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MISSOURI PUBLIC SERVICE COMMISSION
FINANCIAL AND BUSINESS ANALYSIS DEPARTMENT

REBUTTAL TESTIMONY

OF

KIMBERLY K. BOLIN

Evergy Metro, Inc. d/b/a Evergy Missouri Metro
Case No. ER-2022-0129

Evergy Missouri West, Inc. d/b/a Evergy Missouri West
Case No. ER-2022-0130

Jefferson City, Missouri
July 2022

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EXECUTIVE SUMMARY1

TRACKER PROPOSALS1

1 **REBUTTAL TESTIMONY**

2 **OF**

3 **KIMBERLY K. BOLIN**

4 **EVERGY METRO, INC. D/B/A EVERGY MISSOURI METRO**
5 **CASE NO. ER-2022-0129**

6 **EVERGY MISSOURI WEST, INC. D/B/A EVERGY MISSOURI WEST**
7 **CASE NO. ER-2022-0130**

8 Q. Please state your name and business address.

9 A. My name is Kimberly K. Bolin. My business address is P. O. Box 360,
10 Suite 440, Jefferson City, Missouri 65102.

11 Q. Are you the same Kimberly Bolin that wrote Direct testimony in this case that
12 was filed on June 8, 2022?

13 A. Yes, I am.

14 **EXECUTIVE SUMMARY**

15 Q. What is the purpose of your testimony?

16 A. In this testimony, I address from a policy perspective the proposals made by
17 Evergy Metro and Evergy West to establish a bad debt (net write-offs) tracker.

18 **TRACKER PROPOSALS**

19 Q. What is a “tracker”?

20 A. The term “tracker” refers to a rate mechanism under which the amount of a
21 particular cost of service item actually incurred by a utility is “tracked” and compared to the
22 amount of that item currently included in a utility’s rate levels. Any over-recovery or

1 under-recovery of the item in rates compared to the actual expenditures made by the utility is
2 then booked to a regulatory asset or regulatory liability account, and would be eligible to
3 be included in the utility's rates set in its next general rate proceeding through an amortization
4 to expense.

5 Q. Should use of trackers be a common occurrence in Missouri rate regulation
6 of utilities?

7 A. No. Rates are normally set in Missouri to allow a utility an opportunity to
8 recover its cost of service, measured as a whole, on an ongoing basis from the utility's
9 customers. However, under this approach, with rare exceptions, neither utilities nor utility
10 customers are allowed to be reimbursed through the rate case process for any prior under or
11 over-recovery of costs experienced by the utility in rates, either measured for its cost of service
12 as a whole or for individual cost of service components. For this reason, use of trackers in order
13 to provide reimbursement in rates to utilities or customers of any over or under-recovery of
14 individual rate component items is rare and should be dependent on unique and
15 unusual circumstances.

16 Q. Under what criteria might Staff consider the use of trackers is justified?

17 A. Use of trackers may be justified under the following circumstances: (1) when
18 the applicable costs demonstrate significant fluctuation and up-and-down volatility over time,
19 and for which accurate estimation is difficult; (2) new costs for which there is little or
20 no historical experience, and for which accurate estimation is accordingly difficult;
21 and (3) costs imposed upon utilities by newly promulgated Commission rules. In addition, the
22 costs should be material in nature.

1 Q. Why are trackers sometimes justified by significantly fluctuating and
2 volatile costs?

3 A. If a utility's cost levels for a particular rate item over time demonstrate
4 significant up-and-down volatility, it can be appropriate to implement a tracker mechanism for
5 this type of item to reduce the amount of risk associated with a material inaccuracy in estimating
6 the particular cost for purposes of setting the utility's rates.

7 Q. What is an example the Commission authorizing a tracker for a volatile cost in
8 the past?

9 A. All major utilities operating in Missouri, including Evergy Metro and
10 Evergy West, have tracker mechanisms in place for their pension and other post-employment
11 benefit (OPEB) expenses. Annual pension and OPEB expense amounts have at times in the past
12 had significant annual volatility, primarily because pension and OPEB funding amounts are
13 impacted by investment outcomes in equity and debt markets, which, of course, can swing
14 upward or downward based upon trends in the general economy.

