

*Exhibit No.:*  
*Issue(s):* *Customer Advances,  
Customer Deposits,  
Economic Relief Pilot  
Program, Lease  
Expense, Payroll,  
Prepayments, Dues and  
Donations*  
*Witness:* *Sydney Ferguson*  
*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 & BUSINESS ANALYSIS DIVISION**

**AUDITING DEPARTMENT**

**DIRECT TESTIMONY**

**OF**

**SYDNEY FERGUSON**

**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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SYDNEY FERGUSON  
EVERGY MISSOURI WEST, INC.,  
d/b/a Every Missouri West  
CASE NO. ER-2024-0189**

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1           A.     The purpose of my direct testimony is to discuss Staff's position in this case  
2 regarding: customer advances, customer deposits, the Economic Relief Pilot Program  
3 ("ERPP"), lease expense, payroll, payroll taxes, payroll benefits, prepayments, and dues  
4 and donations.

5           Q.     Through this testimony, do you provide any recommendations that should be  
6 specifically reflected in the Commission's Report and Order in this case?

7           A.     While I will be making many recommendations for the level of annual expense  
8 and rate base levels that will ultimately impact the ordered revenue requirement in this case,  
9 the issues I address typically do not require specific ordered language.

10    **CUSTOMER DEPOSITS**

11           Q.     What are customer deposits?

12           A.     Customer deposits are funds required to be provided by certain customers in  
13 order to initiate service as security against potential losses from failure to pay the utility for  
14 service provided. Since deposits are supplied by the customers, a representative level is  
15 deducted from Evergy Missouri West's ("EMW") rate base to ensure that the utility does not  
16 earn a return on the value of these deposits.

17           Q.     Is EMW required to return the deposits to customers after a period of time?

18           A.     Yes. After satisfactory payment over either a specified amount of time or upon  
19 the satisfaction of certain requirements, EMW must return the deposit to the customer,  
20 including accrued interest<sup>1</sup>.

21           Q.     Is customer deposit interest included in EMW's cost of service?

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<sup>1</sup> [EMW Rules and Regulation, Deposits 2.04 G 3](#)

1 A. Yes. Since EMW is required to refund the deposits, including interest,  
2 an appropriate level of interest expense should be included in the utility's cost.

3 Q. How is interest expense determined?

4 A. Consistent with EMW's tariff, Staff applied the prime interest rate published in  
5 the Wall Street Journal (8.50% at December 31, 2023) plus 100 basis points, for a total  
6 of 9.50%, to its recommended customer deposit balance.<sup>2</sup>

7 Q. Please explain Staff's recommended level of customer deposits included in rate  
8 base and the corresponding adjustment for interest expense.

9 A. The amounts Staff reflected for customer deposits on Accounting Schedule 2,  
10 Rate Base, is the ending balance as of December 31, 2023, for EMW. The December 2023  
11 balance was used because a downward trend in the customer deposits during the test year and  
12 update period was noted. When trends are observed, upward or downward, the trend is assumed  
13 to continue so the last-known amount is typically considered representative of going-forward  
14 amounts. If the monthly balances were observed to fluctuate, Staff would have likely calculated  
15 an average (normal) balance. Using the December 2023 balance, as opposed to a 13-month  
16 average, is more accurate as the balance is trending downward.

17 In addition to the December 31, 2023 balance deducted from rate base, an amount for  
18 interest on customer deposits has been included as an adjustment to the income statement,  
19 Staff's Accounting Schedule 2.

20 **CUSTOMER ADVANCES**

21 Q. Please describe customer advances.

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<sup>2</sup> [EMW Rules and Regulations, Deposits, 2.04 G 2](#)

1           A.     Customer advances are funds typically provided by construction developers to  
2 EMW in order to ensure that EMW builds electric infrastructure in areas that have potential for  
3 future development. These advances are also used by the utility to establish electric service for  
4 potential future customers without investing a substantial amount of money at the risk of the  
5 utility and its other customers. Unlike customer deposits, where EMW receives these payments  
6 from prospective customers to obtain access to utility service, customer advances are provided  
7 to EMW from certain customers that obligate EMW to provide future electrical infrastructure  
8 and service for those affected customers. The infrastructure constructed with these funds is not  
9 financed with debt or equity, and thus, ratepayers should not be obligated to pay a return on  
10 these plant investments. Consequently, customer advances are a reduction to EMW's rate base.

