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Ronald A. Klote  
Rebuttal  
File No. ER-2024-0189

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Witness: Ronald A. Klote  
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Sponsoring Party: Evergy Missouri West  
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**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO.: ER-2024-0189**

**REBUTTAL TESTIMONY**

**OF**

**RONALD A. KLOTE**

**ON BEHALF OF**

**EVERGY MISSOURI WEST**

**Kansas City, Missouri  
August 2024**

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**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. Klote. My business address is 1200 Main, Kansas City, Missouri  
4 64105.

5 **Q: Are you the same Ronald A. Klote who submitted direct testimony on February 2,**  
6 **2024?**

7 A: Yes.

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

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

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

12 A: The purpose of my rebuttal testimony is to respond to various witnesses from the Missouri  
13 Public Service Commission Staff (“Staff”) and the Office of Public Counsel (“OPC”).

14 Specifically, I respond to the following:

<b>Topic</b>	<b>Witness</b>
Depreciation	Coffer, Amanda (Staff)
Continuing Plant Inventory Record	Coffer, Amanda (Staff)
Payroll	Ferguson, Sydney (Staff)
Greenwood Solar	Giacone, Jared (Staff)
PISA	Giacone, Jared (Staff)
FAC deferral	Giacone, Jared (Staff)
CIP/Cyber Security Tracker	Lyons, Karen (Staff)
Storm Reserve	Lyons, Karen (Staff) Payne, Manzell (OPC)
Injuries & Damages Reserve	Lyons, Karen (Staff)
PIS and Depreciation Reserve	Nieto, Antonija (Staff)
Severance Costs	Nieto, Antonija (Staff)
Incentive Compensation	Bailey, Nathan Smith, Lindsey (Staff) Schaben, Angela (OPC)
Property Tax Expense and Tracker	Lyons, Karen (Staff)
Cost Tracking Mechanisms	Schaben, Angela (OPC)
Time-of-Use Tracker	Lange, Sarah (Staff)

1  
2 Please note that the Company has attempted to address all substantive issues raised by Staff  
3 and OPC or other parties which the Company contests. If the Company inadvertently failed  
4 to address an issue raised by any party, the absence of a response does not constitute  
5 agreement by the Company with the party, and the Company may respond on the topic in  
6 subsequent testimony including at hearing.

7 **II. DEPRECIATION**

8 **Q: Please summarize Staff’s testimony concerning depreciation.**

9 A: Staff witness Amanda Coffer defines depreciation and recommends application of the  
10 depreciation rates that were used in the prior rate case proceeding. Staff has not  
11 recommended any adjustments to depreciation rates in EMW’s direct case and states the  
12 Company did not have a depreciation witness provide any written testimony  
13 recommending any changes to depreciation rates. However, the Company’s revenue  
14 requirement model requested certain depreciation changes.

1 **Q: Do you agree with the depreciation testimony presented in Staff Witness Coffey's**  
2 **testimony?**

3 A: I agree only with certain statements made in Staff witness Coffey's testimony. The  
4 Company does agree that no depreciation study was conducted to provide in this rate case.  
5 The Company proposed to use the depreciation rates that were ordered in the Company's  
6 previous 2022 rate case. However, I do take exception with witness Coffey's statement  
7 that the Company did not provide testimony recommending any changes to depreciation  
8 rates. In my direct testimony, I proposed the following additional rates that were necessary  
9 due to depreciation reserves now being maintained by unit that were not included and new  
10 since the Company's prior rate case Order. I stated as follows:

11 Q: Were there any depreciation rate requests in this case?

12 A: Yes, since the company now maintains depreciation reserves by  
13 unit, there are four individual unit/plant account rates needed for the  
14 following units (1) New "Hawthorn Solar" - existing plant account  
15 34401. The company proposes a 25-year life or 4% depreciation  
16 rate. (2) New "Battery Storage" with a new plant account 38700.  
17 The company proposes a 10-year life or 10% depreciation rate. In  
18 the company's Direct filing, the projected battery storage assets  
19 have been reflected in plant account 37102. A new FERC ruling, in  
20 Docket No. RM21-11-000; Order No. 898 is changing the plant  
21 accounts for energy storage to plant account 38700. (3) Existing  
22 "Lake Road Unit 2" - plant account 31600. The company proposes  
23 using the current authorized rate for "Lake Road Common plant  
24 account 31600" of 6.10% until the next depreciation study. (4)  
25 Existing "Lake Road Boiler Common" - plant account 31202. The  
26 company proposes using the current authorized rate for "Lake Road  
27 Common plant account 31202" of 8.59% until the next depreciation  
28 study.

29 **Q: Are there any additional changes the Company has identified associated with**  
30 **depreciation rates?**

31 A: Yes. The rate proposed in Direct testimony for the new Battery Storage was actually  
32 recorded to plant account 36300 instead of 37102. The Company still proposes to use 10%

1 rate based on the 10-year life but proposes to use plant account 36300. In addition, there  
2 are three new plant accounts at specific locations since our Direct Filing that the Company  
3 will need an authorized rate. (1) Plant Account 31600 for Lake Road Boiler 4, the  
4 Company proposes using the same authorized rate for the same plant account as Lake Road  
5 Boiler Common with a rate of 6.40%. (2) Plant Account 34600 for Lake Road Turbine 5,  
6 the Company proposes using the same authorized rate as used for Lake Road Common  
7 plant account 31600 with a rate of 6.10% and (3) Plant Account 34500 for Landfill Gas  
8 Turbine, the Company proposes using the composite rate based on all plant accounts at  
9 Landfill Gas Turbine with a rate of 3.08%. Also, with the recent purchase of a portion of  
10 Dogwood, the Company will include Dogwood in the true-up filing in this rate case and  
11 will need authorized rates for plant accounts 341 through 346. The Company proposes to  
12 use the composite rate by account based on the current authorized rates for plant accounts  
13 341 through 346. The Company has calculated these values to be: 3.44% for 341; 2.46%  
14 for 342; 1.31% for 343; 1.28% for 344; 2.91% for 345; and 4.95% for 346. EMW plans to  
15 address all the new accounts in its next depreciation study.

16 **Q: Is there another depreciation issue in Staff's EMS?**

17 A: Yes. In Staff's EMS, Schedule 5, there is a rate provided to depreciate long-term and short-  
18 term incentive disallowance adjustments using a rate of 3.10%. The Company proposes  
19 for consistency purposes to amortize the disallowance amounts for both long-term and  
20 short-term capitalized incentive over a 20-year period or in other words use a 5% rate in  
21 the Depreciation annualization as well as in calculating the associated plant reserve at a  
22 point in time. Staff used 3.10% rate for both long-term and short-term incentive  
23 compensation disallowances in its Depreciation Expense Schedule 5 which was based on

1 the average depreciation rate of all plant in Staff's current Direct case. However, Staff uses  
2 the same Plant Reserve balance as the Company for the long-term incentive compensation  
3 which is based on a 5% rate so therefore Staff was inconsistent between the depreciation  
4 expense and calculating the associated depreciation reserve. Although not specifically  
5 listed as an authorized rate in the 2022 rate case, both Staff's final EMS model and  
6 Company's True-up model used a 20-year amortization or 5% rate to reflect the appropriate  
7 Plant Reserve balance of \$623,269 at May 2022 associated with the long-term incentive  
8 compensation disallowance. Amortizing over a defined period such as 20-years would be  
9 more straight forward and consistent with the prior rate case treatment of long-term  
10 incentive disallowances. It would also prevent parties from needing to re-calculate an  
11 average rate each filing, which would improve the process of updating the associated  
12 reserve from one filing to the next.

13 **Q: Were there any errors in depreciation expense rates Staff used in their revenue**  
14 **requirement calculation?**

15 A: Yes. EMW did identify two significant errors in Staff's revenue requirement calculations.  
16 The Company has raised these issues with Staff, and Staff was in agreement with the  
17 corrections and plans to reflect these changes in their true-up revenue requirement  
18 calculation to use the final authorized rates from the 2022 rate case.

19 **Q: Were there any errors in depreciation expense adjustments Staff used in their**  
20 **revenue requirement calculation?**

21 A: Yes, EMW identified an error in Staff's revenue requirement calculations for Depreciation  
22 Clearings on Fleet Vehicles. The Company has raised this issue with Staff, and Staff was  
23 in agreement with the correction and plans to reflect this change in their true-up revenue



1 requirement calculation by applying the Fleet Loadings O&M ratio to the test period  
2 vehicle depreciation expense in arriving at the adjustment amount.

