# Exhibit No. 225

MoPSC Staff – Exhibit 225
Matthew R. Young
Direct Testimony
File Nos. ER-2022-0129 & ER-2022-0130

| | |
|---|---|
| *Exhibit No.:* | |
| *Issue(s):* | *Revenue Requirement* |
| *Witness:* | *Matthew R. Young* |
| *Sponsoring Party:* | *MoPSC Staff* |
| *Type of Exhibit:* | *Direct Testimony* |
| *Case Nos.:* | *ER-2022-0129 and ER-2022-0130* |
| *Date Testimony Prepared:* | *June 8, 2022* |

# MISSOURI PUBLIC SERVICE COMMISSION

## FINANCIAL AND BUSINESS ANALYSIS DIVISION

## AUDITING DEPARTMENT

# DIRECT TESTIMONY

# OF

# MATTHEW R. YOUNG

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

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

***Jefferson City, Missouri***
***June 2022***

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**DIRECT TESTIMONY**

**OF**

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**Case No. ER-2022-0129**

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

Q. Please state your name and business address.

A. My name is Matthew R. Young. My business address is 615 E. 13$^{th}$ Street, Kansas City, Missouri, 64105.

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

A. I am a Utility Regulatory Audit Supervisor on the Staff of the Missouri Public Service Commission ("Staff").

Q. Please describe your educational background and experience.

A. I earned a Bachelor of Liberal Arts from The University of Missouri – Kansas City in May 2009 and a Master of Science in Accounting, also from The University of Missouri – Kansas City, in December 2011. I have been employed by the Missouri Public Service Commission ("Commission") since July 2013. During this time I have conducted a variety of audits, which are listed in Schedule MRY-d1.

Q. What are your responsibilities?

A. I perform rate audits and prepare miscellaneous filings for consideration by the Commission. I review exhibits and testimony on assigned issues, develop accounting adjustments and issue positions which are supported by workpapers and testimony. For cases that do not require testimony, I prepare Staff Recommendation Memorandums.

**EXECUTIVE SUMMARY**

Q. What is the purpose of your direct testimony?

A. In this testimony, I will present and describe Staff's recommended adjustments to the test year as is reflected in Staff's Accounting Schedules.

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

A. Yes. I recommend annualized or normalized amounts to include in the revenue requirement for the following items; the rate base amounts for net plant, fuel inventories, Iatan regulatory assets, and ADIT as well as the expense amounts for fuel, amortization expense, prospective tracking costs, and income tax expense.

Q. Through this testimony, do you describe the development of work product which you provided to another Staff witness for the development of an issue?

A. Yes. I describe the analysis supporting Staff's recommended fuel prices, which were used as an input to Staff's fuel modeling. The witnesses sponsoring Staff's fuel modeling are Shawn Lange for Evergy Missouri Metro ("EMM") and Charles Poston for Evergy Missouri West ("EMW").

**DEPRECIATION CLEARINGS**

Q. What are depreciation clearings?

A. During the test year, EMM and EMW depreciated transportation equipment and charged the cost to a clearing account. At the end of the accounting period, the costs held in the clearing account are distributed among multiple FERC accounts.

In its revenue requirement calculation, Staff included 100% of its annualized depreciation expense by adjusting Account 403 (Depreciation Expense), so depreciation costs booked to other FERC accounts in the test year need to be removed in order to avoid "double counting". Staff accordingly removed the depreciation clearings from the test year.

**NUCLEAR DECOMMISSIONING**

Q. Please describe the nuclear decommissioning adjustment.

A. The owners of the Wolf Creek nuclear plant, including EMM, contribute to a trust in order to accumulate the estimated decommissioning costs of retiring the power plant. Pursuant to Commission Rule 20 CSR 4240-20.070(4), every three years, electric utilities with decommissioning trust funds must perform a study of the estimated retirement costs.

Q. When was the most recent cost study performed?

A. EMM presented the most recent cost study to the Commission in Case No. EO-2021-0056. The study concludes that the current cost estimates are reasonable and that no changes to the annual contributions to the trust are necessary at this time. As such, the test year nuclear decommissioning cost also represents the going forward cost, and no adjustment is necessary.

**PLANT IN SERVICE AND ACCUMULATED DEPRECIATION RESERVE**

Q. Did Staff include Plant in Service ("Plant") and Accumulated Depreciation Reserve ("Reserve") in its revenue requirement?

A. Yes. Staff included Plant and Reserve based on actual book amounts as of December 31, 2021, Staff's update period. Staff intends to include changes to Plant and Reserve balances through May 31, 2022 in its true-up accounting schedules.

Q. Did Staff adjust the December 31, 2021 book amount for Plant?

A. Yes. Staff reduced EMW's transmission and distribution Plant to reflect the Stipulation and Agreement in Case No. ER-2012-0175[1]. The stipulation states:

> Upon Commission approval of this Stipulation GMO will reduce its transmission and distribution plant rate base by a total of $8.0 million… [EMW] agrees it will not request recovery of this reduction by any means, directly or indirectly, in the future.

Staff also made a corresponding adjustment to EMW's Reserve to reflect the stipulation.

Q. Did Staff further adjust the December 31, 2021 book amount for Reserve?

A. Yes. It is necessary for EMM, EMW, and Staff to make adjustments to the book Reserve balances to account for retirement work in progress ("RWIP").

