

Exhibit No.:

Issue: Common Use Billings; FAC Deferral; ROE and
Capital Structure

Witness: Ronald A. Klote

Type of Exhibit: True-Up Rebuttal Testimony

Sponsoring Party: Evergy Missouri West

Case No.: ER-2024-0189

Date Testimony Prepared: September 18, 2024

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2024-0189

TRUE-UP REBUTTAL TESTIMONY

OF

RONALD A. KLOTE

ON BEHALF OF

EVERGY MISSOURI WEST

Kansas City, Missouri

September 2024

TRUE-UP REBUTTAL TESTIMONY

OF

RONALD A. KLOTE

Case No. ER-2024-0189

1 **I. INTRODUCTION AND PURPOSE**

2 **Q: Please state your name and business address.**

3 A: My name is Ronald A. Klot. My business address is 1200 Main, Kansas City, Missouri
4 64105.

5 **Q: Are you the same Ronald A. Klot who submitted direct testimony on February 2,**
6 **2024, rebuttal testimony on August 6, 2024, and surrebuttal/true-up direct on**
7 **September 10, 2024?**

8 A: Yes.

9 **Q: On whose behalf are you testifying?**

10 A: I am testifying on behalf of Evergy Missouri West, Inc. d/b/a Evergy Missouri West
11 (“EMW” or the “Company”).

12 **Q: What is the purpose of your testimony?**

13 A: The purpose of my testimony is to respond to various Staff witnesses from the Missouri
14 Public Service Commission Staff (“Staff”). Specifically, I respond to:

- 15 ▪ Common Use Billings – Staff witness Young
16 ▪ FAC Deferral – Staff witness Giacone
17 ▪ ROE/Capital Structure – Staff witness Dr. Won

18 In addition, the following Company witnesses also provide true-up rebuttal testimony:

- 19 ▪ Linda Nunn

- 1 ▪ Jessica Tucker
- 2 ▪ Hsin Foo
- 3 ▪ Ann Bulkley

4 Please note that the Company has attempted to address all substantive issues raised by Staff
5 and OPC or other parties which the Company contests. If the Company inadvertently failed
6 to address an issue raised by any party, the absence of a response does not constitute
7 agreement by the Company with the party, and the Company may respond on the topic at
8 hearing.

9 **Q: As an administrative matter, did you make a correction to your true-up direct**
10 **testimony?**

11 A: Yes. I corrected an error in Company adjustment CS-25 which included capacity sales
12 related to the addition of the Company's Dogwood Energy Center which was included in
13 the true-up calculation in this rate case. These capacity sales were inadvertently included
14 in CS-25 and were already reflected in Company adjustment R-100.

15 **II. COMMON USE BILLINGS**

16 **Q: Have you previously provided an explanation of what Common Use Billings are?**

17 A: Yes. In my direct testimony I describe the components of Company adjustment CS-117
18 Common Use Billings. These represent the billings from other Evergy jurisdictions and
19 billings to other Evergy jurisdictions for the use of common plant capital assets that are
20 included in rate base. These include common facilities across our jurisdictions for rate
21 base assets such as common service facilities, telecommunications equipment, network
22 systems and software. Billings are based on the depreciation and/or amortization expense

1 of the underlying capital assets that are included in rate base and a rate of return applied to
2 the net plant basis.

3 **Q: How are capital assets reflected in rate base?**

4 A: Capital assets as reflected in rate base are included as of a period in time. In this case that
5 would be the end of the true-up period June 2024.

6 **Q: Please explain how Common Use Billings were reflected in Company adjustment CS-
7 117.**

8 A: Consistent with prior rate cases, the Company updated Common Use Billings to reflect an
9 annualization of the billings in the last month of the true-up period June 2024.

10 **Q: Please explain how Staff reflected Common Use Billings in its true-up revenue
11 requirement calculation.**

12 A: Staff witness Young updated Common Use Billings to reflect billings over the 12-months
13 ending June 2024.

14 **Q: Does the Company agree with Staff's calculation?**

15 A: No.

16 **Q: Why not?**

17 A: Staff's calculation ignores the growth that has occurred in Common Use Billings during
18 the test year and true-up period, significantly understates Common Use Billings that will
19 occur going forward, and results in a revenue requirement that does not accurately reflect
20 the Company's cost of service.

21 During the true-up period there were significant increases in software upgrades and
22 improvements in common facilities. From the beginning of the test year to the end of the

1 test year, and then through the cut-off date to the end of the true-up period common use
2 billings grew by more than \$1.1 million per month or \$13.78 million annualized.

	Monthly	Annualized
July 2022 Annualized	\$1,976,901	\$23,722,811
July 2023 Annualized	\$2,758,961	\$33,107,535
December 2023 Annualized	\$2,889,832	\$34,677,985
Company True-Up – Annualized June 2024	\$3,125,199	\$37,502,383
Staff True-Up – 12-month Ending June 2024		\$34,909,088

3
4 By including months in which Common Use Billings are lower and not reflecting all the
5 capital asset additions during the period, Staff has significantly understated the Common
6 Use Billing expense. Capital assets included in rate base are not averaged over the period
7 but rather reflect the true-up period ending balance. Staff’s calculation does not reflect all
8 the capital additions made during the test year and true-up period. And, a full rate of return
9 and depreciation/amortization is not reflected in Staff’s cost of service as a result for the
10 capital assets that are currently being billed to EMW at the end of the true-up period.

11 Annualizing costs based on the last month of the true-up period as the Company
12 has done ensures the Company’s revenue requirement is reflective of its common plant
13 capital assets in service and billed through its Common Use Billings process on a going
14 forward basis.