### 3 III. CONTINUING PLANT INVENTORY RECORD

4 **Q: Did Staff take issue with the Company's Continuing Plant Inventory Record**  
5 **("CPR")?**

6 A: Yes. Staff witness Amanda Coffey suggests that EMW has not properly recorded the  
7 vintage year of mass property assets in the Company's CPR.

8 **Q. Has Staff quantified the effect it suggests is being rendered to EMW's revenues?**

9 A. No. To my knowledge this is the first time such a claim has been made regarding the  
10 Company's continuing property records that have been used in every rate case I have been  
11 involved with in my regulatory accounting career at the Company.

12 **Q: What is your response to Staff?**

13 A: EMW does not agree that it is improperly recording assets in its CPR. The Company has  
14 used the same methodology in this case that it has applied in prior rate case proceedings  
15 for as long as I can recall. There are two reasons EMW (and other Missouri utilities)  
16 approach CPR the way we do. First, tracking all plant functional resources by vintage is  
17 overly burdensome and would entail significant set-up costs for software tools. It would  
18 also create a significant administrative burden to maintain in daily accounting. Second,  
19 this additional work would not result in significant customer benefits: the costs of tracking  
20 the CPR in the way Staff proposes would vastly exceed any benefit to customers, and the  
21 cost of this process would ultimately fall to customers.

22 EMW suggests that this issue be studied carefully including assessing the full costs  
23 to implement and maintain such accounting practices before any decisions to alter

1 accounting principles and policies are made. It is my understanding that other utilities in  
2 Missouri have faced this very issue in recent regulatory proceedings. As this has apparently  
3 become an industry issue that Staff wishes to pursue, it would be best addressed outside of  
4 a rate case proceeding. In fact, EMW is not opposed to meeting with Staff to discuss  
5 company continuing property records accounting processes for a full understanding by  
6 Staff and to resolve its concerns it has brought up in its direct testimony.

#### 7 **IV. PAYROLL**

8 **Q: Did Staff propose an adjustment related to payroll costs included in the Company's**  
9 **revenue requirement calculation?**

10 A: Yes. Staff witness Sydney Ferguson explains that Staff annualized the allocated amount of  
11 payroll to EMW based on base salary levels as of the end of the update period, December  
12 31, 2023. In addition, Staff included a capitalization ratio using the 12 months ended  
13 December 31, 2023.

14 **Q: Do you agree with Staff's proposed adjustment?**

15 A: I do not. Staff's recommended adjustment departs from EMW's proposal in large part due  
16 to a difference in capitalization ratio.

17 **Q: What does the capitalization ratio represent?**

18 A: The capitalization ratio is a calculation that examines total payroll costs and develops a  
19 ratio of the amount of payroll costs that have been charged to operation and maintenance  
20 expense versus the amount that has been charged to capital accounts. This amount can  
21 fluctuate from year to year based on the amount of internal labor support that is provided  
22 to capital expenditures.

1 **Q: What capitalization ratio has the Staff included in its payroll annualization?**

2 A: Staff has chosen to use the time period of the 12 months ending December 2023 for EMW.  
3 The capitalization ratio that Staff included for expense recorded to O&M (which is at the  
4 lowest point in the last 10 years) is 47.53%.

5 **Q: What is EMW's position regarding the capitalization ratio calculation?**

6 A: The Company believes that a multi-year average should be used to smooth out periods that  
7 are higher and lower over historical norms. EMW has historically applied a three-year  
8 average, which is much like how overtime is calculated.

9 **Q: Why is a multi-year average important in this case?**

10 A: The Company's capitalization rate has fluctuated from year to year. This is simply an  
11 effect of varying levels of labor that support capital projects on a year over year basis. The  
12 capitalization rate has trended up (less labor recorded to O&M expense) in recent years  
13 and the 3-year average included in the Company's revenue requirement is reflective of this  
14 trend. Internal labor can be impacted by a variety of factors like the availability of internal  
15 labor considering work required for storm restoration and other unexpected maintenance  
16 work year-to-year. Additionally, much of our capital work is supported heavily by  
17 contractors. The availability of contractors year-to-year can impact the use of internal  
18 resources on capital projects (positively and negatively). These externalities, among  
19 others, support the use of a multi-year average to normalize the capitalization ratio included  
20 in this rate case. Setting a capitalization rate for O&M expense at a low point would  
21 artificially lower the cost of service in this rate case. That is precisely why in historical  
22 cases and in this case the Company has proposed a multi-year average.

1 **Q: What capitalization ratio does the Company propose to use in this case?**

2 A: The Company believes that a capitalization ratio should be built on multiple-years and not  
3 just a single period as proposed by Staff. The capitalization rate does increase and decrease  
4 over time. The Company proposes to include the latest period available through the true-  
5 up of June 30, 2024 and include a multi-year average covering the period from 12-months  
6 ending December 31, 2022, Test Year 12-months ending June 30, 2023, and the True-Up  
7 12-months ending June 30, 2024. The resulting capitalization ratio that the Company  
8 proposes for the True-Up using this methodology is 49.07%.

9 **Q: If the Commission does not agree with adopting a three-year average is there another**  
10 **option that would be acceptable to the Company?**

11 A: Although the Company believes that a three-year average would be the superior calculation  
12 to use in this rate case proceeding, the Company would agree with a two-year average that  
13 would include the 12 months ending June 2023 and the 12 months ending June 2024. This  
14 would include both the test year and the true-up period in this rate case period which are  
15 the exact periods in which costs are being reviewed in this rate case proceeding. This  
16 would provide the Commission an averaging calculation over 2 years instead of relying on  
17 a low point period as Staff has done in its direct testimony.

18 **Q: What is the Capitalization rate if the two-year period referred to above is used in**  
19 **place of a three-year average?**

20 A: The resulting two-year average calculation would be 48.32%. In addition, any update to  
21 the capitalization rate will also impact the payroll tax, incentive and benefits adjustment.

1 **V. GREENWOOD SOLAR**

2 **Q: What has Staff recommended regarding the Greenwood solar station?**

3 A: Staff witness Jared Giacone recommends allocating the Greenwood solar station capital  
4 costs and all related expenses between EMW, Evergy Missouri Metro (“EMM”) and  
5 Evergy Kansas Metro (“EKM”). Staff proposes to allocate costs between EMW and EMM  
6 based on the number of customers. Staff describes the basis of its proposal as satisfying  
7 conditions contained in the Commission’s order granting the certificate for the solar station  
8 (EA-2015-0256).

9 **Q: Do you agree with Staff’s allocation proposal?**

10 A: No. Staff’s proposal clearly violates a fundamental ratemaking principle of cost causation.  
11 The Greenwood solar station provides power and other benefits exclusively to EMW’s  
12 customers and does not benefit EMM. The solar plant is connected to a single circuit at  
13 the distribution level of EMW’s electrical system and can only serve the load of customers  
14 on that circuit. Not a single electron produced by the Greenwood solar station will ever  
15 reach the EMM system. All energy produced by the system is for the benefit and use of  
16 EMW’s customers.

17 In addition, the energy produced by the Greenwood station reduces EMW’s load  
18 purchase requirement from the Southwest Power Pool (“SPP”). This reduces SPP load  
19 expense for the benefit of all EMW customers. As a result, the FAC charged or credited  
20 to EMW customers is lower because of the Greenwood solar station.

21 As a corporation with multiple operating utilities, many projects, both generation  
22 and distribution, are often done at one utility subsidiary and may result in benefits of an  
23 intangible nature to the other. One of the benefits identified during the acquisition of

1 KCP&L Greater Missouri Operations (EMW's predecessor) by Great Plains Energy was  
2 the expertise that KCP&L Greater Missouri Operations had in maintenance of its natural  
3 gas plants. That expertise was shared with KCP&L (EMM's predecessor). Likewise,  
4 KCP&L had substantial expertise in maintenance of its coal fleet and that was then shared  
5 with KCP&L Greater Missouri Operations, without compensation through allocation of  
6 costs. KCP&L was one of the first utilities in the nation to implement an automated meter  
7 reading system many years ago. Both EMM and EMW implemented next generation  
8 automated metering. EMM began the implementation first and EMW received the benefit  
9 of EMM's expertise, without any transfer of costs to EMW for that knowledge.

