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Direct Testimony of Manzell Payne
Case No. ER-2026-0143

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Issue(s): Storm Reserve/Rate Case Expense
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Sponsoring Party: Public Counsel
Case No.: ER-2026-0143

DIRECT TESTIMONY

OF

MANZELL PAYNE

Submitted on Behalf of the Office of the Public Counsel

EVERGY METRO, INC. D/B/A EVERGY MISSOURI METRO

CASE NO. ER-2026-0143

June 30, 2026

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DIRECT TESTIMONY

OF

MANZELL M PAYNE

EVERGY MISSOURI METRO, INC., D/B/A EVERGY MISSOURI METRO

CASE NO. ER-2026-0143

Q. Please state your name, title, and business address.

A. Manzell Payne, Senior Utility Regulatory Auditor, Office of the Public Counsel ("OPC" or "Public Counsel"), P.O. Box 2230, Jefferson City, Missouri 65102.

Q. What are your qualifications and experience?

A. My educational background includes a Bachelor of Arts degree in Accounting from Westminster College in Fulton, Missouri, which I received in 2020. I am currently obtaining my MBA with an emphasis in Accounting.

Prior to joining the Office of Public Counsel in July 2023, I worked as an analyst and auditor in the banking industry for four and half years. The responsibilities during my time as an analyst included risk analysis, tracking/monitoring expenditures, auditing of business financial statements and business plans. Through my various analysis and auditing work in the banking industry, I had the opportunity to review an individual or company's credit worthiness.

Since joining the OPC, I have attended the National Association of Regulatory Utility Commissioners ("NARUC") Rate School, and I have attended other seminars and trainings relating to utility regulation.

Q. Have you testified previously before the Missouri Public Service Commission?

A. Yes, I have previously testified before the Missouri Public Service Commission ("Commission"). Please refer to schedule MMP-D-1 attached hereto for a list of cases in which I have testified.

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to address storm reserves and rate case expense as those issues relate to Evergy Missouri Metro, Inc. d/b/a Evergy Missouri Metro ("Evergy Missouri Metro").

STORM RESERVE

Q. What is a storm reserve?

A. A storm reserve is an account that has funds collected through rates that are used to cover future costs associated with storm-related expenses affecting company operations. The account is for future storm-related damages that may occur.

Q. Has Evergy Missouri Metro ("EMM" or "Company") or one of its affiliates proposed including a storm reserve in past cases?

A. Yes. In Case No. ER-2022-0129 the Company proposed establishing a storm reserve for non-labor costs related to storms greater than $200,000. As Company witness, Ronald Klote stated:

> The company is proposing to set a reserve level based upon a three year average of storms costs (2018, 2019, and 2020) where the non-labor costs related to individual storms were greater than $200,000. This average was then multiplied times three to establish the base reserve amount. An annual amount equal to the three year average has been included in the revenue requirement on an on-going basis. This is needed to continue to cover expenses paid out of the reserve over time due to the unpredictable and sporadic nature of storm events. The implementation of this reserve will be used to cover intermediate to large storms by using a $200,000 minimum storm level, but in the event a storm is very significant and impactful to Company operations this request does not preclude the Company from requesting an Accounting Authority Order if the magnitude of the storm warrants the request as has been done historically.[1]

More recently, in case No. ER-2024-0189 Evergy Missouri West ("EMW") proposed establishing a storm reserve of non-labor costs related to storms greater than $200,000. As Company witness, Ronald Klote stated:

[1] *Exhibit No. 115 Direct Testimony of Ronald A. Klote*, p. 39 lines 7-19, 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.

> The Company is proposing to set a reserve level and annualized level based upon a three-year average of storms costs (12-months ending September 2021, September 2022, and September 2023), where the costs related to individual storms were greater than $200,000. An annual amount equal to the three-year average has been included in the revenue requirement on an on-going basis. This is needed to continue to cover expenses paid out of the reserve over time due to the unpredictable and sporadic nature of storm events. The implementation of this reserve will be used to cover intermediate to large storms by using a $200,000 minimum storm level, but in the event a storm is very significant and impactful to Company operations, this request does not preclude the Company from requesting an Accounting Authority Order if the magnitude of the storm warrants the request, as has been done historically. In addition, please see the testimony of Company Witness Ryan Mulvany for additional discussion on why the Company has requested a Storm Reserve in this rate case.[2]

Q. Has the Commission previously authorized EMM or EMW to have a storm reserve?

A. No. EMM did request a storm reserve in its most recent rate case, Case No. ER-2022-0129, but did not receive one. Instead, the parties entered into a stipulation and agreement where the Company agreed that they would not establish a storm reserve in that general rate case. In EMW's most recent rate case, Case No. ER-2024-0189, the parties again entered into a stipulation and agreement where the Company agreed that they would not establish a storm reserve in that general rate case.

