

Exhibit No. 254P

MoPSC Staff – Exhibit 254P
Keith Majors
Rebuttal Testimony
File Nos. ER-2022-0129 & ER-2022-0130

Exhibit No.:

Issues: *Sibley Retirement,
Jurisdictional Allocations,
Bad Debt, Regulatory Lag*

Witness: *Keith Majors*

Sponsoring Party: *MoPSC Staff*

Type of Exhibit: *Rebuttal Testimony*

Case No.: *ER-2022-0129 &
ER-2022-0130*

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MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL AND BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

REBUTTAL TESTIMONY

OF

KEITH MAJORS

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

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

*Jefferson City, Missouri
July 2022*

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KEITH MAJORS**

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1 **REBUTTAL TESTIMONY**

2 **OF**

3 **KEITH MAJORS**

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

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

8 Q. Please state your name and business address.

9 A. Keith Majors, Fletcher Daniels Office Building, 615 East 13th Street,
10 Room 201, Kansas City, Missouri, 64106.

11 Q. By whom are you employed and in what capacity?

12 A. I am a Utility Regulatory Audit Supervisor employed by the Staff (“Staff”) of
13 the Missouri Public Service Commission (“Commission”).

14 Q. Are you the same Keith Majors who previously provided testimony in this case?

15 A. Yes. I provided direct testimony in this case on June 8th in these cases
16 concerning the Sibley AAO and retirement, bad debt expense and late payment fees, Transource
17 incentives, jurisdictional allocations, and other various topics.

18 **EXECUTIVE SUMMARY**

19 Q. Please summarize your rebuttal testimony.

20 A. I will respond to the direct testimony of Evergy witnesses concerning
21 these topics:

- 22 • Sibley AAO and retirement
 - 23 • Larry Kennedy – Evergy West Direct testimony
 - 24 • Darrin R. Ives – Evergy West Direct testimony pages 29-39
 - 25 • Ronald A. Klote – Evergy West Direct testimony pages 10-14

- 1 • Greg R. Meyer – Evergy Direct testimony pages 8-16
- 2 • Bad debt tracker and expense, late payment fees
- 3 • Darrin R. Ives – Evergy Metro Direct testimony pages 14-16, Evergy
- 4 West Direct testimony pages 15-17
- 5 • Ronald A. Klote – Evergy Metro Direct testimony pages 44-46
- 6 • Linda J. Nunn – Evergy Metro Direct testimony pages 17-18, 20-21,
- 7 Evergy West Direct testimony pages 19-20, 23-24
- 8 • Jurisdictional Allocations
- 9 • John Wolfram Direct testimony
- 10 • Regulatory Lag and Policy
- 11 • Evergy Metro and Evergy West direct testimony, generally

12 **SIBLEY AAO AND NET BOOK VALUE RECOVERY – EVERGY WEST ONLY**

13 Q. What is Staff’s overall recommendation regarding the retired Sibley units?

14 A. Staff recommends a sharing of the responsibility for the unrecovered capital
15 costs of the Sibley station as of its retirement date in rates between Evergy’s shareholders and
16 customers. This would be accomplished by inclusion in rates of an amortization of the
17 appropriate net book value (“NBV”) of the Sibley units at the time of retirement with no
18 inclusion in rate base to earn a “return on” the unamortized amounts. Staff recommends the
19 return of Sibley accounting authority order (“AAO”) regulatory liability as ordered by the
20 Commission in Case No. EC-2019-0200 (“AAO Case”). Depending on the calculation of the
21 AAO and NBV, Staff recommends the two amounts should offset one another and the resultant
22 net amount be amortized through the cost of service with no inclusion in rate base.

23 In response to the direct testimony from MECG witness Meyer, Staff has concerns for
24 the potential of “double recovery” of the Sibley NBV and Staff recommends some changes to
25 its calculation of the deferred amounts pursuant to the Commission’s order in the AAO case.

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1 Q. Concerning the AAO, did the Commission determine the amount to be deferred
2 in the AAO Case?

3 A. No. As is common with AAO filings, the amounts were not known in certainty
4 and there were disagreements among the parties as to the amounts of the deferrals. The
5 Commission recognized this in its *Report and Order* in that case:

6 This order finds that the retirement of the Sibley units is extraordinary,
7 and will direct GMO to establish the AAO requested by Public Counsel
8 and MECG. That is the only relief sought by Public Counsel and MECG,
9 and it is not necessary for them to establish the amount to be deferred. If
10 GMO believes it needs the Commission's guidance on establishing the
11 amount to be deferred, it may file a new application seeking that
12 guidance.¹

13 Every West, then GMO, made no such application and this case will determine the
14 amounts to be deferred.

15 Q. What did the Commission order to be deferred in the AAO Case?

16 A. From the order in the AAO Case:

17 KCP&L Greater Missouri Operations Company shall record as a
18 regulatory liability in Account 254 the revenue and the return on the
19 Sibley unit investments collected in rates for non-fuel operations and
20 maintenance costs, taxes, including accumulated deferred income taxes,
21 including accumulated deferred income taxes, and all other costs
22 associated with Sibley units 1, 2, 3, and common plant. The regulatory
23 liability should quantify separately dollars related to return and other cost
24 of service expense savings.²

25 Q. What is Every West requesting in this case concerning Sibley?

26 A. Through the direct testimonies of Every West witnesses Kennedy, Ives, and
27 Klote, Every West is requesting the return through amortization ("return of") of its calculation

¹ *Report and Order*, Case No. EC-2019-0200, page 15.

² *Ibid*, pages 15-16.

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1 of the remaining NBV of Sibley at \$104.2 million³ and inclusion in rate base (“return on”) of
2 the unamortized balance over 20 years. Evergy West recommends a separate amortization of
3 its calculation of the regulatory liability ordered in the AAO case and does not include the
4 “return on” component in the regulatory liability as ordered by the Commission. Evergy West
5 recommends a 4 year amortization and no rate base inclusion for the regulatory liability.

6 Q. Do you agree with Evergy West’s calculations?

7 A. Not entirely, but a more granular discussion of the calculations is required.

8 ***Net Book Value***

9 Q. What is Staff’s recommendation concerning the Sibley NBV?

10 A. Staff recommends an amortization of the NBV in the cost of service with no
11 inclusion in rate base. In its direct testimony, Staff utilized the \$145.6 million figure proposed
12 by Evergy. However, MECG witness Meyer raises issues with the determination of the Sibley
13 NBV. Staff recommends the Commission consider using the \$300 million NBV from Staff’s
14 EMS in the 2018 Rate Case, absent any additional evidence that the \$145.6 million figure is a
15 better representation of true NBV. Staff is continuing to review the question of the appropriate
16 valuation of the Sibley NBV for ratemaking purposes.

17 Q. What is the NBV calculated by Evergy West?

18 A. Evergy West witness Kennedy used the same \$145.6 million NBV as calculated
19 in the AAO Case by Evergy West witness John J. Spanos. His sponsored NBV is not related
20 to the amount that was included in the cost of service for the Sibley plant in the Case No. 2018
21 Rate Case and is based on a “theoretical reserve” calculation. Although Mr. Spanos briefly

³ This amount is composed of \$145.6 million NBV, less the \$41.4 million depreciation deferred pursuant to the *Stipulation and Agreement* in the 2018 Rate Case.

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1 explains the method of calculating this amount, there is no clear reasoning why this method is
2 superior to the allocated reserve amount include in the 2018 Rate Case. This amount was \$300
3 million⁴ and formed the basis of the depreciation expense and rate of return calculation which
4 was ultimately included in the cost of service in the 2018 Rate Case. The Commission did not
5 determine the Sibley NBV in the AAO Case.

6 Q. Can you explain the difference between these two amounts?

7 A. No. I can conclude that the NBV of \$300 million is the amount upon which the
8 AAO “return on” deferrals should be calculated as that amount was the basis of the rate of
9 return and depreciation calculation. The recovery of a NBV on Sibley is complicated by the
10 way Evergy West recorded the retirement of Sibley.

11 Q. Please explain.

12 A. As noted in the Direct testimony of witness Meyer, Evergy West has
13 experienced a substantial reduction in accumulated depreciation reserves between the
14 2018 Rate Case and this case as shown in the table below:

15

Generating Unit Reserve - Millions	June 2018 Reserve	December 2021 Reserve	Difference
Jeffrey	\$84.2	\$62.7	(\$21.5)
Lake Road	\$35.1	\$28.0	(\$7.0)
Iatan Common	\$13.0	\$3.0	(\$10.0)
Iatan 1	\$54.9	\$25.7	(\$29.2)
Iatan 2	\$50.3	\$6.5	(\$43.7)
Total	\$237.7	\$126.1	(\$111.6)

16

⁴ Based on Staff’s true-up Accounting Schedules.

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1 Q. Do you know the cause of the large decrease to the reserve?