10 The Greenwood solar project was constructed at a site, the Greenwood Energy  
11 Center, already owned by EMW and located within EMW's service territory. The 300-  
12 acre Greenwood site includes four combustion turbines that were constructed and in service  
13 prior to the construction of the solar facility. This site was selected for the solar project in  
14 part to minimize the cost of the solar installation based on the availability of land and  
15 existing electrical infrastructure. Furthermore, due to additional land availability at the  
16 site, it could allow for future expansion of solar as the company gains experience operating  
17 a solar facility and as the anticipated cost declines for the technology materialize.

18 As stated before, it is important to understand that the solar plant is connected to a  
19 single circuit at the distribution level of EMW's electrical system and serves the load of  
20 customers on that circuit. This energy reduces EMW's load purchase requirement from  
21 the SPP and reduces SPP load expense for the benefit of all EMW customers. As a result,  
22 the FAC charged or credited to EMW customers is lower because of the solar system.

1 **Q: If the Commission requires EMW to transfer some dollar amount of the Greenwood**  
2 **solar station to EMM, how much might be appropriate and how it could be done?**

3 A: First, I would reiterate that the Company is opposed to any allocation of the costs of the  
4 Greenwood Solar facility away from EMW to EMM. This is particularly true because the  
5 energy produced from the solar station goes 100% to the benefit of EMW customers.  
6 However, if the Commission requires some allocation of costs to EMM because this pilot  
7 project was built and operated to gain experience with a utility scale solar project, it is  
8 important to recognize that using a plant investment allocation which is typically used for  
9 these type of project costs is not practical. This is because of all the other impacts of the  
10 investment including specific tax benefits, Renewable Energy Credits, the energy from the  
11 facility, and operating costs which would remain with EMW, etc. If the Commission  
12 ordered the Company to make an allocation, my recommendation similar to the Company's  
13 prior rate case would be that it allocate no more than \$100,000 to EMM in expenses to be  
14 reflected in future EMM's cost of service and subtract a like amount from EMW's cost of  
15 service. I would further recommend that the \$100,000 be assigned to Missouri only, as this  
16 is more an issue with Missouri than it is with Kansas.

## 17 VI. PISA

18 **Q: Did Staff propose an adjustment to rate base due to differences in approach to plant**  
19 **in service accounting ("PISA")?**

20 A: Yes. Staff witness Jared Giacone recommends two adjustments to the PISA deferral  
21 amount included in EMW's rate base. These include (i) removal of the capitalized portion  
22 of earning per share components of incentive compensation and (ii) disallowance of the  
23 solar subscription portion of the Hawthorn solar facility. Mr. Giacone has noted a concern

1 about double recovery of depreciation and return associated with the solar subscription  
2 portion of the regulatory asset.

3 **Q: Does the Company agree with Staff's proposed adjustment?**

4 A: Based on EMW's review of Staff's recommendations concerning both the earning per  
5 share component of incentive compensation and the solar subscription portion of the  
6 Hawthorn solar facility, the Company can agree to these calculations and will remove these  
7 amounts in its true-up revenue requirement calculations in this rate case.

## 8 VII. FAC DEFERRAL

9 **Q: Did Staff propose an adjustment to the PISA legislation deferral related to amounts  
10 that were deferred resulting from the Fuel Adjustment Clause ("FAC")?**

11 A: Yes. Staff witness Jared Giacone notes that EMW did not request recovery of a FAC  
12 deferral in the Company's 2022 general rate case (ER-2022-0130). Rather than amortize  
13 the deferred balance of \$3,533,794 in rate base over 20 years as the Company proposed,  
14 Staff recommends this balance be amortized over four years with no rate base treatment.

15 **Q: Does the Company agree with Staff's proposed adjustment?**

16 A: No, not fully. At the time this deferral was established the statute that created this deferral  
17 was clear and the deferred amount was to be included in rate base and amortized over a 20-  
18 year period. This was an oversight by both the Company and the Commission Staff in their  
19 direct filings associated with the Company's 2022 rate case. The PISA statute (Section  
20 393.1400(5)(2)(1) RSMo.) states:

21 In each general rate proceeding concluded after August 28, 2018,  
22 the balance of the regulatory asset as of the rate-base cutoff date  
23 shall, subject only to the cap provided for in section 393.1655 or  
24 section 393.1656, as applicable, be included in the electrical  
25 corporation's rate base without any offset, reduction, or adjustment  
26 based upon consideration of any other factor, other than as provided



1 for in subdivision (2) of this subsection, with the regulatory asset  
2 balance arising from deferrals associated with qualifying electric  
3 plant placed in service after the rate-base cutoff date to be included  
4 in rate base in the next general rate proceeding. The expiration of  
5 this section shall not affect the continued inclusion in rate base and  
6 amortization of regulatory asset balances that arose under this  
7 section prior to such expiration.

8 Further, Section 393.1400(5)(2)(3) states that:

9 Parts of regulatory asset balances created under this section that are  
10 not yet being recovered through rates shall include carrying costs at  
11 the electrical corporation's weighted average cost of capital, plus  
12 applicable federal, state, and local income or excise taxes.  
13 Regulatory asset balances arising under this section and included in  
14 rate base shall be recovered in rates through a twenty-year  
15 amortization beginning on the date new rates reflecting such  
16 amortization take effect.

17 Nevertheless, Staff witness Giacone has recommended amortizing this amount over  
18 a four-year period. The Company can agree to this recommendation and will include the  
19 four-year amortization in the Company's revenue requirement calculation. However, the  
20 Company requests that if this option is adopted that carrying costs are applied at the  
21 Company's rate of return on the deferred amount until the effective date of rates in this  
22 case when the deferral amount will begin to be amortized over four years.

23 **Q: What if Staff is not agreeable to including carrying costs associated with PISA**  
24 **deferral associated with the Company's fuel adjustment clause?**

25 A: If the Staff does not agree to include carryings costs up until rates are effective in this rate  
26 case, then the Company would request that the statute be followed as intended and that the  
27 PISA deferral associated with the fuel adjustment clause be included in rate base and  
28 amortized over a 20-year period.

1 **VIII. CIP/CYBER SECURITY EXPENSE**

2 **Q: Did Staff address EMW’s CIP/Cyber Security recommendations in its testimony?**

3 A: It did briefly. Staff witness Karen Lyons, who addresses CIP/Cyber Security, states that  
4 “test year CIP and cyber security expense incurred by EMW is comparable to the historical  
5 costs and the costs recorded during the 12-month update period (ending December 31,  
6 2023). As such, Staff did not make a revenue requirement adjustment.” However, Staff  
7 does not support the CIP/Cyber Security tracker mechanism that EMW proposed in this  
8 case. Rather, it intends to address the CIP/Cyber Security tracker in rebuttal testimony  
9 later in this proceeding.

10 **Q: Did the Office of Public Counsel take a position on the CIP/Cyber Security tracker?**

11 A: Yes. OPC witness Schaben has taken exception to the Company’s CIP/Cyber Security  
12 tracker. She states that these expenses are neither unusual nor infrequent and cites  
13 relatively stable charges over the course of 2018 through 2023. In addition, Witness  
14 Schaben states that EMW’s forecasted non labor expenses are stable and do not justify  
15 extraordinary regulatory treatment.

16 **Q: Do you agree with OPC that these factors fail to justify a tracker for CIP/Cyber  
17 Security costs?**

18 A: I do not agree. What Witness Schaben fails to consider is that yes, there have been no  
19 serious cyber security events in recent years, but looking forward the Company should not  
20 be expected to budget for events that are unpredictable or where future government  
21 regulations are uncertain, but can still reasonably be expected in today’s quickly evolving  
22 cyber security space. That is exactly the nature of the business disruption costs that fall  
23 under this category of events. In addition, future business regulations that are almost

1 certain to occur and are being contemplated as we write this testimony will impact this  
2 space of costs. For example, the recent CloudStrike cyber security incident affected many  
3 businesses within the utility industry and had significant impact on businesses across the  
4 entire economy. Accordingly our budget process includes consideration of reasonable  
5 protections we can deploy to protect against similar events, but we are not able to predict  
6 when such events will occur, nor can we reasonably project the costs of responding to this  
7 type of incident.

8 In addition, EMW does not include costs in its forecast to account for likely future  
9 government mandates around cyber security protection until the mandates are passed into  
10 legislation and required of the Company. Compliance with these evolving requirements  
11 could entail significant costs that the Company must be prepared to bear, but that we cannot  
12 predict today and are in fact not included in rate cases that include historical test years. For  
13 these reasons concerning the potential volatility in costs and their unknown and  
14 unpredictability nature create the exact reason on why the Company has requested a  
15 CIP/Cyber Security tracker in this rate case.