11           Q.     What is Staff's recommended treatment of customer advances?

12           A.     Staff's recommended treatment of customer advances is to deduct from EMW's  
13 rate base a 13-month average of customer advances account balances ending  
14 December 31, 2023. Staff utilized a 13-month average as the monthly balances for EMW since  
15 EMW did not exhibit a discernable upward or downward trend. Staff's recommended level of  
16 customer advances are included as a reduction to EMW's rate base on Accounting Schedule 2.

17 **ECONOMIC RELIEF PILOT PROGRAM – ACCOUNTING TREATMENT**

18           Q.     Are other Staff members also addressing the ERPP program?

19           A.     Yes. Contessa King will address the ERPP program in her testimony in this case.  
20 My testimony specifically addresses the accounting treatment for the ERPP costs.

21           Q.     How long has the ERPP been active, and what is the current program's level  
22 of funding?

1           A.     As per Contessa King’s testimony, the Commission approved the ERPP in  
2 Case No. ER-2009-0090 for EMW as part of a Non-Unanimous Stipulation and Agreement.  
3 EMW began collecting the funding for this program through rates in Case No. ER-2012-0175.  
4 In Case No. ER-2009-0090, the Commission stated “GMO can defer 50% of the costs of its  
5 Economic Relief Pilot Program in a regulatory asset until the next GMO general rate case,  
6 with cost recovery to be determined at that time. The remaining 50% of such costs will be borne  
7 by GMO’s shareholders.”<sup>3</sup> In Case No. ER-2010-0355, the ERPP funding issue was resolved  
8 with a black box stipulation<sup>4</sup> and agreement which lead to actual numbers not being declared  
9 until Case No. ER-2012-0175. This is why funding from ratepayers is not seen until EMW’s  
10 next rate case in the calendar year 2013 or Case No. ER-2012-0175. The Commission approved  
11 ERPP funding at \$788,019 annually, split evenly between shareholders and ratepayers,  
12 in EMW’s Case No. ER-2016-0156. The table below lists the amounts of funding included  
13 in base rates:

<b>Evergy West Historical ERPP Funding</b>	
Case Number	EMW Funding
ER-2012-0175	\$630,000
ER-2016-0156	\$788,019
ER-2018-0146	\$788,019
ER-2022-0130	\$788,019
ER-2024-0189 (Staff’s recommendation)	\$788,019

14 *Note: shareholders and ratepayers each provide 50% of the ERPP funding shown above*

15           Q.     What is Staff’s recommended treatment of ERPP?

16           A.     Staff adjusted EMW’s ERPP test year balance to ensure the recommended  
17 amount of ratepayer funding is included in rates. In this case, EMW booked \$582,619 to

<sup>3</sup> [Non-Unanimous Stipulation and Agreement Case No. ER-2009-0090](#)

<sup>4</sup> [Non-Unanimous Stipulation and Agreement As To Miscellaneous Issues Case No. ER-2010-0355](#)

1 ratepayer expense for the ERPP program when the allowed amount is \$394,010 so an  
2 adjustment was made accordingly.

3 Q. Has EMW spent all of the funds allotted to ERPP?

4 A. Yes. From the beginning of the program to-date, the calendar years 2013-2023,  
5 EMW has spent more than it has collected by \$216,735.

6 **DUES AND DONATIONS**

7 Q. What are dues and donations expenses?

8 A. Dues and donations are expenditures made by a utility to different organizations,  
9 charitable funds, clubs, economic development programs, and other groups. Dues are usually  
10 defined as amounts a utility pays to organizations to allow the utility or its employees to  
11 participate in and benefit from the organization's activities. Donations, on the other hand,  
12 are discretionary amounts paid to individuals or organizations for charitable purposes, with no  
13 direct benefit to the utility's business nor its ratepayers.

