

Exhibit No.:

Issue(s): *Accounts Receivable
Bank Fees, Materials and
Supplies, Insurance
Expense, Maintenance
Expense, Cash Working
Capital, Injuries and
Damages, Lobbying,
Regulatory Assessments*

Witness: *Nathan Bailey*

Sponsoring Party: *MoPSC Staff*

Type of Exhibit: *Direct Testimony*

Case No.: *ER-2024-0189*

Date Testimony Prepared: *June 27, 2024*

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL AND BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

DIRECT TESTIMONY

OF

NATHAN BAILEY, CPA

**EVERGY MISSOURI WEST, INC.,
d/b/a Evergy Missouri West**

CASE NO. ER-2024-0189

*Jefferson City, Missouri
June 27, 2024*

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DIRECT TESTIMONY OF
NATHAN BAILEY, CPA
EVERGY MISSOURI WEST, INC.,
d/b/a Every Missouri West
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1 **DIRECT TESTIMONY**

2 **OF**

3 **NATHAN BAILEY, CPA**

4 **EVERGY MISSOURI WEST, INC.,**

5 **d/b/a Every Missouri West**

6 **CASE NO. ER-2024-0189**

7 Q. Please state your name and business address.

8 A. My name is Nathan Bailey. My business address is Fletcher Daniels State Office
9 building, Room 201, 615 East 13th Street, Kansas City, MO 64106.

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

11 A. I am a Utility Regulatory Auditor with the Missouri Public Service Commission
12 (“Commission”).

13 Q. Please describe your education.

14 A. I earned a Bachelor of Accounting from College of the Ozarks in
15 December 2017.

16 Q. Do you have any professional certifications?

17 A. Yes. I am a currently licensed Certified Public Accountant in the state of
18 Missouri.

19 Q. Have you previously filed testimony before this Commission?

20 A. No. I have not but I have contributed to Staff memorandums in various cases
21 before the Commission. Please refer to Schedule NB-d1, attached to this direct testimony, for
22 a list of the audits on which I have assisted and a more detailed account of my educational
23 background and occupational experience.

1 **EXECUTIVE SUMMARY**

2 Q. What is the purpose of your direct testimony?

3 A. The purpose of my direct testimony is to provide an explanation for adjustments
4 made to Evergy Missouri West's ("EMW") test year expenses and certain amounts included in
5 rate base related to Accounts Receivable Bank Fees, Injuries and Damages, Insurance,
6 Maintenance Expense, Materials & Supplies, Lobbying, Missouri Public Service Commission
7 Assessments ("PSC Assessments"), Federal Energy Regulatory Commission ("FERC")
8 Uniform System of Accounts ("USOA") Assessments, and Cash Working Capital.

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

11 A. Yes. I provide a recommendation for several rate base items as well as detailing
12 several recommendations regarding expenses.

13 **ACCOUNTS RECEIVABLE BANK FEES**

14 Q. What are accounts receivable bank fees?

15 A. EMW sells a portion of its accounts receivable to Evergy Missouri West
16 Receivables Company, formerly known as Greater Missouri Operations Receivables Company
17 ("GREC"), an affiliated entity. The sale of accounts receivable increases immediate cash flow
18 to EMW and provides access to funds through lines of credit. The impact of the sale of accounts
19 receivable on EMW's cash working capital ("CWC") requirement is a reduction to the
20 collection lag component of the overall revenue lag. This is because EMW receives money
21 faster when receivables are sold, shortening the revenue lag and reducing EMW's revenue
22 requirement. It is the entity purchasing the accounts receivable from EMW that has to wait for
23 the customers to pay amounts due within the normal time frame set out in the Commission's

1 billing rules. Fees are charged as a cost of the sale of accounts receivable. The fees EMW pays
2 to accelerate cash recovery should be less than the reduction in CWC, resulting from the shorter
3 collection lag. In other words, there must be a customer net benefit of selling the accounts
4 receivables. Staff submitted Data Request No. 0420 pertaining to the net benefit; Evergy's
5 response is due on July 3, 2024. Staff will address net benefits in later testimony once relevant
6 information becomes available.

7 Q. Please explain Staff's adjustment related to EMW's sale of the accounts
8 receivable.

9 A. The adjustment for bank fees relates to EMW's costs incurred in order to sell
10 accounts receivable. For EMW, Staff annualized bank fees using the 12-months ending
11 December 31, 2023. Staff's recommended levels are reflected in account 905.