2 A. Upon retirement of Sibley, Every West made accounting entries to record the
3 retirement on its books and records based on mass asset accounting. These entries removed an
4 equal amount from plant in service account 101 and accumulated depreciation reserve account
5 108. The entry that is booked is a credit to account 101 which removes the original gross cost
6 amount from plant in service, and a debit to account 108 which reduces the accumulated
7 depreciation reserve for the same original gross cost amount. The net effect has no impact on
8 rate base, all other things being equal. These entries were consistent with Evergy West's
9 testimony in the AAO Case.⁵

10 Mass asset accounting is utilized on large groups of assets that would otherwise be
11 difficult to individually track. A clear example of this is Evergy's inventory of thousands of
12 wood poles. If wood poles had a service life of 50 years, some wood poles would be replaced
13 at 40 years (underaccrued), and some would be replaced at 60 years (overaccrued). As time
14 passes, the over and under accrued assets should roughly balance out and there is no material
15 imbalance to the reserve. Depreciation studies are performed periodically to examine the
16 reserve balances and depreciation rates to minimize these imbalances. Because Sibley had a
17 substantial undepreciated balance at the time of retirement, that is gross plant far in excess of
18 the reserve, the prospective depreciation rates must increase to equalize the reserve over time.
19 This method of determining depreciation rates is described in detail on page 15 of the direct
20 testimony of Evergy witness John J. Spanos in this case.

⁵ See Ronald A. Klote rebuttal testimony in the AAO Case, pages 24-25.

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1 Q. Was mass asset accounting a topic in the Sibley AAO case?

2 A. Yes. During the testimony of Staff witness Mark L. Oligschlaeger, the impacts
3 of mass asset accounting were discussed in questioning by the Regulatory Law Judge:

4 Q. Do you know the approximate undepreciated rate base associated
5 with the Sibley facility?

6 A. According to the staff's true-up accounting schedules in the most
7 recent GMO rate case, I think the unrecovered balance was
8 approximately 300 million. I think the testimony of the other parties in
9 this case indicate disagreement over whether those are valid numbers or
10 not.

11 Q. Just in general how will GMO go about recovering that
12 undepreciated rate base or will they be allowed to? How will that
13 work?

14 A. As I understand, under mass asset accounting what will happen
15 if there is a sizable shortfall in recovery of a particular asset then after
16 retirement takes place that unrecovered reserve so to speak is gradually
17 consumed by application of depreciation rates from other accounts. By
18 the way, the opposite occurs if an asset retires that out lives its expected
19 life then there are consequences to the reserve in the opposite direction.

20 Q. Would there need to be adjustments to the reserve in the future
21 rate case --

22 A. I think to accomplish what I would call the gradual recovery of
23 the unrecovered balance you don't particularly need adjustments to do
24 that. If you oppose such treatment, I think you would need to propose
25 adjustments. Now, if a company wanted, say, faster recovery of the
26 unrecovered amounts, then they would presumably have to seek special -
27 - well, the approval of the Commission to do so. That may involve a
28 deferral accounting mechanism.

29 Q. Did Evergy realize a gain or loss when it retired Sibley with a large unrecovered
30 reserve?

31 A. No. Under the scenario that Evergy did not request any kind of special treatment
32 for the Sibley NBV, the residual reserve reduction would remain in accumulated reserve, and
33 would be restored gradually as Mr. Oligschlaeger testified through the steam production plant
34 depreciation. This would occur whether the NBV is \$145 million or \$300 million. The impact
35 of moving the NBV out of reserve as Evergy proposes is: 1) recovery over a defined

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1 amortization period, in this case 20 years, 2) Evergy is requesting the NBV to be included in
2 rate base, and 3) reduction of depreciation rates.

3 Q. On page 15 of MEGC's witness Meyer's direct testimony, he identifies a
4 \$6.8 million impact on depreciation expense as a result of the Sibley retirement. What is the
5 impact on depreciation rates when Evergy West retired Sibley?

6 A. The total debit (reduction) to the depreciation reserve was \$471 million at
7 retirement. Because the excess of the reduction over the existing Sibley reserve, depreciation
8 rates have to increase based on the remaining life depreciation methodology.

9 Using Evergy's \$145.6 million calculation of NBV value, the remaining deficiency in
10 the reserve is \$154 million. This amount accounts for a large part of the reduction in the reserve
11 (\$111.6 million).⁶ Using MEGC's NBV of \$254 million, an additional \$111 million would
12 have to be added to the reserve. Using the \$300 million NBV from Evergy's last rate case, an
13 additional \$154 million would have to be added to the reserve.

14 The following table identifies the differences in millions:

15

	Sibley NBV	Additional NBV add to depreciation reserve
Evergy NBV	\$145.6 million	\$0
MEGC NBV	\$254 million	\$111 million
Staff NBV from 2018 Rate Case	\$300 million	\$154 million

16
17 Q. Why must the depreciation reserve increase by the amount of NBV amortized
18 separately?

19 A. Evergy can either recover the \$300 million deficiency through depreciation
20 reserve or through an amortization in the cost of service, but not both. The current

⁶ The reduction was mitigated by increases to the reserve by depreciation expense recorded from other units (Iatan, Lake Road, Jeffrey, etc.) that remain in service and are accruing depreciation expense.

1 \$145.6 million is booked to the reserve as a deduction, thereby increasing rate base. Staff
2 recommends reversal of this amount and amortization, separately, similar to other
3 amortizations. Should the Commission consider other valuations of NBV the amount “buried”
4 in the reserve would change as I described above.

5 ***Depreciation Deferral – Stipulation and Agreement, Case No. ER-2018-0146***

6 Q. Do you have any concerns with the amounts deferred pursuant to the *Stipulation*
7 *and Agreement* in the 2018 Rate Case?

8 A. No. The amounts deferred and continuing to be deferred until rates are effective
9 in this case are based on the jurisdictional amounts in Staff’s true-up EMS filed in the 2018
10 Rate Case. The signatories to the *Stipulation and Agreement* agreed to defer as a regulatory
11 liability the amounts of depreciation expense included in the cost of service for the Sibley plant
12 from the date of retirement until new customer rates are established in the current rate case.
13 These deferrals reduce the NBV of Sibley by increasing the depreciation reserve. The Missouri
14 jurisdictional balance of this deferral will be \$41.4 million through November 2022. The
15 \$145.6 million NBV would be reduced by this amount for a net of \$104.2 million.

16 ***Operations & Maintenance Expense - AAO***

17 Q. Do you have any concerns with the amounts of O&M deferred pursuant to the
18 Report and Order in the Sibley AAO case?

19 A. No. There are two parts – labor and non-labor non-fuel operations and
20 maintenance (“NFOM”) expense. The Missouri jurisdictional balance of this deferral will be
21 \$3.6 million for labor and \$38.1 million for NFOM expense through November 2022.

1 ***Rate of Return - AAO***

2 Q. On page 11 of MECG witness Meyer's direct testimony, he calculates the AAO
3 rate of return based on the net plant of \$300 million as of June 2018 included in Staff's revenue
4 requirement in the 2018 Rate Case. Is that the correct methodology?

5 A. Yes. As I have quoted the Commission's order in the AAO case, the amounts
6 to be deferred are the return included in Staff's revenue requirement. Although the 2018 Rate
7 Case was resolved through a settlement, the net plant included in the true-up revenue
8 requirement was \$300 million and this was the basis of the depreciation and rate of return
9 included in the cost of service.

10 My direct testimony in this case supported using Evergy West's NBV as calculated by
11 Spanos of \$145.6 million as a basis for the "return on" calculation. Staff now supports using
12 MECG's methodology as that amount more accurately reflects the actual amount of return
13 included in rates, if the Commission includes that amount to be returned to customers.

14 Q. Do you continue to believe the "return on" portion of the AAO should be
15 returned to customers?

16 A. That would depend on whether or not the Commission includes the determined
17 NBV in rate base. If so, I would recommend inclusion of the of the "return on" portion of the
18 AAO as an offset to future amounts of return on the NBV included in future rates.

19 The Commission ordered Evergy West in the AAO Case to defer the rate of return
20 related to Sibley. To prove the amounts deferred in the AAO amount for the "return on", I used
21 the Staff accounting schedules as of the true-up June 30, 2018, filed in the 2018 Rate Case. If
22 Sibley is removed using the mass asset accounting entries as of June 30th, 2018, the revenue
23 requirement is reduced by \$13.6 million. This is primarily driven by depreciation expense,

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1 which is already accounted for in the *Stipulation and Agreement* deferral, and the tax impact
2 from the reduced depreciation.⁷ I also used Evergy West’s accounting schedules as of the true-
3 up June 30, 2018 filed in the 2018 Rate Case, and obtained similar results.⁸ When looking
4 strictly at the rate of return on the plant in service, there is no net impact from the Sibley
5 retirement, which may seem counterintuitive.

6 Separate from the “return on” calculation on net plant in service, other rate base items
7 and the rate of return are listed below with a net amount for the depreciation tax impact and
8 other differences:

9

	Annual Amount (millions)	Rate of Return	Annual AAO Deferral (millions)
ADIT	(\$24.8)	9.87%	(\$2.4)
ADIT Excess Deferrals	(\$21.1)	9.87%	(\$2.0)
ADIT Sibley NOL’s	\$5.6	9.87%	\$0.5
Materials and Supplies	\$11.0	9.87%	\$1.0
Fuel Inventory	\$9.6	9.87%	\$0.9
Net Non-plant “Return on” deferrals			(\$1.9)
Tax impact of depreciation and other differences ⁹			\$3.5
Net annual regulatory liability			\$1.5

10
11 Q. What is the difference between in the “return on” deferral using Evergy’s \$145.6
12 million and the \$300 million NBV in the true-up direct accounting schedules in the 2018 Rate
13 Case?