Q. What is RWIP?

A. RWIP is retired Plant that has not yet been classified for certain components of depreciation, namely the components for cost of removal and salvage. EMM and EMW have removed the cost of retired Plant assets and the related Reserve from its book balances as of the retirement dates. However, as of December 31, 2021, EMM and EMW had not removed the related Reserve amounts associated with cost of removal and salvage accruals calculated for the retired Plant included in the RWIP balance. While the actual plant is retired and removed from Plant and Reserve, the plant has not been physically disassembled so the cost of removal and salvage components of depreciation are still included in Reserve. As a result, EMM and EMW's books overstate the Reserve for this retired plant that is no longer serving the public.

[1] Case No. ER-2012-0174, *Non-Unanimous Stipulation and Agreement as to Certain Issues*. Approved by the Commission in its Report and Order, January 9, 2013.

Staff included a line item in its Accounting Schedules for RWIP associated with Production, Transmission, Distribution, and General Plant.

**<u>AMORTIZATION OF INTANGIBLE PLANT</u>**

Q. Please describe intangible plant.

A. In this testimony, intangible plant is primarily the cost of software assets. However, intangible plant also includes assets related to radio frequency rights, land rights, organizational costs, etc.

Q. Why is an adjustment to amortize intangible plant necessary?

A. The capital costs, and related recommendations to amortize those costs, are not included in the scope of EMM's and EMW's depreciation study. Therefore, the assets and amortization costs are separately examined and included in the revenue requirement.

Q. Did Staff make an adjustment to the test year amortization expense?

A. Yes. Staff adjusted the test year amortization expense to reflect the changes in the book cost of the intangible Plant at December 31, 2021. Staff will revise this adjustment in its true-up revenue requirement to reflect the amortization of intangible Plant balances at May 31, 2022.

Q. Did Staff exclude any amortization expense?

A. Yes. Staff reduced the annualized amortization expense for EMW to reflect the Commission's *Reports and Orders* issued in Case Nos. ER-2010-0356 and ER-2012-0175. This reduction to amortization expense is related to the Crossroads power plant. Staff witness Keith Majors discusses Crossroads in more detail in his direct testimony.

**IATAN CONSTRUCTION ACCOUNTING REGULATORY ASSETS**

Q. What are the Iatan Regulatory Assets?

A. During the creation and execution of EMM's, f/k/a Kansas City Power & Light ("KCPL"), Experimental Regulatory Plan for the construction of Iatan 2, which involved adding pollution control equipment to Iatan 1 as well as other investments, the Commission authorized EMM to book certain costs into regulatory asset accounts for potential recovery in future general rate cases. Additionally EMW, f/k/a KCP&L Greater Missouri Operations ("GMO"), was authorized to establish similar regulatory assets for consideration in future rate cases.

Q. Did the Commission approve recovery of the deferred costs in rates?

A. Yes. Below is a table that identifies the Iatan generating units, the costs associated with that generating unit the Commission authorized EMM and EMW book in regulatory asset accounts, and the time period over which the costs were collected in the regulatory asset account:

| Owner | Generating Unit | Expense Type | Accumulation Period | Authorization |
|---|---|---|---|---|
| KCPL | Iatan 1 and Common | Depreciation, Carrying Cost, No O&M | May 1, 2009 – May 4, 2011 | ER-2009-0089 Stipulation |
| KCPL | Iatan 2 | Depreciation, Carrying Cost, O&M | August 26, 2010 – May 4, 2011 | Accounting Authority Order EO-2005-0329 |
| GMO – MPS and L&P | Iatan 1 and Common | Depreciation, Carrying Cost, No O&M | May 1, 2009 – June 25, 2011 | ER-2009-0090 Stipulation |
| GMO – MPS and L&P | Iatan 2 | Depreciation, Carrying Cost, O&M | August 26, 2010 – June 25, 2011 | Accounting Authority Order EU-2011-0034 |

Q. What ratemaking treatment was authorized for the regulatory assets?

A. The assets were to be amortized over the remaining lives of the Iatan 1 and Iatan 2 generating units, with rate base treatment.

Q. Have the asset balances changed since their creation?

A. Yes. In EMM's most recent rate case, Case No. ER-2018-0145, the balance of EMM's Iatan 1 & Common and Iatan 2 regulatory assets were reduced per item 11 of the *Non-unanimous Partial Stipulation and Agreement.*

Q. Did Staff reflect the stipulated asset balances in the current revenue requirement?

A. Yes. Staff included the May 31, 2022 unamortized balances of the Iatan assets in rate base, as adjusted by Case No. ER-2018-0145. Staff also reset the amortization expense of the adjusted balances to amortize the remaining assets of the life of the underlying plant.

**PROSPECTIVE TRACKING**

Q. What is prospective tracking?

A. In the prior rate cases, Case Nos. ER-2018-0145 and ER-2018-0146 ("2018 Rate Cases"), the parties agreed that the asset and liabilities listed in Exhibit A of the *Non-unanimous Partial Stipulation and Agreement* will be tracked so that the utility is allowed to fully recover deferred costs, or fully return deferred benefits, from customers but no more and no less than the amounts deferred.

Q. What type of costs are tracked under prospective tracking?

A. In prior rate cases, various regulatory assets and regulatory liabilities have been established and embedded in rates by amortizing the deferred costs. The time period that the deferred costs are amortized was an appropriate period for the underlying cost. After each asset or liability is fully amortized through rates, the prospective tracking adjustment captures the amortizations passed on to customers so that EMM and EMW will not over or under collect costs due to regulatory lag. Staff did not include assets or liabilities that are experiencing ongoing cost deferrals, such as EMM's Renewable Energy Standard deferred costs. Instead, Staff tracked the amortizations of legacy assets and liabilities in its prospective tracking adjustment, which can be broken into three types of amortizations.

