Exhibit No.:	_______________
Issue(s):	Incentive Compensation
Witness/Type of Exhibit:	Schaben/Rebuttal
Sponsoring Party:	Public Counsel
Case No.:	ER-2022-0129 and ER-2022-0130

REBUTTAL TESTIMONY

OF

ANGELA SCHABEN

Submitted on Behalf of the Office of the Public Counsel

EVERGY METRO, INC. D/B/A EVERGY MISSOURI METRO

AND

EVERGY MISSOURI WEST, INC. D/B/A EVERGY MISSOURI WEST

CASE NOS. ER-2022-0129 AND ER-2022-0130

July 13, 2022

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 ANGELA SCHABEN

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Angela Schaben, of lawful age and being first duly sworn, deposes and states:

1. My name is Angela Schaben. I am a Utility Regulatory Auditor for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

Angela Schaben
Utility Regulatory Auditor

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

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

TIFFANY HILDEBRAND
My Commission Expires
August 8, 2023
Cole County
Commission #15637121

Tiffany Hildebrand
Notary Public

My Commission expires August 8, 2023.

REBUTTAL TESTIMONY

OF

ANGELA SCHABEN

EVERGY MISSOURI WEST, INC. D/B/A EVERGY MISSOURI WEST AND EVERGY METRO, INC. D/B/A EVERGY MISSOURI METRO

CASE NOS. ER-2022-0129 AND ER-2022-0130

INTRODUCTION

Q. Please state your name, title, and business address.

A. Angela Schaben, Utility Regulatory Auditor, Office of the Public Counsel ("OPC" or "Public Counsel"), P.O. Box 2230, Jefferson City, Missouri 65102.

Q. Are you the same Angela Schaben who filed direct testimony for the OPC in this case?

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to address Staff witness Jared Giacone's testimony regarding incentive compensation.

Q. What is your position regarding incentive compensation?

A. I concur with Staff witness Jared Giacone's incentive compensation calculations for both Evergy Missouri West and Evergy Missouri Metro. However, since competently designed incentive compensation plans more than pay for themselves, the total amount of incentive compensation included in both payroll expense and in cash working capital (CWC) should be divided by four and normalized over four years.

Q. How do competently designed incentive compensation plans more than pay for themselves?

A. As I explained in my direct testimony, companies will not continue disbursing incentive compensation rewards without first receiving a financial benefit. Incentive compensation programs reward employees for achieving new efficiencies in a prior period. In order to remain profitable, efficiency goals tied to incentive compensation program payouts must evolve regularly but should always result in cost savings greater than the cost of the programs themselves. Stated differently, cost-effective incentive compensation programs should self-finance through an improved financial position.

Q. How were Staff's incentive compensation recommendations calculated?

A. Staff's calculations are based on a four-year average of incentive compensation cash payouts made during 2019, 2020, 2021, and 2022.[1] This average was used to adjust Company's test year balance.

Q. How did Staff's four-year incentive compensation average affect 'Administrative and General Salaries' expense on the income statement reduction?

A. Staff adjusted the Company's test year incentive compensation in 'Administrative and General Salaries' with an expense reduction of $338,251.46 for Missouri West and a $3,736,490.57 reduction for Missouri Metro, based on the four year average.

Q. What is the total amount of incentive compensation currently included in CWC for each utility?

A. After applying the allocation factors to Staff's four-year average, the table below includes each utility's CWC incentive compensation:

Utility	**Staff Recommended CWC Incentive Compensation Historic Four Year Average**
Missouri Metro	5,475,519.00
Missouri West	3,326,148.00

Q. What amount of CWC incentive compensation do you recommend for Missouri Metro and Missouri West?

A. I recommend including $1,368,879.75 for Missouri Metro and $831,537.00 for Missouri West. A table is provided below:

Utility	**Staff Recommended CWC Incentive Compensation Historic Four Year Average**	**CWC Incentive Compensation Normalized Over Four Years**
Missouri Metro	5,475,519.00	1,368,879.75
Missouri West	3,326,148.00	831,537.00

[1] Staff Witness Jared Giacone's Direct Testimony in File Nos. ER-2022-0129 and ER-2022-0130, page 19.

Q. How are your recommended incentive compensation amounts calculated?

A. My recommended incentive compensation amounts were calculated by dividing Staff's CWC incentive compensation amount by four to normalize between rate cases.

Q. Why choose to normalize incentive compensation expense over a four year period?

A. Evergy is required to file a rate case at least every four years in order to maintain its Fuel Adjustment Clause ("FAC"). It is therefore a reasonable expectation that Evergy will have new rates in four years.