⁷ A reduction in a tax-deductible item increases income tax expense.

⁸ Evergy West’s model did not produce an income tax reduction. I recommend using Staff’s accounting schedule value, which produces an income tax value for the depreciation reduction as other revenue requirement models have also increased deductible item values for income taxes.

⁹ Staff’s model would also calculate minor differences for Cash Working Capital, which are included in these calculations.

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1 A. The \$145.6 million NBV produces an annual deferral of \$12.3 million, and \$49.5
2 million through the effective date of rates in this case. The \$300 million NBV produces an
3 annual deferral of \$27.6 million and \$110.6 million in total.

4 Q. On pages 43-44 of his direct testimony, Evergy witness Klote recommends
5 reversal of the deferral of the rate of return on Sibley. These amounts were deferred pursuant
6 to the Report and Order in the Sibley AAO case. Do you agree?

7 A. It would depend on whether or not the Commission includes the Sibley NBV in
8 rate base. If the Commission includes the Sibley NBV in rate base, I recommend the “return
9 on” deferrals, which already exist and continue to accrue be returned to customers. This would
10 serve to mitigate the impact on customers paying a return on the NBV of a plant that does not
11 produce electricity.

12 If the Commission does not include the NBV in rate base, I recommend the Commission
13 consider also not including the deferred return on the Sibley plant in the AAO deferral to be
14 returned to customers. I do recommend including the “return on” impacts of the non-plant other
15 rate base items in the AAO liability as these items were not impacted by the mass asset
16 retirement accounting. The Commission should also consider that if the deferred “return on”
17 the Sibley plant is not returned to customers through a regulatory liability, Evergy West will
18 receive a “windfall” profit going forward as the Company has already reduced earnings by the
19 total regulatory liability as it is recorded.

20 Q. Are there any other impacts to the depreciation reserve related to Sibley?

21 A. Yes. Evergy West accrues major maintenance expense to a reserve and charges
22 actual amounts as they are incurred against the reserve. At this time, Evergy West has a
23 substantial surplus for Sibley maintenance accruals. Evergy West recommends returning the

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1 Sibley surplus maintenance reserve to customers through an addition to depreciation reserve
2 which has already been included in the December 31 depreciation reserve balances. Staff does
3 not take issue with this adjustment. The maintenance reserve is addressed in the rebuttal
4 testimony of Staff witness Karen Lyons.

5 ***Inclusion in Rate Base of Sibley NBV***

6 Q. What is Staff's recommendation regarding the Sibley NBV inclusion in
7 rate base?

8 A. Staff recommends a sharing of the responsibility for the unrecovered capital
9 costs of the Sibley NBV as of its retirement date in rates between Evergy's shareholders and
10 customers. This would be accomplished by inclusion in rates of an amortization of the
11 unrecovered balance, but exclusion of the unamortized balance from Evergy's rate base.

12 Q. On page 38 of his direct testimony, witness Ives states that Evergy is entitled to
13 a return on and recovery of the undepreciated plant balance associated with Sibley and that
14 otherwise Evergy would be penalized. Do you agree?

15 A. No. Under normal ratemaking the costs associated with assets that have been
16 retired should no longer be recovered in rates. Sibley is no longer used and useful and is not
17 providing a benefit to customers. Sibley did have a substantial unrecovered investment at the
18 time of retirement, which warrants special treatment of the NBV, but shareholders should share
19 in the risk that investments will be retired prematurely.

20 Staff's recommendation to share the responsibility between shareholders and customers
21 for retired plant assets does not penalize Evergy when considering the undeniable fact that
22 Sibley is not providing any benefit to customers and all new costs of replacement generation
23 are being borne by ratepayers. To ask customers to pay for full rate recovery of both new

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1 generating resources, capacity, and energy regardless of source, and the retired resources strikes
2 me as much more imposing an unwarranted penalty on customers rather than Evergy.

3 Q. On page 34 of Evergy witness Larry Kennedy's direct testimony, he cites
4 two examples of public utility commissions ("PUC") that purported to provide both return of
5 and return on the undepreciated retired investments. Can you provide an alternative example of
6 when a public utility commission allowed recovery of an undepreciated plant but denied a rate
7 of return on the investment?

8 A. Yes. As noted in the direct testimony of Sierra Club witness Devi Glick,
9 both the Texas PUC¹⁰ and the Arkansas PSC¹¹ allowed Southwestern Electric Power Company
10 ("SWEPCO") to establish a regulatory asset for the undepreciated plant at Dolet Hills.
11 The Texas PUC afforded the same accounting treatment to another SWEPCO plant, Welsh Unit
12 2.¹² The orders by these PUCs rejected the Company's request to earn a rate of return on its
13 investment once the plant retired.

14 Q. What were Dolet Hills and Welsh Unit 2?

15 A. Dolet Hills was a lignite coal fired power plant of about 650 MW capacity.
16 It was retired at the end of 2021 due to the inability to supply fuel to run the facility.¹³
17 Welsh Unit 2, also owned by SWEPCO, was a sub-bituminous coal fired power plant of
18 528 MW capacity. It was retired in April 2016 due to looming environmental compliance costs

¹⁰ Public Utility Commission of Texas., Docket No. 51415, Application of Southwestern Electric Power Company for Authority to Change Rates, Final Order (Jan. 14, 2022) at paragraphs 44-65, pages 10-13.

¹¹ Arkansas PSC Docket No, 21-070-U, Application of Southwestern Electric Power Company for Approval of a General Change in Rate and Tariffs, Order No. 14 (May 23,2022) at page 50.

¹² Public Utility Commission of Texas, Docket No. 46449, Application of Southwestern Electric Power Company for Authority to Change Rates, Final Order (Jan. 11, 2018) at paragraphs 65-71, pages 19-20.

¹³ Ibid, at page 49. Dolet Hills burned lignite coal, which was mined locally in Louisiana.

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1 that proved uneconomic to further operate the unit. Both of these units were larger than the
2 capacity of the three Sibley units combined.

3 The Arkansas PSC stated in its order, “In this case, customers should not bear
4 100 percent of the costs when the economic life of Dolet Hills becomes out of sync with its
5 planned useful life.”

6 The Texas PUC stated in its order, “With respect to the period after December 31, 2021
7 (the post-retirement phase of the Dolet Hills rate rider), the remaining net book values of Dolet
8 Hills should be placed in a regulatory asset to be amortized without a return.”

9 The Texas PUC stated the following concerning Welsh Unit 2, providing more
10 justification for denying a return on the undepreciated balance:

11 66. Welsh unit 2 no longer generates electricity and is not used by
12 and useful to SWEPCO in providing electric service to the public.

13 67. Under the FERC uniform system of accounts, the appropriate
14 accounting treatment for the retirement is to credit plant in service with
15 the original cost of Welsh unit 2 and debit accumulated depreciation with
16 the same amount. This would leave a debit balance in accumulated
17 depreciation equal to the undepreciated balance of Welsh unit 2.

18 68. Because Welsh unit 2 is no longer used and useful, SWEPCO
19 may not include its investment associated with the plant in its rate base,
20 and may not earn a return on that remaining investment.

21 69. Allowing SWEPCO a return of, but not on, its remaining
22 investment in Welsh unit 2 balances the interests of ratepayers and
23 shareholders with respect to a plant that no longer provides service.

24 70. It is reasonable for SWEPCO to recover the remaining
25 undepreciated balance of Welsh unit 2 over the 24-year remaining lives
26 of Welsh units 1 and 3.

27 71. The appropriate accounting treatment that results in the
28 appropriate ratemaking treatment is to record the undepreciated balance
29 of Welsh unit 2 in a regulatory-asset account.¹⁴

¹⁴ Public Utility Commission of Texas., Docket No. 46449, Application of Southwestern Electric Power Company for Authority to Change Rates, Final Order (Jan. 11, 2018) at paragraphs 66-71, pages 19-20.

1 It is important to note that the states myself and Mr. Kennedy cite – Colorado, Texas, Alabama,
2 and Arkansas – all have different regulatory paradigms than Missouri.

3 ***Bad Debt factor up and Tracker***

4 Q. Please summarize Staff’s recommendation with regard to bad debt expense.

5 A. Staff is opposed to Evergy’s request to recover bad debt expense in excess of the
6 annualized level of bad debt expense calculated in these cases. Evergy Metro and Evergy West
7 have included an additional \$512,243 and \$457,304, respectively, of Missouri jurisdictional
8 bad debt in their direct filed revenue requirement requests. Evergy Metro and Evergy West have
9 also included a factor up for late payment fee revenue in the amount of \$147,717 and \$76,743,
10 respectively, based on their direct filed revenue requirement requests.

11 The bad debt factor up is separate from the normalized bad debt expense adjustment
12 that is based on the ratio of bad debt to rate revenue updated through December 31, 2021.

13 Evergy’s rationale for making this request is based on the assumption that any increase
14 in customer rates granted by the Commission will cause bad debt expense to also directly
15 increase proportionally. However, Evergy has not demonstrated a direct correlation exists
16 between the level of rate revenue and the percentage of bad debts that would justify the
17 reflection of a further adjustment for bad debt expense in rates. Evergy’s assumption is
18 speculative and is not based upon known and measurable changes.

