Exhibit No. 236

Staff – Exhibit 236
Karen Lyons
Rebuttal
File No. ER-2024-0189

Exhibit No.:	
Issue(s):	*Injuries and Damages Reserve, Storm Reserve, Tracker Policy, CIP and Cyber Security Tracker, Property Tax Tracker*
Witness:	*Karen Lyons*
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MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL & BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

REBUTTAL TESTIMONY

OF

KAREN LYONS

EVERGY MISSOURI WEST, INC.,

d/b/a Evergy Missouri West

Case No. ER-2024-0189

Jefferson City, Missouri
August 2024

** Denotes Confidential Information **

TABLE OF CONTENTS OF

REBUTTAL TESTIMONY OF

KAREN LYONS

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

Case No. ER-2024-0189

REBUTTAL TESTIMONY

OF

KAREN LYONS

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

Case No. ER-2024-0189

Q. Please state your name and business address.

A. My name is Karen Lyons. My business address is 615 E 13th Street, Kansas City, MO. 64106.

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

A. I am a Utility Regulatory Manager in the Auditing Department for the Missouri Public Service Commission.

Q. Are you the same Karen Lyons who filed direct testimony on June 27, 2024, in this case?

A. Yes, I am.

EXECUTIVE SUMMARY

Q. What is the purpose of your rebuttal testimony?

A. I will respond to the following Evergy Missouri West ("EMW") witnesses:

Ronald A. Klote: EMW proposal for a North American Reliability Corporation's Critical Infrastructure Program ("CIP") and Cyber Security Tracker, Storm Reserve, and Injuries and Damages ("I&D") Reserve;

Ryan Mulvany: Storm Reserve; and,

Melissa L. Hardesty: EMW's proposed deferral balance associated with the property tax tracker associated with 393.400 RSMo.

Specific to EMW's proposal for a CIP and Cyber Security Tracker, Storm Reserve and I&D Reserve, EMW is asking the Commission to approve a tracker and establish reserves because the costs are unpredictable and vary from amounts established in base rates.[1] Mr. Klote also suggests that the I&D Reserve is necessary "rather than trying to predict precisely when and in what amount these costs will be incurred." When developing a revenue requirement in a general rate case, regulatory principles such as annualizations and normalizations, are used with the intention to match the relationship with a utility investment, revenue, and expense. This relationship, also known as the matching principle, is anticipated to continue in the foreseeable future. Precisely predicting a specific cost to include in a utility's revenue requirement, as suggested by Mr. Klote, is rarely done. Instead regulatory principles are used to develop a level of costs that maintain the relationship with a utility investment, revenue and expense. EMW's requests for the CIP and Cyber Security tracker and the I&D and Storm Reserves causes an inconsistency with this relationship and places all risks on EMW's ratepayers. In addition, EMW's proposed reserves violate the known and measurable concept since it is asking its customers to pay in advance for events that may not materialize in the future. Staff recommends the Commission deny EMW's proposal for a CIP and Cyber Security Tracker, Storm Reserve, and I&D Reserve.

TRACKER POLICY

Q. What is a "tracker"?

A. The term "tracker" refers to a rate mechanism under which the amount of a particular cost of service item actually incurred by a utility is "tracked" and compared to the amount of that item that is currently included in a utility's rate levels. Any over-recovery or under-recovery of the item in rates compared to the actual expenditures made by the utility is

[1] Case No. ER-2024-0189, Ronald A. Klote, Direct Testimony, page 26, lines 19-21; page 28, lines 4-7, and page 32, lines 9-10.

then booked to a regulatory asset or regulatory liability account, and would be eligible to be included in the utility's rates set in its next general rate proceeding through an amortization to expense.

Q. Should use of trackers be a common occurrence in Missouri rate regulation of utilities?

A. No. Rates are normally set in Missouri to allow a utility an opportunity to recover its cost of service, measured as a whole, on an ongoing basis from the utility's customers. However, under this approach, with rare exceptions, neither utilities nor utility customers are allowed to be reimbursed through the rate case process for any prior under or over-recovery of costs experienced by the utility in rates, either measured for its cost of service as a whole or for individual cost of service components. For this reason, the use of trackers in order to provide reimbursement in rates to utilities or customers of any over or under-recovery of individual rate component items is rare and should be limited to unique and unusual circumstances.

Q. Under what criteria might Staff consider the use of trackers is justified?

A. Use of trackers may be justified under the following circumstances: (1) when the applicable costs demonstrate significant fluctuation and up-and-down volatility over time, and for which accurate estimation is difficult; (2) new costs for which there is little or no historical experience, and for which accurate estimation is accordingly difficult; and (3) costs imposed upon utilities by newly promulgated Commission rules. In addition, the costs should be material in nature.

Q. Why are trackers sometimes justified by significantly fluctuating and volatile costs?

A. If a utility's cost levels for a particular rate item over time demonstrates significant up-and-down volatility, it can be appropriate to implement a tracker mechanism for this type of item to reduce the amount of risk associated with a material inaccuracy in estimating the particular cost for purposes of setting the utility's rates.

Q. What is an example of the Commission authorizing a tracker for a volatile cost in the past?

A. All major utilities operating in Missouri, including EMW, have tracker mechanisms in place for their pension and other post-employment benefit ("OPEB") expenses. Annual pension and OPEB expense amounts have at times in the past had significant annual volatility, primarily because pension and OPEB funding amounts are impacted by investment outcomes in equity and debt markets, which, of course, can swing upward or downward based upon trends in the general economy.