16 **Q: Has EMW's position on the need for a CIP/Cyber Security tracker evolved since this**  
17 **case was initially filed?**

18 A: Absolutely not, other than we continually see the need for a tracker in this space as cyber  
19 security incidents continue to occur as well as the progression of future government  
20 regulations in this space. As I noted in my direct testimony, the Company expects expenses  
21 related to CIP and Cyber Security to increase substantially in the coming years. EMW will  
22 need to invest to be able to respond quickly and with flexibility when emergency conditions

1 threaten or compromise critical infrastructure assets. A tracker mechanism will allow the  
2 Company to mount the type of response our customers need and deserve.

3 Additionally, the Company has included a security component to the proposed  
4 Security Tracker to acknowledge the reality that the baseline of information security risk  
5 is higher today than ever before. EMW expects security threat costs to have a rising impact  
6 on the Company over time. EMW strongly recommends to this Commission that this is a  
7 component of the Company's revenue requirement in which use of a historical test year is  
8 simply not sufficient enough to address the impacts of outside influences on the Company's  
9 cost structure.

10 **Q: Has the Company requested similar regulatory treatment in its other regulatory**  
11 **jurisdiction?**

12 A: Yes, Evergy has requested and received approval by Kansas regulators to establish a  
13 CIP/Cyber Security tracker for the type of likely and extraordinary, but un-budgeted, costs  
14 I have discussed here. Establishing a CIP/Cyber Security tracker for EMW will provide  
15 for more consistency in accounting across the operating jurisdictions and will provide  
16 recognition in Missouri of a growing risk area within the Company.

17 **Q: What is the total dollar impact on Revenue Requirements that would stem from the**  
18 **approval of a CIP/Cyber Security tracker?**

19 A: There would be no dollar impact on the Revenue Requirement in this case. Any costs that  
20 are deferred under this tracker would be subject to review by all parties in a subsequent  
21 EMW rate case.

1 **IX. STORM RESERVE**

2 **Q: For context, please explain the Company's proposed storm reserve included in the**  
3 **Company's direct testimony in this case.**

4 A: As I discuss in my direct testimony, storms are a normal occurrence in our service territory.  
5 When they occur, they can be devastating in many ways and have a significant financial  
6 impact on the utility and its customers. Commissions have granted regulatory mechanisms  
7 that allow for the establishment of operating reserves for future contingencies that may be  
8 significant. The Company proposes to establish this type of operating reserve and then to  
9 maintain it at a normal operating level that would have been included in base rates if the  
10 storm reserve was not established. The establishment of an operating reserve for storm  
11 costs would provide funds to be used specifically for unpredictable yet expected events in  
12 our service territory.

13 **Q: What are the positions of Staff and OPC on the establishment of a storm reserve?**

14 A: Staff witness Karen Lyons addresses storm costs briefly in her testimony. At this time  
15 Witness Lyons states that she does not support the use of a storm reserve, but has stated  
16 that she plans to cover this issue in greater detail in her Rebuttal testimony. OPC witness  
17 Manzell Payne recommends that the Commission deny EMW's request to establish a storm  
18 reserve.

19 **Q: Do you agree with Staff and OPC?**

20 A: No. The Company believes it is important to establish such a reserve and believes that this  
21 is the appropriate time to do so.

1 **Q: Please explain what you see as the benefits to the establishment of the storm reserve.**

2 A: The storm reserve will be used to levelize expenditures associated with significant storms  
3 benefitting both the customers, through reduced rate volatility and being served electricity  
4 from a financially stable utility covering its costs from unpredictable storm activity, and  
5 the Company by lessening the financial burden of a storm by smoothing of month-to-month  
6 expenditures associated with unpredictable but likely significant storm events. The reserve  
7 allows for recovery of storm costs at an established threshold and helps reduce earnings  
8 volatility for investors which can help reduce the utility's cost of debt benefitting  
9 customers. Further, it bears noting that Evergy already maintains a storm reserve in its  
10 Evergy Kansas Central and Evergy Kansas Metro jurisdictions. One of the key initiatives  
11 that Evergy has commenced since the merger in 2018 is to create more accounting  
12 consistency between the utilities. By establishing a storm reserve in all jurisdictions, the  
13 accounting processes will be more efficient and consistent between the jurisdictions for a  
14 cost that is known to be part of the overall revenue requirement. In addition, if there is a  
15 meaningful increase or decrease in the reserve between rate cases the amount in the revenue  
16 requirement in that next rate case will be assessed with the updated historical storm impacts  
17 and the revenue requirement will be set with consideration given to the changed reserve  
18 balance.

19 **Q: Why does the Company believe this is a good time to establish the storm reserve?**

20 A: During my career I have seen years in which storms have been significant and have had a  
21 significant impact on the utility. Working with our operations division, it is apparent that  
22 storms in recent years have been occurring more frequently. This is the time to establish a  
23 storm reserve consistent with the storm reserve processes that are maintained in our Kansas

1 jurisdiction. This request over the long term is not asking customers to pay more for storm  
2 costs. The request is simply requesting that reserves be established for a known cost in the  
3 Company's cost structure that is impossible to predict with any degree of accuracy but is a  
4 cost that is essential to providing customers reliable electricity service.

5 **Q: Does the Company agree that an AAO request is always an option if a storm is**  
6 **significant enough in nature?**

7 A: Yes. As discussed in my Direct Testimony if a storm becomes so significant that an AAO  
8 request would be needed the utility would still ask that option to be available to them.

9 **Q: Does filing an AAO request come at cost to the utility and its ratepayers?**

10 A: Yes. It is important to note that any regulatory request to establish an AAO comes at cost  
11 to the utility and its ratepayers due to the regulatory process established to approve such a  
12 request. Establishing a storm reserve could have the potential to reduce an AAO request  
13 that might be significant but have the ability to be absorbed by the storm reserve and  
14 eliminate the need for potentially costly regulatory proceedings in the process.

## 15 X. INJURIES & DAMAGES RESERVE

16 **Q: What are the positions of Staff and OPC on the establishment of an Injuries and**  
17 **Damages ("I&D") Reserve?**

18 A: Staff witness Bailey explains that Staff's approach to the calculation of the revenue  
19 requirements for I&D *expense* is substantially the same as the proposal I described in my  
20 direct testimony. Staff Witness Lyons states that Staff will address EMW's proposed I&D  
21 *Reserve* in rebuttal testimony. OPC witness Schaben states that EMW's I&D expenses are  
22 not volatile, and are a normal part of business that do not merit an I&D Reserve.

1 **Q: Do you agree with OPC Witness Schaben?**

2 A: I do not. As both Staff and I have acknowledged, I&D costs vary from year to year, which  
3 is why both EMW and Staff use a five-year period to establish a revenue requirement  
4 amount for I&D costs. The table that OPC witness Schaben references in testimony shows  
5 all expenses recorded to account 925000 during those calendar years, and not just injuries  
6 and damages expenses. Account 925000 also includes insurance premium expenses and  
7 are considered in a separate adjustment in this filing. The Company has asked for recovery  
8 of a five-year average of actual claims paid, and also this same five-year average amount  
9 to establish an I&D reserve over a three-year period.

10 **Q: What is the benefit to customers from EMW's proposed I&D Reserve?**

11 A: As I Staff have acknowledged, I&D expenses can vary significantly from year to year and  
12 thus use of a multi-year average is necessary. EMW is not seeking a windfall through the  
13 establishment of an I&D reserve. Over a period of years, I&D collections, including for  
14 the Reserve, will match the Company's I&D costs. EMW has recommended the I&D  
15 reserve in order to provide financial stability in what is a highly variable expense item.  
16 This will support stability to our earnings, which ultimately lowers costs and improves  
17 service for our customers.

18 **Q: Has Evergy pursued an I&D Reserve in its other regulatory jurisdiction?**

19 A: Yes, the Company has had an I&D Reserve established in both of its Kansas jurisdictions  
20 Evergy Kansas Central and Evergy Kansas Metro. Establishing an I&D Reserve for EMW  
21 will provide for more consistency and efficiency in accounting across Evergy's operating  
22 jurisdictions.



1 **XI. PLANT IN SERVICE AND DEPRECIATION RESERVE**

2 **Q: Did Staff propose an adjustment related to Plant In Service (“PIS”) and Depreciation**  
3 **Reserve?**

4 A: Yes. Staff witness Antonija Nieto describes adjustments Staff and EMW made to rate base  
5 for PIS and depreciation reserve as well as the need to include Retirement Work in Progress  
6 (“RWIP”) for generation, transmission, distribution, and general plant into the Reserve  
7 balance.

