

Exhibit No.:
Issue(s): Payroll, O&M
Ratio, True Up
Witness: Sydney Ferguson
Sponsoring Party: MoPSC Staff
Type of Exhibit: Surrebuttal / True-Up
Direct Testimony
Case No.: ER-2024-0189
Date Testimony Prepared: September 10, 2024

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL & BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

SURREBUTTAL / TRUE-UP DIRECT TESTIMONY

OF

SYDNEY FERGUSON

EVERGY MISSOURI WEST, INC.,

d/b/a Evergy Missouri West

CASE NO. ER-2024-0189

Jefferson City, Missouri
September 10, 2024

1 A. Mr. Klote explains in his rebuttal testimony that EMW believes that the
2 operations and maintenance (“O&M”) rate applied to annualized payroll should be based on a
3 multi-year average to smooth out periods that are higher and lower over historical norms.¹

4 Q. What is the difference between the capitalization rate discussed by Mr. Klote
5 and the O&M rate discussed in this testimony?

6 A. Generally, a capitalization rate and an O&M rate complement each other.
7 The capitalization rate Mr. Klote discusses describes the amount of total payroll capitalized to
8 the balance sheet, and the O&M rate I refer to describes the amount of total payroll booked to
9 an expense on the income statement. Together, the capitalization rate and the O&M rate account
10 for 100% of annualized payroll.

11 Q. Mr. Klote claims that the O&M rate has fluctuated from year to year.² Did Staff
12 examine the historical rates EMW actually experienced?


13 A. Yes. Staff reviewed the O&M ratio trends for 2018, 2019, 2020, 2021, 2022, and 2023.
14 Based on that analysis, Staff confirmed the ratio was in an overall downward trend. There is no
15 need to use a three-year average to reflect a fluctuation in the ratio up or down since Staff’s
16 analysis revealed a clear downward trend. That is why Staff chose and why the Commission
17 should appropriately decide to use the last known calendar year of 2023 O&M ratio.
18 The trend in the O&M ratio is shown in the following table:

¹ Ronald A. Klote rebuttal, page 8 line 6-8.

² Ronald A. Klote rebuttal, page 8 line 10.

1

Evergy West	
2018	65.84%
2019	65.73%
2020	54.35%
2021	50.38%
2022	50.87%
2023	47.53%



2

3 Q. Why is reflecting the last-known O&M rate the appropriate
4 ratemaking treatment?

5 A. The standard ratemaking approach is to analyze historical costs for trends or
6 fluctuations with the goal of calculating the cost to reflect an ongoing level. If there was an
7 obvious fluctuation of the data over the years, then using a three-year average would be
8 appropriate, but that is not what the historical analysis shows.

9 Q. According to EMW's rebuttal testimony, a three-year average should be used to
10 reflect a trend.³ Is this a standard ratemaking approach?

11 A. No. It is common to use an average when there is a historical fluctuation but
12 since there is a clear downward trend from at least 2018, using the last known O&M is the most
13 appropriate ratemaking treatment.

14 Q. Are you aware of any factors explaining why the O&M ratio is trending down?

³ Ronald A. Klote rebuttal, page 8 lines 11-14.

1 A. Yes, as stated in Jared Giacone's surrebuttal testimony in
2 Case No. ER-2022-0130, Evergy began the process of a five-year Sustainability Transformation
3 Plan ("STP") in the year 2020. The STP focused on capital investment and a reduction of O&M
4 costs. Additionally, as of January 1, 2019, EMW elected to increase its grid modernization
5 efforts enabled by Plant In Service Accounting ("PISA"). The effects of these two initiatives
6 have combined to decrease the amount of EMW's payroll recorded to expense, and there are
7 no indications that EMW will experience anything otherwise going-forward.

8 Q. Is it appropriate to attempt to oversimplify utility ratemaking and adopt a status
9 quo position of using an average when the data clearly shows a downward trend?

10 A. No. Based on my analysis, I see no fluctuation of the rate. I only see a continuing
11 downward trend. Therefore, using the last known O&M Ratio of calendar year 2023 is the most
12 accurate representation of the data I analyzed.

13 Q. Has EMW's O&M rate continued its downward trend through the June 30, 2024
14 true-up period?

15 A. Yes. EMW's actual payroll O&M rate during the 12-months ending
16 June 30, 2024, was 47.29%. However, Staff has historically analyzed payroll O&M rates on a
17 calendar year basis and will reflect the December 31, 2023, rate in its true-up case.

18 Q. If Staff typically analyzes the O&M rate on a calendar year basis, why is the
19 June 30, 2024, O&M rate relevant?

20 A. Mr. Klote's rebuttal characterizes the rate Staff used, based on the 12 months
21 ending December 31, 2023, as the lowest rate experienced in the last 10 years.⁴
22 However, the O&M rate based on the 12 months ending June 30, 2024, is even lower than

⁴ Ronald A. Klote rebuttal, page 8 lines 3-4.

1 December 31, and EMW continues to book a higher percentage of its payroll costs to capital
2 projects as time goes on.

3 **TRUE-UP**

4 Q. What items did you update through the June 30, 2024, true-up date?

5 A. I true-d-up the following items:

- 6 1. Payroll and payroll taxes
- 7 2. Lease Expense
- 8 3. Customer Advances
- 9 4. Customer Deposits
- 10 5. Payroll Benefits
- 11 6. Prepayments
- 12 7. Overtime

13
14 Q. How did you true-up the items listed?

15 A. Using the same methodology I used for Staff's direct case, I updated payroll,
16 payroll taxes, payroll benefits, advances, deposits, and prepayments to reflect the most recent
17 known amounts as of June 30, 2024.

18 Q. Do any of your true-up adjustments reflect a change in methodologies?

19 A. Yes. My adjustment for lease expense annualizes costs on leased items,
20 including certain vehicle costs that are allocated to capital. I true-d-up lease expense with a
21 methodology that reflects EMW's actual capitalization processes. In my direct adjustment,
22 the expense for fleet vehicles was not multiplied by the Clearings to O&M ratio.
23 After discussion with Every West and Staff, it was decided that the fleet vehicles expense
24 needed to be multiplied by the Clearings O&M ratio, then subtracted from the lease expense
25 adjustment. This is because only a portion of the amounts charged to account 184 is recorded
26 on the income statement, with the majority being recorded on the balance sheet. EMW indicated
27 that it will include a similar adjustment in its true-up filing.

Surrebuttal / True-up Direct Testimony of
Sydney Ferguson

- 1 Q. Does this conclude your Surrebuttal / True-up Direct testimony?
- 2 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 *Surrebuttal / True-Up 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 4th day of September 2024.



Notary Public

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