Q. Should the Commission authorize EMM to have a storm reserve?

A. No. Storms are a reoccurring cost of doing business for a utility. Therefore these costs are accounted for in the course of the Company's rate case and included in their rates at a normalized level. By operating in this manner, the Commission is able to ensure it is considering "all relevant factors" when setting rates because measuring all elements of the test year are being considered at the same time. Any attempt to track storm costs

[2] Id. at pp. 28-29, lines 14-23 & 1-3, respectfully.

independently would lead to a disjointed form of ratemaking; one that violates the matching principle.[3] In addition, the use of a tracker unfairly shifts risk from shareholders to customers without a corresponding benefit to compensate ratepayers for this increased risk. If the Commission were to order such a tracker, it would only be reasonable to do so if the Commission reflected the reduced risk borne by the Company in some manner.

Q. Who benefits from the Company having a storm reserve?

A. In this situation, EMM and their shareholders are the ones who benefit from there being less risk to the Company and by getting money upfront. Ratepayers, on the other hand, do not receive a corresponding benefit. Instead, they would be funding a storm reserve that allows the Company to recover storm costs through a prefunded mechanism, reducing the utility's financial risk and earnings volatility while increasing the revenue requirement included in rates. The storm reserve is ultimately a convenience to the Company, not a necessity. The Company has operated for years without the storm reserve and continues to have an opportunity to file for an Accounting Authority Order ("AAO") or securitization of its storm costs if an extraordinary storm event were to occur. [4]

Q. Can you provide an analogy that illustrates the effect of a storm reserve?

A. Yes. A storm reserve is similar to requiring customers to purchase an insurance policy for the Company. Customers would pay money, up front, into a reserve before storm costs are incurred. Whenever storm damage occurs, the Company recovers those costs from the reserve rather than absorbing the financial impact until its next rate case. In effect, customers would be funding protection for the Company and its shareholders from future storm expenses. Similarly, when you pay for insurance for a car or home, you pay an ongoing amount, fee, or premium, usually monthly, quarterly, or yearly, to keep your policy active. This money that is paid to the insurance company is pooled together with payments from other policy holders to fund future claims.

[3] The matching principle requires that revenues and any related expenses be recognized together in the same reporting period. - https://www.accountingtools.com/articles/the-matching-principle

[4] EMW sequentially sought both first an accounting authority order then securitization for the extraordinary costs it incurred due to February 2021 Storm Uri.

Q. Does your analogy perfectly describe the Company's storm reserve proposals?

A. Not exactly. However, it demonstrates the central issue with the storm reserve. EMM is seeking advance recovery of potential future storm costs while retaining its authorized opportunity to earn a return on equity ("ROE"), which is intended to compensate investors for business risk, such as storm costs. The storm reserve reduces the Company's exposure to storm-related financial risk but does not provide customers with a corresponding reduction in rates or authorized return.

Q. You mentioned the Company's authorized return. Does having a storm reserve affect a utility's risk?

A. Yes. As I stated above, the establishment of the storm reserve would reduce the financial risk associated with storm-related expenses by allowing the Company to collect from customers in advance of future storm events. Under traditional ratemaking, the company and its shareholders bear the risk of actual storm expenses between rate cases that differ from amounts already authorized in rates. A storm reserve reduces that risk by transferring a portion of that damage amount to customers.

Q. If the Commission authorized Evergy Missouri Metro to have a storm reserve, should that affect the return the Commission authorizes?

A. Yes. One of the fundamental principles of utility regulation is that there is a link between risk and return. If the Commission allows the Company to have a storm reserve, which reduces the Company's business risk, it would be reasonable and appropriate to have a corresponding reduction in the Company's authorized ROE. EMM did not propose any such adjustment in its last general rate case, Case No. ER-2022-0129. Evergy Missouri West did not propose any such adjustment in its last two general rate cases, Case Nos. ER-2022-0130 and ER-2024-0189. Instead, the Evergy companies have sought to reduce their risk while seeking an authorized return which does not reflect that reduction in risk.

Q. What do you recommend with regard to any potential storm reserve requested by Evergy Missouri Metro?

A. The Company does not need a storm reserve. Therefore, I recommend that the Commission disallow any funds associated with a requested storm reserve.

RATE CASE EXPENSE

Q. What is rate case expense?

A. Rate case expense can be defined as the total cost that a utility will incur to prepare, present and conclude a general rate case. Examples of rate case expenses are: outside legal counsel fees, consultant fees, customer notice fees, and depreciation study fees.

