

Exhibit No. 4

Exhibit No.:
Issue: Costs for Deferral Under AAO
Witness: Ronald A. Klote
Type of Exhibit: Direct Testimony
Sponsoring Party: Evergy Metro, Inc. and Evergy
Missouri West, Inc.
Case Nos.: EU-2020-0350
Date Testimony Prepared: July 8, 2020

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EU-2020-0350

DIRECT TESTIMONY

OF

RONALD A. KLOTE

ON BEHALF OF

**EVERGY METRO, INC. D/B/A EVERGY MISSOURI METRO
AND EVERGY MISSOURI WEST, INC. D/B/A EVERGY MISSOURI WEST**

**Kansas City, Missouri
July 2020**

DIRECT TESTIMONY

OF

RONALD A. KLOTE

Case No. EU-2020-0350

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

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

4 **Q: By whom and in what capacity are you employed?**

5 A: I am employed by Evergy Metro, Inc. and serve as Director – Regulatory Affairs for Evergy
6 Metro, Inc. d/b/a Evergy Missouri Metro (“Evergy Missouri Metro”) and Evergy Kansas
7 Metro (“Evergy Kansas Metro”); Evergy Missouri West, Inc. d/b/a Evergy Missouri West
8 (“Evergy Missouri West”); and Evergy Kansas Central, Inc. d/b/a Evergy Kansas Central
9 (“Evergy Kansas Central”).

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

11 A: I am testifying on behalf of Evergy Missouri Metro and Evergy Missouri West
12 (collectively, “Evergy” or the “Company”)

13 **Q: What are your responsibilities?**

14 A: My responsibilities include the coordination, preparation and review of financial
15 information and schedules associated with Company rate case filings, compliance filings
16 and other regulatory filings.

17 **Q: Please describe your education, experience and employment history.**

18 A: In 1992, I received a Bachelor of Science Degree in Accountancy from the University of
19 Missouri-Columbia. In May 2016, I completed my Master of Business Administration

1 Degree from the University of Missouri – Kansas City. I am a Certified Public Accountant
2 holding a certificate in the State of Missouri. In 1992, I joined Arthur Andersen, LLP
3 holding various positions of increasing responsibilities in the auditing division. I
4 conducted and led various auditing engagements of company financial statements. In
5 1995, I joined Water District No. 1 of Johnson County as a Senior Accountant. This
6 position involved operational and financial analysis of water operations. In 1998, I joined
7 Overland Consulting, Inc. as a Senior Consultant. This position involved special
8 accounting and auditing projects in the electric, gas, telecommunications and cable
9 industries. In 2002, I joined Aquila, Inc. (“Aquila”) holding various positions within the
10 Regulatory department until 2004 when I became Director of Regulatory Accounting
11 Services. This position was primarily responsible for the planning and preparation of all
12 accounting adjustments associated with regulatory filings in the electric jurisdictions. As
13 a result of the acquisition of Aquila by Great Plains Energy Incorporated (“GPE”), I began
14 my employment with Kansas City Power & Light Company (“KCP&L”) as Senior
15 Manager, Regulatory Accounting in July 2008. In April 2013, I joined the Regulatory
16 Affairs department as a Senior Manager remaining in charge of Regulatory Accounting
17 responsibilities. In December 2015, I became Director, Regulatory Affairs responsible for
18 the coordination, preparation and filing of rate cases in our electric jurisdictions. I continue
19 in that position today with Evergy.

1 **Q: Have you previously testified in a proceeding before the Missouri Public Service**
2 **Commission (“Commission” or “MPSC”) or before any other utility regulatory**
3 **agency?**

4 A: Yes. I have testified before the MPSC, Kansas Corporation Commission, California Public
5 Utilities Commission, and the Public Utilities Commission of Colorado.