8 **Q: Does the Company agree with Staff’s proposed adjustment?**

9 A: I do. In general, the adjustments Witness Nieto has made are activity through December  
10 31, 2023 at this point. Staff notes that its true-up analysis will include changes to Plant and  
11 Reserve balances through June 30, 2024. EMW did identify one plant and two reserve  
12 errors in Staff’s revenue requirement calculations. The Company has raised these issues  
13 with Staff, and Staff was in agreement with the corrections and plans to reflect these  
14 changes in their true-up revenue requirement calculation.

15 **Q: Does the Company expect to make additional adjustments beyond RWIP in the true-**  
16 **up process?**

17 A: Yes. EMW continues to make investments in generation, transmission, distribution, and  
18 general plant to enable safe and reliable utility service. The capital spending that has taken  
19 place in recent periods is consistent with the Company’s capital plans and must be  
20 addressed in the true-up process to properly reflect EMW’s capital investments. In  
21 addition, the Company will reflect the addition of the Dogwood Energy Center in which a  
22 22% interest was acquired in April 2024 during the true-up period in this rate case.

1 **XII. SEVERANCE COSTS**

2 **Q: Did Staff propose an adjustment to the revenue requirement related to severance**  
3 **costs the Company has incurred?**

4 A: Yes. Staff witness Antonia Nieto testifies to the removal of costs related to severance.

5 **Q: Does the Company agree with Staff’s approach to handling severance costs?**

6 A: I do not. Witness Nieto’s testimony takes a very narrow focus regarding severance costs  
7 by stating that severance costs are nonrecurring in regards to a specific employee and states  
8 that companies recover severance costs through regulatory lag. However, Staff’s approach  
9 would intentionally apply a regulatory lag to the recovery of these costs rather than account  
10 for them accurately, in a timely manner. In fact, many situations in which severance costs  
11 are incurred require an immediate replacement of the severed employ.

12 **Q: Please explain why severance costs should be included in the revenue requirement.**

13 A: The Company has included only non-executive severance payments in the cost of service.  
14 Executive severance payments have been excluded from the Company’s cost of service.  
15 Severance payments are a necessary and recurring annual business expense and part of  
16 total operating expense associated with the Company’s employment of individual  
17 employees. Severance costs may be one-time payments to individual employees but are  
18 an annual recurring expense to the utility cost structure and should be included in its cost  
19 of service with the exception of executive severance payments which are usually more  
20 significant and have a variety of purposes.

21 **Q: Please explain how severance costs should be viewed?**

22 A: Severance costs are a form of payroll costs which compensates employees. Severance  
23 costs, like other costs, are dynamic and change the instant a level is set in cost of service

1 since the level of severance costs fluctuates from year to year. As such, severance costs  
2 similar to payroll costs has instances of both positive and negative regulatory lag. The  
3 Commission should look at the whole picture of payroll and payroll related costs in  
4 determining whether to allow or disallow certain costs. Payroll costs suffer from negative  
5 regulatory lag the first instance that a payroll rate increase occurs which establishes a level  
6 of payroll that is not recovered through base rates. Secondly, payroll costs are usually  
7 established in rate cases using only filled positions at a point in time. At any given point in  
8 time there are budgeted positions that are vacant within any company. The first day that an  
9 open position is filled, negative regulatory lag begins to occur until the newly filled position  
10 is included in rates. The reverse can happen as well, filled positions included in rates can  
11 become vacant and positive regulatory lag then exists. Yet, in looking at the total cost  
12 structure of EMW, and looking at its inability over the past several years to be able to earn  
13 their Commission-authorized rates of return, it is clear that the earnings eroding effects of  
14 regulatory lag have exceeded the earnings-positive effect of regulatory lag. EMW has  
15 suffered negative regulatory lag in many cost areas and has had difficulty earning its  
16 authorized return on equity. As such, identifying positive regulatory lag in a minimal cost  
17 area such as severance costs should not be used by this Commission as a reason to disallow  
18 those costs.

19 **Q: Why do companies enter into severance agreements?**

20 A: One of the reasons severance agreements are put in place is to minimize the potential  
21 liability that future costs could be incurred through actions of the severed employee. This  
22 relatively minimal cost incurred as compared to total payroll costs in order to avoid

1 potential future costs that could possibly be significant to the Company further supports  
2 inclusion of severance costs in cost of service.

3 **Q: Should the Commission allow severance cost in EMW's cost of service?**

4 A: Yes. The severance cost requested to be included in the cost of service in this case is a  
5 reasonable amount when considering total payroll and payroll-related benefits costs. In  
6 addition, regulatory lag exists both positively and negatively for payroll and payroll related  
7 costs and should not be viewed in a vacuum when considering the recoverability of  
8 severance costs.

9 **Q: What is the Company's recommendation on this issue?**

10 A: The Company recommends that the Commission include severance payments in revenue  
11 requirement as proposed by the Company because they are normal ongoing operating costs.

### 12 **XIII. BONUSES**

13 **Q: Did Staff propose an adjustment to the revenue requirement related to bonuses paid  
14 to EMW employees related to inflation?**

15 A: Staff Witness Smith provided very little testimony in support of the recommendation that  
16 bonuses paid to reflect the effect recent and extraordinary inflation has had on our  
17 employees be removed from the revenue requirement.

18 **Q: Do you agree with Staff on the manner in which it has addressed inflation bonuses?**

19 A: I disagree with Staff on this issue. Bonuses are a compensation method the Company uses  
20 periodically to support a variety of Company initiatives. The bonuses paid in recognition  
21 of extraordinary inflation were designed to supplement the Company's overall  
22 compensation philosophy of maintaining competitive compensation packages.

1 **Q: Please explain in detail the purpose of the inflationary bonuses that were paid.**

2 A: EMW paid inflation bonuses to recognize the extraordinary economic challenges the  
3 Company's employees faced during a period of unexpected, extreme, and economy-wide  
4 inflationary pressure. The inflation bonuses were designed to ensure the Company's total  
5 compensation package continued to provide employees with an appropriate and consistent  
6 standard of living.

7 These bonuses were consistent with EMW's overall compensation philosophy,  
8 which recognizes the need to retain talent in a competitive environment. More broadly,  
9 bonuses provide incentives for strong employee performance, which ultimately benefits  
10 customers.

11 **Q: In the Company's direct filing how were these inflationary bonuses proposed to be  
12 included in the revenue requirement?**

13 A: The inflation bonuses that were paid in February 2023 were amortized over a 4-year period,  
14 thus one-fourth of the total EMW allocated amount is included in the cost of service in this  
15 filing.

#### 16 **XIV. INCENTIVE COMPENSATION**

17 **Q: Did Staff propose an adjustment to the revenue requirement related to Incentive  
18 Compensation?**

19 A: Yes. Staff witness Lindsey Smith describes Staff's approach to accounting for incentive  
20 compensation, which includes a four-year average of incentive compensation cash payouts  
21 for the Annual Incentive Plan (AIP) and Variable Compensation Plan (VCP) incentive  
22 compensation plans, a three-year average for the Power Marketing incentive compensation

1 plan, and a three-year average for the Wolf Creek Performance Achievement Reward  
2 (PAR) incentive compensation plan.

3 **Q: Does the Company agree with Staff's proposed adjustment?**

4 A: Yes, with only a minor exception that I believe may be due to timing and the availability  
5 of data Staff had received. The Company agrees to the four-year average of cash payouts  
6 that Staff used for the AIP and VCP incentive compensation plans, and the three-year  
7 average of the Wolf Creek PAR plan. However, the Company does not agree with Staff's  
8 three-year average for the Power Marketing incentive compensation plan as it ignores the  
9 most current cash payout in 2024 which was included in the averages for the other incentive  
10 plans included in Staff's calculation.

11 **Q: Please state the reasons why the Company disagrees with using a three-year average  
12 for the Power Marketing incentive plan.**

13 A: Staff witness Lindsey Smith states in her Direct Testimony that "Staff will reflect the 2024  
14 payout in its average when the information becomes available, if doing so is appropriate."  
15 The Company has supplied that information in Data Request no. 263S, and also the  
16 Company plans to use this updated information in a four-year average for the Power  
17 Marketing incentive plan. The Company does believe it is appropriate to include this  
18 payout in its average and including it will be consistent with how it treated both the AIP  
19 and VCP incentive plans.

20 **Q: Does Staff have an error in their direct filing related to incentive compensation?**

21 A: Yes. Staff applied the Capitalization Ratio that includes overtime in the calculation to the  
22 annualized amount. However, it has been historical practice to apply the Capitalization

1 Ratio that only includes straight-time labor to benefits related adjustments. Staff has  
2 agreed to correct this error in the True-Up filing.