19 Staff has based its rate recommendation for this item on actual historical levels of bad
20 debt. Based on its review of historical levels, Staff concludes that there has been no direct
21 correlation between bad debts and the level of rate increases, or even the level of revenue growth
22 of Evergy Metro and Evergy West. Staff’s analysis of the actual net write-offs to related
23 revenues as depicted in the attached charts and graphs indicate that bad debt expense sometimes

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1 moves in the opposite direction or not in proportion to rates/revenues when levels of rates and
2 revenues change.

3 Staff recommends that the Commission deny Evergy Metro's and Evergy West's
4 proposed bad debt "factor up" for bad debts and also not order a "factor up" of late payment
5 fees. However, in the event that the Commission does grant Evergy Metro's and Evergy West's
6 request to "factor up" bad debt expense proportionate with a change in revenue requirement,
7 Staff recommends it also "factor-up" additional forfeited discounts (late payment fees) that
8 would be assumed to change as a result of the rate change. If the Commission concludes that it
9 is reasonable and appropriate to "factor up" bad debt expense for purposes of setting rates, on
10 the theory that Evergy Metro and Evergy West will experience a higher level of bad debts as a
11 result of a rate increase, then it is reasonable to conclude that Evergy Metro and Evergy West
12 will also experience a higher level of late payment revenue resulting from those higher rates.
13 To summarize, Staff recommends the Commission deny both factor ups, but if bad debt expense
14 is ordered to be factored up, then late payment fees should also be factored up.

15 Q. Did Evergy Metro and Evergy West request a bad debt tracker in this case?

16 A. Yes, in the direct testimony of Darrin Ives and Ron Klote.

17 Q. Does Staff agree with Evergy's proposed bad debt tracker?

18 A. No. Staff is opposed to Evergy's request to track the annualized level of bad debt
19 expense calculated in these cases and compare those amounts to actual incurred amounts.
20 Although Staff is not opposed to tracking mechanisms considered on a case-by-case basis,
21 Evergy's current tracker request considers only costs that have been increasing, while failing to
22 consider other costs that may be declining. This selective use of trackers represents an unfair
23 ratemaking approach to deal with those isolated increasing costs that could be offset by savings

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1 in other cost of service areas. Staff witness Kimberly K. Bolin’s rebuttal testimony in this case
2 addresses Staff’s general policy concerning trackers.

3 Q. How did Staff develop its normalized bad debt expense recommendation?

4 A. Bad debt expense was normalized using the historical ratio between bad debt
5 and retail revenues through December 2021. Staff applied this ratio to the weather normalized
6 annualized rate revenues amount. Staff and Evergy have used this method for several cases to
7 normalize bad debt expense. There is no apparent disagreement between Staff and Evergy
8 concerning this portion of bad debt expense.

9 Q. In Staff’s opinion, is it reasonable to assume that there will be bad debts
10 associated with a revenue requirement change granted in this rate case?

11 A. Upon examining actual historical bad debts in relationship to revenues, there is
12 not any apparent causal relationship between bad debts and changes in revenues;
13 Evergy’s assumption does not hold true. Thus, any change in a company’s revenues should not
14 be assumed to automatically cause a proportional change to bad debt expense, on a dollar-for-
15 dollar basis. Staff’s analysis demonstrates no evidence of this direct correlation for Evergy
16 currently or in the past, nor has Evergy produced any evidence of such a correlation in their
17 testimony or workpapers in these cases. In fact, at various times as revenues increased, bad
18 debts have actually declined. In other instances, when revenues decreased, bad debts increased.
19 The conclusion is there is no direct relationship between bad debts and revenue changes.

20 The usual justification for use of the bad debt “factor up” is the incorrect assumption
21 that it is necessary to match dollar-for-dollar the level of bad debt expense established in a rate
22 case with the amount of additional revenue requirement increase approved by the Commission.
23 In other words, the use of bad debt “factor up” implies that it is a virtual certainty that, with

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1 each rate change, bad debts will also change proportionally. Should the factor up be granted,
2 this additional amount of bad debt expense would be calculated and added to the annualized
3 and normalized level of bad debt expense found reasonable for inclusion in the utility's revenue
4 requirement. The amount of any ordered bad debt "factor up" will be derived by applying the
5 bad debt expense ratio to the expected revenue requirement increase to be granted by the
6 Commission. Staff's analysis concludes Evergy's proposed bad debt factor up request should
7 not be adopted in this case, nor should additional late payment fees be included based on the
8 rate change ordered in this case. Therefore, Staff recommends that the Commission not adopt
9 Evergy's request.

10 Q. What analysis has Staff performed to support the position that no direct
11 relationship exists for bad debts relating to changes in revenue requirement for Evergy?

12 A. Attached to this rebuttal testimony are several schedules.

13 For Evergy Metro:

- 14 • Confidential Schedule KM-r1 is a historical monthly analysis of
15 Evergy Metro's bad debts (net write-offs) and retail revenue levels.
16 Listed on the schedule are the monthly revenues, along with the
17 corresponding bad debt. The monthly percentage change in both is
18 shown, as well as the number of instances where bad debts and
19 revenues changed in opposite directions from month to month.
- 20 • Confidential Schedule KM-r2 is a graphical analysis of monthly
21 retail revenues and bad debt for time period January 2005 through
22 December 2021.
- 23 • Schedule KM-r3 is a graphical analysis of the monthly percent
24 change in bad debts and retail revenues for time period January 2005
25 through December 2021.
- 26 • Confidential Schedule KM-r4 is the quarterly rolling percentage of
27 bad debt compared to retail revenue from December 2006 through
28 December 2021.

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- 1 • Schedule KM-r5 is a graph of the quarterly rolling percentage of bad
2 debt compared to retail revenue from December 2006 through
3 December 2021.

4 For Every West:

- 5 • Confidential Schedule KM-r6 is a historical monthly analysis of
6 Every West's bad debts (net write-offs) and retail revenue levels.
7 Listed on the schedule are the monthly revenues, along with the
8 corresponding bad debt. The monthly percentage change in both is
9 shown, as well as the number of instances where bad debts and
10 revenues changed in opposite directions from month to month.
- 11 • Confidential Schedule KM-r7 is a graphical analysis of monthly
12 retail revenues and bad debt for time period January 2001 through
13 December 2021.
- 14 • Schedule KM-r8 is a graphical analysis of the monthly percent
15 change in bad debts and retail revenues for time period January 2001
16 through December 2021.
- 17 • Confidential Schedule KM-r9 is the quarterly rolling percentage of
18 bad debt compared to retail revenue for the same time period for
19 GMO.
- 20 • Schedule KM-r10 is a graph of the quarterly rolling percentage of
21 bad debt compared to retail revenue from December 2001 through
22 December 2021.

23 Q. What do the schedules you have provided demonstrate?

24 A. The information shown in the graphical analysis clearly demonstrates there is no
25 direct relationship between bad debts and changes in revenues that would have to exist to justify
26 a bad debt "factor up" calculation. This conclusion holds true in examining the month-to-month
27 change in bad debt and revenue, and also the quarterly rolling relationship between bad debt
28 and revenue as shown in the attached schedules.

29 The information shown in the graphical analysis also demonstrates that bad debts do
30 fluctuate, and there simply is not enough volatility to justify implementing a tracker.

1 Q. What are some historical examples specific to Evergy when bad debts did not
2 increase proportionately to increased or decreased revenues?

3 A. Staff reviewed the changes or variations that occurred between electric
4 retail revenues and actual bad debt write-offs for the period from January 2005 through
5 December 2021¹⁵ for Evergy Metro, and January 2001 through December 2021 for
6 Evergy West (see attached schedules).

7 While electric revenues increased (or decreased), actual bad debt write-offs tend to
8 decrease (or increase) by different amounts and in different directions. In fact, in Evergy
9 Metro's and Evergy West's summer peaking months, there was at least one month each year
10 where revenues and bad debts had an inverse relationship from January 2007 through
11 June 2021. Even in situations where revenues and bad debts tend to move in the same direction,
12 Staff observed that they were either increased or decreased by different and disproportionate
13 amounts. The following tables identify several examples during the peak summer months when
14 the increase or decrease in revenues is not consistent with the increase or decrease in bad debts:

15 Evergy Metro:

Month/Year	Revenue Percentage Change	Bad Debt Percentage Change
July 2019	-40.03%	7.38%
August 2019	-36.23%	4.60%
September 2019	56.16%	-14.49%
June 2020	-23.57%	65.30%
July 2020	-78.05%	5.90%
August 2020	126.62%	-5.26%

16
17 Evergy West:

¹⁵ The approximate time to "write-off" bad debts is six months. Therefore, bad debts in a given month relate to revenue levels booked six months prior. Staff's December 31, 2021 cutoff analysis updates December bad debts that relate to June 2021 revenues.

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Month/Year	Revenue Percentage Change	Bad Debt Percentage Change
June 2019	-3.56%	24.47%
July 2019	-4.68%	20.87%
September 2019	135.47%	-15.02%
June 2020	-43.48%	59.46%
July 2020	-31.65%	13.54%
August 2020	12.34%	-10.83%
June 2021	-0.68%	42.51%

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Q. What is the significance of the summer peaking months discussed above?