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

7 A: The purpose of my testimony is to support the Company’s Application for an accounting
8 authority order (“AAO”) that requests permission for Evergy to accumulate and defer to a
9 regulatory asset for consideration of recovery in future rate case proceedings before the
10 Missouri Public Service Commission (“Commission”) all extraordinary costs and financial
11 impacts incurred as a result of the coronavirus disease (“COVID-19”) pandemic, plus
12 associated carrying costs. I will explain how such costs will be accounted for under the
13 Uniform System of Accounts (“USOA”), as adopted by the Commission in 20 CSR 4240-
14 20.030, and how the costs will be reported to the Commission.

15 **Q: What costs would be included in the AAO?**

16 A: As explained in the Application, the Company is seeking an AAO from the Commission
17 authorizing Evergy to track and defer in a regulatory asset all extraordinary costs and
18 related financial impacts including lost revenues related to the COVID-19 pandemic. More
19 specifically, Evergy requests an AAO permitting it to identify, track, document,
20 accumulate, and defer in a regulatory asset from March 1, 2020 forward regarding: (1) its
21 actual reasonable and prudently incurred costs related to the COVID-19 pandemic,
22 including but not limited to new or incremental operating and maintenance expense related
23 to protecting employees and customers and plan for and communicate about impacts of the

1 pandemic, increased bad debt expense to the extent they exceed levels included in the cost
2 of service, costs related to preparing for and any actual sequestration of employees, and
3 costs related to new assistance programs implemented to aid customers with payment of
4 electric bills during the pandemic; (2) lost revenues related to the COVID-19 pandemic;
5 (3) less costs avoided related to COVID-19; and 4) carrying costs. These items will be
6 tracked and deferred for consideration by the Commission for rate recovery in the operating
7 utilities' next general rate cases in Accounts No. 182.3 under the USOA. Carrying costs
8 will be calculated using each respective operating utility's weighted average cost of capital,
9 exclusive of related taxes, as determined in its most recent rate case.

10 **Q: Are all Pandemic-related costs known at this time?**

11 A: No. It is unknown at this time how long the extraordinary impacts associated with
12 COVID-19 will continue. However, Evergy proposes to track all specific expenses and
13 financial impacts, including revenue degradation, it includes in the regulatory asset, and
14 to retain all appropriate documents supporting those calculations for the Commission's
15 consideration in the operating utilities' next general rate cases.

16 **Q: What types of costs and revenues will be included in the deferral under the AAO?**

17 A: We expect that the following types of costs and revenues will be included:

- 18 a. Uncollectible expense in excess of amounts included in rates in the most
19 recent general rate cases of Evergy Missouri Metro and Evergy Missouri
20 West, respectively;
- 21 b. Costs incurred in connection with the one- and four-month Pandemic
22 payment plan incentives that the Commission permitted the Company to

1 implement in Case No. EO-2020-0383 (including credits awarded as
2 incentives and costs related to customer communications);

3 c. Waived late payment fees;

4 d. Information technology-related costs incurred to enable employees to work
5 from home, including hardware, licensing fees and connectivity costs;

6 e. Costs incurred to protect employees unable to work from home, including
7 cleaning supplies, personal protective equipment, temperature testing,
8 employee sequestration preparation (and employee sequestration if that
9 becomes necessary);

10 f. Lost revenues associated with the Pandemic; and

11 g. Other incremental costs or other unfavorable financial impacts resulting
12 from the Pandemic not presently identified.

13 **Q: Please explain in more detail the Company's request for deferral of costs incurred in**
14 **connection with uncollectible expense above the amount included in the last rate case,**
15 **the one- and four-month Pandemic payment plan incentives that the Commission**
16 **permitted the Company to implement in Case No. EO-2020-0383, and the waiver of**
17 **late payment fees.**

18 A: As explained in the Application filed by the Company in Case No. EO-2020-0383, Evergy
19 has suspended disconnections related to non-payment through July 15, 2020 for all but its
20 largest business customers. In addition, late payment fees have been suspended for
21 accounts that have fallen into arrears. This late payment fees that are not being charged to
22 customers which covers Company costs to handle accounts that are in late pay status is
23 included in Evergy's request for authority to use deferral accounting. In addition, Evergy