3 **Q: What is another difference between Staff's incentive adjustment versus the**  
4 **Company's filing?**

5 A: Associated with the error discussed above it appears Staff used the 12-months ended  
6 December 2023 Cap Rate to apply to the average incentive calculation. The Company  
7 contends that a three-year average should be used similarly to the Payroll Annualization  
8 adjustment as discussed above in the payroll section of my rebuttal testimony. However,  
9 the Cap Rate excluding overtime should be applied to incentive compensation. The  
10 updated three-year average would be 50.51%. I will not repeat those arguments here.

11 **Q: Associated with the payroll adjustment did the Company propose an alternative**  
12 **calculation for the capitalization rate to be applied to payroll costs that is applicable**  
13 **to the incentive cost calculation?**

14 A: Yes. As stated above, if the Commission feels that a three-year average is not appropriate  
15 to use then the Company would propose for payroll and incentive costs that a two-year  
16 average which includes both the test year and the true-up period examined in this rate case  
17 be applied to the incentive cost calculations in this rate case, which is calculated to be  
18 49.73%.

## 19 **XV. PROPERTY TAX EXPENSE AND TRACKER**

20 **Q: Did Staff propose an adjustment to the revenue requirement related to how property**  
21 **tax expense is handled?**

22 A: Yes. Staff Witness Karen Lyons mentions section 393.400 RSMo., which provides for  
23 more accurate recovery of property taxes, and became effective on August 28, 2022. Staff

1 also recommends an annualized level of Missouri property tax expense for EMW based on  
2 actual property taxes paid in 2023 rather than applying similar methodology that Staff has  
3 supported in prior cases. This unwarranted departure from past experience simply creates  
4 more cash regulatory lag associated with property taxes.

5 **Q: Please explain how Staff's proposal is different from the approach EMW has used in**  
6 **prior cases.**

7 A: Both Staff and the Company have historically applied an actual tax ratio to plant as of the  
8 most recent January 1<sup>st</sup> that occurs during the calendar year in which the true-up period  
9 falls. In previous cases this approach has been consistently applied as it has been  
10 recognized as the approach considered to most closely represent expected property taxes  
11 to be incurred when new rates are in effect. However, in this case, Staff recommends  
12 using 2023 property taxes paid, which is based on a tax basis that is one year out of date.  
13 That is, it is based on plant as of January 1, 2023 as opposed to January 1, 2024. See the  
14 rebuttal testimony of my colleague, Melissa Hardesty, for additional discussion on this  
15 topic.

16 **Q: What would be the effect of Staff's proposal?**

17 A: Staff's approach would result in an under-recovery of \$3.4 million. Staff acknowledges  
18 that this shortfall may be tracked in a regulatory asset. However, this would create  
19 avoidable cash regulatory lag. The intent of the legislation was not to lower base rate  
20 recovery to create cash regulatory lag for property taxes. It was to continue to establish  
21 property taxes in base rates that most reasonably represent expected property taxes to be  
22 incurred when new rates are effective and to provide for the regulatory tracker to measure  
23 prospectively from the appropriately established base rate to mitigate the earnings volatility



1 regulatory lag being incurred by the utility from continually rising or volatile changes in  
2 property taxes. Staff's approach attempts to take advantage of the legislative change to  
3 inappropriately reduce the level of property taxes in base rates and justifying that by the  
4 availability of the tracker. While the tracker does mitigate the earnings volatility regulatory  
5 lag component, Staff's approach unnecessarily increases cash regulatory lag, which as I  
6 mentioned cannot be reasonably construed to align with the legislature's intent.

7 **Q: What is your recommendation on property tax?**

8 A: EMW recommends that the Commission apply the same approach used in prior general  
9 rate proceedings to establish property tax expense for ratemaking purposes and that that  
10 amount is the appropriate amount to establish as the base for the legislatively provided  
11 tracker to be measured from.

12 **Q: What additional issue did Staff Witness Lyons not address in her direct testimony?**

13 A: Staff Witness Lyons did not address the fact that the property tax tracker law (section  
14 393.400 RSMo.) became effective on August 28, 2022, but Staff did not begin to apply  
15 the property tax tracker until January 2023 with the amount of property tax that was  
16 included in the Company's rate case ER-2022-0130.

17 **Q: Did Staff witness Lyons state in testimony why the Staff did not begin the property  
18 tax tracker until January 2023?**

19 A: No.

20 **Q: Why not?**

21 A: I can only speculate and only Staff witness Lyons can provide that answer. It is possible  
22 that she did not include a deferral beginning in August 2022 as she felt an amount of  
23 property tax was not able to be determined from the Company's prior rate case.

1 **Q: Does the Company believe an amount of property tax is determined from the**  
2 **Company's 2018 rate case (ER-2018-0146)?**

3 A: Yes . Although the 2018 rate case resulted in a settled case resolving all differences  
4 between the parties, property tax was not one of those differences. Both the Company and  
5 Staff included in their revenue requirement an amount of property tax that they were in  
6 agreement on (other than an insignificant allocation error). As such, the issues that were  
7 resolved with the settlement had no association to the amount of property taxes that were  
8 included in each of the Company and Staff's revenue requirement calculations. As such,  
9 an amount of property tax included in base rates was determinable and the Company  
10 implemented a property tax tracker on August 28, 2022, the effective date of the legislation  
11 which provided for the availability of the property tax tracker to commence.

12 **Q: What amount of property tax was established in the 2018 rate case ER-2018-0146?**

13 A: It was \$42,176,286. Staff's True-up EMS reflected \$42,174,457 but Staff inadvertently  
14 posted the property tax adjustment of \$123,450 as 100% vs allocating at 98.5189%.

15 **Q: What is the amount of the deferral that Staff failed to calculate in their revenue**  
16 **requirement calculation?**

17 A: The amount of the deferral that occurred from August 28, 2022 to January 8, 2023 was  
18 \$2,882,201. This amount should follow what was provided and allowed for in the law  
19 which is to be included in rate base and provide an amortization over a four-year period.

20 **Q: What is the Company requesting in this rate case?**

21 A: The Company is asking the Commission to establish a tracker on the effective date of the  
22 statute and not delay the implementation of property tax tracking until rates were set in the  
23 Company's 2022 rate case. An amount of property tax was determinable from the 2018

1 rate case and the Company and Staff's final provided revenue requirement models (with  
2 the one known and determinable adjustment to Staff's final amount for the inappropriate  
3 allocation factor as noted above) and should be used to begin tracking property taxes  
4 included in rates when the law became effective.

## 5 **XVI. COST TRACKING MECHANISMS**

6 **Q: Please summarize OPC's testimony related to regulatory trackers.**

7 A: OPC witness Angela Schaben defines regulatory trackers as mechanisms that defer costs  
8 to future rate cases. She generally concludes that regulatory trackers should only be  
9 approved when: 1) the associated cost are large; 2) the costs can cause volatile swings in  
10 income; 3) utilities have little control over the costs or revenues; 4) the trackers can be  
11 readily verifiable; 5) the trackers adhere to the matching principle.

12 **Q: Do you agree with OPC's position in regard to regulatory trackers?**

13 A: Generally, yes. The Company's proposals for tracking mechanisms in this proceeding are  
14 specifically because the potential impacts are impactful to the Company, can cause volatile  
15 swings in income, and are beyond our ability to control. All of the mechanisms we have  
16 proposed will be transparent and verifiable by the Commission. While they do create a  
17 difference between the timing of costs and their collection, in opposition to the matching  
18 principle, that is just a consequence of appropriately addressing large and potentially  
19 volatile swings in costs and revenues.

20 **Q: Do regulatory trackers remove the Company's incentive for prudent financial**  
21 **management?**

22 A: No. Just because volatile changes in costs and revenues are tracked and subsequently trued  
23 up does not mean that the utility is absolved of any prudency determination. The Company

1 must still be able to demonstrate that it acted prudently in service of our customers and that  
2 we made the best decision based on the information that was available to us at the time.

3 **Q: Do the trackers that the Company has proposed in this proceeding meet the criteria**  
4 **that OPC lays out in their testimony?**

5 A: Yes. The costs associated with potential cyber security attacks and external government  
6 regulations are clearly beyond the ability of the Company to control and have the potential  
7 to have large impacts on the Company's income. In addition, storms impacting our service  
8 territory are quite simply acts of God and are not in the control of the utility. We cannot  
9 control the damage and harm to our established infrastructure to serve our customers based  
10 on these types of events. And these costs have a tendency to trend up in unanticipated  
11 ways. It is in our customers' best interest that those costs be tracked or reserved for and  
12 trued up to actuals so that rates accurately reflect the cost of service.