A. The summer peaking months of June through September represent the months Evergy Metro's and Evergy West's revenues are their highest during a given year. For Evergy's argument to hold true, bad debts would increase during its summer peaking months when revenues are increasing. Based on the tables above, Evergy's argument simply does not hold true.

Q. On an annual basis, what is the comparison of Missouri bad debts to revenues?

A. For Evergy Metro, the ratio of bad debts to revenues has recently decreased to below the 2006 levels, which was before Evergy Metro's first rate increase in Missouri since the mid-1980s. Schedule KM-r5 shows that bad debts, as a percentage of revenues, actually decreased after the 2006, 2007, and 2010 rate increases. The percentage of bad debts to revenues since December 2006 has fluctuated both up and down, and as of June 2021, the ratio has decreased below the 2006 levels. Since the 2018 Rate Case, actual net write-offs have decreased from the higher levels in 2019 as can be seen in KM-r5.

For Evergy West, Confidential Schedule KM-r10 graphically depicts Evergy West's bad debts as a percentage of revenues on a 12 month rolling quarterly basis. Case No. ER-2001-672, which was consolidated with a complaint case, resulted in a rate decrease, and, contrary to Evergy West's assumptions, bad debts increased after this rate decrease. Confidential Schedule

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1 KM-r10 shows that bad debts, as a percentage of revenues, actually decreased after the 2010
2 and 2012 rate increases. Since the 2018 Rate Case, Evergy West’s bad debt ratio has been
3 relatively stable. This data directly contradicts Evergy West’s assumptions and conclusions
4 underlying its proposed bad debt factor-up.

5 This data also refutes Evergy’s claims that bad debts merit the establishment of a
6 tracking mechanism.

7 Q. You stated earlier that the bad debt factor up is not “known and measurable” and
8 is an out-of-period adjustment that goes beyond the true-up period in this case. Please explain.

9 A. The anticipated effective date of rates in this case is December 6, 2022. The
10 annual revenue requirement authorized by the Commission, if any, will be collected in the
11 following 12 months. Bad debt expense lags behind revenues by six months, so a full
12 twelve months of bad debt expense associated with a full twelve months of revenues resulting
13 from these rate cases will not be incurred until June 2024, 18 months beyond the operation of
14 law date and 24 months beyond the true-up date in this case. In other words, Evergy Metro’s
15 and Evergy West’s adjustment for bad debt associated with the revenue requirement attempts
16 to include a cost in rates that may or may not be realized until 18 months beyond the change in
17 rates, which is certainly not known and measurable.

18 Q. What are “forfeited discounts”?

19 A. Forfeited discounts are also known as “late payment fees” and are fees that
20 Evergy Metro and Evergy West charge their customers for making late payments on customer
21 bills whenever they become due. The charges are assessed on the remainder of the unpaid bill.

22 Q. How are “forfeited discounts” or late payment fees booked by Evergy Metro and
23 Evergy West?

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1 A. Late fees payments are considered additional revenue and, as such, are booked
2 as revenue by Evergy Metro and Evergy West.

3 Q. Did Evergy Metro and Evergy West propose to “factor up” late payment fees
4 consistent with its requested bad debt “factor up” for revenue requirements increase?

5 A. Yes. Evergy Metro’s and Evergy West’s Adjustment R-21b adds additional late
6 payment revenue based on the requested rate increase.

7 Q. Has Staff performed any analysis that would support there is a relationship
8 between changes in revenues and late payment fees?

9 A. Yes. Attached to this rebuttal testimony, as Schedules KM-r11 through KM-r14
10 are historical monthly analyses of Evergy Metro’s and Evergy West’s late payment fees and
11 retail revenue levels. Contrary to Staff’s bad debt analysis, some relationship between late
12 payment fees and changes in revenues does appear to exist. Although the relationship between
13 late payment fees and changes in revenues is not a perfect correlation, Staff’s analysis indicates
14 the relationship is much closer to a direct correlation than the relationship of bad debt expense
15 to changes in revenues. Evergy has not recorded late payment fees through Staff’s update
16 period and consequently Staff did not include that information in its analysis.

17 Q. If the Commission includes a bad debt factor up, would it be consistent to also
18 “factor up” forfeited discounts or late payment fees?

19 A. Yes. Staff recommends that if the Commission decides to Evergy Metro’s and
20 Evergy West’s request to adjust bad debt expense proportionate to any increase in revenue
21 requirement, then it should also “factor up” late payment fees for the same reason. If the
22 Commission concludes that Evergy Metro and Evergy West will experience a proportionately

1 different level of bad debts as a result of a rate change then it would follow that Evergy Metro
2 and Evergy West will experience a different level of late payment revenue as well.

3 **JURISDICTIONAL ALLOCATION FACTORS – EVERGY METRO ONLY**

4 Q. What is Staff’s recommendation regarding jurisdictional allocations,
5 specifically the demand factor for Evergy Metro?

6 A. Staff recommends use of the 4 coincident peak (“4CP”) methodology in
7 calculating the demand factor. The Commission should disregard in its entirety Evergy Metro’s
8 unprincipled and unsupported use of an average of the 4CP and 12CP methods. Staff witness
9 Alan Bax supports the calculation of the 4CP in his direct and rebuttal testimony in this case.
10 Staff’s use of the 4CP methodology is based on objective evidence proving it is the correct
11 method to assign costs between the Missouri, Kansas, and wholesale jurisdictions.

12 Q. How did Evergy Metro allocate investment costs and expenses in its
13 direct filing?

14 A. Evergy Metro witness John Wolfram describes at page 7 of his direct testimony
15 that “[t]he Demand allocator is calculated as the average of the values derived from two
16 methods. The first method is the average of coincident peak demands for four months (“4CP”)
17 and the second method is the average of the coincident peak demands for twelve months
18 (“12CP”)”. The average of 4CP and 12CP is what I refer to as the “Wolfram methodology” as
19 it is subjective and not based on any objective evidence other than it is Evergy Metro’s solution
20 to a problem it has exacerbated over the last 40 years.

21 The demand allocation factor is used to allocate production, transmission, and
22 fixed capacity costs and revenues among federal and state jurisdictions. The demand allocation

1 factor is determined by examining its system peak, which refers to the maximum monthly
2 demand load requirements placed on the electrical system by the utility's customers. The
3 coincident peaks (CP) are the monthly peak contributions made by the respective jurisdictions
4 relative to the total system peaks – in this case the Kansas retail jurisdiction, Missouri retail
5 jurisdiction, and wholesale jurisdiction peaks compared to - or coincide with – Evergy Metro's
6 total Company peak demand.

7 Q. Did Evergy Metro justify why it applied an average of the 4CP and 12CP
8 methods?

9 A. Mr. Wolfram disregarded the results of the FERC tests that suggested a seasonal
10 peak determination was more appropriate than using a 12CP allocation method. For various
11 reasons including an attempt at allocation parity in Kansas, Mr. Wolfram contrived a new
12 allocation methodology.

13 Q. Did Evergy Metro identify why using the appropriate allocation methodology
14 was important?

15 A. Mr. Wolfram indicates the importance of the using the proper method of
16 allocations in the following exchange found at page 5 of his direct testimony:

17 Q. WHY IS THE METHOD BY WHICH THE ALLOCATIONS
18 ARE MADE IMPORTANT?

19 A. The method of allocation is critical to ensure that the rates
20 charged to customers in each jurisdiction reflect the actual cost of serving
21 those customers without reflecting the cost of serving customers in other
22 jurisdictions. Also, the method of allocation must allow the Company
23 the opportunity to fully recover its prudently incurred costs of serving
24 those customers. Regulated utilities are entitled to a reasonable
25 opportunity to recover their prudently-incurred costs and are entitled to
26 earn a fair and reasonable rate of return on their capital investments. If
27 the sum of the allocation factors allowed in each jurisdiction is less than
28 100%, then the Company will not have the opportunity to recover its
29 prudently incurred cost of service and return on rate base.

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1 I generally agree with the premise of what Mr. Wolfram is conveying in his direct testimony
2 that Evergy Metro should have opportunity to recover all its costs when it operates multiple
3 jurisdictions. I do not agree the primary purpose of the allocation process, and the ultimate
4 method chosen to allocate costs between the various jurisdictions, is to make the utility whole.
5 Each jurisdiction must make its own independent judgment as to the most appropriate method
6 to use to assign the proper costs based on the operating characteristics of the utility in each of
7 the multiple jurisdictions it operates in. In Missouri, Staff has consistently relied on objective
8 evidence to support the jurisdictional allocation process.

9 Q. What is the purpose of allocations process?

10 A. For utilities operating in multiple jurisdictions, the allocation process is used to
11 assign costs to the various jurisdictions based on how those costs were incurred. The allocation
12 method used should be based on the source of those costs, e.g. the cause of the cost should pay
13 for the cost. The allocation methodology must result in the most appropriate allocation factors
14 so costs incurred for the provision of service to a specific jurisdictional service territory are
15 assigned the proper costs.

16 Q. Has Evergy addressed the need to use the most appropriate method to determine
17 allocation factors based on the circumstances?