14 Q. Please explain Staff's analysis of EMW's dues and donations expenditures.

15 A. Staff reviewed the list of membership dues paid and donations made to  
16 various organizations that EMW charged to their utility accounts during the test year.  
17 In the current case, Staff applied the same four criteria used in KCPL's 1985 general rate case,  
18 Case No. EO-85-185, to establish when dues and donations expenses should not be included in  
19 customer rates. The criteria for disallowing dues and donation expenses are:

- 20 (1) The expenses are involuntary ratepayer contributions of a charitable nature;  
21 (2) The expenses are supportive of activities that are duplicative of those performed  
22 by other organizations to which the Company belongs or pays dues;  
23 (3) The expenses are associated with active lobbying activities which have not been  
24 demonstrated to provide any direct benefit to the ratepayers; or,  
25 (4) The expenses represent costs of other activities that provide no benefit or  
26 increased service quality to the ratepayer.



1 In regard to the first criteria listed above, EMW only had a few items listed  
2 “above-the-line” that need to be removed. Items “above-the-line” include expenses incurred in  
3 a utility’s operation that are included in the revenue requirement and are recovered through the  
4 utility’s rates. Items included “below-the-line” typically represent non-operating income and  
5 expenses that are not recovered in rates and consequently are not included in the determination  
6 of a utility’s revenue requirement. Besides the items that EMW removed in their work paper,  
7 Staff removed three additional line-items. These three line-items were for Chambers of  
8 Commerce in Kansas. EMW does not operate in Kansas, so any Chambers of Commerce in  
9 Kansas do not provide EMW ratepayers any benefits. This is why Staff removed these  
10 three line-items.

11 While Staff recognizes the importance of charitable contributions to the communities  
12 served by utilities, donations that do not provide any direct benefit to ratepayers and are not  
13 necessary for the provision of safe and adequate service should be excluded from EMW’s  
14 revenue requirement. In addition, recovery in rates of donations made by regulated utilities  
15 would constitute an involuntary contribution on behalf of the rate-paying customer, and thus,  
16 those donations were removed as an adjustment to Staff Accounting Schedule 9.

17 **LEASE EXPENSE**

18 Q. What are leases?

19 A. Leases are a contractual agreement for the use of items like land, buildings,  
20 equipment, and transmission lines in exchange for payment.

21 Q. What did Staff review for lease expense?

22 A. Staff reviewed the lease expenses in the test year 12-months ended  
23 June 30, 2023, and through the update period of December 31, 2023. Staff reviewed the

1 effective dates and whether the lease expense amounts included in the test year were planned  
2 to remain in effect at the same rate in order to determine an appropriate level of lease expense  
3 to include in the cost of service.

4 Q. Will any leases expire before June 30, 2024 or begin after the start of the test  
5 year July 31, 2022?

6 A. Yes, there were many leases that began after the start of the test year. No leases  
7 are expected to end before June 30, 2024.

8 Q. Did you make any adjustments to the test year amount for lease expense?

9 A. Yes. An adjustment was made to update to December 2023. This is because there  
10 were many new leases since March 2023 up to December 2023 as well as a change from 30.85%  
11 to 32.37% for the General Allocator rate in June 2023.

12 **PREPAYMENTS**

13 Q. Please describe prepayments.

14 A. Prepayments are expenses that EMW pays in advance of the associated good or  
15 service purchased. Since there are investment costs incurred by the utility when it prepays  
16 expenses, the company is allowed to earn a return on these amounts through inclusion in rate  
17 base. For example, EMW prepays for property insurance to protect their assets in advance of  
18 the coverage period. Accordingly, the cost of that insurance policy is considered to be a prepaid  
19 asset and included in rate base to allow a return on the unused portion of the prepaid asset.  
20 As the prepayments are consumed, an amount is charged to an expense account in the  
21 income statement.

22 Q. What is Staff's recommended treatment for prepayments?

1           A.     Staff’s recommended treatment of prepayments is to examine each prepayment  
2 account individually in order to determine an appropriate measure that most accurately predicts  
3 the ongoing future investment costs of a particular prepayment account, and then to include  
4 the appropriate level of prepayments in EMW’s rate base. Staff examined all of EMW’s  
5 prepayment account balances from June 2022 to December 2023 on a month-by-month basis.

6           Staff used a 13-month average ending December 31, 2023, to include in rate base for  
7 all prepayments required for EMW to provide electric utility service to their customers.

8     **PAYROLL**

9           Q.     How did Staff annualize EMW’s employee payroll?

10          A.     Staff annualized the allocated amount of payroll to EMW<sup>5</sup> based on actual  
11 employee levels as of the end of the update period, December 31, 2023.