13 Our proposed storm reserve is particularly in the best interest of our customers. The  
14 alternative is to wait for a severe weather event to occur, spend the necessary costs to  
15 restore power and then ask for recovery of those costs all at once. Our proposal smooths  
16 those costs out over time and acts like an insurance policy for our customers.

17 Finally, as I have discussed earlier in my testimony, our proposed cybersecurity  
18 tracker is necessary to ensure that the Company can act quickly to address potential threats  
19 to our IT infrastructure and become compliant with government regulations and ensure that  
20 customer information is secure and our operations are not vulnerable to disruptions.

1 **XVII. TIME OF USE TRACKER**

2 **Q: Did Staff or stakeholders make any proposals with respect to the Company’s Time of**  
3 **Use (“TOU”) revenue deferral (or tracker) mechanism?**

4 A: Yes. OPC Witness Angela Schaben states that trackers are inconsistent with good  
5 regulatory policy. Staff Witness Sarah Lange raises three main concerns related to the  
6 Company’s proposal to track changes in revenues associated with customers’ transition to  
7 TOU rates. First, she claims that number of customers switching rate schedules will be  
8 minimal and that any revenue shortfall would be immaterial. Next Ms. Lange suggests that  
9 a TOU tracker, as proposed by EMW, would be duplicative of Staff’s recommended  
10 Missouri Energy Efficiency Investment Act (“MEEIA”) Avoided Net Variable Revenue  
11 mechanism. Third, Ms. Lange claims that the establishment of a baseline for tracking  
12 revenue shortfalls would be problematic.

13 **Q: Do you agree with OPC’s suggestion that cost trackers are bad public policy?**

14 A: I do not agree with the blanket suggestion that trackers are bad public policy. Cost trackers  
15 or deferral mechanisms can play an important role in utility regulation. While it is  
16 reasonable to expect a utility to bear the risks associated with prudent financial  
17 management, asking the Company to bear additional risk for which it has no control is not  
18 advisable. The transition of all residential customers to a TOU rate was a new effort for  
19 the Company and for the State of Missouri. As I shared in my direct testimony, the  
20 Company believes that it was the first utility in Missouri to have TOU rates with no  
21 customer opt-in option for non-TOU rates. The transition to TOU rates is intended to  
22 provide our customers with the opportunity to save on their monthly bills by shifting their  
23 behavior and/or activities to hours that are less expensive, and thereby improving the

1 overall efficiency of the grid. However, asking shareholders to bear the impact of revenue  
2 reductions that may result from the TOU rate transition, and EMW cannot control the result  
3 – thereby increasing the risk profile of EMW.

4 **Q: Is Evergy only requesting an adjustment if revenues are under-collected, or less than**  
5 **expected, from the transition to TOU rates?**

6 A: No. Evergy recognizes that it is possible that revenues may be higher under TOU rates  
7 than they otherwise would have been under the traditional blocked rate design. In this  
8 situation a revenue tracker is also valuable in that it would return any over collection back  
9 to customers. The tracker would capture any upside for customers, or downside for the  
10 Company.

11 **Q: Do you agree with Staff’s arguments about the appropriateness of a TOU tracker?**

12 A: No. I also disagree with each of Staff’s suggestions. I address my concerns with Staff’s  
13 positions below.

14 **Q: Are you the only EMW witness addressing TOU matters in Rebuttal testimony?**

15 A: No. My EMW colleagues Marisol Miller and Darrin Ives provide testimony on technical  
16 ratemaking aspects and policy issues concerning intervenor testimony related to TOU.  
17 My testimony will center around the claims Staff and OPC witnesses have made with  
18 respect to revenue shifts that may (or may not) occur from the transition to TOU rates and  
19 the tracking and true up of the difference in revenues.

20 **Q: Please summarize why EMW has proposed a TOU tracker in this proceeding.**

21 A: As I stated in my Direct Testimony, EMW is proposing to track and defer the differences  
22 between the revenues collected by the Company under TOU rates and the revenues that

1 would have been collected under the standard residential block rates that were in effect  
2 prior to the implementation of default TOU rates.

3 Pursuant to the Commission's direction, Evergy's traditional blocked rate  
4 structures (non-TOU) for residential customers have been eliminated and replaced with  
5 TOU rates as a default. However, the transition to TOU rates remains relatively new, and  
6 as a consequence, there is uncertainty among residential customers and EMW about the  
7 level of revenues that was and will be collected under TOU rates. EMW is not interested  
8 in using the transition to TOU rates to create a financial windfall to the Company.  
9 Similarly, it is important to prevent creating a financial loss for Evergy's shareholders as a  
10 result of rates that are intended to give customers a greater opportunity to lower their  
11 monthly bills by shifting their behavior to less costly periods. EMW has proposed a  
12 deferral tracking mechanism to ensure that neither a windfall nor a loss will occur as a  
13 result of the transition to TOU rates ordered by the Commission in ER-2022-0130 Order  
14 and supplemented by the Order from Docket No. ET-2024-0061.

15 **Q: Were TOU rates in effect for all months of the test year?**

16 A: No. The Company used the 12-month period ending June 30, 2023 for the test year in this  
17 rate case. As shared in Company witness Miller's direct testimony, about 26 percent of  
18 EMW residential customers pre-selected a TOU rate prior to transition of the TOU rates  
19 established in the rate case<sup>1</sup>. The Company transitioned the remainder of the EMW  
20 residential customers to the default TOU rate beginning in November 2023 through  
21 December 2023. Unfortunately, these few months coupled with the nominal number of

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<sup>1</sup> As of October 13, 2023, See Ms. Miller's direct testimony, Page 6, Lines 15-20

1 customers with sufficient usage history under TOU rates does not provide enough history  
2 to draw conclusions concerning customer behavior and impact to revenues.

3 **Q: Do you have any changes to your direct testimony regarding the TOU tracker?**

4 A: Yes, let me further elaborate on two issues: the TOU tracker deferral process and the  
5 analysis required to measure the amount of the TOU tracker deferral. With respect to the  
6 deferral process, there are two specific deferrals that need to occur in regards to timing.  
7 First, a calculation of revenue differences would be quantified for the period January 1,  
8 2024 through December 31, 2024. This deferral calculation is necessary given that the  
9 Commission ordered default TOU rates when the Company had relied upon billing  
10 determinants from a period where only a small percent of customers had selected the  
11 optional 3-period TOU rate but yet a majority of customers were on the standard residential  
12 block rates. The Company proposes to book this first deferral following the end of the year  
13 once the analysis for the annual period is complete. Second, a calculation of revenue  
14 differences would be quantified for the period January 1, 2025 through the period that rates  
15 are effective in EMW's next rate case. This deferral calculation is necessary given that the  
16 Company again had to rely on billing determinants in this case that were largely based on  
17 usage under standard residential block rates, as described above. Furthermore, the  
18 Company's true-up period will only reflect a partial year of residential usage under TOU  
19 rates (January 1, 2024 through June 30, 2024).

20 Lastly, at the time of my direct testimony, it seemed very likely that EMW would  
21 rely on analyses from Oracle's rate comparison tool, which Evergy uses to enable  
22 customers to compare the bill impact of the various TOU rates, for the purposes of the  
23 deferral mechanism calculations. Evergy has also used analyses from the rate comparison



1 tool to quantify revenue differences under the various rates; for example, the analyses  
2 referred to in Staff witness Lange's testimony that I will further address below utilized the  
3 Oracle analyses.

4 However, as Company witness Miller offers in her direct testimony, the Oracle rate  
5 comparison tool was not developed explicitly for rate case purposes. It was developed to  
6 provide a comparison of the TOU rate options using a customer's historical data usage;  
7 and it allows the customer to choose the rate option that best suits them to compare rates.  
8 But the tool has technical limitations that does not allow it to provide the level of detail  
9 that is required for a tracker mechanism and it cannot be as timely in terms of turning  
10 around analyses in a quick manner. The rate comparison tool is very good for the purposes  
11 of which it was built, but after digging in further with Oracle on its limitations and what is  
12 needed for the deferral mechanism, Evergy sought another option.