18 A. Yes. Evergy witness Darrin R. Ives, currently Evergy's Vice President –
19 Regulatory Affairs, testified in Evergy Metro's 2012 Kansas rate case that the facts should be
20 the determining factor in making decision the proper allocation method to use in a rate case.

21 Mr. Ives stated in the Kansas in 2012:

22 Q: Are you saying that the Commission should choose an allocation
23 methodology simply because it matches what another jurisdiction's
24 commission determined?

1 A: No, absolutely not. The Commission is charged with balancing
2 the interests of customers and utilities. **In determining the appropriate**
3 **allocation methodology, the Commission should rely on the facts and**
4 **theory supporting how such methods should be fairly and**
5 **appropriately applied to a utility.** Just as the Commission should not
6 be forced to choose a methodology solely based on the choice of another
7 jurisdiction commission's decision, neither should the Commission
8 choose a methodology solely because it benefits either the customer or
9 the utility. **The basis for the choice of allocator should be the**
10 **appropriate theory surrounding such allocation and the specific**
11 **facts and nature of the utility's business. The most appropriate**
12 **methodology on this issue is the 4CP method** as established by the
13 direct testimony of Mr. Loos.

14 [Source: Ives Direct, page 11, Kansas Docket 12-KCPE-764-RTS;
15 Emphasis added.]

16 Q. Does Evergy Metro's proposed use of the Wolfram methodology shift costs to
17 the Missouri jurisdiction?

18 A. Yes. Mr. Wolfram's recommendation in his direct testimony shifts
19 disproportionate costs to Missouri and lessens the allocation to Kansas. Generally, Evergy
20 Metro's use of the Wolfram method of allocation apportions more generation and transmission
21 plant costs to Missouri than Staff's method.¹⁶ Staff's method of determining the demand
22 allocation factor is identified as the 4CP method, which it has consistently used, and the
23 Commission has adopted.

24 Q. Why did Staff use the 4 CP method to allocate costs with Evergy Metro?

25 A. Staff relies on the 4 CP method because it properly allocates the costs of Evergy
26 Metro's Missouri jurisdiction based on the peak demands for the four summer months of all its
27 jurisdictions in relation to Evergy Metro's total system peak. Evergy Metro's peak demand has
28 the highest concentration of electricity being consumed in the four summer months and no other

¹⁶ Because Staff's utilized a different time period for its determination of the demand allocation, Staff's demand factor is higher than Evergy's direct filed allocator.

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1 months or combination of months come close to those summer months, which is why the 4CP
2 method is the appropriate method for Evergy Metro's operations in both Missouri and Kansas.
3 When the actual peaks are examined, Evergy Metro's four peak demands *always* occur in the
4 summer months—June, July, August, and September. Therefore, the 4 CP method accurately
5 determines Evergy Metro's actual jurisdictional peak demands of the four summer months
6 compared to all the months in the year. Applying the Wolfram method improperly determines
7 the peak demand requirements needed to meet demands of the summer months because it relies
8 on all the months of the year. No other combinations of months result in the relationship the
9 summer months have to the rest of the year, which is why the 4CP method is considered to be
10 the most appropriate allocation method to use for summer peaking utility like Evergy Metro. It
11 is the concentration of the four summer months' peak demands in relation to the other months
12 of the year that forms the basis for using the 4CP method to allocate costs among the
13 jurisdictions.

14 Q. What is the result of using the Wolfram method to allocate costs on a demand
15 factor basis?

16 A. Generally, using the Wolfram method allocates more costs to Missouri than if
17 the 4CP method is applied, meaning Evergy Metro's Missouri retail customers will be charged
18 for services consumed by other jurisdictions. The Wolfram method does allocate more costs to
19 the Kansas jurisdiction than the 12CP method if that were to be adopted by the KCC for Kansas
20 jurisdiction rates

21 Q. Has the Commission decided the appropriate method of determining the demand
22 allocation factor in previous Evergy Metro rate cases?

1 A. Yes. In Evergy Metro’s 2006 rate case, Case No. ER-2006-0314, the
2 Commission found that the proper method of determining the demand factor to allocate
3 production and transmission plant costs and related expenses was the 4CP method. The
4 Commission stated:

5 KCPL operates in both Kansas and Missouri. Instead of maintaining
6 separate systems, KCPL’s sole system serves both jurisdictions. To set
7 just and reasonable rates for each jurisdiction requires allocating various
8 generation and transmission capital costs property between these states.
9 KCPL and other parties disagree over which coincident peak method to
10 use to allocate those costs.

11 Coincident peak refers to the load of each jurisdiction that coincides with
12 the hour of a utility’s overall system peak. KCPL asserts that its
13 operating and capacity planning realities, which take into account all
14 hours of the year, and not just peak hour or seasonal peak needs, dictate
15 use of the 12 CP demand allocator. **Staff and other parties assert that**
16 **KCPL has historically used the 4 CP method, that the 12 CP method**
17 **would allocate more plant investment and costs to Missouri and less**
18 **to Kansas, and that KCPL’s high peak demand from June until**
19 **September is more akin to a 4 CP than a 12 CP system.**

20 The Commission finds that the competent and substantial evidence
21 supports Staff’s position, and finds this issue in favor of Staff. As on all
22 issues, KCPL bears the burden of proof.

23 . . . not only Staff, but Praxair, Ford, and Missouri Industrial Energy
24 Consumers support the 4 CP methodology. **Their evidence showed**
25 **that a 4 CP methodology for a utility such as KCPL is**
26 **appropriate because its non-summer peak demands are**
27 **significantly lower than the summer peak demands.** Moreover,
28 Praxair witness, Maurice Brubaker, has testified hundreds of times
29 on cost allocation issues, and his testimony was that the Commission
30 should use the 4 CP method. [Emphasis added.]

31 The Commission rejected the use of the 12 CP method in Evergy Metro’s 2006 rate case. Yet
32 Evergy Metro has provided no justification for wanting to the Commission to adopt the
33 Wolfram methodology and, more importantly, provided no reasoning for the Commission to
34 reverse itself in the use of the 4CP method to allocate demand related costs, which it has
35 consistently used for nearly 40 years.

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1 Q. Has Staff used the 4CP method for Every Metro rate cases in the past?

2 A. Yes. Staff has used the 4CP method to determine the demand allocation factor
3 in all the rate cases filed by Every Metro since 1985. In fact, Staff has consistently used the
4 4CP methodology since it changed from the single peak, or 1 CP method in the 1985 Wolf
5 Creek rate case – Case No. EO-85-185. In the Wolf Creek rate case, Every Metro filed its case
6 based on a 4CP demand allocation factor. Staff agreed to use the 4CP method proposed by
7 Every Metro moving away from its 1CP method. Staff has used the 4CP method in all Every
8 Metro rate cases since.

9 Q. Has Every Metro proposed the use of the 4CP method for the demand
10 allocation factor since the Wolf Creek rate case?

11 A. Yes, in Missouri. While Every Metro recommended the 12CP method in the
12 2006 rate case, after the Commission rejected this methodology, Every Metro presented the
13 4CP method in every subsequent rate case filed in Missouri until it proposed the 12CP in the
14 2014 Rate Case. Every Metro filed the demand factor based on the 4CP method in Case No.
15 ER-2007-0291 (the 2007 rate case), Case No. ER-2009-0089 (the 2009 rate case), Case No.
16 ER-2010-0355 (the 2010 rate case) and Case No. ER-2012-0174 (the 2012 rate case). As
17 indicated above, Every Metro first proposed the use of the 4CP method to determine the
18 demand factor in the 1985 Wolf Creek rate case—Case No. ER-85-185.

19 Q. What method of allocation has Every Metro proposed be used to determine the
20 demand factor in Kansas?

21 A. Every Metro proposed to use the 12CP method of allocating demand costs in
22 its 2015 and 2018 Kansas rate cases even though Every Metro proposed the use of the 4CP in
23 the 2012 Kansas Rate Case, Docket No. 12-KCPE-764-RTS. Every Metro has consistently

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1 used the 4CP method in Missouri since its 2007 rate case with exception of the 2014 Missouri
2 case and the current rate case. Evergy Metro switched its allocation method once again in one
3 of its jurisdictions by proposing the 12CP method in the 2015 and 2018 Kansas rate cases.

4 Mr. Ives, at page 9 of his direct testimony filed in the 2012 Kansas rate case, supported
5 the use of the 4 CP method as the basis for the demand allocation factor in Kansas:

6 Q. What is KCP&L recommending as the appropriate jurisdictional
7 allocator for capacity-related costs in this case?

8 A: The 4CP method allocates costs using the four highest months of
9 demand on KCP&L's system, namely June through September, whereas
10 the 12CP method considers an entire year, September, whereas the 12CP
11 method considers an entire year, which includes the lower non-summer
12 usage months. **Because KCP&L is a summer peaking business, we**
13 **are recommending the 4CP method as a more accurate allocator of**
14 **these costs between the Company's Kansas and Missouri**
15 **jurisdictions.** Mr. Loos provides extensive testimony regarding how to
16 discern the appropriate allocation method for a particular utility. His
17 analysis clearly identifies the 4CP method as appropriate for KCP&L.
18 As such, KCP&L is requesting that the Commission change the method
19 used in recent KCP&L cases for calculating the demand allocator, the
20 12CP method, to a 4CP method based upon the specific parameters of
21 KCP&L's business as a summer-peaking utility.

