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Issues: *DSM, 401k Expense, Payroll Expense*
Witness: *Matthew R. Young*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Surrebuttal Testimony*
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MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

UTILITY SERVICES - AUDITING

SURREBUTTAL TESTIMONY

OF

MATTHEW R. YOUNG

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2014-0370

Jefferson City, Missouri
June, 2015

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KANSAS CITY POWER & LIGHT COMPANY

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Q. Please state your name and business address.

A. Matthew R. Young, Fletcher Daniels State Office Building, 615 East 13th Street, Room 201, Kansas City, Missouri 64106.

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

A. I am a Utility Regulatory Auditor for the Missouri Public Service Commission ("Commission").

Q. Are you the same Matthew R. Young who previously filed Direct and Rebuttal Testimony in this proceeding?

A. Yes. I provided testimony in the Commission Staff's ("Staff") Cost of Service ("COS") Report - Revenue Requirement filed on April 3, 2015, regarding Payroll, Payroll Benefits, Payroll Taxes, Incentive Compensation, Miscellaneous Test Year Adjustments, Insurance, Injuries and Damages, Property Tax Expense, Rate Case Expense, Economic Relief Pilot Program, Income Eligible Weatherization Program, Demand Side Management Program, and Renewable Energy Standards.

I filed Rebuttal Testimony in this proceeding on May 7, 2015, regarding Rate Case Expense, 401k Expense, and Kansas City Power & Light Company's ("KCPL" or "Company") Demand-Side Management (DSM) Program.

Q. What is the purpose of your Surrebuttal Testimony?

A. I respond to the Rebuttal Testimony of KCPL Expert/Witness Ronald A. Klote, regarding DSM pre-MEEIA opt-out costs, Wolf Creek payroll expense, indexing historical overtime expense and 401k expense.

I. DEMAND SIDE MANAGEMENT PROGRAMS

Q. Has Staff made any changes to its adjustment on the deferred DSM costs?

A. Yes. As described in Staff witness Michael Stahlman's Surrebuttal Testimony, pre-MEEIA opt-out costs have been added to DSM Vintage 6. This addition increased the balance of Vintage 6 by $850,209. The DSM amortization periods remain the same as described in my Rebuttal Testimony.

II. WOLF CREEK PAYROLL EXPENSE

Q. Please summarize the issue on Wolf Creek Payroll.

A. Staff calculated a two-year average of historical overtime amounts to normalize Wolf Creek overtime expense. As described on page 17 of the Rebuttal Testimony of Mr. Klote, KCPL believes a three-year average is a more appropriate normalization treatment for Wolf Creek overtime.

Q. Do you agree with KCPL that a three-year average is more appropriate?

A. No. As shown in the following tables, a three-year average results in a normalized amount of expense that exceeds historical levels. Presented below is the initial data provided by KCPL. Various normalizations of historical Wolf Creek overtime, as adjusted for refueling outages, follow:

Year	KCPL's share	Averages	Normalization
2009	$ 1,595,549	$ 2,602,688	6 Year Avg
2010	$ 704,135	$ 2,804,115	5 Year Avg
2011	$ 1,045,849	$ 3,329,110	4 Year Avg
2012	$ 6,547,970	$ 4,090,198	3 Year Avg
2013	$ 3,169,279	$ 2,861,312	2 Year Avg
2014	$ 2,553,344	$ 2,553,344	Update Period

After examination of the historical data, Staff concluded that a three-year average was not a good representation of Wolf Creek overtime going forward because, with the exception of 2012, historical annual overtime costs have not reached the level of the three-year normalization (i.e., $4,090,198). In fact, the historical data provided by KCPL indicates that Wolf Creek overtime has been on a downward trend over the last three years, signifying that the last known amount of overtime may be the best representation of future costs.

Q. Why was the amount of overtime in 2012 higher than any other year?

A. In KCPL's response to Staff Data Request 288, KCPL states that over $6 million of 2012 overtime costs were related to a January 2012 forced outage, an abnormal event.

Q. In its payroll annualization, did KCPL recognize and remove overtime driven by the 2012 forced outage in its three-year average of historical overtime?

A. No. According to Staff Data Request 573, KCPL did not remove the financial impact of the forced outage that occurred during 2012 from its adjustment.

Q. Did Staff recognize the 2012 forced outage in its analysis?

A. Yes. Staff removed the 2012 forced outage overtime from the historical amounts for purposes of analyzing prior Wolf Creek overtime costs. The adjusted data and normalizations follow:

Year	KCPL's share	Averages	Normalization
2009	$ 1,595,549	$ 1,542,687	6 Year Avg
2010	$ 704,135	$ 1,532,115	5 Year Avg
2011	$ 1,045,849	$ 1,739,110	4 Year Avg
2012	$ 187,968	$ 1,970,197	3 Year Avg
2013	$ 3,169,279	$ 2,861,312	2 Year Avg
2014	$ 2,553,344	$ 2,553,344	Update Period

After examining the adjusted data, Wolf Creek overtime no longer has a downward or upward trend, which indicates that normalizing the expense is appropriate. Similar to Staff's conclusion that a three-year normalization that includes the full amount ($6 million) of 2012 overtime results in an inflated normalization, a three-year average that includes the adjusted amount ($188K) of 2012 overtime results in a normalized amount that is too low. Therefore, Staff concluded that 2012 was an outlying data point, and included a normalized amount of Wolf Creek overtime expense based on the average of the prior two years.

