any adjustments to be applied to the level of current revenues, billing determinants, and Net System Input ("NSI")?

A. Yes. The test year revenue adjustments apply to level of current revenues.

TEST YEAR REVENUE ADJUSTMENTS

Q. What revenue adjustments do you sponsor?

A. I am sponsoring the adjustments to remove revenue amounts recorded for MEEIA, RESRAM, and FAC. These revenues are accounted for in other proceedings and should not be considered revenues for the establishment of base rates. I also removed unbilled revenue from the test year revenue amounts.

Q. Did Staff review the amounts Evergy Metro and Evergy West booked in its Other Revenues accounts?

A. Yes. These revenues include temporary installation profit, rent from electric property, and miscellaneous electric revenues. Staff's analysis of these amounts included a review of the revenues over the last four years. The test year Other Revenues amounts appear to be representative of an annualized level of revenue for each respective category identified above.

BAD DEBT EXPENSE AND FORFEITED DISCOUNTS

Q. What is bad debt expense?

A. Bad debt expense is the portion of retail revenues Evergy Metro and Evergy West are unable to collect from retail customers by reason of bill non-payment. After a certain amount of time has passed, delinquent customer accounts are written off and turned over to a third party collection agency for recovery. If the collection agency is subsequently able to successfully collect some portion of previously written off delinquent amounts owed, then those collected amounts reduce current write-offs. Offsetting successful collection agency recoveries against total write-offs creates the "net write-off" amount used to determine the annualized level of bad debt expense.

Q. How did you calculate a normal level of bad debt expense for Evergy?

A. Staff calculated the annualized bad debt expense by examining the ratio between billed revenues, net of gross receipt taxes, for the twelve month period ended December 31, 2021, and the actual 12-month history of billed revenues that were never collected (net write-offs) for the twelve months ended June 30, 2021. From this information a bad debt ratio was derived, which was then applied to Staff's adjusted weather normalized level of retail revenues to obtain the annualized level of bad debt expense.

The six-month lag time between the net retail sales and actual net write-off calculations used by Staff to derive a net write-off percentage is consistent with how bad debt write-offs are accounted by Evergy Metro and Evergy West. It takes approximately six months for a customer's unpaid bill to be written off after the customer receives service. Staff's adjustment for bad debt expense adjusts the test year results to reflect a level of bad debt expense that is consistent with Staff's annualized level of retail revenue.

Q. Will Staff examine bad debts in the true-up?

A. Yes. Bad debt expense has not always been a component of trued-up items in the revenue requirement. The method Staff and Company normalize bad debts is unique in that the most recent experience of the Company is taken into account as opposed to a historical average. As time passes, recorded expenses move further away from the major impacts of the COVID-19 pandemic. Bad debt expense was uniquely impacted by the pandemic and was a part of the deferred expenses in the Accounting Authority Order in Case No. EU-2020-0350.

Q. What are forfeited discounts?

A. They are commonly referred to as late payment fees. Evergy charges a late payment fee to customers who fail to pay bills in a timely manner. Staff annualized late payment fee revenues based on an average percentage of pre-COVID-19 levels by using the ratio of late payment fees to revenues and applying that ratio to the adjusted weather normalized retail revenues. From the period March 2020 through December 2021 the actual late payment revenues have been abnormally low.

Q. Will Staff examine late payment fee revenue in the true-up?

A. Yes. Similar to bad debts, late payment fees were impacted by the pandemic. The most current data and Company policies concerning late payment charges should be examined in developing the revenue requirement to lessen the impact of the pandemic and ensure a normal level of late payment fees are included.

TRANSCOURSE INCENTIVES

Q. What is Transource Missouri?

A. Transource Missouri is a Delaware limited liability corporation qualified to conduct business in Missouri, with its principle place of business in Columbus, Ohio. Transource Missouri is a wholly-owned subsidiary of Transource Energy, LLC (“Transource”). Transource was established by Evergy, Inc., Evergy Metro’s parent corporation, and American Electric Power Company, Inc. (“AEP”) to build wholesale regional transmission projects within Southwest Power Pool (“SPP”), as well as other regional transmission organizations.

