

Exhibit No.:
Issue: Payroll: Overtime Expense
Witness: Matthew R. Young
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: ER-2016-0156
Date Testimony Prepared: August 15, 2016

MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING DEPARTMENT

REBUTTAL TESTIMONY

OF

MATTHEW R. YOUNG

KCP&L GREATER MISSOURI OPERATIONS COMPANY

CASE NO. ER-2016-0156

Jefferson City, Missouri
August 2016

1 **REBUTTAL TESTIMONY**

2 **OF**

3 **MATTHEW R. YOUNG**

4 **KCP&L GREATER MISSOURI OPERATIONS COMPANY**

5 **CASE NO. ER-2016-0156**

6 Q. Please state your name, employment position and business address.

7 A. Matthew R. Young, Utility Regulatory Auditor IV with the Missouri Public
8 Service Commission (“Commission” or “PSC”), Fletcher Daniels State Office Building,
9 615 East 13th Street, Room 201, Kansas City, Missouri 64106.

10 Q. Are you the same Matthew R. Young who has previously provided testimony
11 in this case?

12 A. Yes. I contributed to Staff’s Cost of Service Report filed in the KCP&L
13 Greater Missouri Operations Company (“GMO” or “Company”) rate case designated as Case
14 No. ER-2016-0156 on July 15, 2016.

15 Q. What is the purpose of your rebuttal testimony?

16 A. I will respond to the direct testimony of GMO witness Ronald A. Klote on the
17 subject of overtime expense.

18 Q. Please identify GMO’s position on overtime expense.

19 A. Page 40, lines 13-15 of Mr. Klote’s direct testimony states, “[O]vertime was
20 annualized at an amount equal to the average of the amounts incurred for the 12 month
21 periods ending December 2012, December 2013 and June 2015, adjusted for labor
22 escalations.”

23 Q. Has GMO updated the overtime adjustment since its direct case was filed?

1 A. Yes. GMO updated the adjustment for the December 31, 2015 cutoff period.
2 In the updated adjustment, GMO annualized overtime by averaging the cost incurred during
3 the 2013, 2014, and 2015 calendar years after the historical costs were escalated.

4 Q. Can you describe what Mr. Klote means by “labor escalations”?

5 A. Yes. GMO’s position is that overtime incurred in prior years is not a good
6 representation of today’s overtime expense because prior overtime costs were based on wage
7 rates that subsequently have been increased. For example, overtime earned by a particular
8 employee in 2015 incurs a greater overtime cost than the employee did in 2014, because that
9 employee earned a wage increase during the 12 month period. In its payroll adjustment, the
10 Company’s inflates prior years’ annual overtime expense to arrive at what the overtime would
11 have theoretically cost in 2016.

12 Q. Do you agree with GMO’s rationale for escalating historical costs?

13 A. No. GMO’s analysis examines overall overtime expense and does not consider
14 that the amount of overtime expense is the result of two distinct cost drivers; hourly wage
15 rates and overtime hours worked. With some exceptions, the former cost driver, composite
16 overtime wage rates, tend to increase with the passage of time but GMO’s rationale for
17 escalation is focused on wage rates and ignores the latter cost driver, overtime hours worked.
18 Staff considers overtime hours to be the primary driver of overtime expense because it can be
19 influenced by uncontrollable events such as unplanned outages or weather events and at the
20 same time is directly affected by management’s efforts to increase productivity or upgrade the
21 Company’s technology.

22 Q. If Staff recognizes that rising wage rates are an “overtime cost driver,” how is
23 that addressed in Staff’s adjustment?

1 A. Staff analyzed both of GMO's "overtime cost drivers" separately and
2 calculated a three-year average (2013 through 2015) of overtime hours for both of GMO's
3 MPS and L&P rate districts. This average of annual overtime hours was then multiplied by
4 the composite overtime hourly rate (total 2015 overtime dollars divided by 2015 overtime
5 hours) to compute a normalized overtime expense. This calculation was done separately for
6 union and non-union employees. By virtue of using the 2015 composite hourly rate in its
7 calculation, Staff reflects the most current overtime wage rate information in its adjustment.
8 The normalized expense for MPS and L&P was then summed to find a normalized overtime
9 expense for GMO.