12 **MATERIALS AND SUPPLIES**

13 Q. Describe materials and supplies as they relate to EMW.

14 A. Materials and supplies are the cost of materials that are purchased primarily for
15 use in the construction, operation, and maintenance of utility plant, but are not directly
16 assignable to specific plant accounts. Materials and supplies represent an investment in
17 inventory for items such as spare parts, electric cables, poles, meters, and other miscellaneous
18 items used in daily operations, maintenance, and construction activities by EMW to maintain
19 and build their facilities and electric system.

20 Q. How did Staff evaluate EMW's materials and supplies?

21 A. Staff examined each account individually to determine whether trends within an
22 individual account existed over time and to determine an appropriate level that most accurately

1 reflects the ongoing future investment costs of a particular account that should be included in
2 rate base.

3 Q. What is Staff's recommended treatment of EMW's materials and supplies?

4 A. Staff reviewed the monthly balances for materials and supplies accounts from
5 June 2022 to December 2023. If an upward or downward trend was detected, then Staff used
6 the ending balance for that account. If there was no discernible trend, then a 13-month average
7 was determined to be the most appropriate measure of the ongoing investment level for that
8 account. Staff's recommended level of materials and supplies for EMW is reflected in Staff's
9 Accounting Schedules (Accounting Schedule 2).

10 **INSURANCE EXPENSE**

11 Q. Please explain insurance expense as they relate to regulated utilities.

12 A. Insurance expense is the cost of protection obtained from third parties by
13 utilities against the risk of financial loss associated with unanticipated events. Utilities, like
14 non-regulated entities, routinely incur insurance expense in order to minimize their liability
15 associated with unanticipated losses for property assets and personal injury from accidents.
16 Certain forms of insurance reduce ratepayer's exposure to risk. Staff's recommendation for
17 prepayments is discussed in Staff Witness Sydney Ferguson's direct testimony.

18 Q. What type of insurance policies does EMW carry?

19 A. Staff reviewed EMW's insurance policies for the following forms of insurance:

- 20 • Commercial Crime
- 21 • Fiduciary Liability
- 22 • Directors and Officers (D&O) Liability
- 23 • General Liability/Umbrella
- 24 • Excess Directors & Officers
- 25 • Excess Liability
- 26 • Excess Fiduciary Liability

- 1 • Workers Compensation
- 2 • Excess Workers Compensation
- 3 • Property
- 4 • Cyber-Security Liability
- 5 • Labor Management Trust Fiduciary
- 6 • Auto Liability
- 7 • Bonds
- 8 • OCIP (Owner Controlled Insurance Program)
- 9 • Aviation

10 Q. What is Staff's recommended treatment for insurance expense?

11 A. Staff's recommended treatment of insurance expense is to include an annualized
12 level of insurance expense based on current insurance premiums and allocating an appropriate
13 portion of the expense to EMW's cost of service. Staff did not allocate insurance costs to EMW
14 that are related to the Wolf Creek power plant because Evergy Missouri West is not an owner
15 of Wolf Creek.

16 **MAINTENANCE EXPENSE**

17 Q. What is maintenance expense and what costs are included in it?

18 A. Maintenance expense is the cost of maintenance chargeable to the various
19 operating expenses and clearing accounts. It includes labor, materials, overheads, and any other
20 expense incurred in maintaining EMW's assets – including power plants, the transmission and
21 distribution network of the electric system, and general plant. Specific types of maintenance
22 work tied to specific classes of plant are listed in functional maintenance expense accounts in
23 the FERC for the various types of utilities. Maintenance expense normally consists of costs of
24 the following activities:

- 25 • Direct field supervision of maintenance;
- 26 • Inspecting, testing, and reporting on condition of plant, specifically to
27 determine the need for repairs and replacements;

- 1 • Work performed with the intent to prevent failure, restore
- 2 serviceability or maintain the expected life of the plant;
- 3 • Testing for, locating, and clearing trouble;
- 4 • Installing, maintaining, and removing temporary facilities to prevent
- 5 interruptions;
- 6 • Replacing or adding minor items of plant, which do not constitute a
- 7 retirement unit.