1 is offering customers flexible payment arrangements over a 12-month period as well as
2 programs that offer residential customers incentives to enter into 1-month and 4-month
3 payment plans that would resolve arrearages more quickly and working case-by-case with
4 commercial and industrial customers on payment arrangements as needed. Although the
5 incentives being offered to residential customers for 1- and 4-month payment plans are
6 intended and expected to benefit the Company and its customers by allowing customers to
7 maintain continuous service and the associated revenue streams, the economic impact the
8 pandemic is having on customers' ability to pay bills generally is causing arrearages to
9 increase and, unfortunately, those arrearages are expected to continue to rise, and Evergy
10 expects this to result in significantly higher bad debt expense. On May 28, 2020, the
11 Commission issued an order permitting Evergy to implement the programs described in
12 the Application filed by Evergy in Case No. EO-2020-0383. The purpose of the AAO is
13 to defer the costs associated with these programs, the associated waived late payment fees
14 and any associated uncollectible expense that is in excess of amounts included in base rates
15 for possible inclusion in rates in the next rate case.

16 **Q: Please explain the Company's request to defer information technology-related costs**
17 **incurred to enable employees to work from home, including hardware, licensing fees**
18 **and connectivity costs.**

19 A: The State of Missouri and various communities in our Missouri service territory issued
20 stay-at-home or shelter in place orders affecting virtually all aspects of the local economy.
21 As a result of shelter-at-home orders in both Kansas and Missouri, many of Evergy's
22 employees are working from home and the Company incurred costs to enable employees
23 to work from home. These costs include hardware for computers, licensing fees for

1 software, and costs associated with providing employees with adequate access to the
2 internet. The purpose of the AAO is to defer the costs associated with these programs for
3 possible inclusion in rates in the next rate case.

4 **Q: Please explain the Company's request to defer the costs incurred to protect employees**
5 **required to work in the field and not from home due to the essential nature of the**
6 **work they perform, including cleaning supplies, personal protective equipment,**
7 **temperature testing, employee sequestration preparation (and employee**
8 **sequestration if that becomes necessary).**

9 A: Not all of our employees have been able to work from home due to the essential nature of
10 their job functions associated with providing safe and reliable electricity service. However,
11 the Company has taken extraordinary steps to protect those employees that continue to
12 work at their job sites from the dangers of the COVID-19 virus. These costs included
13 cleaning supplies, personal protective equipment, temperature testing and preparation for
14 possible sequestration of employees. To date, the Company has not had to sequester
15 employees, but this remains a possibility in the future. The purpose of the AAO is to defer
16 the costs associated with the equipment and activities for the safety of Evergy's employees
17 for possible inclusion in rates in the next rate case.

18 **Q: Please explain in more detail the Company's request to defer for possible recovery of**
19 **lost revenues associated with the Pandemic.**

20 A: As explained in Company witness Darrin Ives testimony and described in the Company's
21 application in this proceeding, the Company requests that it be allowed to defer for possible
22 recovery lost revenues that have resulted from load degradation across our Missouri service
23 territory due to effects of the Pandemic. These lost revenues would be calculated as

1 follows: Beginning in March 2020, actual billed monthly base retail revenue for residential,
2 commercial and industrial classes will be compared to monthly revenues determined in the
3 last general rate case for residential, commercial and industrial classes. In addition, actual
4 billed monthly base retail revenue will include the following adjustments:

- 5 ▪ An adjustment to weather normalize actual monthly billed sales will remove
6 the effects of weather impacting revenue levels;
- 7 ▪ An adjustment for reductions in billed monthly sales revenue recovered
8 through the Missouri Energy Efficiency Investment Act (“MEEIA”)
9 throughput disincentive;
- 10 ▪ An adjustment for any new special contract customer related load since the
11 last general rate case order; and
- 12 ▪ An adjustment to eliminate the impact of customer growth that is not
13 associated with the pandemic and not included in the last general rate case
14 for Evergy Missouri Metro and Evergy Missouri West, respectively.