Q. What is the first type of amortization that Staff tracked?

A. The first type of amortization tracked by Staff is related to the "stub period" of the 2018 Rate Cases. The true-up date in the 2018 Rate Cases was June 30, 2018. Generally, assets and liability balances were measured at that date for ratemaking purposes and if an amortization was complete, an adjustment was made to remove it from rates. However, removal of the amortization from rates was not passed to customers until new rates became effective in December 2018. In the current case, Staff captured the amortizations of fully amortized assets and liabilities from July 1 through November 30, 2018 for inclusion in the current prospective tracking adjustment.

Q. What is the second type of amortization that Staff tracked?

A. The second type of amortization tracked by Staff is related to asset and liability amortizations that were included in the 2018 Rate Cases but were fully amortized prior to the May 31, 2022 true-up date, or are expected to be fully amortized by the effective date of rates in the current case. Since these amortizations are embedded in current rates, there will be a stub period that will have to be addressed in EMM's and EMW's next rate cases.

Q. What is the third type of amortization that Staff tracked?

A. The third type of amortization tracked by Staff is related to the assets and liabilities that were established in the 2018 Rate Cases and amortized over 48 months. Since there is a three year and one month gap in between the 2018 Rate Cases' effective date of rates and the initiation of the current rate case, there will not be an under or over amortization of these assets and liabilities *if* the current case takes eleven months to process. In the prospective tracking adjustment, Staff assigned a $0 balance to these assets and liabilities assuming the current rate cases will remain outstanding for eleven months. If this assumption proves incorrect, the over/under amortizations will be addressed in the next rate case as part of the examination of the stub period.

Q. What point in time did Staff select to measure the assets and liabilities?

A. Since Staff limited its adjustment to legacy assets and liabilities, the monthly amortizations and balances are known and measurable throughout the remainder of the current rate cases. The factor that is not certain is when the rates will change as a result of this case. As such, Staff used the May 31, 2022 asset and liability balances of each legacy deferred cost, and consolidated the balances into one "prospective tracking" asset/liability. The consolidated balance was amortized over a 48-month period.

Q. What are the specific legacy assets and liabilities Staff included in the prospective tracking adjustment?

A. Staff included balances created from amortizations included in prior rate cases for the assets and liabilities in the table below. Since these amortizations were captured in the prospective tracking adjustment, Staff also made adjustments to remove the amortization expense from the test year when applicable:

| EMM | EMW |
|---|---|
| Iatan 1 & Common<br>2011 Flood Costs<br>2011 Flood Insurance Proceeds<br>Wolf Creek Refuel #18<br>Transource Account Review<br>Wolf-Creek Mid-Cycle Outage<br>STB Settlement<br>LaCygne Obsolete Inventory<br>DSM Advertising<br>DSM Program Costs<br>Lease Abatement<br>Excess OSS Margins<br>EV Charging Station Tracker | L&P Ice Storm<br>Iatan O&M Tracker<br>DSM Advertising<br>DSM Program Cost<br>Transource Account Review<br>Transource Asset Transfer<br>L&P Revenue Phase-in |

**<u>DEMAND SIDE MANAGEMENT OPT-OUT COSTS</u>**

Q. What are Demand Side Management opt-out costs ("DSM Opt-outs")?

A. Prior to the passage of the Missouri Energy Efficiency Investment Act ("MEEIA"), stakeholders worked with electric utilities to enable and encourage a reduction in overall demand via investment in energy efficiency through Demand Side Management ("DSM") programs. EMM and EMW conducted a variety of DSM programs beginning in or around 2005 and was authorized to defer the program costs for recovery in subsequent rate cases. In Case No. EO-2014-0029, EMM obtained approval to defer bill credits issued to commercial and industrial customers who chose to opt-out of paying for the deferred DSM costs.[2] The amount of the bill credits represented the amount of DSM costs built into current rates. KCPL, and subsequently EMM, deferred the bill credits into a regulatory asset account for recovery in the next rate case.

[2] Case No. EO-2014-0029, *Non-Unanimous Stipulation and Agreement*. Approved by the Commission on October 3, 2013.

Q. Has Staff included the DSM Opt-out costs in its revenue requirement?

A. Yes. Staff consolidated the December 31, 2021 balances of DSM Opt-out vintages 1-3 with the balance of the current vintage 4, and amortized the consolidated balance over six years. Staff anticipates including the consolidated May 31, 2022 DSM Opt-out balance in its true-up revenue requirement.

Q. Is this balance included in rate base?

A. No. The DSM Opt-out regulatory assets are not, and historically have not been, included in rate base.

Q. How many customers have opted-out of DSM charges?

A. Currently, there are approximately 950 Commercial and Large Power customers on the list of opt-out customers.

Q. When will EMM cease deferring DSM Opt-out costs?

A. Since DSM Opt-out costs represent bill credits tied to the amount of DSM program costs in current rates, and the DSM program costs are fully amortized (see prospective tracking above), EMM will cease incurring DSM Opt-out costs when the current rate case is implemented in tariffs.[3] However, Staff anticipates that the opt-out bill credits issued in between the measurement date in Staff's workpapers and the effective date of rates will be captured in the DSM Opt-out adjustment in EMM's next rate case.

**CURRENT INCOME TAX EXPENSE**

Q. How did Staff calculate income tax expense in its revenue requirement?

[3] Staff Data Request 349.

A. To calculate income tax expense, Staff converted pretax book net operating income into ratemaking net taxable income by adding and/or subtracting various tax timing differences.