Q. What is this adjustment and how is this adjustment calculated?

A. Both Evergy Metro and Evergy West have FERC-approved formula rates that have been incorporated into the SPP Tariff. These wholesale transmission rates are often referred to as “formula rates” because the annual transmission revenue requirement (“ATRR”) for the applicable transmission owner is determined through the use of an agreed-upon formula that incorporates annual true-up processes to update actual costs. Transource Missouri also has a filed ATRR before FERC that is collected pursuant to SPP Tariff.

This adjustment first calculates the ATRR for the two transmission projects, the Iatan-Nashua Project and the Sibley-Nebraska City Project. This ATRR is calculated using all the variables that are used in the ATRR that Transource Missouri uses to bill transmission owners in SPP, including Evergy Metro and Evergy West. This ATRR includes FERC incentives, which I explain later in this testimony. The portion that is billed to Evergy Metro and Evergy West is based on their SPP load ratio share. These amounts are billed to Evergy and included in revenue requirement in FERC Account 565.

The second step is to take the ATRR calculated as described above and make specific changes to the calculation to remove the impact of FERC incentives. These changes in total will produce a different ATRR, and a different amount billed to Evergy Metro and Evergy West based on their SPP load ratio share.

Lastly, the difference between the two ATRR calculations is added, or subtracted, from Evergy Metro's and Evergy West's revenue requirements in FERC Account 565.

Q. Why is this adjustment made?

A. This adjustment is made to comply with the provisions of the Commission's Report and Order in File No. EA-2013-0098.[1] Ordered item "5" states "Ordered paragraphs 1, 2, 3 and 4 are subject to the provisions of Appendix 3 and Appendix 4." "Appendix 4: Consent Order" starts on page 26 of the Report and Order, and on pages 27-28 under paragraph 2.A.1. the following language appears:

> 2.A.1. With respect to transmission facilities located in KCP&L certificated territory that are constructed by Transource Missouri that are part of the Iatan-Nashua and Sibley-Nebraska City Projects, KCP&L agrees that for ratemaking purposes in Missouri the costs allocated to KCP&L by SPP will be adjusted by an amount equal to the difference between: (a) the SPP load ratio share of the annual revenue requirement for such facilities that would have resulted if KCP&L's authorized ROE and capital structure had been applied and there had been no Construction Work in Progress ("CWIP") (if applicable) or other FERC Transmission Rate Incentives, including but not limited to Abandoned Plant Recovery, recovery on a current basis instead of capitalizing pre-commercial operations expenses and accelerated depreciation, applied to such facilities; and (b) the SPP load ratio share of the annual FERC-authorized revenue requirement for such facilities. KCP&L will make this adjustment in all rate cases so long as these transmission facilities are in service.

This paragraph is identical to Paragraph II A. 1. on pages 4-5 of the Non-Unanimous Stipulation and Agreement filed in File Nos. EA-2013-0098 and EO-2012-0367[2]

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[1] In the Matter of the Application of Transource Missouri, LLC for a Certificate of Convenience and Necessity Authorizing It to Construct, Finance, Own, Operate, and Maintain the Iatan-Nashua and Sibley-Nebraska City Electric Transmission Projects.

[2] In the Matter of the Application of Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company for Approval To Transfer Certain Transmission Property to Transource Missouri, LLC and for Other Related Determinations.

Similar language is included in the "Appendix 4: Consent Order" applicable to Evergy West:

> 2.A.2. With respect to transmission facilities located in GMO certificated territory that are constructed by Transource Missouri that are part of the Iatan-Nashua and Sibley-Nebraska City Projects, GMO agrees that for ratemaking purposes in Missouri the costs allocated to GMO by SPP will be adjusted by an amount equal to the difference between: (a) the SPP load ratio share of the annual revenue requirement for such facilities that would have resulted if GMO's authorized ROE and capital structure had been applied and there had been no CWIP (if applicable) or other FERC Transmission Rate Incentives, including but not limited to Abandoned Plant Recovery, recovery on a current basis instead of capitalizing pre-commercial operations expenses and accelerated depreciation, applied to such facilities; and (b) the SPP load ratio share of the annual FERC-authorized revenue requirement for such facilities. GMO will make this adjustment in all rate cases so long as these transmission facilities are in service.