15 Q. Are there other unusual aspects to pension and OPEB expense that justify using
16 a tracker mechanism?

17 A. Yes. In Missouri, utilities place amounts intended for later payment to retired
18 employees for pension and OPEBs into external trust funds to help ensure that such funds are
19 available when due to utility employees. Staff believes it is good policy for utilities to keep as
20 current as possible on funding of pension and OPEB amounts. In this request, Staff believes
21 that authorizing tracker mechanisms for these expense items encourages utilities to stay current
22 on pension and OPEB expense allowances currently included in their rate levels. Of course if
23 pension or funding amounts turn out to be less than the amounts for these items currently

1 included in a utility's rate level, use of trackers also ensure that the funding/rate differential
2 would ultimately be flowed back to its customers.

3 Q. Does Staff continue to recommend that the Commission authorize Evergy Metro
4 and Evergy West's pension and OPEB trackers?

5 A. Yes. Continued authorization of these trackers remains appropriate for Evergy
6 Metro, Evergy West and other utilities that offer pension and OPEB benefits to their employees.

7 Q. Are there other instances where trackers may be justified?

8 A. In rare circumstances, utilities will incur significant new expense for which they
9 have little or no history to aid in determining an appropriate ongoing level for those expenses
10 for setting rates. In those circumstances, it may be appropriate to authorize a tracker to protect
11 both the utility and its customers from over-or-under-recovery in rates of these expenses due to
12 erroneous estimates.

13 Q. Has Staff agreed to the use of a tracker for this reason?

14 A. Yes, in several electric utility rate cases when a new generating unit goes into
15 service, Staff has agreed to a tracker applicable to the O&M expenses associated with the plant,
16 given the lack of history for these expenses. However, after several years of operation, Staff
17 recommends discontinuation of the tracker when adequate history of these expenses is known.

18 Q. Are there any other instances where the Commission has used trackers?

19 A. In some circumstances, the Commission has established, within the rules it
20 promulgates, provisions for tracking and recovery of incremental costs caused by utility
21 compliance with new rules. This was the case with the Commission rules requiring electric
22 utilities to take certain actions regarding vegetation management and infrastructure inspection
23 activities, which became effective in 2008.

1 Q. Was a new law recently passed in Missouri that allows utilities to track property
2 taxes paid versus property taxes collected in rates?

3 A. Yes. Senate Bill 745 was signed by Governor Parsons on June 29, 2022 that
4 allows a utility to track the amount of property taxes paid versus the amount of property taxes
5 used to set rates in the most recently completed general rate case.

6 Q. Are cost deferrals resulting from use of trackers any different from cost deferrals
7 resulting from an accounting authority order (AAO)?

8 A. Yes. In Missouri, when someone refers to an AAO, it is understood that person
9 is referring to a Commission order that allows a utility to defer certain costs on its balance sheet
10 for potential recovery of the deferred costs in rates through amortizations to expense in a general
11 rate proceeding. This is similar to how deferrals resulting from trackers may be treated in
12 general rate proceedings. However, the nature of the costs to which AAOs are normally granted,
13 and the nature of the costs to which tracking treatment is normally granted, are quite different.

14 Q. Would you explain the major differences in how AAOs and trackers have been
15 used in Missouri?

16 A. Typically, AAOs have been used to allow utilities to capture certain
17 unanticipated and “extraordinary” costs that are not included in their ongoing rate levels.
18 The term “extraordinary costs” are defined as costs associated with an event that is unusual,
19 unique and non-recurring in nature. The classic example of an extraordinary event is the
20 occurrence of a natural disaster, such as a wind or ice storm, or major flood that affects a
21 utility’s service territory.

22 In contrast, trackers have been used in Missouri to track certain costs that are
23 ongoing to a utility and for which some allowance has been built into the company’s existing

1 rate levels. For this reason, while costs subject to trackers exhibit some highly usual or unique
2 attributes which justify the use of a tracker, these costs are not “extraordinary” in the sense that
3 this term is commonly applied to costs covered by AAOs.

4 Q. If the use of trackers has not been limited to truly extraordinary costs, then why
5 not track all or most costs?

6 A. There are at least two reasons. First, excessive use of trackers would tend to
7 skew ratemaking results either in favor of the utility or in favor of its customers.
8 Secondly, broad use of trackers would not provide the incentives a utility has to operate as
9 efficiently and productively under the rate regulation approach used in Missouri.

10 Q. Why would the widespread use of trackers tend to skew the ratemaking results
11 for a utility?

12 A. With certain exceptions, the policy in Missouri has been to set a utility’s rates
13 based upon measurement of “all relevant factors,” taking into account levels of revenues,
14 expenses, rate base and rate of return that are calculated at or approximately at the same point in
15 time. Use of an “all relevant factors” approach is necessary to ensure that a utility’s rate levels
16 are based upon an accurate measurement of its cost of service at a particular point in time.