12          Q.     How is total payroll distributed to the different business units like Evergy Kansas  
13 Central and Evergy Kansas Metro?

14          A.     Evergy distributes total employee payroll between four (4) business units based  
15 on the business activities the employees use to record their hours. The business units and  
16 payroll percentage assigned to each jurisdiction during the calendar year 2023 are listed in the  
17 following table:

18

<b>Evergy Business Unit Payroll Distribution</b>	
<b>Business Unit</b>	<b>Percent of Payroll Assigned</b>
Evergy Missouri Metro	36.39%
Evergy Missouri West	15.20%
Evergy Kansas Central (formerly Westar), Evergy Kansas South (formerly Kansas Gas & Electric)	47.74%
Evergy, Inc. and non-regulated operations	0.68%

<sup>5</sup> The EMW business unit does not have any employees. Instead, employees that reside at EMW’s affiliates conduct EMW’s operations and bill a commiserate amount of payroll to Evergy Missouri West.

Direct Testimony of  
Sydney Ferguson

1 Q. What is an Operations & Maintenance (“O&M”) ratio?

2 A. The O&M ratio is a calculation of the split between the amount of payroll  
3 that is expensed on the income statement (expense accounts), and the amount that is capitalized  
4 on the balance sheet (e.g. plant accounts). The balance sheet (plant accounts) is a rate base item  
5 which EMW earns a return on their investment as compared to the income statement  
6 (expense accounts) which EMW earns a return of the expenses but not a return on the items.  
7 The O&M ratio is used to determine the appropriate level of payroll expense to include  
8 in EMW’s cost of service.

9 Q. What O&M ratio did you apply to EMW’s payroll?

10 A. I used the actual percentage of labor charged to O&M during the  
11 December 31, 2023 update period divided by EMW’s total labor to find the O&M rate.  
12 The update period was used since it would be the last known O&M rate. Since 2019,  
13 the O&M rate has been trending down, so using the last known O&M rate is representative of  
14 going-forward O&M rates.

15 Q. Are any employee salaries covered through an alternative cost recovery  
16 mechanism like the Missouri Energy Efficiency Investment Act (“MEEIA”) rider?

17 A. Yes. I removed the salaries of MEEIA-related employees whose salaries are  
18 recovered through the MEEIA rider.

19 Q. How did you determine the amount of temporary employees to include?

20 A. Due to the relative immaterial nature of temporary employee expense, I accepted  
21 EMW’s position for temporary employee expense and reflected that in my payroll adjustment.

22 Q. How did you determine the amount of premium, step-up and rest period pay  
23 to include?

1           A.     Premium, step-up and rest period pay are wage adders governed by various  
2 union contracts. Due to the relative immaterial nature of premium, step-up and rest period wage  
3 expense, I accepted EMW's position for premium, step-up and rest period expense and reflected  
4 that in my payroll adjustment.

5           Q.     How did you determine the amount of payroll expense to include in the  
6 revenue requirement?

7           A.     I used actual employee and wage data as of the December 31, 2023 update  
8 period. That is the sum of total payroll, reduced for joint partner billings, allocated to  
9 Evergy Missouri West based on the business unit table mentioned above, adding in overtime,  
10 premium, step-up and rest period pay and adding in temporary employees, then multiplying that  
11 sum by the O&M ratio to determine the level of expense to distribute to payroll expense  
12 accounts in Staff's Accounting Schedules.

13          Q.     Was EMW overtime expense analyzed?

14          A.     Yes. EMW overtime was analyzed. On June 10, 2024 Staff submitted data  
15 request no. 414. Staff will perform a more in-depth analysis on overtime expense once EMW  
16 responds to the data request.

17       **PAYROLL TAXES**

18          Q.     What are payroll taxes?

19          A.     Payroll taxes include federal income taxes such as FICA, Medicare, and state  
20 and federal unemployment taxes applicable to payroll.

21          Q.     Does EMW pay State unemployment taxes in Missouri?

22          A.     No. EMW qualifies for the State of Missouri's tax experience rate which is an  
23 employer specific tax rate based on the employer's historical unemployment claims.

