

Exhibit No. 263

Staff – Exhibit 263
Antonija Nieto
Surrebuttal/True-Up Direct
File No. ER-2024-0189

Exhibit No.:
Issue(s): *Bad Debt Expense,
Severance Costs*
Witness: *Antonija Nieto*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Surrebuttal / True-Up
Direct Testimony*
Case No.: *ER-2024-0189*
Date Testimony Prepared: *September 10, 2024*

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL AND BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

SURREBUTTAL / TRUE-UP DIRECT TESTIMONY

OF

ANTONIJA NIETO

EVERGY MISSOURI WEST, INC.,

d/b/a Evergy Missouri West

CASE NO. ER-2024-0189

*Jefferson City, Missouri
September 10, 2024*

**** Denotes Confidential Information ****

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ANTONIJA NIETO
EVERGY MISSOURI WEST, INC.,
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1 **SURREBUTTAL / TRUE-UP DIRECT TESTIMONY**

2 **OF**

3 **ANTONIJA NIETO**

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

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

7 Q. Please state your name and business address.

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

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

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

14 **EXECUTIVE SUMMARY**

15 Q. Please summarize your surrebuttal testimony.

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

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

20 **BAD DEBT EXPENSE**

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

22 A. In my rebuttal testimony, I provided several tables and graphical analyses to
23 demonstrate the fallacy of EMW’s assumption that increased revenues lead to increased bad

1 debt. In theory, this assumption may appear to be reasonable. In practice this theory simply
2 does not hold true.

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

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

9 I have attached the third analysis mentioned above, which compares 12-month periods of
10 bad debt to the corresponding revenues¹ on a quarterly basis from 2001 through 2023 for EMW,
11 along with the graphical representation of the data. This data is attached as Confidential
12 Schedule AN-s1, Confidential Schedule AN-s2, Confidential Schedule AN-s3, and
13 Confidential Schedule AN-s4. The remainder of the analyses were attached to my rebuttal
14 testimony.

15 Q. Please explain this data and accompanying graph.

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

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

1 This data is a comparison of bad debt as a percentage of revenues from 2001 through
2 2023 for EMW. This comparison is consistent with the methodology Staff and EMW have
3 used to annualize bad debts based on current annualized and normalized revenues.

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

11 Q. Is revenue tied to bad debt expense?

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

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

18 A. No. However, Staff's evidence shows not only lack of a perfect correlation, but
19 also lack of any meaningful correlation. Again, EMW has not presented an analysis of the
20 correlation of bad debts and revenues. EMW's contention is that when revenues increase as a
21 result of a rate case, bad debts will automatically increase proportionately. If that were true,
22 Staff would expect the line representing the ratio of bad debts and revenues to be relatively the
23 same throughout the analysis, perhaps being a somewhat straight line across the graphs

1 presented. For example, if the ratio of bad debts to revenues were 0.75% at one time period,
2 one would expect the ratio to fluctuate around that percentage, but not have any trends up or
3 down. Staff's analyses do not examine the change in bad debts or revenues dollars; they
4 measure the change of the ratio between the two. Even if bad debts were somewhat correlated,
5 EMW's proposed bad debt factor-up and late payment factor-up are not known and measurable.

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

7 A. The anticipated effective date of rates in this case is January 1, 2025. The annual
8 revenue requirement authorized by the Commission, if any, will be collected in the following
9 12 months. Because of the bad debt expense lag, 12 months of bad debt expense related to the
10 increase in revenues will not be fully realized until six months after this date which is June 2026,
11 18 months beyond the operation of law date, and 24 months beyond the true-up date in this
12 case. EMW's adjustments are intended to collect in rates expenses that may or may not be fully
13 realized 18 months past the effective date of rates. The level of bad debt expense 18 months
14 past the effective date of rates is certainly not known and measurable.

