Exhibit No.:
Issue(s): *Bad Debt Expense, Severance Costs*
Witness: *Antonija Nieto*
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 AND BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

SURREBUTTAL / TRUE-UP DIRECT TESTIMONY

OF

ANTONIJA NIETO

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

CASE NO. ER-2024-0189

Jefferson City, Missouri
September 10, 2024

****** Denotes Confidential Information ******

TABLE OF CONTENTS OF

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Q. Please state your name and business address.

A. My name is Antonija Nieto. My business address is Fletcher Daniels State Office Building, Room 201, 615 East 13th Street, Kansas City, MO 64106.

Q. Are you the same Antonija Nieto who previously provided testimony in this case?

A. Yes. In this case I provided direct testimony on June 27th and rebuttal testimony on August 6th.

EXECUTIVE SUMMARY

Q. Please summarize your surrebuttal testimony.

A. I will respond to the rebuttal testimony of Evergy Missouri West ("EMW") witnesses Linda J. Nunn and Ronald A. Klote on two topics:

- Bad Debt Expense – Nunn Rebuttal testimony page 15,
- Severance Costs –Klote Rebuttal testimony pages 23-25.

BAD DEBT EXPENSE

Q. What analysis did Staff perform comparing bad debts to revenues?

A. In my rebuttal testimony, I provided several tables and graphical analyses to demonstrate the fallacy of EMW's assumption that increased revenues lead to increased bad debt. In theory, this assumption may appear to be reasonable. In practice this theory simply does not hold true.

Staff has performed the following comparative analyses of bad debt and revenues:

- An analysis of the monthly change in retail revenues and bad debts,
- An analysis of the percent monthly change in retail revenues and bad debts,
- An analysis comparing a 12-month period of bad debt to the corresponding retail revenues, on a quarterly rolling basis, and
- Graphical analysis of the items above.

I have attached the third analysis mentioned above, which compares 12-month periods of bad debt to the corresponding revenues[1] on a quarterly basis from 2001 through 2023 for EMW, along with the graphical representation of the data. This data is attached as Confidential Schedule AN-s1, Confidential Schedule AN-s2, Confidential Schedule AN-s3, and Confidential Schedule AN-s4. The remainder of the analyses were attached to my rebuttal testimony.

Q. Please explain this data and accompanying graph.

A. This analysis is the clearest way to depict how bad debt and revenue have no apparent positive correlation over time, refuting EMW's rebuttal testimony on this issue. I have listed on the graph all EMW rate increases during the time period used, and one rate decrease resulting from EMW's Rate Case No. ER-2018-0146.

[1] The approximate time to "write-off" bad debts is six months. Therefore, bad debts in a given month relate to revenues six months prior. Staff's analysis through June 2024 updates bad debts that relate to December 2023 revenues.

This data is a comparison of bad debt as a percentage of revenues from 2001 through 2023 for EMW. This comparison is consistent with the methodology Staff and EMW have used to annualize bad debts based on current annualized and normalized revenues.

On the EMW graph we can see that Case No. ER-2001-672 also resulted in a rate decrease, and as can be seen, bad debts increased during the following time period. Bad debts subsequently decreased before leveling out from 2003 through mid-2009. Case No. ER-2009-0090 resulted in a rate increase, and during part of the year following the rate increase, bad debts actually decreased, coming to a low in March 2010. Since Case No. ER-2010-0356, after peaking in June 2011, bad debts have steadily decreased, with a spike in mid-2019, and have since subsided.

Q. Is revenue tied to bad debt expense?

A. Yes, in the sense that in order to have bad debt, a company must have a source of revenue. However, the level of revenue is not the primary driver of bad-debt expense. Other factors, which are beyond the control of the utility, also drive levels of bad debt. One important driver of bad debt expense is the overall condition of the local economy.

Q. Would Staff require evidence of a perfect correlation between bad debt and revenues to recommend the inclusion of a bad debt factor-up?

A. No. However, Staff's evidence shows not only lack of a perfect correlation, but also lack of any meaningful correlation. Again, EMW has not presented an analysis of the correlation of bad debts and revenues. EMW's contention is that when revenues increase as a result of a rate case, bad debts will automatically increase proportionately. If that were true, Staff would expect the line representing the ratio of bad debts and revenues to be relatively the same throughout the analysis, perhaps being a somewhat straight line across the graphs presented. For example, if the ratio of bad debts to revenues were 0.75% at one time period, one would expect the ratio to fluctuate around that percentage, but not have any trends up or down. Staff's analyses do not examine the change in bad debts or revenues dollars; they measure the change of the ratio between the two. Even if bad debts were somewhat correlated, EMW's proposed bad debt factor-up and late payment factor-up are not known and measurable.