Q. Did Staff correctly apply the reduction to 2012 overtime related to the forced outage to the total balance of this expense?

A. No. Upon reading Mr. Klote's Rebuttal Testimony, Staff re-examined its Wolf Creek overtime normalization. It was then, that Staff realized the amount KCPL stated in response to Staff Data Request 288 ($6 million) was 100% Wolf Creek. That amount does not account for KCPL's 47% ownership share of Wolf Creek. Therefore, Staff incorrectly reduced the 2012 amount of KCPL only Wolf Creek overtime with the $6 million in its Direct filing.

After the correction of Staff's error, the Wolf Creek overtime analysis shows the following:

Year	KCPL's share	Averages	Normalization
2009	$ 1,595,549	$ 2,104,488	6 Year Avg
2010	$ 704,135	$ 2,206,275	5 Year Avg
2011	$ 1,045,849	$ 2,581,810	4 Year Avg
2012	$ 3,558,769	$ 3,093,797	3 Year Avg
2013	$ 3,169,279	$ 2,861,312	2 Year Avg
2014	$ 2,553,344	$ 2,553,344	Update Period

The corrected data further verifies that Staff's original conclusion was correct. The prior three years show a downward trend of overtime. A downward trend indicates that the last known amount of overtime is the best representation of future Wolf Creek overtime costs.

Q. Is Staff altering its position on this particular component of payroll expense?

A. No. Because of the relative small difference between the last known amount and the two-year normalized amount, and to facilitate the processing of this rate case, Staff continues to recommend that a two-year average of Wolf Creek overtime expense is appropriate. Also, the 2012 Wolf Creek overtime expense is still an outlying data point, as it is the largest overtime cost during the prior six years by a wide margin.

Q. On page 17 of his Rebuttal Testimony, Mr. Klote takes issue with Staff's use of a two-year average of Wolf Creek overtime, in part, by arguing Staff is inconsistently using a two-year average for Wolf Creek overtime when it used a three-year average for other components of payroll. He states, "The very reason that averages are used in this payroll annualization calculation is to smooth out periods that are higher and lower over historical norms. This adjustment is contrary to the consistency of using either test year / update period data or **three-year averages for fluctuating components** of the calculation." (emphasis added). What is Staff's response?

A. Staff agrees that averages are used to smooth out high and low amounts of historical costs but the primary purpose of normalizing historical costs is to calculate an amount that is representative of future costs. Hence, a normalized amount that exceeds five out of six historical periods, (i.e. KCPL's Wolf Creek overtime adjustment, is not representative of on-going costs).

To decide which normalization method is most appropriate, Staff independently analyzes each component of KCPL's cost structure based on the information available. Decisions regarding the proper level of certain costs, in this case Wolf Creek overtime, is based on the particular circumstances that actually exist. The three-year averages of payroll capitalization ratios and KCPL overtime identified by Mr. Klote were determined independently of the Wolf Creek overtime. The payroll components are not related. The Wolf Creek overtime addresses the amount of overtime incurred at Wolf Creek to maintain that power plant facility. The payroll capitalization ratios are used to assign or allocate payroll costs between expense and capital projects.

Staff used a three-year average for the payroll capitalization ratio because the information warranted using that level. While Staff could have used the last known information for Wolf Creek overtime as its position, it filed a two-year average in its Direct case.

Q. Has KCPL strictly followed Mr. Klote's guidance on when to use test year / update period data or three-year averages in developing its revenue requirement in this case?

A. No. Mr. Klote infers that three-year averages are appropriate to normalize fluctuating components, yet KCPL's adjustment CS-50, its payroll annualization, does not apply three-year averages to fluctuating amounts. For example, KCPL's analysis of the historical capitalization ratio, Wolf Creek overtime, and temporary employee expense all show downward trends (not fluctuating) yet KCPL used a three-year average for each of these components of its payroll annualization.

Q. Has KCPL strictly followed Mr. Klote's guidance on when to use test year / update period data or three-year averages in developing its revenue requirement in its pending Kansas rate case?

A. No. Mr. Klote pre-filed Direct Testimony in Docket No. 15-KCPE-116-RTS before the Kansas Corporation Commission. Beginning on page 30 of his Direct Testimony there, he describes KCPL's payroll annualization. In his discussion of the overtime components of payroll for KCPL and Wolf Creek, he explains that KCPL annualized overtime "at an amount equal to the average of the amounts incurred for the 12-month periods ending December 2011, December 2012, December 2013, and the six-month period ending June 2014, adjusted for labor escalations."