Q. Please describe File Nos. EA-2013-0098 and EO-2012-0367.

A. These applications were filed simultaneously by Transource Missouri, and Evergy Metro and Evergy West known as that time KCPL and GMO.

File No. EO-2012-0367 was an application for authority to transfer certain transmission property and for other related determinations regarding the construction of two regional, high-voltage, wholesale transmission projects approved by SPP known as the Iatan-Nashua 345kV transmission project ("Iatan-Nashua Project") and the Sibley-Nebraska City 345kV transmission project ("Sibley-Nebraska City Project;" collectively, the "Projects").

File No. EA-2013-0098 was an application for line Certificates of Convenience and Necessity ("CCNs") to construct, finance, own, operate, and maintain the regional Projects ("CCN Application") for Transource Missouri.

The Report and Order in File No. EA-2013-0098 approved both the transfer of assets to Transource Missouri and the CCNs for Transource Missouri, with certain provisions, one of which is the aforementioned paragraph describing the adjustment at issue.

Q. What incentives did Transource Missouri request from FERC in formulation of its ATRR?

A. According to the direct testimony of Darrin R. Ives in File No. EO-2012-0367, page 15, Transource Missouri requested the following incentives:

- 100 basis point ROE Risk Adder for the Sibley-Nebraska City Project to address the financial risks and regional benefits associated with the project;
- inclusion of 100% of CWIP in rate base during the development and construction periods for each of the Projects;
- deferral of all prudently-incurred costs that are not capitalized prior to the rates going into effect for recovery in future rates;
- use of a hypothetical capital structure consisting of 40% debt and 60% equity during construction until long-term financing is in place for both Projects; and
- recovery of prudently-incurred costs in the event either of the Projects must be abandoned for reasons outside the reasonable control of Transource Missouri.

Q. What adjustments to the calculations does Staff recommend?

A. Staff used the Transource Missouri ROE for the first step of the calculation, 11.3% for the Sibley Nebraska City line and 10.3% for the Iatan Nashua line. For the second step to remove the impact of the incentives, Staff used the Evergy requested ROE. Should the Commission order a different ROE, this calculation must be updated.

Staff also corrected the income tax rate used for years 2018 and after for the impact of the Tax Cuts and Jobs Act of 2017, and for the excess deferred income taxes that resulted from the act.

Q. Did Staff make adjustments to the long term debt rates?

A. No. For the initial calculation for the actual ATRR on the Transource Missouri projects Staff used the actual cost of long term debt applicable to Transource Missouri. As described earlier, the second step to calculate the adjustment is to remove the impact of FERC incentives from the ATRR calculation by changing the variables for these incentives to rates and amounts applicable to Missouri ratemaking without the incentives. Staff's calculation sets the long term cost of debt for the second step of the calculation equal to the Transource Missouri cost of debt. The cost of long term debt is not a result of any FERC incentive; it is a function of the actual interest payments in relation to the balance of long term debt. In contrast, ROE is a FERC incentive.

JURISDICTIONAL ALLOCATIONS

Q. Please explain the need to develop allocation factors for the various FERC accounts in Staff's EMS.

A. Evergy Metro operates within two state jurisdictions, Missouri and Kansas, and in the firm wholesale federal jurisdiction regulated by FERC. Therefore, it is necessary to specifically identify, assign, or allocate the investment and expenses between these various jurisdictions. To develop a comprehensive cost of service analysis and identify the correct revenue requirement, all costs incurred by the Company for plant investment and income statement costs must be specifically assigned or appropriately allocated to all jurisdictions served. The goal of this process is to correctly match the costs and expenses for provision of utility service with the drivers of those costs and expenses.

Q. What are the primary allocation factors used to develop Staff's Missouri-jurisdictional revenue requirement for Evergy Metro and Evergy West?

A. The primary allocators are the demand allocator, energy allocator, and customer allocators.

The secondary allocators are derived from the primary allocators. The secondary allocators include aggregate plant and salaries and wages, for example.

Q. Did you develop the demand and energy allocators?

A. No. These were developed by Staff witness Alan Bax.

Q. What types of costs are allocated on the basis of demand?

A. Capital costs associated with generation and transmission plant and certain operational and maintenance expenses are allocated on this basis. This is appropriate because generation and transmission are planned, designed, and constructed to meet a utility's anticipated demand.