8 Q. Are labor costs included in maintenance adjustments?

9 A. No. Because EMW and Staff separately include payroll (labor) costs in their
10 respective revenue requirement models, maintenance is analyzed on a non-labor basis. Staff
11 witness Sydney Ferguson addresses EMW's payroll in her direct testimony in this case and
12 Information Technology Maintenance ("IT Maintenance") will be addressed by Staff witness
13 Antonija Nieto.

14 Q. How did Staff approach maintenance expense adjustments?

15 A. Staff analyzed non-labor maintenance costs from January 2001 through
16 December 31, 2023, for EMW, by functional area for production, transmission, distribution,
17 and general plant by FERC account. Several steps were taken to analyze the maintenance data,
18 including examining the non-labor maintenance amounts to identify any fluctuations or trends
19 from one period to another. Staff also compared functional averages for each category of
20 maintenance, which included calculating two to seven-year averages to determine if there were
21 fluctuations within each functional area. Each of the costs by year and averages for maintenance
22 were also compared to results for the test year, the 12-month period ended June 30, 2023, and
23 the update period ended December 31, 2023. Staff's review of EMW's maintenance data
24 established a maintenance level that is anticipated to result in a reasonable annualized and
25 normalized level of EMW's maintenance costs to include in rates.

1 Q. What is Staff’s recommended approach for each of the mentioned maintenance
2 categories?

3 A. Staff’s recommended approach for each category of maintenance expense is
4 depicted in the table below:

5

Category	Staff	EMW
Production	3-Year Average	Average of 3 years
Other Production	3-Year Average	Average of 3 years
Transmission	3-Year Average	Average of 3 years
Distribution	3-Year Average (Except Account 593)	Average of 3 years
General Maintenance	Test Year	Average of 3 years

6

7 Staff normalized maintenance by averaging the calendar years 2021, 2022, and 2023 to
8 represent future maintenance costs with two exceptions. Staff used the last known calendar year
9 ending December, 31, 2023 for Account 593, Maintenance of Overhead Lines, and used the
10 test year ending June 30, 2023 for Account 935 is General Maintenance.

11 **LOBBYING**

12 Q. What is the Missouri Energy Development Association (“MEDA”)?

13 A. MEDA is the association of Missouri’s investor-owned utilities and their
14 strategic partners, and has been a lobbying organization with dues paid by EMW. These dues
15 are considered lobbying expense which has been removed from rate base in the past.

16 Q. Did Staff make an adjustment to disallow the MEDA lobbying costs?

17 A. No. EMW stated in Staff Data Request No. 0389 that no MEDA dues were paid
18 during the test year.

1 **CASH WORKING CAPITAL**

2 Q. What is cash working capital (“CWC”)?

3 A. Cash working capital is the amount of cash necessary for a utility to pay the day
4 to day expenses incurred to provide utility service to its customers. When EMW expends funds
5 to pay an expense before its customers provide the cash through rates, the shareholders are the
6 source of funds. Shareholder supplied CWC is reflected as an addition to rate base, which
7 compensates shareholders for supplying CWC. Alternatively, customers supply CWC when
8 they pay for electric services received before EMW pays expenses incurred to provide that
9 service. Customer supplied CWC is reflected as a reduction to rate base, which compensates
10 customers for their supply of CWC.

11 Q. How is CWC determined?

12 A. CWC is determined by a lead/lag study which measures the timing of when
13 customer utility service is provided as well as when customers provide funds to the utility for
14 their utility service received, then compares that to when the utility must pay for expenses
15 incurred to provide the utility service to the customer.

16 Q. Did you review EMW’s lead/lag study?

17 A. Yes. In this case, EMW used the lead/lag study from their previous rate case,
18 Case No. ER-2022-0130, with an update to the revenue lag. The revenue lag consists of
19 service lag, billing lag and collections lag. EMW updated the collection lag component of the
20 revenue lag.

21 Q. Does Staff agree with EMW’s lead/lag study?

22 A. Yes, with the exception of the PSC Assessment lag.

1 Q. Did EMW include a PSC Assessment lag in their lead/lag study?

2 A. No.

3 Q. Does Staff recommend a PSC Assessment lag?

4 A. Yes, Staff included a CWC lag for the PSC Assessment.

5 Q. Are there any non-cash items included in the EMW's CWC requirement?

6 A. No. Bad debt and depreciation expense are two items where the utility collects
7 revenue for the expense, but there are no subsequent payments. Since there is no cash flow
8 impact associated with bad debt expense and depreciation expense, Staff removed any impact
9 of those items from CWC.