15 **Q: Is Staff’s proposal consistent with how it reflected Common Use Billings in its revenue**
16 **requirement calculation in prior EMW rate cases?**

17 A: No, it is not. In ER-2018-0145 and ER-2022-0130 Staff followed the Company’s
18 methodology by using the final month of the Company’s true-up period and annualized
19 both the return and depreciation component of the Common Use Billings. Staff’s selection
20 of the 12-month period amount is not a proper reflection of this growth and, as I discussed

1 earlier, significantly understates the amount of Common Use Billings that are currently
2 occurring and understates the Company's revenue requirement.

3 **Q: What is the difference between Staff's 12-month Common Use Billing calculation and**
4 **the Company's June 2024 annualization calculation?**

5 A: The difference between these two calculations is \$2,593,152.

6 **Q: What is the Company requesting this Commission to do in regards to Common Use**
7 **Billings?**

8 A: The Company is requesting the Commission to annualize Common Use Billings consistent
9 with prior rate cases. In addition, EMW's method of using Common Use Billings
10 annualized as of June 2024 is the most accurate way to reflect common plant capital asset
11 additions that occurred during the test period.

12 **III. FAC DEFERRAL**

13 **Q: What was the Company's recommendation in regards to the FAC Deferral included**
14 **in adjustment CS-93 in the Company's revenue requirement calculation?**

15 A: In my rebuttal testimony, the Company agreed with Staff's amortization of the FAC
16 Deferral over a four-year period. The Company proposed to include carrying costs on the
17 deferral until the effective date of rates in this rate case which is when recovery of this
18 amount will begin. This treatment was in place of including the FAC Deferral in rate base
19 and amortized over a 20-year period as was prescribed by the legislation that established
20 the deferral.

1 **Q: What did Staff witness Giacone recommend in regards to the calculation of the PISA**
2 **FAC Deferral?**

3 A: Staff witness Giacone appears to have kept his recommendation but has provided the
4 Commission with two alternate options. One of those alternate options (option 2) is the
5 Company's proposal to include carrying costs through the effective date of rates in this rate
6 case. In addition, Staff has included option 1 which applies carrying costs up to the date
7 that the deferral costs would have been included in rates in the Company's 2022 rate case.

8 **Q: If the FAC Deferral had been included in rate base in the Company's prior rate case**
9 **would it have earned a rate of return on the balance?**

10 A: Yes. Rate base components are included in rates earning a return at the Company's rate of
11 return.

12 **Q: As such, does the Company's recommendation to include carrying costs until the**
13 **effective date of rates in this rate case provide the same return on these costs that**
14 **would have been provided in the last case?**

15 A: Yes. Including the deferral in rate base as was prescribed by the legislation originally that
16 established the FAC deferral would have provided a return on the same FAC deferral. As
17 such the Company believes it is fair and reasonable to include the carrying costs on the
18 FAC deferral through the effective date of rates in this rate case which would have been
19 the identical treatment the costs would have been given had they been included in rate base
20 in the Company's last rate case.

1 **Q: Has the Company agreed to remove the FAC deferral from rate base in this case?**

2 A: Yes. The Company has agreed to remove the FAC deferral amount from rate base and
3 recover the remaining amount over four years with the ceasing of carrying costs beginning
4 with the rates effective date of this case.

5 **IV. CAPITAL STRUCTURE / COST OF CAPITAL**

6 **Q: What capital structure did Staff witness Dr. Won recommend in his true-up direct**
7 **testimony?**

8 A: Dr. Won recommends a capital structure made up of 49.88% common equity and 50.12%
9 long-term debt for the true-up calculation in this rate case. Staff subsequently updated their
10 revenue requirement calculation using 49.85% common equity in their latest revenue
11 requirement model provided to the Company.

12 **Q: Does the Company agree to Staff's recommendation?**

13 A: Yes. Staff's proposed capital structure as provided in their updated revenue requirement
14 calculation agrees to the Company's true-up revenue requirement model of 49.85%.

15 **Q: What cost of debt did Dr. Won recommend be included in the revenue requirement**
16 **calculation?**

17 A: Staff witness Won recommends a cost of long-term debt of 4.34% for its true up calculation
18 in this rate case.

19 **Q: Does the Company agree with this recommendation?**

20 A: Yes. The Company agrees to 4.34% and has used that amount in its true-up calculation.

1 **Q: Are other Company witnesses addressing the testimony of OPC witness David**
2 **Murray in regards to capital structure / cost of capital to include in the true-up**
3 **revenue requirement calculation?**

4 A: Yes. Company witness Ann Bulkley provides true-up rebuttal testimony.

5 **Q: Does that conclude your true-up rebuttal testimony?**

6 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) Case No. ER-2024-0189
Implement A General Rate Increase for Electric)
Service)

AFFIDAVIT OF RONALD A. KLOTE

STATE OF MISSOURI)
) **ss**
COUNTY OF JACKSON)

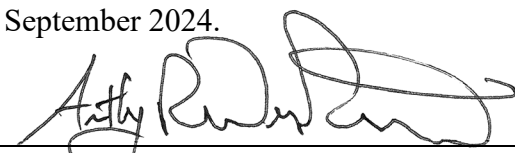
Ronald A. Klote, being first duly sworn on his oath, states:

- 1. My name is Ronald A. Klote. I work in Kansas City, Missouri, and I am employed by Evergy Metro, Inc. as Senior Director – Regulatory Affairs.
- 2. Attached hereto and made a part hereof for all purposes is my True-Up Rebuttal Testimony on behalf of Evergy Missouri West consisting of eight (8) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.
- 3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.



Ronald A. Klote

Subscribed and sworn before me this 18th day of September 2024.



Notary Public

My commission expires: 4/26/2025