1 EMW's tax experience rate<sup>6</sup> is 0% so they do not pay Missouri unemployment taxes.  
2 Therefore, I did not include a Missouri unemployment tax amount in my payroll tax adjustment.

3 Q. How did you calculate the amount of payroll taxes to include in Staff's  
4 Accounting Schedule?

5 A. I calculated payroll taxes based on the December 31, 2023 payroll data discussed  
6 in the previous section. I applied the current payroll tax rate to each employee's annualized  
7 level of payroll, excluding employees whose salaries are recovered through the MEEIA rider,  
8 since their associated payroll taxes are also recovered in the MEEIA rider. I then calculated a  
9 composite payroll tax rate by dividing the payroll taxes calculated on the annualized level of  
10 payroll by the total annualized payroll. For payroll taxes incurred from the executive incentive  
11 compensation plan, I assumed the maximum FICA limits were achieved through their base  
12 payroll, which would only leave the 1.45% Medicare tax rate to apply to their incentive  
13 compensation. I also applied the current payroll tax rate to overtime (reduced by the O&M  
14 percentage), temporary employees and premium, step-up and rest period wages.  
15 The compilation of payroll taxes I just discussed were then reduced for the amount of  
16 payroll taxes billed to joint partners. I then applied the same O&M ratio that I used for payroll  
17 to get the annualized level of payroll taxes and compared this annualized amount of payroll  
18 taxes to the test year expense amount and reflected the appropriate adjustment in  
19 Staff's Accounting Schedules.

20 **PAYROLL RELATED BENEFITS**

21 Q. What are payroll related benefits?

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<sup>6</sup> Staff Data Request No. 0289 Case No. ER-2024-0189.

Direct Testimony of  
Sydney Ferguson

1           A.     Payroll related benefits cover a variety items such as 401k matching costs and  
2 employee insurance premium contributions incurred by EMW.

3           Q.     How did you determine the level of payroll related benefits to include in  
4 Staff's Accounting Schedules?

5           A.     I reviewed the actual charges through the update period of December 31, 2023,  
6 and compared those costs to the test year and reflected an adjustment in Staff's Accounting  
7 Schedule 9.

8           Q.     Does this conclude your direct testimony?

9           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 SYDNEY FERGUSON**

STATE OF MISSOURI                             )  
                                                          )  
COUNTY OF Jackson                         )     ss.

COMES NOW SYDNEY FERGUSON and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Direct Testimony of Sydney Ferguson*; and that the same is true and correct according to her best knowledge and belief.

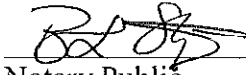
Further the Affiant sayeth not.

  
\_\_\_\_\_  
SYDNEY FERGUSON

**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 20<sup>th</sup> day of June 2024.

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

  
\_\_\_\_\_  
Notary Public



# Sydney Ferguson

## Educational and Employment Background and Credentials

I am currently employed as a Utility Regulatory Auditor for the Missouri Public Service Commission (“PSC”). I earned a Bachelor’s of Arts in Business Administration with a focus in Management from Truman State University in May 2023. I have been employed by the PSC since June 2023.

As a Utility Regulatory Auditor, I perform rate audits and prepare miscellaneous filings for consideration by the Commission. I also review data related to assigned issues, develop adjustments, and issue positions that are supported by work papers and testimony. I am also responsible for preparing Staff Recommendations Memorandums.

Cases in which I have participated and the scope of my contributions are listed below:

<b>Case/Tracking Number</b>	<b>Company Name-Type of Case: Issues</b>
GO-2023-0432	<b>Spire Inc.</b> Infrastructure System Replacement Surcharge (ISRS)
WA-2023-0450	<b>Confluence Rivers Utility Operating Company Inc.</b> Application for Certificate
SA-2023-0451	<b>Confluence Rivers Utility Operating Company Inc.</b> Application for Certificate
SM-2024-0130	<b>Confluence Rivers Utility Operating Company Inc.</b> Acquisition

Case/Tracking Number	Company Name-Type of Case: Issues
GO-2024-0214	<b>Spire Inc.</b> Infrastructure System Replacement Surcharge (ISRS)
ER-2024-0189	<b>Evergy Missouri West</b> Customer advances, customer deposits, Economic Relief Pilot Program, lease expense, payroll and payroll taxes, payroll benefits, prepayments, and dues and donations.