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

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

1 **SEVERANCE COSTS**

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

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

14 The Commission finds that MGE’s position is based upon fallacious
15 reasoning. It is appropriate that prospective rates will be set on recently
16 available payroll expense. MGE overlooks the substantial cash flow
17 savings that it has achieved by terminating the employees. OPC’s
18 evidence shows that Southern Union’s shareholders have already
19 received more than the severance costs in terms of reduced payroll. The
20 rates that MGE has been charging are premised on a payroll level higher
21 than that which it currently has, so it has profited by the decreased
22 number of employees.

23 * * *

24 The Commission finds that MGE’s shareholders have already received
25 monetary compensation through the reduction in payroll expense. The
26 Commission will not allow MGE to charge ratepayers the costs
27 associated with employee severances where MGE has already recovered
28 those costs. The Commission finds that the position of Staff and OPC is
29 most reasonable on this issue.²

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

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

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

18 [Footnotes omitted.]

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

21 Despite having already recovered the costs of the severance package,
22 Ameren Missouri asks the Commission to again recover those costs from
23 ratepayers through a direct three-year amortization. Ameren Missouri
24 contends such recovery is justified because ratepayers will ultimately
25 benefit from the cost reductions resulting from the severance package in
26 an amount much greater than the direct costs the company seeks to
27 amortize. Ameren Missouri also complains that from March 2009
28 through July 2012, the company actually under-recovered its payroll and
29 benefit costs by \$51 million. Finally, Ameren Missouri argues that it
30 should be allowed to recover the additional amortization so that it will
31 have an incentive to pursue further cost-cutting measures.

32 Ameren Missouri prudently took steps to reduce its payroll costs to
33 improve the efficiency of its operations. Under the lag that results from
34 the traditional regulatory model, the company is able to retain those cost
35 savings until it chooses to come back for a rate adjustment and a new
36 level of costs is used to reset rates. In this case, Ameren Missouri, for
37 reasons unconnected to these particular costs, has asked the Commission
38 to adjust its rates. The new rates will reflect the lower personnel costs
39 and the company will cease to benefit directly from the reduced payroll
40 after having barely recovered its costs. If Ameren Missouri had not

1 chosen to request a rate increase at this time, it would have continued to
2 benefit from its reduced payroll costs. That is how the system works.

3 Ameren Missouri is essentially asking the Commission to require
4 ratepayers to give the company a \$25.8 million bonus to reward the
5 company for being efficient in reducing its payroll and to give it an extra
6 incentive to reduce costs in the future. The Commission finds that the
7 company does not need and will not receive any extra incentive to
8 operate efficiently.³

9 [Footnotes omitted.]

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

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

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

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

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

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

6 Q. Please summarize your testimony on severance expense.

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

13 **TRUE-UP ADJUSTMENTS**

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

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

- 17 • Bad Debt Expense
- 18 • Forfeited Discounts
- 19 • IT Software Maintenance
- 20 • Pensions and OPEBs
- 21 • Plant in Service and Accumulated Reserve
- 22 • Transmission Revenue and Expense
- 23 • SPP Administrative Fees

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

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

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

5 A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Every Missouri West, Inc.)
d/b/a Every Missouri West's Request for)
Authority to Implement A General Rate)
Increase for Electric Service)

Case No. ER-2024-0189

AFFIDAVIT OF ANTONIJA NIETO

STATE OF MISSOURI)
COUNTY OF Jackson)

ss.

COMES NOW ANTONIJA NIETO and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Surrebuttal / True-Up Direct Testimony of Antonija Nieto*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

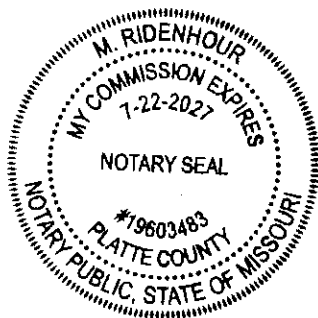
A Nieto

ANTONIJA NIETO

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this 5th day of September 2024.

M. Beulich
Notary Public



Case No. ER-2024-0189

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

HAVE BEEN DEEMED

CONFIDENTIAL

IN THEIR ENTIRETY