10 Q. Did Staff's analysis show an increasing trend in overtime hours from past
11 years?

12 A. Yes and no. The following table depicts overtime hours incurred by Great
13 Plains Energy, MPS and L&P since 2009:

14

<u>Year</u>	<u>Great Plains</u> <u>Overtime Hours</u>	<u>MPS</u> <u>Overtime Hours</u>	<u>L&P</u> <u>Overtime Hours</u>
2009	556,142	101,661	49,610
2010	616,142	135,475	58,377
2011	605,872	127,762	67,923
2012	478,831	100,688	52,723
2013	540,163	107,146	53,170
2014	540,697	108,914	56,209
2015	575,878	117,277	63,311

15

1 The table shows that annual levels of overtime hours are an increasing trend if only the
2 prior four years are in consideration but are fluctuating if all seven years are in consideration.
3 Again, the level of overtime hours is influenced by many factors including management's
4 planning and unforeseen circumstances. For instance, the 2015 overtime at GMO is elevated
5 because of a June 2015 storm and an unplanned outage at Iatan 1. Using a three year average
6 that includes one year with an unusually high overtime level recognizes the fact that
7 unforeseen circumstances can occur periodically but the impact of that year is mitigated by
8 the results of the other two years in which overtime was less subject to uncontrollable events.

9 Q. Does the composite hourly rate for overtime necessarily increase when wage
10 increases are awarded?

11 A. No. Even when GMO increases the overall level of base salary, composite
12 overtime rates can remain flat, or even slightly decline as illustrated in the following tables:

13 **MPS**

<u>Year</u>	<u>Overtime Expense</u>	<u>Overtime Hours</u>	<u>Composite Hourly Rate</u>
2009	\$5,029,117	101,661	\$49.47
2010	\$7,190,605	135,475	\$53.08
2011	\$6,746,479	127,762	\$52.80
2012	\$5,725,039	100,688	\$56.86
2013	\$6,055,405	107,146	\$56.52
2014	\$6,505,808	108,914	\$59.73
2015	\$7,305,494	117,277	\$62.29

L&P

<u>Year</u>	<u>Overtime Expense</u>	<u>Overtime Hours</u>	<u>Composite Hourly Rate</u>
2009	\$2,454,467	49,610	\$49.48
2010	\$3,098,434	58,377	\$53.08
2011	\$3,586,423	67,923	\$52.80
2012	\$2,997,145	52,723	\$56.85
2013	\$3,000,168	53,170	\$56.43
2014	\$3,352,387	56,209	\$59.64
2015	\$3,934,821	63,311	\$62.15

Q. Is multiplying the average overtime hours by the last known wage rate the same approach Staff used to calculate the revenue requirement in Staff's direct case?

A. No. In response to Staff Data Request No. 0036.1, GMO provided the overtime hours of Great Plains Energy but was unable to provide overtime hours specifically for GMO and GMO's MPS and L&P rate districts. Since Staff was unable to obtain overtime hours for MPS and L&P, it was unable to perform the calculation described above and computed a four year average of overtime dollars to normalize overtime expense. Since filing its direct case, Staff has obtained the overtime dollars charged to the various subsidiaries of Great Plains Energy to develop ratios of total overtime dollars in each entity. Staff then used these ratios to allocate the Great Plains Energy overtime hours to GMO as well as MPS and L&P. These allocated hours will be used by Staff in its true-up overtime expense normalization by updating the average overtime hourly rate to the July 31, 2016 true-up level.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of KCP&L Greater Missouri)
Operations Company's Request for Authority) Case No. ER-2016-0156
to Implement A General Rate Increase for)
Electric Service)

AFFIDAVIT OF MATTHEW R. YOUNG

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

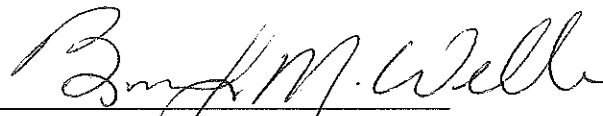
COMES NOW MATTHEW R. YOUNG and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing Rebuttal Testimony and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.


MATTHEW R. YOUNG

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 12th day of August, 2016.


Notary Public



BEVERLY M. WEBB
My Commission Expires
April 14, 2020
Clay County
Commission #12464070