22 **The basis for the choice of allocator should be the appropriate theory**
23 **surrounding such allocation and the specific facts and nature of the**
24 **utility's business. The most appropriate methodology on this issue is**
25 **the 4CP method as established by the direct testimony of Mr. Loos.**

26 [Source: Ives Direct, pages 9-11, Kansas Docket 12-KCPE-764-RTS
27 selected pages attached as Rebuttal Schedule KM-r15; Emphasis added.]

28 Finally, Mr. Terry Bassham, at that time Evergy's President and Chief Operating Officer,
29 testified in his direct testimony in the 2012 Kansas rate case the 4CP method was the most
30 appropriate allocation method to use for both jurisdictions:

31 KCP&L will demonstrate in this case that the 4CP method is the more
32 appropriate method for allocation of these costs between the Company's
33 jurisdictions, given that it operates a summer peaking business.

34 [Source: Bassham Direct, page 4, Kansas Docket 12-KCPE- 764-RTS
35 selected pages attached as Rebuttal Schedule KM-r16; Emphasis added.]

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1 Q. Did Evergy Metro sponsor any other witness testimony in past cases that support
2 the use of the 4CP demand allocation factor?

3 A. Yes. Evergy Metro hired a consultant from Black & Veatch named
4 Larry W. Loos who provided expert testimony regarding the proper use of the 4CP method in
5 the 2012 Kansas rate case. Mr. Loos also filed testimony in the 2009 and 2010 Missouri rate
6 cases concerning the proper use of the 4CP allocation factor. Mr. Loos, as an independent
7 consultant, testified that based on his analysis supported by several FERC tests that
8 Evergy Metro system requirements were those consistent with the use of a 4CP.

9 Mr. Loos stated the following at page 19 of his direct Kansas testimony filed in the 2012
10 rate case:

11 Q. Based on examination of the data set forth in Schedule LWL-7,
12 what do you conclude?

13 A. Based on the tests set forth in various FERC orders, **without**
14 **question the 12CP method is not appropriate for use to allocate**
15 **capacity costs among the jurisdictions served by KCP&L. I**
16 **therefore recommend that the [Kansas] Commission order the**
17 **Company use the four (4) coincident peak demands during the**
18 **months of June through September to allocate capacity costs among**
19 **jurisdictions.**

20 [Emphasis added.]

21 Attached as Rebuttal KM-r17 is the complete direct testimony of Mr. Loos filed by KCPL in
22 the 2012 Kansas rate case in which the Company supported the use of the 4 CP method of
23 determining the demand allocation factor.

24 In addition, KCPL responded to a Staff data request submitted in the Company's
25 2010 rate case as follows:

26 1c. The Kansas Regulatory Plan ("Reg Plan") requires the use of a 12CP
27 allocator for plant and related O&M expense. Therefore, the Company
28 could not propose consistent plant/O&M allocation methods for the two
29 jurisdictions in the current rate cases, since the Missouri allocation is

1 based on 4CP. **Mr. Loos recommends 4CP in both jurisdictions in**
2 **future rate cases.**

3 [Source: KCPL's response to Data Request 0415 in Case ER-2010-0355,
4 Emphasis added.]

5 Q. Did Mr. Loos testify before the Missouri Commission in the 2010 Rate Case that
6 the use of the 12CP method to determine the demand allocation factor is inappropriate?

7 A. Yes. Mr. Loos did not believe the 12CP was a proper allocation method to use
8 for a predominately summer peaking utility such as Evergy Metro. Evergy Metro's system load
9 requirements have substantial peaks occurring in the summer months of June through
10 September each year. Mr. Loos believed through his extensive analysis that the use of the
11 4CP method was the proper approach to determining the demand allocator.

12 Q. Did Mr. Loos support the use of a 12CP allocation method in any previous
13 Evergy Metro rate case?

14 A. No. Mr. Loos testified he could not support the use of the 12CP method, —the
15 method proposed by Evergy Metro in its 2015 rate case in Missouri. Despite Mr. Loos' expert
16 opinion that the 12CP method is improper for use in Evergy Metro's jurisdictions, Evergy
17 Metro presented this method in both Kansas and Missouri 2015 rate cases, and now in modified
18 form with the Wolfram methodology. Evergy Metro also proposed the 12CP method in its 2006
19 rate case in Missouri, which was rejected by the Commission. Mr. Loos has previously said that
20 he would not recommend in Kansas or Missouri use of the 12CP method to allocate Evergy
21 Metro's costs among the Missouri, Kansas, and wholesale jurisdictions. In his deposition taken
22 on March 18, 2009, Mr. Loos testified he did not support and would not use the 12 CP allocation
23 method to determine the demand allocator as follows:

Rebuttal Testimony of
Keith Majors

1 Q. In this case, NO. ER-2009-0089, did you recommend the use of
2 the twelve coincident peak allocation basis to allocate KCPL costs
3 between the Missouri, Kansas and FERC jurisdictions?

4 A. I did not.

5 Q. Why not?

6 A. As I indicated before, **I prefer an allocation that better**
7 **recognizes the maximum demand place on the system by customers,**
8 **which is single CP, 4 CP, sometimes 3 CP.**

9 Q. **In your opinion would the twelve coincident peak allocation**
10 **basis be an appropriate basis for allocating KCPL costs between**
11 **Missouri, Kansas and FERC jurisdictions for a rate case before the**
12 **Kansas Corporation Commission?**

13 A. **I wouldn't recommend it.**

14 Q. And why not?

15 A. **Because I believe that there are methods that are preferable**
16 **to it, either single or 4 CP, yeah.**

17 Q. The same reasons that you wouldn't recommend it in this case?

18 A. Uh-huh. Yes.

19 Q. Do you know the circumstance where you would ever
20 recommend the use of the twelve coincident peak allocation basis for
21 allocating costs among State and Federal jurisdictions for ratemaking
22 purposes?

23 A. If the -- if the utility loads are relatively constant -- or essentially
24 constant over twelve months, it would make a little difference. And
25 under that situation it could capture and allocate additional amounts to
26 perhaps some classes we didn't want to allocate it to.

27 [Loos March 18, 2009 deposition, pages 31 and 32; Emphasis added.]

28 In this case, Evergy Metro is proposing to use a variation on the method its expert opposed in
29 testimony filed in several Kansas and Missouri rate cases presented during the period 2009
30 through 2012. Yet Evergy Metro makes no attempt to refute their own past experts and provides
31 no evidence to support the application of the 12CP allocation method or the Wolfram
32 methodology, in the current rate case.

Rebuttal Testimony of
Keith Majors

1 Q. What does Staff recommend regarding what allocation method to use in this rate
2 case?

3 A. Staff continues to support the 4CP method of determining the demand allocation
4 factor used to assign the production and transmission investment costs in rate base along with
5 the related expenses to the various jurisdictions Evergy Metro operates in. It is based on sound,
6 objective evidence in the form of the FERC tests that overwhelmingly support the 4CP
7 methodology. It is important that Evergy Metro pursue consistent allocation treatment in its
8 jurisdictions. Evergy Metro should continue to pursue more consistent allocation treatment in
9 its Kansas jurisdiction to apply a more accurate methodology. Evergy Metro's Missouri
10 customers should not be expected to pay in their rates any short-fall caused by the Kansas
11 jurisdiction's refusal to use the very method of allocation Evergy Metro's own witnesses have
12 supported in past rate Missouri cases and the most recent Kansas case.

13 Q. Mr. Wolfram states at page 7 of his direct testimony that the demand factor used
14 by Evergy Metro was based on weather normalized coincident peak demands. Has the
15 Commission used weather normalized average peaks in determining a demand factor in
16 Missouri?

17 A. No, because weather normalized average peaks do not properly identify the
18 actual maximum peak demand on the system. The allocation of the production and transmission
19 plants are based on actual loads placed on Evergy Metro's electric system. The generating and
20 transmission facilities are required to provide maximum hourly usage by customers regardless
21 of the weather conditions. It is not proper to weather normalize the monthly coincident peaks
22 to determine the appropriate demand factor. Power plants must generate sufficient power and
23 transmission plants must have the capacity to transmit the power to meet the hottest days of the

1 year. It is the actual electric loads placed on the Evergy Metro system, not the weather
2 normalized loads, that the production and transmission facilities must be capable of fulfilling.

3 Q. Did Evergy Metro provide any justification in its direct testimony for using
4 the “weather normalized” average peaks to support the determination of the demand factor in
5 this case?

6 A. No. Evergy Metro did not identify any reasons for determining the demand
7 factor using weather normalized average peaks.

8 Q. On page 17 of his direct testimony, Mr. Wolfram references Liberty Utilities
9 d/b/a The Empire District Electric Company (“Liberty”) using the 12CP methodology in both
10 Missouri and Kansas. Should this fact have any bearing on Evergy Metro’s allocation
11 methodology?

12 A. No. Liberty serves only two rural counties in Kansas. As I understand it, Liberty
13 has substantial winter electric loads primarily driven by electric space heating due to lack of
14 natural gas service. Moreover, Staff uses the same FERC test methodology in determination of
15 cost of service and those results prove a 12CP allocation is the most appropriate for Liberty.