Q. What types of costs were allocated on the basis of energy?

A. Variable expenses, such as fuel and purchased power, along with certain operational and maintenance ("O&M") expenses, are allocated to the applicable jurisdictions of both Evergy Metro and Evergy West based on energy consumption.

Q. How are the remaining non-demand non-energy costs allocated?

A. They are allocated using the secondary allocators.

Q. Does Evergy West use the same allocation factors as Evergy Metro?

A. No. Staff's allocations are calculated separately for each and were provided by Staff witness Alan Bax. Evergy West operates the Lake Road facility, which provides industrial steam to customers adjacent to the facility. The steam service has separate tariffs and revenue requirement. It is necessary to allocate costs between steam and electric to properly develop separate revenue requirements. Staff witness Charles Poston identifies and supports these allocations in his direct testimony. In turn, they were used to develop the Evergy West revenue requirement in this case.

<u>SIBLEY AAO AND UNRECOVERED INVESTMENT-EVERGY WEST ONLY</u>

Q. What is Sibley?

A. Sibley was a three-unit coal fired generating facility that served Evergy West customers. Evergy West retired the entire Sibley plant on November 13, 2018.

Q. What is the Sibley AAO?

A. In its last prior rate case, Case No. ER-2018-0146, the Commission approved a stipulation that included O&M costs, depreciation, and capital costs for Sibley units 2 and 3 in Evergy West's general rates. Subsequent to the effective date of new rates in that case, the Office of the Public Counsel ("OPC") filed an AAO, File No. EU-2019-0197 requesting deferral into a regulatory liability of the O&M costs, depreciation, and capital costs for Sibley units 2 and 3 from the point of the effective date of rates from Case No. ER-2018-0146 to the time of Evergy West's next general rate case. That case was later reassigned as a complaint case in File No. EC-2019-0200.

Q. What did the Commission find in File No. EC-2019-0200?

A. The Commission ordered Evergy West to defer the items requested by OPC:

> KCP&L Greater Missouri Operations Company shall record as a regulatory liability in Account 254 the revenue and the return on the Sibley unit investments collected in rates for non-fuel operations and maintenance costs, taxes, including accumulated deferred income taxes, and all other costs associated with Sibley units 1, 2, 3, and common plant. The regulatory liability should quantify separately dollars related to return and other cost of service expense savings.[3]

Q. Did the Commission consider the possibility that Evergy West would request recovery of Sibley costs in a subsequent rate case?

[3] Report and Order, EC-2019-0200.

A. Yes. In its Report and Order in File No. EC-2019-0200, the Commission specifically noted that possibility:

> Most importantly, if GMO requests accelerated recovery of net plant depreciation costs in its next rate case, the Commission should preserve the option of the future Commission to consider the offset of those costs by consideration of the past savings amounts that would be deferred under the AAO. If this AAO is not granted, such an offset could be challenged as retroactive ratemaking.

Q. What is the current unrecovered value of Sibley on Evergy West's books and records?

A. The current unrecovered value of Sibley is in the amount of $145.6 million in accumulated depreciation reserve. This amount reduces overall depreciation reserve. Depreciation reserve offsets plant-in-service, a rate base item, so this amount increases the rate base on which Evergy West is able to earn a return on if this amount remains in depreciation reserve.

Generally, the accounting for removal from plant-in-service upon retirement would be to credit the book value of the asset and debit the accumulated reserve. In this case, $145.6 million is the residual amount over the prior reserve amount at the time of retirement.

Q. Does Staff generally support recovery of unrecovered plant investment?

A. Staff views the question of whether a utility should be allowed to continue to recover in rates costs associated with a retired plant asset as a determination to be made by the Commission on a case-by-case basis. As a general rule in Missouri, recovery of plant assets that are not "used and useful" in rates has not been allowed, and Sibley since late 2018 has neither been used by Evergy West to generate electricity nor useful to Evergy West customers as a source of meeting customer demands. The issue now before the Commission is whether there are specific circumstances regarding the decision to retire Sibley that would justify a continued total or partial recovery in rates of Sibley unrecovered investment in this proceeding.