10 Q. What does a positive CWC requirement indicate?

11 A. A positive CWC requirement indicates that, in the aggregate, shareholders
12 provided the CWC.

13 Q. What does a negative CWC requirement indicate?

14 A. A negative CWC requirement indicates that, in the aggregate, customers provide
15 the CWC.

16 Q. Does your CWC schedule result in an overall positive or overall negative CWC
17 requirement?

18 A. The overall CWC schedule resulted in a negative CWC requirement in the
19 aggregate, meaning the customer provided the CWC to EMW. Therefore, the customers should
20 be compensated for the CWC investment that they provide, which is done by a reduction to
21 EMW's rate base reflected in Staff's Accounting Schedules.

22 **INJURIES AND DAMAGES**

23 Q. Please briefly describe injuries and damages expense.

1 A. Injuries and damages expense is related to insurance claims and represents the
2 portion of legal claims against a utility that is not subject to reimbursement under the utility's
3 insurance policies. Injuries and damages claims usually consist of claims associated with
4 general liability, worker's compensation, and auto liability.

5 Q. What is Staff's recommended treatment for injuries and damages?

6 A. Staff's recommended treatment of injuries and damages is to normalize EMW's
7 costs by using a five-year average of actual cash payments made by EMW to entities that had
8 an injury and/or claim against EMW.

9 **REGULATORY ASSESSMENTS**

10 Q. Please describe the nature of a regulatory assessment.

11 A. A regulatory assessment is mandated payment paid by utility companies to
12 regulatory agencies such as the Commission and the FERC, a national utility regulator.
13 Assessments such as the PSC Assessment and FERC Assessment are levied to ensure adequate
14 funding of oversight bodies.

15 Q. Did you include the most currently available PSC Assessment in the revenue
16 requirement in this case?

17 A. Yes. EMW's PSC Assessment was annualized using the latest assessment
18 available for the current fiscal year 2024, based on information obtained from the Commission's
19 records. The updated PSC Assessment was compared to the PSC Assessment amount included
20 in EMW's test year to form the basis for the adjustment in Staff's revenue requirement. Staff
21 will update its PSC Assessment adjustment to reflect the Commission's fiscal year 2025 in
22 Staff's true-up filing.

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

3 A. Yes. EMW is assessed a regulatory fee from FERC. FERC assesses fees to
4 public utilities and Regional Transmission Organizations (“RTO”) based on their usage of
5 transmission of electric energy. Staff included the most recent billed FERC assessment for the
6 12-month period ending December 31, 2023.

7 Q. Does this conclude your Direct testimony?

8 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

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-2024-0189

AFFIDAVIT OF NATHAN BAILEY, CPA

STATE OF MISSOURI)
)
COUNTY OF Jackson)

ss.

COMES NOW NATHAN BAILEY, CPA and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Direct Testimony of Nathan Bailey, CPA*; and that the same is true and correct according to his best knowledge and belief.

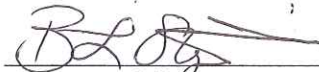
Further the Affiant sayeth not.



NATHAN BAILEY, CPA

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 25th day of June 2024.



Notary Public

B. L. STIGGER
NOTARY PUBLIC - NOTARY SEAL
STATE OF MISSOURI
MY COMMISSION EXPIRES JANUARY 2, 2028
JACKSON COUNTY
COMMISSION #24332661



Nathan Bailey, CPA

I am employed as a Utility Regulatory Auditor for the Missouri Public Service Commission since January 2023. Previously I was employed by Myers and Stauffer LC as an auditor specializing in government medical provider reimbursement. I completed my undergraduate degree in Accounting at the College of the Ozarks in 2018 and graduated Cum Laude. Having met the licensure requirements under section 326.280 RSMo, I am currently qualified to practice as a CPA in the state of Missouri and have maintained this qualification since 2021.

As a Utility Regulatory Auditor, I perform audits and prepare filings for the Commission in conjunction with member of the Commission Staff. This includes professional review of current and prior testimony, documents, files and exhibits as necessary to produce workpapers and documentation supporting the staff position.

Year	Case/Tracking Number	Company Name	Type of Testimony/Issue
2023	GT-2023-0229	Liberty Utilities (Midstates Natural Gas) Corp., d/b/a Liberty	Staff Memorandum