Q. How is the bad debt factor up not a "known and measurable" change in expense?

A. The anticipated effective date of rates in this case is January 1, 2025. The annual revenue requirement authorized by the Commission, if any, will be collected in the following 12 months. Because of the bad debt expense lag, 12 months of bad debt expense related to the increase in revenues will not be fully realized until six months after this date which is June 2026, 18 months beyond the operation of law date, and 24 months beyond the true-up date in this case. EMW's adjustments are intended to collect in rates expenses that may or may not be fully realized 18 months past the effective date of rates. The level of bad debt expense 18 months past the effective date of rates is certainly not known and measurable.

Q. Should the results of Staff's approach to normalization of bad debts in its direct filed case be considered to be known and measurable?

A. Yes. Staff's direct filed bad debt annualization captured the latest bad debts as of the 12-months ending December 2023, which correspond with the actual revenues as of June 2023. The ratio between the two is applied to the annualized, normalized revenues as of December 2023. Bad debts and revenues are routinely included in the true-up process and will be in this case also. Staff's method will capture the most up to date information as of June 2024, the end of the true-up period.

SEVERANCE COSTS

Q. Has the Commission denied severance expenses in past rate case proceedings?

A. Yes. In Case No. GR-96-285, Missouri Gas Energy ("MGE"), now known as Spire West, proposed that the severance costs associated with the permanent elimination of employee positions be amortized over three years. Staff and the Office of the Public Counsel ("OPC") were opposed to the increase in cost of service for the amortization. OPC maintained that MGE's three-year amortization of severance payments incurred to reduce the number of employees should be eliminated from the prospective cost of service because MGE had already recovered these costs from the savings resulting from the reduction in the number of employees. In fact, OPC's evidence showed that the savings to MGE from the time the severance occurred to the time the rates in that case went into effect were greater than the accrued costs of the severance. This was also the position taken by Staff in that case. The Commission's decision read as follows:

> The Commission finds that MGE's position is based upon fallacious reasoning. It is appropriate that prospective rates will be set on recently available payroll expense. MGE overlooks the substantial cash flow savings that it has achieved by terminating the employees. OPC's evidence shows that Southern Union's shareholders have already received more than the severance costs in terms of reduced payroll. The rates that MGE has been charging are premised on a payroll level higher than that which it currently has, so it has profited by the decreased number of employees.
>
> * * *
>
> The Commission finds that MGE's shareholders have already received monetary compensation through the reduction in payroll expense. The Commission will not allow MGE to charge ratepayers the costs associated with employee severances where MGE has already recovered those costs. The Commission finds that the position of Staff and OPC is most reasonable on this issue.[2]

[2] *Report and Order,* GR-96-285. MPSC Reports Vol 5, 3d, 453.

The Commission again denied recovery of severance expenses approximately 10 years later in KCPL's, now known as Evergy Missouri Metro, 2006 rate case, Case No. ER-2006-0314:

> The Commission finds that the competent and substantial evidence supports Staff's position, and finds this issue in favor of Staff. Staff's witness on this issue, Charles Hyneman, testified that KCPL answered one of his data requests by admitting that severance costs protect KCPL against such issues as sexual harassment or age discrimination, and that such costs are not recoverable in rates. He contrasted those severance payments, made only to protect shareholders, with severance payments made to decrease payroll, which could be included in cost of service because of the benefit to ratepayers. Moreover, Staff points out that KCPL excluded its 2005 severance costs from its earnings per share calculation that determines its management's incentive compensation payment. The Commission sees no equity in allowing KCPL to recover these costs from ratepayers when its own management excludes those same costs from its EPS calculation, to the enrichment of its executives via the incentive compensation plan.
> [Footnotes omitted.]