Q. Are there any potential offsets to Sibley's remaining net book value?

A. Yes. The first offset would be the deferred depreciation regulatory liability as authorized in the 2018 Rate Case. In the 2018 Rate Case, the Commission ordered the *Non-Unanimous Partial Stipulation and Agreement* ("2018 Stipulation") dated September 19, 2018. Amongst other items, it required Evergy Metro to create a regulatory liability to capture the amount of depreciation expense on Sibley units 1, 2, 3, and common plant included in Evergy West's revenue requirement until new customer rates are established in this current case. The deferred depreciation will be included in accumulated depreciation. The accumulated amount through November 2022 will be $41.4 million.

Q. What about the AAO from EC-2019-0200?

A. The projected balance of the AAO through November 2022 is $91.2 million. This amount includes the labor, non-labor O&M, and return on the net book value of Sibley.

Q. What does Staff recommend for disposition of these liabilities and the net book value of Sibley?

A. Staff recommends offset of the net book value of Sibley by both the deferred depreciation expense and the AAO, both of which have already been authorized to be deferred. Staff recommends amortization of the residual regulatory asset of $12.4 million in the cost of service over 5 years.

Q. Does Staff recommend inclusion in rate base of the unamortized balance?

A. No. The Commission has included both asset and liability deferrals in rate base on a case-by-case basis. In Staff's opinion, it is appropriate to share the economic impact of

Sibley between Evergy West and its customers. Evergy West will receive a full "return of" the net regulatory asset but not a "return on". Customers will finance whatever replacement employed for Sibley either through a purchase power agreement or from market purchases. Providing a return on the net amounts would make Evergy West completely whole with no impact of the risk of early retirements such as Sibley. Accordingly, a sharing of the remaining unrecovered capital costs for Sibley would provide an appropriate ratemaking result for Evergy West and its customers.

In addition, a relatively quick return of the funds to the Company mitigates the need for the "return on" the amount.

MONTROSE DEFERRED DEPRECIATION

Q. Briefly explain this adjustment.

A. In the 2018 Rate Case, the Commission approved the 2018 Stipulation. Amongst other items, it required Evergy Metro to create a regulatory liability to capture the amount of depreciation expense on Montrose units 2 and 3, and common plant included in Evergy Metro's revenue requirement until new customer rates are established in this current case. The Montrose facility was retired in 2018. The deferred depreciation will be included in accumulated depreciation.

Staff included the projected November 2022 regulatory liability in the appropriate depreciation reserve account in the amount of $12.2 million.

Q. Why did Staff include the deferrals through November 2022?

A. The 2018 Stipulation requires the entire amounts to be deferred to be determined in the current case. November 2022 is the last full month prior to the projected effective date of new rates in this case.

REGULATORY ASSESSMENTS

Q. Did you include the most currently available MOPSC assessment in the revenue requirement in this case?

A. Yes. Evergy Metro and Evergy West's MOPSC assessment was annualized using the latest assessment available for the current fiscal year 2022, based on information obtained from the Commission's records. The updated MOPSC Assessment was compared to the MOPSC Assessment amount included in Evergy Metro and Evergy West's test year to form the basis for the adjustment in Staff's revenue requirement.

Q. Did you include the most currently available FERC assessment in the revenue requirement in this case?

A. Yes. Evergy Metro and Evergy West are assessed a regulatory fee from FERC. The FERC assesses fees to public utilities and Regional Transmission Organizations ("RTO") based on their usage of transmission of electric energy. Staff included the most recent billed FERC assessment for the 12-month period ending December 31, 2021. Staff did not include FERC assessment costs from the MISO RTO.