Q. What is the difference between annualizing and normalizing?

A. If annualized, the Staff recommended incentive compensation amounts are recoverable, in full, each year until the next rate case. This creates an unnecessary windfall for Evergy, as I explained in my direct testimony. The process of normalizing extends the recovery time over the four years between rate cases, which allows Evergy to collect for incentive compensation payments that resulted in benefits for customers achieved during the test year without allowing recovery for benefits that will be achieved in the years following the rate case.

Q. Why does it make sense to normalize the incentive compensation amount included in CWC over four years instead of annualizing?

A. As explained in my direct testimony, it is not necessary to allow recovery for incentive compensation payments for benefits that will be achieved in the years following the rate case because those benefits will already result in an increase to the Company's bottom line in excess of the cost for the incentive compensation payments. The Company will therefore already be made whole for any compensation payments made outside of a test year. Because only the cost of compensation payments made for benefits achieved during the test year are not already recovered by the Company, it makes sense to allow the Company to recover these costs only as a one-time expenditure and not on a reoccurring basis. These costs should therefore be normalized and not annualized to reflect this change.

Q. Why does Staff annualize incentive compensation over normalizing?

A. Staff regards incentive compensation as an expense that should follow the matching principle.

Q. What is the matching principle concept in accounting?

A. The matching principle in accounting dictates that an expense should be reported in the same period as its corresponding revenue. In some instances, systematic allocation is required to distribute costs across accounting periods until the cost is incurred.

Q. Why does the matching principle not apply when considering incentive compensation in future years between rate cases?

A. The matching principle may reasonably apply when considering incentive compensation payouts associated with benefits realized during the test year when a realistic evaluation of those financial benefits gained from administering the incentive compensation program is feasible during a rate case. However, the financial benefits gained from a properly administered incentive compensation program that occur during a future period are not evaluated or included in a rate case because the new efficiencies and financial benefits on which future payouts depend have not yet occurred. For this reason, the matching principle does not realistically apply to future period incentive compensation program payouts.

Q. Why is important?

A. A successful incentive compensation program is self-funding and contributes positively to the corporate financial position. Incentive compensation payouts would not occur unless the company receives a financial benefit in return. Moreover, the financial benefits received by the company should exceed the incentive compensation payouts. When these factors are considered in conjunction with the fact that the matching principle does not apply to future period incentive compensation program payouts, the only logical conclusion is that the costs associated with those incentive compensation program payouts should not be recovered in rates.

Q. Regarding the self-funding nature of incentive compensation programs, why is it important to recognize that annualizing historic incentive compensation benefits Evergy at the expense of ratepayers?

A. Prudent incentive compensation plans should be self-funding. Annualizing historic incentive compensation payouts in anticipation of paying for new efficiencies that may or may not happen, contributes to the Company's bottom line. This is because any financial benefits Evergy receives from its incentive compensation program will not pass through to ratepayers until a future rate case, when the benefits are realized in rates. Until then, the financial benefits are merely absorbed by the Company and contribute to its bottom line.

Q. Can you elaborate?

A. Yes. The table below provides an illustration for how Evergy would still be making money even if historic incentive compensation payment averages were normalized over four years. For consistency, the incentive compensation payouts will remain constant relative to the company benefit achieved, which we will assume to be $10 million. As the table demonstrates, even normalizing the historic average results in a windfall for the Company since the financial benefits achieved are not realized in customer rates until a new test year. By that time, the financial benefits have been absorbed into the Company's bottom line.

Dollar amounts in millions	Test Year 1	Year 2	Year 3	Year 4
Incentive Compensation payout resulting from benefit achieved	(5.40)	(5.40)	(5.40)	(5.40)
Normalized Incentive compensation recovered in rates	1.37	1.37	1.37	1.37
Company benefit achieved in the form of an increase to operating revenue	10.00	10.00	10.00	10.00
Benefit reflected in test year and included as an adjustment to the Company's revenue requirement	(10.00)	-	-	-
Net Recovery	**(4.03)**	**5.97**	**5.97**	**5.97**

Q. What additional adjustments do you recommend beyond the cash working capital adjustments?

A. In addition to the incentive compensation cash working capital normalization adjustment, I also recommend corresponding reductions within 'Administrative and General Salaries' expenses on the income statement in order to accurately reflect the new revenue requirement necessary moving forward. I recommend an income statement reduction of $7,767,214.07 for Missouri Metro and an income statement reduction of $2,588,224.90 for Missouri West.

Utility	Incentive Compensation Four Year Average[2]	Normalize Incentive Compensation Four Year Average Over Four Years	Reduction to Income Statement Administrative & General Salaries
Missouri Metro	10,356,285.43	2,589,071.36	(7,767,214.07)
Missouri West	3,450,966.54	862,741.63	(2,588,224.90)

[2] A different allocation factor was applied to Staff's incentive compensation payroll expense which is why this amount differs from CWC incentive compensation. Any differences are due to allocation factor adjustments.

Q. Does this conclude your testimony?

A. Yes.