17 When using trackers as part of setting rates, certain cost factors inevitably
18 receive different and inconsistent treatment compared to other cost factors. For example, if a
19 utility tracks expenses that tend to increase in amount over time, but does not track cost of
20 service factors that may reduce its cost of service (factors such as revenue growth, or increases
21 in rate base offsets for accumulated depreciation or deferred taxes), the utility will have the
22 potential of receiving retroactive dollar-for-dollar recovery of certain cost increases in its
23 customer rates through the operation of its trackers, while pocketing for itself any beneficial

1 changes in other cost of service components that occur over the same period. In this manner,
2 inappropriate use of trackers can lead to skewed and unfair ratemaking results.

3 Q. How do trackers affect a utility's incentive to operate efficiently?

4 A. An inevitable byproduct of the Missouri ratemaking approach is
5 "regulatory lag." "Regulatory lag" is simply the passage of time between when a utility
6 experiences a change in the cost of service, and the reflection of that change in its rate levels.
7 While regulatory lag is often portrayed by utilities as a phenomenon that is entirely negative or
8 harmful, the existence of regulatory lag does provide utilities with incentive to be as efficient
9 and cost-effective over time as they can. Excessive use of trackers can serve to eliminate or
10 weaken these beneficial incentives.

11 Q. Does regulatory lag affect the earnings of a utility between general
12 rate proceedings?

13 A. Yes. The operation of regulatory lag as part of the normal ratemaking process
14 exposes a utility to the prospect of lower earnings if its cost of service increases between general
15 rate proceedings. However, it also allows the utility to experience higher earnings if the utility
16 is able to reduce its cost of service that was established in the most current rate proceeding.
17 This "penalty/reward" aspect of current Missouri ratemaking policy would be damaged by use
18 of trackers if applied to normal cost of service items. A company that experiences an increase
19 in an expense that is being tracked will experience no reduction in earnings related to that
20 increased costs (because the cost increase will be captured on its balance sheet and not on its
21 income statement) and, therefore, the utility will have less incentive to attempt to minimize any
22 such cost increase. On the other hand, a utility that experiences a reduction in an expense that
23 is being tracked will experience no increase to its ongoing earnings level as a result of the

1 decreased costs (again, because the cost decrease will be captured on its balance sheet and not
2 on its income statement) and, therefore, would have less incentive to produce the lower cost
3 levels in the first place.

4 Q. What is Evergy Metro and Evergy West seeking to track?

5 A. Both are seeking to track bad debt expense.

6 Q. Is it generally appropriate to track bad debt expense?

7 A. No. Bad debt expense is an ongoing cost of service item that is incurred by all
8 major utilities. Bad debt expense has been a component of utility cost of service in all general
9 rate cases I have been involved with for over 25 years.

10 Q. What ratemaking treatment does Staff recommend for the bad debt expense in
11 this case?

12 A. Staff calculated a bad debt expense ratio by examining using the billed revenues,
13 net of gross receipt taxes, for the twelve-month period ended December 31, 2021, and the actual
14 12-month history of billed revenues that were never collected (net write-offs) for the twelve
15 months ended June 30, 2021. This ratio was then applied to Staff's adjusted weather
16 normalized level of retail revenues to obtain the annualized level of bad debt expense.

17 Q. Is Staff recommending reexamining bad debt expense as part of its true-up audit
18 in this case?

19 A. Yes.

20 Q. What level of bad debt expense does Staff recommend in this case?

21 A. Staff recommends a bad debt expense level of \$4,175,945 for Evergy Metro
22 and \$2,654,844 for Evergy West.

23 Q. Does this conclude your rebuttal testimony?

Direct Testimony of
Kimberly K. Bolin

1

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Evergy Metro, Inc. d/b/a Evergy)
Missouri Metro's Request for Authority to) Case No. ER-2022-0129
Implement a General Rate Increase for Electric)
Service)

In the Matter of Evergy Missouri West, Inc.)
d/b/a Evergy Missouri West's Request for) Case No. ER-2022-0130
Authority to Implement a General Rate)
Increase for Electric Service)

AFFIDAVIT OF KIMBERLY K. BOLIN

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW KIMBERLY K. BOLIN and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Rebuttal Testimony of Kimberly K. Bolin*; and that the same is true and correct according to her best knowledge and belief.


Further the Affiant sayeth not.


KIMBERLY K. BOLIN

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 6th day of July, 2022.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: April 04, 2025
Commission Number: 12412070


Notary Public