Q. What are tax timing differences?

A. Tax timing differences occur when a cost (or revenue) is recorded differently on a company's books than it is reported on the company's tax return. For example, large companies generally use accrual accounting to record bad debt expense on its books but on the tax return, bad debts will be reported on a cash basis. The difference between the two amounts is a tax timing difference that is usually temporary in nature and will reverse over time.

Q. Did Staff use all of the tax timing differences on EMM's and EMW's tax return to calculate net taxable income?

A. No. A majority of tax timing differences are not included in the ratemaking income tax calculation. Continuing the example of bad debt expense above, an adjustment to book bad debt expense is generally made in a rate case so that customers are charged for the cost on a cash basis. When rates and the tax returns both reflect a cash basis, the inclusion of the tax timing difference in income tax expense for this cost may not be applicable to ratemaking. Other tax timing differences are effectively prohibited from being reflected in ratemaking income tax expense by the Internal Revenue Service's ("IRS") tax code. Specifically, the IRS's tax code prohibits passing depreciation timing differences caused by method or life accounting treatment of a regulated company's assets.

Q. Are timing differences the only adjustments needed to calculate income tax expense?

A. No. After income tax expense is calculated by applying the current income tax rates to taxable income, income tax credits are applied to reduce the tax burden. The remaining ratemaking income tax expense is charged to ratepayers.

Q. What tax timing differences and tax credits did Staff include in its calculation?

A. To calculate ratemaking income tax expense, Staff used the following in its calculation:

**Add Back to Operating Income Before Taxes:**

- Book Depreciation Expense
- 50% Business Meals
- Book Nuclear Amortization (EMM Only)
- Book Amortization Expense

**Subtract from Operating Income:**

- Interest Expense
- IRS Accelerated Tax Depreciation
- IRS Nuclear Fuel Amortization (EMM Only)
- IRS Amortization Expense
- Employee 401k ESOP Deduction

**Subtractions – Federal Income Tax Credits:**

- Research and Development Tax Credit

**<u>DEFERRED INCOME TAX EXPENSE</u>**

Q. Did Staff include deferred income tax expense in its revenue requirement?

A. Yes. When a tax timing difference is passed to customers (referred to as the "flow-through" ratemaking treatment) the effect to ratemaking income tax expense is principally the same as the effect to income tax payable to the taxing authorities. Flowing a tax benefit to customers does not generate deferred taxes from a ratemaking perspective. However, when a tax timing difference is not passed to customers (referred to as "normalized" ratemaking treatment), there is a mismatch between the income tax expense in rates and the income taxes payable generated on the tax returns. The largest normalized tax timing differences is typically depreciation expense, which is protected from flow-through treatment by IRS regulations. In order to fully normalize the tax timing difference caused by depreciation (as well as other normalized timing differences), ratepayers are charged deferred tax expense in order to prevent the flow-through of the upfront tax benefits.

Q. Why do you call the depreciation tax timing difference an "upfront" tax benefit?

A. The depreciation tax timing difference is temporary in nature. When the tax benefits were designed, the federal government did not allow for taxpayers to avoid paying taxes, but intended taxpayers to defer their tax liabilities to future periods. The government's intent is to provide companies with additional cash so that the cash would be reinvested in the business and/or the economy. However, the tax benefit is not reduced over the long-term since taxpayers theoretically pay the deferred tax liability as the temporary differences reverse. Simply put, ratepayers provide the utility cash for income taxes that will not be due until future periods.

**ACCUMULATED DEFERRED INCOME TAXES ("ADIT")**

Q. What is ADIT?

A. ADIT is the accumulation of the income tax expense a utility has deferred to future periods. As explained in the Deferred Income Tax section, there are various normalized tax timing differences that lead to a mismatch in the income tax expense in customer's rates and the income tax a utility actually pays to the IRS and other taxing entities. EMM's and EMW's ADIT liability represents a net cash benefit the utilities have realized by deferring tax liabilities to taxing authorities. When ratepayers provide a utility monies for income tax payments that the utility is able to defer through tax deductions, the deferred income taxes accumulate in a liability account and represents a source of cost-free funds from the ratepayers.

To avoid charging ratepayers a return on funds that they have provided to the utility, ADIT is included as a reduction to rate base.

Q. How did Staff calculate the appropriate amount of ADIT to include in rate base?

A. Staff included the December 31, 2021 ADIT book balance as a reduction to rate base. Staff intends to include the May 31, 2022 balance in its true-up schedules.

Additionally, Staff reduced the amount of EMW's ADIT related to the Crossroads combustion turbines to reflect the Commission's *Report and Order* in Case No. ER-2012-0175. The net amount of ADIT is based on the Commission ordered value of Crossroads. This value, and the associated adjustments to EMW's books and records, is further discussed in Staff witness Keith Majors' direct testimony.

Q. Did Staff include ADIT on Construction Work in Progress ("CWIP")?

A. Yes. EMM and EMW record ADIT that is associated with the CWIP reflected on its books and records. This ADIT represents a free source of capital funds available for use by the utility before the construction project is completed and included in plant-in-service. CWIP is excluded from the rate base on which EMM and EMW earns a return in the ratemaking process. Although CWIP is not included in rate base, EMM and EMW are allowed to earn an Allowance for Funds Used During Construction ("AFUDC") deferred return before the property under construction is added to rate base. AFUDC is accrued during the construction of the asset and included in rate base when the plant is placed into service. The amount of AFUDC is included in depreciation expense and rate base over the life of the plant. For the calculation of AFUDC, there is no consideration for ADIT as a reduction to the base on which it is calculated; the AFUDC is calculated on the "gross" amount, with no consideration of ADIT.