13 **Q: Please share more about the alternative option.**

14 A: The alternative option will not be restricted by the technical limitations of the Oracle rate  
15 comparison tool (such as excluding customers with limited bill periods). Evergy has  
16 received a scope of work from a consultant that captures the work of both deferral periods  
17 described above (for calendar year 2024 and then for 2025/ongoing). The comparison will  
18 be between the TOU rate that the customer is under during the specified period and with  
19 the general service rate (non-time variant rate). The goal of the deferrals is to reflect actual  
20 individual bill differences from class level revenue pricing established for TOU rates  
21 (reflect non-revenue neutral impacts of current and forward periods as incurred for TOU  
22 rates that were implemented) for those customers who are included in the test year and will  
23 account for customers that are new to EMW or cancel service during the respective periods.

1 **Q: Please describe your perspective with respect to Staff’s suggestion that customer**  
2 **switching and potential revenue impacts are insufficient to justify a TOU tracker.**

3 A: Staff witness Lange cites an analysis performed by Oracle that estimated the impact of  
4 customer switching from the traditional general service rates to the various TOU options.  
5 The results showed that revenue impacts ranged between a 0.01% increase and a 2.6%  
6 decrease.

7 First, I would not characterize a 2.6%, or \$8.9 million, decrease in revenue as immaterial.  
8 Ms. Lange attributes that this difference is “within the range of weather normalization  
9 factors”, but she does not offer any information to validate her opinion that rate switching  
10 or customer response will have a minimal effect on revenues or that customer bills may not  
11 be materially impacted..

12 Second, it is important to understand that the Oracle analysis referenced by Ms.  
13 Lange, was based on customer usage patterns before the implementation of TOU rates. The  
14 Oracle analysis does not account for changes in customer behavior that may result from  
15 TOU price signals – even if from the default rate, which has a low-price signal. It is our  
16 expectation that customers reduce their on-peak usage in response to the TOU rate price  
17 signals, that customers reduce their monthly bills, and that they reduce overall demand  
18 during periods of critical system loads. This price response may drive larger revenue  
19 reductions that are not reflected in the Oracle analysis and relied upon by Ms. Lange to  
20 demonstrate that her conclusion that the impact to EMW’s earnings from the TOU  
21 transition will be immaterial. Staff’s claim that the transition to TOU rates will have  
22 minimal impact on revenues ignores the very intent of the TOU rate plans set forth by the  
23 Commission and Staff’s conclusion is inaccurate.

1 **Q: Staff indicates that a TOU deferral tracker is duplicative of Staff’s proposed MEEIA**  
2 **Avoided Net Variable Revenue mechanism. What is your response?**

3 A: Staff’s proposal in the pending EMW MEEIA docket is essentially a full revenue  
4 decoupling mechanism that would address all changes in residential revenues including  
5 customer growth, weather, incremental electric vehicle (“EV”) load, energy conservation,  
6 and TOU impacts. Staff proposes that residential revenue targets would be set in each rate  
7 case proceeding and deviations from that target would be tracked monthly. Then, in  
8 subsequent demand-side investment mechanism (“DSIM”)<sup>2</sup> rider change filings, any  
9 revenue amounts over or under the baseline target would be incorporated into the new  
10 DSIM rate. This would be a radical departure from traditional rate making and should be  
11 subject to intense scrutiny by the Commission and all stakeholders. I am not aware of other  
12 utilities that have adopted such extreme decoupling mechanisms. It is not appropriate to  
13 assume that Staff’s proposal is reasonable, in our customers’ best interest nor that it will  
14 be approved by the Commission. In addition, the proposal discussed by Witness Lange is  
15 part of the MEEIA Cycle 4 docket and that docket is still in the evidentiary and testimony  
16 phases. The proposal by Staff witness Lange has not been adopted. In this case, the  
17 Company is merely asking for a deferral mechanism in order to track TOU revenue shifts  
18 and will propose treatment of these revenue shifts in its next EMW rate case. At that time  
19 both Company and Staff will be able to analyze the results of the revenue shifts and  
20 determine an appropriate treatment in that case. If an issue develops from the MEEIA  
21 Cycle 4 docket that impacts this revenue shift, it can be analyzed at that time.

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<sup>2</sup> Staff witness Lange refers to the “EEIC”, which is Ameren Missouri’s Energy Efficiency Investment Credit or Charge. It is my understanding that the EEIC is similar to EMW’s DSIM rider and I have therefore inserted “DSIM” in my testimony rather than EEIC as incorrectly referenced in Ms. Lange’s testimony.

1 **Q: Is the existing, Commission approved Net Throughput Disincentive (“NTD”)**  
2 **mechanism for MEEIA duplicative of the Company’s proposed TOU deferral**  
3 **mechanism?**

4 A: No. The existing NTD mechanism removes the utility disincentive to offer energy  
5 efficiency programs by allowing the Company to recover the reduction in margin, or lost  
6 sales, from the impact of the programs until the Company’s next rate case. The NTD is  
7 specifically measured from the specific results in the MEEIA programs, it will not be  
8 impacted by or duplicative of TOU rate implications. In a sense, the Company’s proposed  
9 TOU deferral mechanism is similar to the NTD mechanism in that it would isolate just the  
10 impacts of sales from TOU rates and also until the Company’s next rate case. But unlike  
11 the existing NTD mechanism, the Company’s proposed TOU deferral mechanism may  
12 result in refunds to customers if revenues under TOU rates are higher than they would have  
13 been under traditional residential general service rates.

14 **Q: Would establishing the baseline for the Company’s TOU deferral mechanism be**  
15 **problematic?**

16 A: No. As I explained in my direct testimony, the Company’s proposal would compare actual  
17 revenues from TOU rates to what those revenues would have been under the traditional  
18 residential general service rates. This will help the Company address the uncertainty from  
19 the transition to TOU rates and is not expected to be needed in subsequent rate cases after  
20 a full 12-month period under TOU rates can be reflected in a test year.

21 Staff witness Lange’s testimony on the topic incorporates speculation on the  
22 changes in overall energy use or patterns and claims that attempting to create a  
23 counterfactual related to energy usage “would not be reasonable, nor reliable, nor feasible,

1 much less all three.” . That is why the Company’s proposal does not attempt to recreate  
2 counterfactual energy usage patterns for customers. Rather our proposal simply accepts  
3 customer usage as it actually occurs and then accounts only for differences in rate structure.  
4 By the Commission allowing a TOU deferral mechanism, the Company and Staff have the  
5 ability to quantify the revenue difference between standard block rates and TOU rates. At  
6 this point in time, there is no data that exists that reflect all EMW customers taking service  
7 under a TOU rate plan for a full 12 months. Rates set in the ER-2022-0130 Order were  
8 based on weather normalized billing determinants when the majority of EMW residential  
9 customers were under traditional residential general service rates. Customers’ weather  
10 normalized usage did not reflect behavioral changes or otherwise that result from a  
11 transition to TOU rates. Therefore, in order for the Company and Staff to measure the  
12 impact of TOU rates – material or not – a TOU deferral mechanism is necessary. A revenue  
13 tracking mechanism should be granted to protect both customer interests and Company  
14 interests in determining the impacts on revenue collection associated with TOU rates. If  
15 the Commission deems the impacts in the next rate case as uncertain or not material then  
16 no revenue requirement impact in the next rate case can be decided. But, in the interim a  
17 determination of the revenue impact of TOU rate transition should be analyzed and tracked  
18 in the interest of all parties involved.

19 **Q: Is the Company proposing to utilize the TOU tracker indefinitely?**

20 A: No. The Company believes that it is important to establish a tracker until it has a full 12  
21 months of TOU billing determinants upon which to build a rate case. Up to this point, that  
22 has not been possible and that is of concern to EMW. EMW is proposing only to utilize  
23 the tracker until rates are effective in its next rate case.

1 Q: Does this conclude your 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 ) Case No. ER-2024-0189  
Implement A General Rate Increase for Electric )  
Service )

**AFFIDAVIT OF RONALD A. KLOTE**

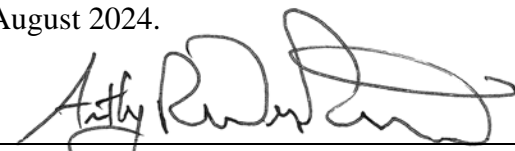
**STATE OF MISSOURI** )  
 ) ss  
**COUNTY OF JACKSON** )

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

1. My name is Ronald A. Klotte. 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 Rebuttal Testimony on behalf of Evergy Missouri West consisting of forty-three (43) 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. Klotte

Subscribed and sworn before me this 6<sup>th</sup> day of August 2024.

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

My commission expires: 4/26/2025