15 **Q: Please explain in more detail the Company’s request to defer incremental costs or**
16 **other unfavorable financial impacts resulting from the Pandemic not presently**
17 **identified.**

18 A: The Company believes there may be unfavorable financial impacts resulting from the
19 pandemic that have not been identified at this time or will occur as the COVID-19
20 pandemic continues to progress. The Company is requesting that if such unfavorable

1 financial impacts are identified that these costs be deferred for possible inclusion in rates
2 in the next general rate case.

3 **Q: Will cost reductions and other favorable financial impacts resulting from the**
4 **Pandemic be netted against Pandemic-related costs in the deferral account?**

5 A: Yes. Evergy will also track offsets to the cost increases it has experienced associated with
6 the COVID-19 pandemic and will reduce the amount of the regulatory asset by any cost
7 reductions caused by COVID-19 from amounts reflected in rates set in our last general rate
8 case. Such offsets will likely include reduction in travel costs, office supplies, reduction
9 in electricity and other costs at Evergy offices, and any related increase in weather
10 normalized residential revenues adjusted for customer growth since the last general rate
11 case that will occur as a result of more people working from home.

12 **Q: Does the Company propose to periodically report identifying costs and savings**
13 **associated with the Pandemic?**

14 A: Yes. Evergy further proposes to file an annual report, with the first report filed no later than
15 May 1, 2021, and no later than May 1 for each succeeding year until each of the operating
16 utilities' next respective general rate case filings, setting forth its costs incurred and
17 revenues lost relating to COVID-19 during the preceding calendar year.

18 **Q: How does the Company propose to handle carrying costs?**

19 A: Carrying costs will be calculated using each respective operating utility's weighted average
20 cost of capital, exclusive of related taxes, as determined in its most recent rate case.

1 **Q: Will the Commission have the opportunity to review the prudence of these costs in a**
2 **future rate proceeding?**

3 A: Yes. In future rate cases the Commission will have a full opportunity to review COVID-
4 19 expenses and lost revenues for prudence and accuracy, as well as to consider other
5 issues such as the appropriate form and time of recovery (i.e., amortization period) for the
6 approved amount of regulatory assets. In this docket the Company is merely asking for
7 approval to defer the costs and associated lost revenues for possible inclusion in rates in
8 the next general rate case in which the Commission will have the opportunity to review for
9 prudence.

10 **Q: Does that conclude your testimony?**

11 A: Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Application of Evergy)
Metro, Inc. d/b/a Evergy Missouri Metro and)
Evergy Missouri West, Inc. d/b/a Evergy) No. EU-2020-0350
Missouri West for an Accounting Authority)
Order Allowing the Companies to Record and)
Preserve Costs Related to COVID-19 Expenses)

AFFIDAVIT OF RONALD A. KLOTE

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

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

1. My name is Ronald A. Klote. I work in Kansas City, Missouri, and I am employed by Evergy Metro, Inc. and serve as Director – Regulatory Affairs for Evergy Metro, Inc. d/b/a Evergy Missouri Metro (“Evergy Missouri Metro”) and Evergy Kansas Metro (“Evergy Kansas Metro”); Evergy Missouri West, Inc. d/b/a Evergy Missouri West (“Evergy Missouri West”); and Evergy Kansas Central, Inc. d/b/a/ Evergy Kansas Central (“Evergy Kansas Central”).

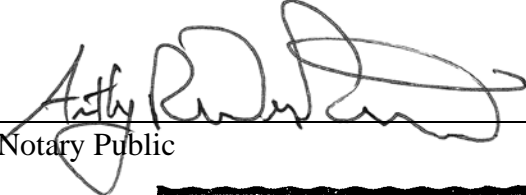
2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Evergy Missouri Metro and Evergy Missouri West consisting of ten (10) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.



Ronald A. Klote

Subscribed and sworn before me this 8th day of July 2020.



Notary Public

My commission expires: 4/26/2021