Q. Has this ratemaking treatment been brought to the Commission in prior cases?

A. Yes. Utilities have argued that it is inappropriate to reduce rate base for ADIT associated with CWIP balances, when the CWIP amounts are not included in rate base. However, the Commission has found to the contrary recently. Reducing rate base by the amount of ADIT on CWIP was an issue decided by the Commission in an Ameren Missouri general rate case, Case No. ER-2012-0166. On page 30 of its Report and Order in that case, the Commission stated why this treatment is appropriate:

> In other words, failure to recognize the CWIP-related ADIT balance in the company's rate base will overstate the companies AFUDC costs and future rate base, essentially allowing the company to earn AFUDC and a return on capital supplied by ratepayers…
>
> …As fully explained in the findings of fact, Ameren Missouri must include CWIP-related ADIT balances as an offset to rate base to avoid overstating AFUDC and future rate base, to the detriment of both current and future ratepayers.

On page 79 of its *Report and Order* in Case No. ER-2014-0370, the Commission affirmed its treatment of ADIT on CWIP:

> KCPL asserts that its situation is different than that of the utility at issue in File No. ER-2012-0166 because KCPL has a net operating loss and, as a consequence, KCPL has more deductions than it has revenues during the applicable period, so it has not and will not receive a cash tax benefit. However, KCPL ratepayers provide fully-normalized income taxes in cost of service regardless of whether KCPL pays those taxes concurrently to the IRS. Even if KCPL is not realizing all the benefits of accelerated depreciation due to a net operating loss position, it does not invalidate the fact that ratepayers are providing several million dollars in cash income taxes. The Commission concludes that the amount of ADIT related to CWIP should be an additional reduction to KCPL's rate base.

Therefore, Staff recommends the amount of ADIT associated with CWIP as of December 31, 2021, be used as an additional reduction to EMM's and EMW's rate base, similar to other amounts of ADIT.

**TAX REFORM**

Q. Has there been any changes to tax law that have effected EMM and EMW?

A. Yes. On December 22, 2017, the federal Tax Cuts and Jobs Act ("TCJA") was signed into law, and took effect on January 1, 2018. A prominent feature of the TCJA was a change in the federal corporate tax rate from 35% to 21%. When the tax rate changed, a portion of EMM's and EMW's ADIT transitioned from a temporary tax timing difference to a permanent tax timing difference.

Q. Did the tax reform cause a ratemaking concern?

A. Yes. As described above, ADIT represents normalized tax timing differences that are charged to customers prior to the actual payment to taxing authorities. When the tax timing differences were altered from temporary to permanent, the tax liability that ratepayers had prepaid would no longer be actually paid by utilities.

Q. Was this tax reform addressed in the 2018 Rate Cases?

A. Yes. Among other things, the Excess Deferred Income Taxes ("EDIT") were addressed in the 2018 Rate Cases by offsetting current income taxes expense. The balance of EDIT that is protected by IRS regulations was set to be amortized with the Average Rate Assumption Method ("ARAM") as defined by the IRS, while the balance of EDIT not protected by IRS regulations was amortized over 10 years.

Q. Did Staff include the amortizations in the current revenue requirement?

A. Yes. Staff included the ongoing amortizations of EDIT as an offset to total income tax expense.

Q. Are there additional EDIT balances that were not considered in the 2018 rate cases?

A. Yes. The amount of EDIT was measured as of June 30, 2018 in the 2018 rate cases. However, the tax benefits of the TCJA were not passed to customers until the rates were effective in November 2018. Staff has included an amortization of the "stub period" EDIT through a reduction to current income tax expense.

Q. Was the TCJA the only tax reform Staff addressed?

A. No. On January 1, 2020, the Missouri corporate tax rate changed from 6.25% to 4%. Similar to the TCJA, the reduction in Missouri's corporate tax caused a portion of EMM's and EMW's ADIT to transition from a temporary timing difference to a permanent timing difference. Unlike the TCJA-driven EDIT, the return of EDIT caused by Missouri's tax reform is not protected by normalization requirements.

Q. Was there any additional events that created EDIT?

A. Yes. After the 2018 rate cases, EMM retired the Montrose power plant and EMW retired the Sibley power plant. When the assets were removed from plant-in-service, depreciation of the plants ceased and the outstanding tax timing difference became permanent. The EDIT related to the power plants are income taxes that have been prepaid by customers.

Q. How did Staff include a return to customers of the various EDIT balances?

A. To return the TCJA-driven EDIT recognized in the 2018 rate cases, Staff amortized the protected EDIT with the IRS' ARAM methodology and continued the 10 year amortization of the unprotected EDIT. Staff amortized the remaining EDIT balances over a ten year period. The amortizations were included as an offset to total income tax expense.

Q. Until the EDIT has been returned to customers, is it appropriate to include the unamortized balances of EDIT in rate base?

A. Yes. The unamortized balances of EDIT represents income tax expense the customers have provided to the utility, but the utility has not, and will not, pay to taxing authorities. The balances are appropriate to include in rate base to avoid charging customers a return on cost-free funds that they provided to the utility.

**KANSAS CITY EARNINGS TAX**

Q. What is the Kansas City Earnings Tax?

A. The city of Kansas City, Missouri assesses a 1% earnings tax on the net taxable income earned within the Kansas City jurisdiction. Staff examined the historical payments made to Kansas City and determined that a three-year average of tax payments is appropriate to include in EMM's cost of service, while the last-known payment is appropriate for EMW's cost of service.