16 Evergy Metro’s witness Larry W. Loos noted this fact in his rebuttal testimony in the
17 2012 Kansas Rate Case:

18 Empire District Electric Company (“Empire”) provides retail electric
19 service in the States of Missouri, Kansas, Arkansas, and Oklahoma.
20 Because neither summer nor winter loads dominate on Empire’s system,
21 each of the four jurisdictions relies on a 12-CP allocator to allocate
22 capacity costs to that jurisdiction.

23 Q. On pages 17-20, Mr. Wolfram references Evergy Metro’s participation in
24 SPP Integrated Marketplace as some of the justification for using a different allocation
25 methodology. How do you respond?

Rebuttal Testimony of
Keith Majors

1 A. This argument is without merit and should be rejected wholesale. In the same
2 testimony, he clearly states that SPP is responsible for SPP capacity. Evergy Metro has been a
3 member of SPP since at least 2006 and the Integrated Marketplace (“IM”) has been active since
4 March 2014. These circumstances have no impact on the objective FERC test determination
5 used by Staff and Mr. Wolfram. Evergy Metro filed three cases in Missouri prior to the current
6 case since March 2014 and not once mentioned SPP capacity planning or the SPP IM as a
7 reason for adopting any jurisdictional allocation methodology.

8 Q. What should the Commission determine respecting the allocation method to use
9 in this case for demand costs?

10 A. The Commission should use Staff’s proposed 4CP method of allocating costs
11 because it properly apportions costs among multiple jurisdictions for a summer peaking utility,
12 such as Evergy Metro. The Commission should reject Evergy Metro’s proposal to allocate
13 demand costs using the Wolfram method because the method improperly apportions costs
14 associated with serving other jurisdictions to Missouri retail customers. The 4CP demand
15 allocation method was first proposed by Evergy Metro and was adopted by the Commission in
16 the 1985 Wolf Creek rate case—and that method has been applied by Missouri in every Evergy
17 Metro rate case since.

18 Evergy Metro’s own witnesses in the 2012 Kansas rate case directly refute the use of
19 the 12CP method, and consequently the Wolfram method, for determining the demand factor.
20 In the 2012 Kansas case, Evergy Metro’s officers and its expert witness testified that the use of
21 the 12CP was not proper for a summer peaking utility and that the appropriate method for
22 determining the demand allocation factor was using the 4CP method. In fact, each of Evergy
23 Metro’s witnesses in the 2012 Kansas rate case testified against the 12CP method. Further,

1 Everygy Metro's 2012 Kansas testimony made it abundantly clear the 4CP is the appropriate
2 allocation method to use to allocate costs based on demand. Equally important, Everygy Metro
3 has failed to provide any justification or explanation that supports the use of the Wolfram
4 method in this current Missouri rate case. The Commission should continue to base the rates in
5 this case using the 4CP method to determine the demand allocation factor.

6 **REGULATORY LAG**

7 Q. Please describe the concept of "regulatory lag".

8 A. Regulatory lag is the period of time that elapses between when the time of an
9 event and its related consequences occur and the time the event and its related consequences
10 are reflected in the utility's rates.

11 Q. How does Everygy seek to address regulatory lag concerns in this proceeding?

12 A. Everygy is seeking a property tax tracker, a bad debt tracker, and a storm
13 restoration expense reserve. These mechanisms serve to reduce regulatory lag for these
14 expenses going forward.

15 Q. Are there public policy benefits associated with the existence of regulatory lag
16 as part of cost of service rate regulation?

17 A. Yes. Utilities in Missouri have been granted exclusive rights to provide their
18 services within their designated service territories, allowing them to act as monopolies.
19 Regulatory lag creates the "quasi-competitive environment" for utilities, similar to the
20 environment in which competitive firms operate. Without trackers and other types of single-
21 issue ratemaking mechanisms to rely upon, utility managers have a strong incentive to keep

Rebuttal Testimony of
Keith Majors

1 costs as low as possible once rates are set in a rate case to maintain their earnings as close to a
2 reasonable return as possible.

3 This is the same incentive encountered by any manager of a business who strives to
4 operate the business more efficiently and profitably. Just as competitive firms cannot raise
5 prices of their goods and services at will, regulatory lag places this same constraint on utilities.
6 Due to the existence of regulatory lag, utility managers must work under the constraint of a
7 "fixed price" or regulatory lag for a period of time.

8 The existence of this fixed price incentive, or regulatory lag incentive, causes utility
9 managers to work like managers of competitive businesses. Utility managers working with
10 regulatory lag, much like managers of competitive businesses working with fixed prices of
11 goods and services, seek to find ways to operate the business more efficiently to counteract
12 expense or rate base increases or potential revenue decreases during the period of time of when
13 prices are fixed, or regulatory lag. Conversely, utilities benefit from regulatory lag when
14 expenses or rate base decrease or when revenues increase while rates remain unchanged. This
15 is exactly why regulatory lag is a critical ingredient in cost of service rate regulation.

16 Q. In his direct testimony, Evergy witness Ives identifies property taxes and bad
17 debt expense as examples of costs that have increased in recent years, and that these expenses
18 have impacted the Company's ability to earn returns reasonably close to returns authorized by
19 this Commission. Do you agree?

20 A. No. While in Missouri actual historical costs are used as the starting point for
21 determining a utility's future cost to serve its retail customers, those historical costs are
22 normalized and annualized when appropriate to reflect the most current information available.
23 Mr. Ives does not specifically identify any cost decreases that can and do occur over time to

1 offset cost increases. Mr. Ives comments concerning property taxes are now moot points
2 considering Senate Bill (“SB”) 745 has been signed by the Governor. This legislation creates
3 a property tax tracker with rate base treatment thereby completely mitigating all regulatory lag
4 with this substantial expense.

5 Q. What are some examples of cost decreases or increases in revenue for Evergy
6 that have occurred or will occur in the future?

7 A. Transmission expense has declined substantially since the 2018 Rate Case and
8 Evergy has been able to retain the savings to the extent those costs are not flowed through the
9 FAC. Evergy Metro and Evergy West as transmission owners and customers pay transmission
10 expenses and receive transmission revenues. These expenses and revenues are recovered
11 through formula rates in Evergy Metro and Evergy West’s Annual Transmission Revenue
12 Requirement (“ATRR”). One component of the cost structure in the ATRR is federal income
13 tax expense which was reduced by the Tax Cuts and Jobs Act of 2017. Generally, for taxable
14 entities, a reduction in federal income tax expense would decrease the expenses paid as a
15 transmission customer, and decrease transmission revenues as a transmission owner. Evergy
16 Metro and Evergy West incur substantially more transmission expenses than they receive in
17 transmission revenues. Evergy has retained the net benefit, less amounts passed through the
18 FAC, to the benefit of its shareholders until the reduced expenses are reflected in rates.

19 Q. Are there any single-issue ratemaking mechanisms available to Evergy Metro
20 and Evergy West to reduce regulatory lag?

21 A. There are several mechanisms that Evergy Metro and Evergy West have used or
22 are available for them to use to reduce its regulatory lag:

- 23 • Fuel Adjustment Clause (“FAC”)
- 24 • Missouri Energy Efficiency Investment Act (“MEEIA”) surcharge

Rebuttal Testimony of
Keith Majors

- 1 • Renewable Energy Standard Rate Adjustment Mechanism (“RESRAM”)
- 2 • Environmental Cost Recovery Mechanism (“ECRM”)
- 3 • Plant in Service Accounting (“PISA”) authorized by SB 564
- 4 • Securitization authorized by SB 734
- 5 • Property Tax Tracker authorized by SB 745

6 Q. From a regulatory environment perspective, has Missouri’s national perspective
7 changed recently?

8 A. Yes. I have attached SNL Financial Regulatory Research Associates’ (“RRA”)
9 State Regulatory Evaluation dated March 10, 2022 as Schedule KM-r18. Missouri is graded as
10 “Average/3”, whereas Kansas is graded “Below Average/1”.

11 Q. What conclusions should be drawn from your testimony on regulatory lag?

12 A. Evergy has presented a very limited and one-sided analysis respecting its view
13 of regulatory lag in its direct testimony. Evergy points out all the costs that have increased since
14 their last rate case, but do not mention any cost reductions that have occurred since the rates
15 determined in Evergy’s 2018 rate cases have been in effect or any cost reductions or revenue
16 increases that will occur in the near future.

17 Q. Does that conclude your rebuttal testimony?

18 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

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

Case No. ER-2022-0129

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

Case No. ER-2022-0130

AFFIDAVIT OF KEITH MAJORS

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

COMES NOW KEITH MAJORS and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Rebuttal Testimony of Keith Majors*; and that the same is true and correct according to his best knowledge and belief.

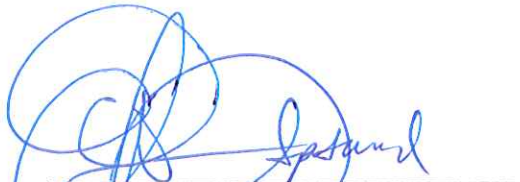
Further the Affiant sayeth not.



KEITH MAJORS

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 12th day of July 2022.



Notary Public



EBONEY JACKSON-SPOTWOOD
My Commission Expires
April 8, 2023
Clay County
Commission #19865798