Q. How has the Commission been treating rate case expense?

A. For many years the Commission has employed a 50/50 sharing mechanism for those rate case expenses that are not mandatory to initiate a rate case. Expenses such as customer notice costs, depreciation studies, and filing costs are necessary to introduce a case. The Commission's most recent relevant decision on rate case expenses was in the Spire Missouri Rate Case Nos. GR-2017-0215 and GR-2017-0216, where the Commission held Spire Missouri to a 50/50 sharing mechanism with customers. In its *Amended Report and Order*, the Commission found:

> Therefore, it is just and reasonable that the shareholders and the ratepayers who both benefited from the rate case, share in the rate case expense. The Commission finds that in order to set just and reasonable rates under the specific facts in this case, the Commission will require Spire Missouri shareholders to cover half of the rate case expense and the ratepayers to cover half with the exception of the cost of customer notices and the depreciation study[5].

On February 9, 2021, the Missouri Supreme Court affirmed the Commission's decision.[6]

Q. What amount of rate case expense should be included for calculating EMM's revenue requirement?

A. First, the Commission should use a three-rate case expense average of costs incurred by EMM in Case Nos. ER-2018-0145[7], ER-2022-0129, and this case. Then divide that sum by the number of years over which the Company expects to recover the amount. The Company's

[5] *Amended Report and Order*, p. 54, In the Matter of Laclede Gas Company's Request to Increase its Revenues for Gas Service & In the Matter of Laclede Gas Company d/b/a Missouri Gas Energy's Request to Increase its Revenues for Gas Service, Case Nos. GR-2017-0215 & GR-2017-0216, EFIS Item No. 590 (Mar. 7, 2018).
[6] Spire Missouri, Inc. v. Pub. Serv. Comm'n, 618 S.W.3d 225, 233 (Mo. banc 2021).
[7] When Evergy Missouri Metro was still under the name of Kansas City Power and Light Company.

estimated rate case expense for this case is $2,070,043[8]. 38.6% of this number ($800,000) is for outside attorney fees, an amount that should be scrutinized by the Commission as it appears to be excessive. Finally, the Commission should employ the same 50/50 sharing mechanism it has in the past to arrive at the amount of rate case expense to include in Evergy Missouri Metro's revenue requirement.

Q. What should the Commission use as an appropriate period of time when calculating the amount of rate case expense it includes in EMM's revenue requirement?

A. Four years is the appropriate period for the Company to recover rate case expense for this case. This is consistent with the Company, Staff, and OPC positions in EMM's most recent rate case, ER-2022-0129. To comply with state statute, the Company must come in for a rate case every four years.[9] Additionally, EMM has not been in for a general rate case since 2022, about four years ago, further justifying why the Commission should use four years for this calculation.

Q. Do you have any additional concerns regarding Evergy Missouri Metro's rate case expense?

A. Yes. I am currently reviewing the Company's outside attorney and consultant expenses to determine whether those costs are prudently incurred or reasonable to be recovered from customers. While it is reasonable for a utility to retain outside professionals when appropriate, Evergy Missouri Metro bears the burden of demonstrating that such expenses are indeed necessary, reasonable, and non-duplicative. To the extent that I find that there are excessive, duplicative or otherwise imprudent outside attorney and consultant fees, I recommend that the Commission disallow those costs from the Company's rate case expense.

Q. Can you summarize your recommendation for rate case expense in this case?

A. Yes. First, I recommend that EMM's rate case expense follow Commission precedent, and the Company follow the 50/50 rate case sharing. Second, I recommend that the Company should normalize rate case expense by averaging three rate cases, using the rate case expenses from Case Nos. ER-2018-0145, ER-2022-0129 and this case, and dividing that sum by 4

[8] Company response to Staff Data Request No. 374. Attached as MMP-D-2.
[9] Section 386.266.5(3), RSMo.

years, the length of time required for EMM to recover that amount, in this case 4 years. Finally, following additional review, I may recommend adjustments to remove excessive or imprudent outside attorney and consultant expenses from the rate case expense calculation.

Q. Does this conclude your direct testimony?

A. Yes it does.

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-2026-0143

AFFIDAVIT OF MANZELL PAYNE

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Manzell Payne, of lawful age and being first duly sworn, deposes and states:

1. My name is Manzell Payne. I am a Senior Utility Regulatory Auditor for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my direct testimony.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

Manzell Payne
Senior Utility Regulatory Auditor

Subscribed and sworn to me this 30th day of June 2026.

TIFFANY HILDEBRAND
NOTARY PUBLIC - NOTARY SEAL
STATE OF MISSOURI
MY COMMISSION EXPIRES AUGUST 8, 2027
COLE COUNTY
COMMISSION #15637121

Tiffany Hildebrand
Notary Public

My Commission expires August 8, 2027.