**FUEL AND PURCHASED POWER OVERVIEW (EMM)**

Q. What types of fuel does EMM use to generate electricity?

A. EMM's total 2021 owned generating capacity, consisting of nuclear, coal-fired, natural gas, oil-fired, and wind generation is 4,082 megawatts. EMM's generation capacity is made up of the following types of generation:

*continued on next page*

| 2021 Capacity and Generation by Fuel Type | | | |
|---|---|---|---|
| **Generation Capacity by Fuel Type** | **2021 Megawatt Rating** | **Percent of Generation Capacity** | **Percentage of MWh Generated (2021)** |
| Coal | 2,240 | 54.9% | 69.8% |
| Nuclear | 554 | 13.6% | 26.6% |
| Natural Gas | 759 | 18.6% | 2.1% |
| Oil | 380 | 9.3% | 0.2% |
| Wind | 149 | 3.7% | 1.4% |
| Solar | - | 0.0% | 0.0% |
| Total | 4,082 | 100% | 100% |

Source: Evergy 2021 Annual Report (10-k).

While EMM's coal-fired generating units make up 55% of its total generation fleet, those units produce 70% of the total native generation. Nuclear power is 13.6% of total EMM capacity, but it produces 26.6% of total generation. Natural Gas and Oil generation constitute 28% of EMM's capacity but are primarily peaking power plants.

**FUEL AND PURCHASED POWER OVERVIEW (EMW)**

Q. What types of fuel does EMW use to generate electricity?

A. EMW's total 2021 owned generating capacity, consisting of coal-fired, natural gas, and solar generation is 1,609 megawatts. EMW's generation capacity is made up of the following types of generation:

*continued on next page*

| 2021 Capacity and Generation by Fuel Type | | | |
|---|---|---|---|
| **Generation Capacity by Fuel Type** | **2021 Megawatt Rating** | **Percent of Generation Capacity** | **Percentage of MWh Generated (2021)** |
| Coal | 459 | 28.5% | 92.04% |
| Nuclear | - | 0.0% | 0.0% |
| Natural Gas | 1147 | 71.3% | 7.8% |
| Oil | - | 0.0% | 0.0% |
| Wind | - | 0.0% | 0.0% |
| Solar | 3 | 0.2% | 0.2% |
| Total | 1,609 | 100% | 100% |

Source: Evergy 2021 Annual Report (10-k).

While EMW's coal-fired generating units make up 28.5% of its total generation fleet, those units produce 92% of the total native generation. Natural Gas generation constitute 71% of EMW's capacity but are primarily peaking power plants.

## FUEL PRICES

Q. How did Staff determine the cost of generating electricity?

A. Staff computed fuel prices by examining actual historical cost of each type of fuel as explained below. The price of fuel was used as an input to Staff's fuel modeling.

**Coal Prices**

Q. How did Staff determine the price of coal?

A. Staff determined coal prices by generation facility based on a review and analysis of EMM's and EMW's coal purchase (supply) and coal transportation (freight) contracts. Staff's recommended coal prices reflect EMM's and EMW's actual delivered price of coal (excluding quality adjustments) experienced during the 12 months ended December 31, 2021. Staff is aware that the terms of coal and rail contracts were modified in 2022, along with new contracts becoming effective in 2022, and intends to reflect those changes in its true-up revenue requirement.

**Natural Gas Prices**

Q. How did Staff determine the price of natural gas?

A. As an input to its production cost model, Staff used the actual monthly commodity cost of natural gas for each month of 2021, except for February. Winter Storm Uri caused the actual February 2021 cost of natural gas to be abnormal, so Staff substituted the actual natural gas cost in February 2022 to act as a reasonable proxy. Staff intends to use the actual gas costs during the 12 months ended May 31, 2022 in its true-up revenue requirement. This 12-month period will exclude February 2021 from the historical costs.

**Nuclear Fuel Prices**

Q. How did Staff determine the price of nuclear fuel?

A. To determine the price of nuclear fuel, Staff relied upon the utility's Report 25 – the Fuel Report. Staff's recommended nuclear fuel price is based on the actual cost in December 2021, Staff's update period.

**Oil Prices**

Q. How did Staff determine the price of oil?

A. For its direct filed case, Staff reviewed and accepted Evergy's oil prices. However, Staff may revise the oil prices used in future fuel modeling based on EMM's and

EMW's response to Staff data request No. 41.2. This data request is not due until June 14, 2022 so is not incorporated in Staff's direct case.

**<u>FUEL FIXED COSTS</u>**

Q. Were fixed fuel and purchased power costs modeled in Staff's fuel run?

A. No. Fuel and purchased power that do not vary directly with the amount of fuel burned were not included in Staff's fuel model, but were determined separately. The non-variable fuel costs that were determined separately and included in fuel expense are typically referred to as "fuel adders." These types of costs include non-wage fuel handling, dust suppressant, and freeze proofing coal for transportation from the mines to power plants. Other fuel adder expenses incurred by EMM and EMW include ammonia, lime, limestone, sulfer, and powder activated carbon ("PAC").

Q. Does "fixed costs" include the cost of natural gas transportation?

A. Yes. A significant portion of natural gas transportation charges are fixed under contractual terms.

Q. Does "fixed costs" include the capacity portion of purchased power costs?

A. Yes. The non-variable purchased power costs not included in Staff's fuel model are commonly referred to as "capacity charges" or "demand charges" and are annualized separately from purchased power energy costs and are addressed in a later section of this testimony.

Q. How did Staff include fixed costs in the revenue requirement?

A. Staff included annualized amounts for fixed fuel costs based on actual costs during the 12 months ended December 31, 2021.