Q. Why did Staff exclude FERC assessment costs from the MISO RTO?

A. Beginning in June 2013, Evergy West incurred FERC assessment costs from the MISO RTO. During the test year the MISO FERC Assessment (Schedule 10) was solely related to the Crossroads generating facility, which is owned by Evergy West, but is physically located in Mississippi. The Commission stated in its Report and Order in Case No. ER-2010-0356,"it is not just and reasonable to require ratepayers to pay for the added transmission costs of electricity generated so far away in a transmission constricted location."[4] The Commission also stated in its Report and Order in Case No. ER-2012-0175, "the Crossroads transmission costs does [sic] not support safe and adequate service at just and reasonable rates, and the Commission will deny those costs." Because the Commission disallowed Crossroads transmission costs in Case No. ER-2010-0356, and Case No. ER-2012-0175, Staff recommends an adjustment to also eliminate the FERC Assessment fees incurred by Evergy West for its MISO transmission incurred in the test year, and also for the 12-month period ending June 30, 2021, that is associated with Crossroads.

CROSSROADS TRANSMISSION AND RATE BASE ADJUSTMENTS EVERGY WEST ONLY

Q. Please describe the Crossroads rate base adjustment.

A. Staff continues to recommend that the Commission include the Crossroads Energy Center ("Crossroads") in Evergy West's rate base in this proceeding in a manner consistent with the Commission's decision in GMO's 2010 rate case, Case No. ER-2010-0356, which the Commission re-affirmed in GMO's 2012 rate case, Case No. ER-2012-0175. Since GMO's 2009 rate case (Case No. ER-2009-0090), the Commission has consistently adopted a valuation and a level of supporting operating costs for Crossroads equal to the costs Evergy, Inc.[5] would have paid to acquire Crossroads as part of its July 14, 2008, acquisition of Aquila, Inc.[6] The Commission determined the appropriate July 14, 2008, value of Crossroads to be $61.8 million in the 2010 Evergy West rate case. An offset for accumulated depreciation reserve also had to be included in Evergy West's rate base to reflect depreciation for Crossroads

[4] Case No ER-2010-0356 Report and Order, paragraph 247, May 4, 2011.
[5] At the time of the acquisition of Crossroads, Evergy, Inc. was known as Great Plains Energy, Inc.
[6] Aquila, Inc. was a predecessor to Evergy West.

accumulated since the acquisition. The plant and reserve balances have been calculated consistent with the Commission's decisions in the 2010 and 2012 GMO rate cases.

Q. Please describe the Crossroads transmission adjustment.

A. Staff recommends removal of all Crossroads transmission expenses consistent with the Commission's findings in Case Nos. ER-2010-0356 and ER-2012-0175. Because Crossroads is located in Mississippi, Evergy West has had to make firm transmission commitments to transport electricity from it to Evergy West's load center in western Missouri. The Commission has noted the costs to do so are significant. On page 86 of its Order in Evergy West's 2010 rate case, the Commission disallowed transmission costs relating to Crossroads, recognizing they were ongoing and indicating that it would not allow them in future rate cases, as follows:

> Staff argues that the cost of transmission to move energy from Crossroads in Mississippi to GMO's service territory justifies, in part, removing Crossroads from GMO's cost of service. The Company argues that the cost of transmission is offset by the lower gas reservation costs.
>
> The cost of transmission to move energy from Crossroads to customers served by MPS is a very significant cost that is far greater than the transmission cost for power plants located in the MPS district. The annual energy transmission cost was estimated as $406,000 per month. This is also substantially higher on an annual basis than the transmission plant costs for the Aries site where the three South Harper Turbines were originally planned to be installed.
>
> This higher transmission cost is an ongoing cost that will be paid every year that Crossroads is operating to provide electricity to customers located in and about Kansas City, Missouri. GMO does not incur any transmission costs for its other production facilities that are located in its MPS district that are used to serve its native load customers in that district. **This ongoing transmission cost GMO incurs for Crossroads is a cost that it does not incur for South Harper, and is the cause of one of the biggest differences in the on-going operating costs between the two facilities.**
>
> It is not just and reasonable to require ratepayers to pay for the added transmission costs of electricity generated so far away in a transmission

> constricted location. Thus, the Commission will exclude the excessive transmission costs from recovery in rates. [Emphasis added]

More recently, the Commission noted at page 58 of the Order in Case No. ER-2012-0175:

> 1. Crossroads is 500 miles from GMO's MPS territory.
>
> 2. Between the territory of MPS and Crossroads are the territories of regional transmission organizations ("RTOs"). RTOs collect payment for the transmission of power through their territories. GMO does not belong to all those RTOs so GMO must pay higher fees for transporting power than to an RTO of which GMO is a member.
>
> 3. There are generating facilities closer, including Dogwood's facility and the South Harper plant. Even though Crossroads provides power for GMO only during half of the days in the summer, GMO pays about $5.2 million to transmit power from Crossroads all year round. The high cost of transmission is not outweighed by lower fuel costs in Mississippi.
>
> <u>Discussion, Conclusion of Law, and Ruling</u>
>
> **GMO has not carried its burden of proof on transmission costs.** GMO alleges that the lower price of fuel in Mississippi outweighs the cost of transmission. The Commission has found that the evidence preponderates otherwise. …. Therefore, the Commission concludes that including the Crossroads transmission costs does not support safe and adequate service at just and reasonable rates, and the Commission will deny those costs. [page 59 of Order in Case No. ER-2012-0175; Emphasis added.]

The Commission's Order in both the 2010 and 2012 rate cases prohibited Evergy West from any recovery of transmission costs related to Crossroads. The Commission stated at page 64 of its 2012 Order with respect to the recovery of Crossroads transmission costs:

> Crossroads Transmission. Several parties ask the Commission to order that GMO's FAC tariff sheets state expressly that GMO's FAC excludes transmission costs related to Crossroads. Insofar as the Commission has determined that no transmission costs from Crossroads will enter GMO's MPS rates, there is no further dispute, and no further findings of fact and conclusion of law are required. The Commission will order GMO's FAC clarified to state that GMO's FAC excludes transmission costs related to Crossroads.

Consistent with the Commission's decision in Evergy West's 2010 and 2012 rate cases, and consistent with the recommendation of Staff in Evergy West's most recent rate case in 2018, Staff excluded all Crossroads transmission costs in this current case. Staff continues to recommend that Evergy West not be allowed any recovery of transmission costs associated with Crossroads either in base rates or through the fuel clause. This generating facility is over 500 miles from the service area of Evergy West. Crossroads was originally built in Mississippi by Aquila Merchant to take advantage of that region's transmission constraints. The transmission constraints and distance of this facility from GMO's customers now results in the extremely high transmission costs resulting from this plant's operations.

TRANSITION COSTS FROM GPE -WESTAR MERGER

Q. What are transition costs and does Staff recommend an adjustment to the transition cost amortization?

A. Transition costs were costs necessary to integrate GPE and Westar by creating the combined efficiencies and savings, and ensure that the integration was effective. The Commission authorized the deferral of transition costs in its *Report and Order* in Case No. EM-2018-0012 and ordered a 10 year amortization of the costs in the cost of service. Staff recommends no adjustment and supports the test year amortization.

CAPITALIZED LONG TERM INCENTIVE COMPENSATION

Q. Briefly explain this adjustment.

A. In prior rate cases, Staff recommended removal of capitalized amounts of long term incentive compensation related to the various performance shares and time-restricted shares expensed by Evergy. These amounts were charged to plant-in-service. Staff has consistently removed long-term incentive compensation from the cost of service and this adjustment complements that removal. Evergy no longer capitalizes a portion of long-term incentive compensation but these amounts are still recorded to plant-in-service.

Q. Did Staff also remove the ongoing expense portion of long-term incentive compensation?

A. Yes.

METER REPLACEMENT O & M

Q. Briefly explain this adjustment.

A. This adjustment annualizes the meter reading costs from Landis & Gyr for Evergy's Advanced Metering Infrastructure meters compared to the test year amounts. The most current rate was used in the calculation.

MEEIA EXPENSES

Q. Briefly explain this adjustment.

A. This adjustment removes all test year MEEIA expenses as these are collected through a separate surcharge on customer bills and not through base rates.

ELECTRICATION PORTFOLIO

Q. Briefly explain this adjustment.

A. Staff does not recommend an adjustment at this time. Evergy was authorized to defer the incremental expenses incurred for the authorized electrification projects related to Case No. ET-2021-0151. The Report and Order in that case was not effective until January 12, 2022, prior to the cutoff of December 31 in this case. Staff will address the deferral in the true-up in this case.