More recently, the Commission again rejected severance expenses in Ameren Missouri Case No. ER-2012-0166:

> Despite having already recovered the costs of the severance package, Ameren Missouri asks the Commission to again recover those costs from ratepayers through a direct three-year amortization. Ameren Missouri contends such recovery is justified because ratepayers will ultimately benefit from the cost reductions resulting from the severance package in an amount much greater than the direct costs the company seeks to amortize. Ameren Missouri also complains that from March 2009 through July 2012, the company actually under-recovered its payroll and benefit costs by $51 million. Finally, Ameren Missouri argues that it should be allowed to recover the additional amortization so that it will have an incentive to pursue further cost-cutting measures.
>
> Ameren Missouri prudently took steps to reduce its payroll costs to improve the efficiency of its operations. Under the lag that results from the traditional regulatory model, the company is able to retain those cost savings until it chooses to come back for a rate adjustment and a new level of costs is used to reset rates. In this case, Ameren Missouri, for reasons unconnected to these particular costs, has asked the Commission to adjust its rates. The new rates will reflect the lower personnel costs and the company will cease to benefit directly from the reduced payroll after having barely recovered its costs. If Ameren Missouri had not

> chosen to request a rate increase at this time, it would have continued to benefit from its reduced payroll costs. That is how the system works.
>
> Ameren Missouri is essentially asking the Commission to require ratepayers to give the company a $25.8 million bonus to reward the company for being efficient in reducing its payroll and to give it an extra incentive to reduce costs in the future. The Commission finds that the company does not need and will not receive any extra incentive to operate efficiently.[3]
> [Footnotes omitted.]

Q. Mr. Klote's rebuttal testimony suggests that severance costs should be viewed as a form of payroll that compensates employees. Is this an accurate perspective?

A. Not necessarily. Payroll costs are incurred as a transaction between EMW and the employees to their mutual benefit. In this employer-employee transaction, EMW receives the manpower necessary to operate the business and employees receive commiserate compensation. Likewise, a severance transaction benefits the departing employee financially and benefits EMW's shareholders with a contractual form of protection from future liability. However, treating severance costs as part of the payroll could distort the benefit to ratepayers. Severance packages are often linked to executive decisions about staffing levels and corporate strategy rather than the direct delivery of utility services. Consequently, passing these costs to ratepayers does not align with the principle that ratepayers should only bear costs that are necessary for the efficient, safe, and reliable delivery of utility services.

Q. Do severance agreements decrease employee headcount and lead to a lower revenue requirement in a utility's rate case?

A. Severance costs are typically incurred when a company undergoes downsizing, restructuring, or other notable organizational changes. Unlike routine payroll expenses, which

[3] *Report and Order,* ER-2012-0166, pages 62-63.

are predictable and ongoing, severance payments are non-recurring, one-time expenses that come about due to strategic business decisions rather than day-to-day operations. Including severance costs in the cost of service could unjustly burden ratepayers with costs that are not directly tied to the utility's provision of service. However, as Mr. Klote explains, a severed employee often needs to be immediately replaced so headcount is not necessarily reduced.

Q. Please summarize your testimony on severance expense.

A. Severance costs can vary widely depending on severance packages offered and the number of terminations made, making the costs difficult to predict and control. Knowing with assurance that severance costs would be solely ratepayers' responsibility may disincentivize a utility to manage its workforce efficiently, leading to higher rates passed on to the consumers. Also, through positive regulatory lag, EMW can recover severance expenses and no further expenses should be recovered in the ongoing cost of service.

<u>TRUE-UP ADJUSTMENTS</u>

Q. Were there any items that you updated with data through June 30, 2024, true-up date in this case?

A. Yes, items I updated with data through June 30, 2024 include:

- Bad Debt Expense
- Forfeited Discounts
- IT Software Maintenance
- Pensions and OPEBs
- Plant in Service and Accumulated Reserve
- Transmission Revenue and Expense
- SPP Administrative Fees

Q. Was there any change in methodology used in developing your true-up adjustments compared to methodology used in developing adjustments in direct filing?

A. No, I did not change methodology used in developing true-up adjustments.

Q. Does this conclude your Surrebuttal / True-up Direct testimony?

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 ANTONIJA NIETO

STATE OF MISSOURI)
) ss.
COUNTY OF Jackson)

COMES NOW ANTONIJA NIETO 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 Antonija Nieto*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

A Nieto

ANTONIJA NIETO

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 5th day of September 2024.

M. RIDENHOUR
MY COMMISSION EXPIRES 1-22-2027
NOTARY SEAL
#19603483
PLATTE COUNTY
NOTARY PUBLIC, STATE OF MISSOURI

M. Ridenhour

Notary Public

Case No. ER-2024-0189

SCHEDULE AN-s1
SCHEDULE AN-s2
SCHEDULE AN-s3 and
SCHEDULE AN-s4

HAVE BEEN DEEMED

CONFIDENTIAL

IN THEIR ENTIRETY