**PURCHASED POWER - ENERGY**

Q. How did Staff calculate the energy portion of purchased power costs?

A. Staff annualized purchased power energy charges based on Staff's fuel model results. These purchased power energy charges represent the energy EMM and EMW purchase on the spot market and through contracts to meet the system load requirements of its retail electric customers. As mentioned above, Mr. Lange is responsible for the EMM fuel model while Staff witness Charles T. Poston is responsible for the EMW fuel model, and Staff witness Saeid Dindarloo sponsors Staff's hourly market prices within the fuel models.

**PURCHASED POWER - CAPACITY**

Q. What are capacity charges?

A. Capacity charges, also referred to as "demand charges," represent fixed amounts that EMM and EMW either pay for the "right" to purchase power, also known as capacity purchases, or is paid by another entity for the "right" to purchase power from EMM or EMW. In the case of purchased power, the selling entity reserves generating capacity for EMM or EMW to purchase when the electricity is needed under terms of the purchased power agreements. EMM and EMW contract with various entities and pay a fixed component for the reserve capacity and an energy component for any energy consumed. Generally, there is also an amount for operational and maintenance costs charged for the usage of energy. The fixed component is paid by EMM and EMW as a demand charge, generally on a monthly basis, regardless of the level of power actually purchased. This amount is for the "right" to purchase the power in much the same way that natural gas utilities purchase the reservation of capacity from pipelines through reservation payments. The demand charges relate to the fixed expenses of operating a generating facility.

The demand charges paid to EMM and EMW by other generating entities, giving those entities the "right" to purchased power from EMM and EMW, are known as capacity sales. The demand charges for capacity sales are addressed in the testimony of Staff witness Karen Lyons.

Q. How did Staff calculate capacity charges?

A. Staff annualized purchased power demand charges based on existing capacity contracts currently in effect. These charges represent amounts that are paid under capacity agreements related to the fixed costs of reserving capacity. Staff determined the appropriate costs per megawatt hour and the amount of megawatts purchased for each contract and included the costs reflected in EMM's and EMW's capacity agreements in effect on December 31, 2021.

## FUEL INVENTORY

### Coal Inventory

Q. How did Staff calculate an amount for coal inventory?

A. The amount Staff included in EMM's and EMW's rate base for coal inventory is based on the results obtained from Staff's fuel model. Staff used its fuel model to determine the appropriate mix of generation and purchased power utilization to match the normalized native load for EMM and EMW. In doing so, Staff obtained from the fuel model an annual amount of tons of coal burned by each coal-fired generation unit during the normalized updated test year. Staff divided the annual tons of coal burned from the fuel model by 365 days to calculate an average daily burn by unit. Staff then multiplied this average daily burn by EMM's and EMW's recommended number of burn days of coal inventory for each generation unit and added an estimated level of basemat coal.

Q. What is basemat coal?

A. Basemat coal is the bottom portion of the coal pile that is difficult to burn in the generating facilities because of the contamination of moisture, soil, clay, and other contaminants. Staff included basemat coal as inventory to reflect the guidance provided by the Commission in prior rate cases.

Q. How did Staff value the amount of coal inventory?

A. Staff multiplied the resulting normalized level of inventory for each unit by the delivered cost per ton of coal for use at that unit. The resulting annual coal costs for each unit were then aggregated. The aggregated amount was multiplied by Staff's energy jurisdictional allocation factor to arrive at the coal inventory amount shown in rate base.

**Nuclear Inventory (EMM Only)**

Q. How did Staff determine an amount for nuclear inventory?

A. To determine the amount to include in rate base for EMM's nuclear fuel inventory, Staff used an 18-month average of the value of nuclear fuel that was contained in the fuel core of the Wolf Creek nuclear generating unit. Since the Wolf Creek station is refueled every 18 months, this 18-month time period reflects the average nuclear fuel inventory value during a complete nuclear fuel usage cycle at Wolf Creek.

**Oil and Fuel Additive Inventories**

Q. How did Staff determine an amount for other fuel inventories?

A. In its Direct case, Staff relied on EMM's and EMW's RB-74 workpaper for the quantity and price of oil and additive inventory. However, Staff intends to use a 13-month averages to determine the inventory levels for oil, lime, limestone, ammonia, propane, urea, and powder activated carbon inventories upon the receipt of the response to Staff data request nos. 41.2 and 449. These data requests are not due until after Staff files its Direct case so are not incorporated into Staff recommendation. Staff anticipates that the use of 13-month average inventory levels may be more appropriate in that it reflects EMM's and EMW's actual investment in fuel inventory by including a beginning inventory and an ending inventory. Also, when inventory levels fluctuate from month-to-month, as they do with fuel stocks, a 13-month average will smooth out any fluctuations.

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 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 *Direct Testimony of Matthew R. Young*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

Matt Young

**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 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

# Matthew R. Young

## Educational and Employment Background and Credentials

I am employed as a Senior Utility Regulatory Auditor for the Missouri Public Service Commission ("Commission"). I earned a Bachelor of Liberal Arts Degree from The University of Missouri – Kansas City in May 2009 and a Master of Science in Accounting, also from The University of Missouri – Kansas City, in December 2011. I have been employed by the Commission as a Regulatory Auditor since July 2013.