Because KCPL used this time frame to annualize overtime in its Kansas case, it decided to use a three and ½-year average. In his Kansas Direct Testimony, Mr. Klote does not present any rationale for straying from the "consistency" of using a three-year average, the methodology he is advocating in his Rebuttal Testimony in this case.

Q. Should normalizations and annualizations be limited to either test period amounts or three-year averages?

A. No. Staff believes that all relevant circumstances should be considered when analyzing historical data. While test period annualizations and three-year normalizations are typical for data that is not unusual, all parties routinely make decisions to vary from those approaches when presented with atypical data. Staff made such a decision when presented with an abnormal amount of Wolf Creek overtime during the calendar year of 2012.

III. INDEXING HISTORICAL OVERTIME COSTS

Q. Beginning on the bottom of page 17 of Mr. Klote's Rebuttal Testimony, he describes KCPL's request to index (escalate) historical KCPL and Wolf Creek overtime amounts for annual three percent (3%) wage increases to allow an "apples-to-apples" comparison. Does Staff agree with this indexing?

A. No. Mr. Klote states the indexing "…ensures that overtime dollars paid in previous periods are indexed to current wage rates to reflect merit and pay increases over time." Mr. Klote's statement infers that wage rates are the sole driver of overtime expense. However, there are two distinct cost drivers to overtime expense—hourly wage rates and overtime hours worked. While Staff's analysis shows that hourly wage rates are trending upward, it also shows that overtime hours fluctuated from year-to-year.

Staff considers overtime hours to be the primary driver of overtime expense, because, while overall wages tend to increase steadily, a variety of circumstances can cause overtime hours to fluctuate drastically. Some examples of events that can lead to increased or decreased levels of overtime are extended outages, issues from weather events, increases in productivity, and changes in technology. KCPL's historical overtime hours from 2009 to 2014 follow:

Year	2014	2013	2012	2011	2010	2009
KCPL Overtime Hours	540,697	540,163	478,831	605,872	616,142	556,142

This table shows that the number of overtime hours worked fluctuates from year to year. When KCPL applies the three percent (3%) annual salary escalator described by

Mr. Klote, it is not differentiating between the two overtime cost drivers; specifically the number of overtime hours worked. Since Mr. Klote's rationale for indexing is to "reflect merit and pay increases over time", KCPL's application of the escalator, which indirectly inflates the number of overtime hours worked, is inappropriate.

Q. How did Staff calculate its KCPL overtime amount?

A. Staff determined the level of KCPL overtime to include for payroll by taking a three-year average of overtime hours multiplied by the most current overtime wage rate. This calculation ensures the current overtime wage rate is included in payroll costs. Staff has used this method of determining overtime costs in past KCPL cases.

IV. <u>401K EXPENSE</u>

Q. Can you please summarize the issue?

A. As described in its COS report Staff's annualized KCPL's 401k expense is based on cash funding only. By virtue of including cash contributions only, Staff excluded the expense related to stock contributions.

Q. After Staff filed its COS report, did Staff meet with KCPL to explore this 401k position and other issues?

A. Yes. On April 24, 2015, Staff met with KCPL to discuss several issues, including 401k expense. At that time, KCPL was unable to explain whether there was any cash flow impacts related to 401k stock contributions to Staff. The meeting concluded with the understanding that KCPL would conduct further research and present a more detailed response to Staff's inquiries.

Q. Has KCPL since presented a more detailed response to Staff's inquiries?

A. Yes, in Mr. Klote's filed Rebuttal Testimony. Following this, on May 18, 2015, Staff again met with KCPL to discuss the 401k stock contributions. The information KCPL provided at this meeting, along with KCPL's response to Staff Data Request 163.3, persuaded Staff that KCPL's 401k expense should include an annualized amount related to the stock contributions. Accordingly, Staff has updated its calculations to include both cash and non-cash 401k contributions.

Q. Did Mr. Klote raise any other 401k concerns in his Rebuttal Testimony?

A. Yes. Mr. Klote pointed out that Staff did not include in its 401k annualization contributions for new employees hired after January 1, 2014, who did not qualify for KCPL's pension. However, as I presented in my Rebuttal Testimony, Staff considers this to be a true-up item. As such, Staff intends to include the additional costs for 401k for new employees who do not qualify for a pension in the true-up phase of this case.

Q. Does this conclude your Surrebuttal Testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service	))))	Case No. ER-2014-0370

AFFIDAVIT

COMES NOW Matthew R. Young and on his oath declares that he is of sound mind and lawful age; that he contributed to the attached Surrebuttal Testimony; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

Matt Young

Matthew R. Young

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 3rd day of June, 2015.

Tammy Morales

Notary Public

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

TAMMY MORALES
My Commission Expires
January 7, 2018
Clay County
Commission #14451086