<u>CLEAN CHARGE NETWORK REGULATORY LIABILITY</u>

Q. Briefly explain this adjustment.

A. This regulatory liability was established in the last rate case. The liability was established based upon the revenue requirement value of the Clean Charge Network at issue in the appeal of the Commission's order in Case No. ER-2016-0285. It was amortized over 4 years and that amortization will end in November 2022. Staff recommends removal of the amortization.

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
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 KEITH MAJORS

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

COMES NOW KEITH MAJORS and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Direct Testimony of Keith Majors*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

Keith Majors

KEITH MAJORS

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

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI
EBONEY JACKSON-SPOTWOOD
My Commission Expires
April 8, 2023
Clay County
Commission #19865798

Keith Majors
Educational and Employment Background and Credentials

I am currently employed as a Utility Regulatory Audit Supervisor for the Missouri Public Service Commission (Commission). I was employed by the Commission in June 2007. I earned a Bachelor of Science degree in Accounting from Truman State University in May 2007.

As a Utility Regulatory Audit Supervisor , I perform rate audits and prepare miscellaneous filings as ordered by the Commission. In addition, I review all exhibits and testimony on assigned issues, develop accounting adjustments and issue positions which are supported by workpapers and written testimony. For cases that do not require prepared testimony, I prepare Staff Recommendation Memorandums.

Cases I have been assigned are shown in the following table:

Utility	Case Number	Issues	Exhibit
Spire Missouri	GR-2021-0108	Corporate Allocations, Rate Case Expense	Staff Report, Rebuttal, Surrebuttal
KCP&L & KCP&L GMO	ER-2018-0145 & ER-2018-0146	Synergy and Transition Costs Analysis, Transmission Revenue and Expense	Staff Report
Laclede Gas and Missouri Gas Energy	GR-2017-0215 & GR-2017-0216	Synergy and Transition Costs Analysis, Corporate Allocations	Staff Report, Rebuttal, Surrebuttal
KCP&L & KCP&L GMO	ER-2016-0156	Income Taxes, Pension & OPEB	Staff Report, Rebuttal, Surrebuttal
KCP&L & KCP&L GMO	EC-2015-0309	Affiliate Transactions, Allocations	Surrebuttal Testimony
KCP&L	ER-2014-0370	Income Taxes, Pension & OPEB, Revenues	Staff Report, Rebuttal, Surrebuttal
KCP&L	EU-2015-0094	DOE Nuclear Waste Fund Fees	Direct Testimony
KCP&L	EU-2014-0255	Construction Accounting	Rebuttal Testimony
Veolia Kansas City	HR-2014-0066	Income Taxes, Revenues, Corporate Allocations	Staff Report
Missouri Gas Energy	GR-2014-0007	Corporate Allocations, Pension & OPEB, Incentive Compensation, Income Taxes	Staff Report, Rebuttal, Surrebuttal
Missouri Gas Energy ISRS	GO-2013-0391	ISRS	Staff Memorandum
KCP&L & KCP&L GMO	ER-2012-0174 & ER-2012-0175	Acquisition Transition Costs, Fuel, Legal and Rate Case Expense	Staff Report, Rebuttal, Surrebuttal
Missouri Gas Energy ISRS	GO-2011-0269	ISRS	Staff Memorandum
Noel Water Sale Case	WO-2011-0328	Sale Case Evaluation	Staff Recommendation
KCP&L & KCP&L GMO	ER-2010-0355 & ER-2010-0356	Acquisition Transition Costs, Rate Case Expense	Staff Report, Rebuttal, Surrebuttal
KCP&L Construction Audit & Prudence Review	EO-2010-0259	AFUDC, Property Taxes	Staff Report
KCP&L, KCP&L GMO, & KCP&L	ER-2009-0089, ER-2009-0090, & HR-	Payroll, Employee Benefits, Incentive Compensation	Staff Report, Rebuttal, Surrebuttal

GMO – Steam	2009-0092		
Trigen Kansas City	HR-2008-0300	Fuel Inventories, Rate Base Items, Rate Case Expense, Maintenance	Staff Report
Spokane Highlands Water Company	WR-2008-0314	Plant, CIAC	Staff Recommendation
Missouri Gas Energy ISRS	GO-2008-0113	ISRS	Staff Memorandum