As a Utility Regulatory Auditor, I perform rate audits and prepare miscellaneous filings for consideration by the Commission. In addition, I review 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 in which I have participated and the scope of my contributions are listed below:**

| Case/Tracking Number | Company Name | Scope of Issues | Testified at Hearing |
|---|---|---|---|
| GO-2022-0171 | Spire Missouri | Capitalized Overheads | |
| EO-2022-0105 | Evergy Metro | Revenue Requirement Issues | |
| ER-2021-0240<br>GR-2021-0241 | Ameren Missouri | Incentive Compensation | |
| GR-2021-0108 | Spire Missouri | Capitalized Overheads, Income Taxes, Rate Base Amortizations | Yes |
| SA-2021-0017 | Missouri American Water Company | Feasibility Studies, Construction Cost Estimates | Yes |
| GO-2021-0030<br>GO-2021-0031 | Spire – East and Spire – West | ISRS Rate Base | |
| GA-2021-0010 | Spire – West | Costs to Expand Distribution System | |

| Case/Tracking Number | Company Name | Scope of Issues | Testified at Hearing |
|---|---|---|---|
| WR-2020-0264 | Raytown Water Company | Tank Painting and Tower Maintenance, Taxes, Leases, Capitalized Depreciation | |
| GO-2020-0229<br>GO-2020-0230 | Spire – East and Spire – West | ISRS Rate Base | |
| GA-2020-0105 | Spire – West | Costs to Expand Distribution System | |
| WA-2019-0366<br>SA-2019-0367 | Missouri American Water Company | Sale of Assets, Rate Base | |
| WA-2019-0364<br>SA-2019-0365 | Missouri American Water Company | Sale of Assets, Rate Base | |
| GO-2019-0356<br>GO-2019-0357 | Spire – East and Spire – West | Overhead Costs in Rate Base, Reconciliation | Yes |
| ER-2019-0335 | Ameren Missouri | Incentive Compensation, Fuel Inventory | |
| WO-2019-0184 | Missouri American Water Company | ISRS Rate Base | |
| SA-2019-0161 | United Services Inc. | Application for Certificate, Rate Base | |
| ER-2018-0145<br>ER-2018-0146 | Kansas City Power & Light & KCP&L Greater Missouri Operations | Fuel Prices & Inventories, Purchased Power Expense, Pensions, OPEBs, SERP, Outside Services | |
| WM-2018-0104 | Missouri American Water Company | Rate Base | |
| WM-2018-0023 | Liberty Utilities | Sale of Assets, Rate Base | |
| WR-2017-0343 | Gascony Water Company | Rate Base | Yes |

| Case/Tracking Number | Company Name | Scope of Issues | Testified at Hearing |
|---|---|---|---|
| GR-2017-0215<br>GR-2017-0216 | Laclede Gas Company & Missouri Gas Energy | Pensions, OPEBs, SERP, Incentive Compensation, Equity Compensation, Severance Costs | Yes |
| WR-2017-0139 | Stockton Hills Water Company | Revenue, Expenses, Rate Base | |
| ER-2016-0285 | Kansas City Power & Light | Forfeited Discounts, Bad Debt Expense, Customer Growth, Cash Working Capital, Payroll and Payroll Related Costs, Incentive Compensation, Rate Case Expense, Renewable Energy Standards Cost Recovery, Property Taxes | Yes |
| SR-2016-0202 | Raccoon Creek Utility Operating Company | Rate Base | |
| ER-2016-0156 | KCP&L Greater Missouri Operations | Payroll, Payroll Benefits, Payroll Taxes, Incentive Compensation, Injuries and Damages, Insurance Expense, Property Tax Expense, Rate Case Expense | |
| SR-2016-0112 | Cannon Home Association | Revenues and Expenses, Rate Base | |
| WR-2016-0109<br>SR-2016-0110 | Roy-L Utilities | Revenues and Expenses, Rate Base | |
| WO-2016-0098 | Missouri American Water Company | ISRS Revenues | |
| WR-2015-0246 | Raytown Water Company | Revenues and Expenses, Rate Base | |
| SC-2015-0152 | Central Rivers Wastewater Utility | Verification of amounts identified in Complaint | |
| WR-2015-0104 | Spokane Highlands Water Company | Revenues and Expenses, Rate Base | |

| Case/Tracking Number | Company Name | Scope of Issues | Testified at Hearing |
|---|---|---|---|
| GR-2015-0026 | Laclede Gas Company | Plant Additions and Retirements, Contributions in Aid of Construction | |
| GR-2015-0025 | Missouri Gas Energy | Plant Additions and Retirements, Contributions in Aid of Construction | |
| WR-2015-0020 | Gascony Water Company | Revenues and Expenses, Rate Base | |
| SM-2015-0014 | Raccoon Creek Utility Operating Company | Sale of Assets, Rate Base, Acquisition Premium | |
| ER-2014-0370 | Kansas City Power & Light | Injuries & Damages, Insurance, Payroll, Payroll Benefits, Payroll Taxes, Property Taxes, Rate Case Expense | Yes |
| SR-2014-0247 | Central Rivers Wastewater Utility | Revenues and Expenses, Rate Base, Affiliated Transactions | |
| HR-2014-0066 | Veolia Energy Kansas City | Payroll, Payroll Benefits, Payroll Taxes, Bonus Compensation, Property Taxes, Insurance Expense, Injuries & Damages Expense, Outside Services, Rate Case Expense | |
| GO-2014-0179 | Missouri Gas Energy | Plant Additions, Contributions in Aid of Construction | |
| GR-2014-0007 | Missouri Gas Energy | Advertising & Promotional Items, Dues and Donations, Lobbying Expense, Miscellaneous Expenses, PSC Assessment, Plant in Service, Depreciation Expense, Depreciation Reserve, Prepayments, Materials & Supplies, Customer Advances, Customer Deposits, Interest on Customer Deposits | |
| SA-2014-0005 | Central Rivers Wastewater Utility | Application for Certificate, Revenue and Expenses, Plant in Service, Depreciation Reserve. Other Rate Base Items | |