Q. Are there other unusual aspects to pension and OPEB expense that justify using a tracker mechanism?

A. Yes. In Missouri, utilities place amounts intended for later payment to retired employees for pension and OPEBs into external trust funds to help ensure that such funds are available when due to utility employees. Once the utility funds the pension and OPEB trusts, the balance is unavailable to the utility for any other use. In this situation, Staff believes that authorizing tracker mechanisms for these expense items encourages utilities to stay current on pension and OPEB expense allowances currently included in their rate levels. Of course, if pension or funding amounts turn out to be less than the amounts for these items currently included in a utility's rate level, use of trackers also ensure that the funding/rate differential would ultimately be flowed back to its customers.

Q. Does Staff continue to recommend that the Commission authorize EMW's pension and OPEB trackers?

A. Yes. Continued authorization of these trackers remains appropriate for EMW and other utilities that offer pension and OPEB benefits to their employees. Staff witness Antonija Nieto addresses Staff's recommendation for the pension and OPEB tracker in her direct testimony filed on June 27, 2024.

Q. Are there other instances where trackers may be justified?

A. In rare circumstances, utilities will incur significant new expense for which they have little or no history to aid in determining an appropriate ongoing level for those expenses for setting rates. In those circumstances, it may be appropriate to authorize a tracker to protect both the utility and its customers from over-or-under-recovery in rates of these expenses due to erroneous estimates.

Q. Has Staff agreed to the use of a tracker for this reason?

A. Yes, in several electric utility rate cases when a new generating unit goes into service, Staff has agreed to a tracker applicable to the O&M expenses associated with the plant, given the lack of history for these expenses. However, after several years of operation, Staff recommends discontinuation of the tracker when adequate history of these expenses is known.

Q. Are there any other instances where the Commission has used trackers?

A. In some circumstances, the Commission has established, within the rules it promulgates, provisions for tracking and recovery of incremental costs caused by utility compliance with the new rules. This was the case with the Commission rules requiring electric utilities to take certain actions regarding vegetation management and infrastructure inspection activities, which became effective in 2008. In addition, the Missouri General Assembly passes laws that allow a utility to track certain expenses.

Q. Was a new law recently passed in Missouri that allows utilities to track property taxes paid versus property taxes collected in rates?

A. Yes. Section 393.400 RSMo allows a utility to track the amount of property taxes paid versus the amount of property taxes used to set rates in the most recently completed general rate case. I address the property tax tracker in more detail later in testimony.

Q. Are the costs associated with the use of trackers any different from the costs associated with an accounting authority order ("AAO")?

A. Yes. In Missouri, an AAO typically refers to a Commission order allowing a utility to defer certain costs on its balance sheet for potential recovery of the deferred costs in rates through amortizations to expense in a general rate proceeding. This is similar to how deferrals resulting from trackers may be treated in general rate proceedings. However, the nature of the costs to which AAOs are normally granted, and the nature of the costs to which tracking treatment is normally granted, are quite different.

Q. Would you explain the major differences in how AAOs and trackers have been used in Missouri?

A. Typically, AAOs have been used to allow utilities to capture certain unanticipated and "extraordinary" costs that are not included in their ongoing rate levels. The term "extraordinary costs" are defined as costs associated with an event that is unusual, unique and non-recurring in nature. The classic example of an extraordinary event is the occurrence of a natural disaster, such as a wind or ice storm, or major flood that affects a utility's service territory.

In contrast, trackers have been used in Missouri to track certain costs that are ongoing to a utility and for which some allowance has been built into the company's existing rate levels.

For this reason, while costs subject to trackers exhibit some highly usual or unique attributes which justify the use of a tracker, these costs are not "extraordinary" in the sense that this term is commonly applied to costs covered by AAOs.

Q. If the use of trackers has not been limited to truly extraordinary costs, then why not track all or most costs?

A. There are at least two reasons. First, excessive use of trackers would tend to skew ratemaking results either in favor of the utility or in favor of its customers. Secondly, broad use of trackers would not provide the incentives a utility has to operate as efficiently and productively under the rate regulation approach used in Missouri.

Q. Why would the widespread use of trackers tend to skew the ratemaking results for a utility?

A. With certain exceptions, the policy in Missouri has been to set a utility's rates based upon measurement of "all relevant factors," taking into account levels of revenues, expenses, rate base and rate of return that are calculated at or approximately at the same point in time. Use of an "all relevant factors" approach is necessary to ensure that a utility's rate levels are based upon an accurate measurement of its cost of service at a particular point in time.

When using trackers as part of setting rates, certain cost factors inevitably receive different and inconsistent treatment compared to other cost factors. For example, if a utility tracks expenses that tend to increase in amount over time, but does not track cost of service factors that may reduce its cost of service (factors such as revenue growth, or increases in rate base offsets for accumulated depreciation or deferred taxes), the utility will have the potential of receiving retroactive dollar-for-dollar recovery of certain cost increases in its customer rates through the operation of its trackers, while pocketing for itself any beneficial changes in other cost of service components that occur over the same period. In this manner, inappropriate use of trackers can lead to skewed and unfair ratemaking results.

Q. How do trackers affect a utility's incentive to operate efficiently?

A. An inevitable byproduct of the Missouri ratemaking approach is "regulatory lag." "Regulatory lag" is simply the passage of time between when a utility experiences a change in the cost of service, and the reflection of that change in its rate levels. While regulatory lag is often portrayed by utilities as a phenomenon that is entirely negative or harmful, the existence of regulatory lag does provide utilities with the strongest incentive to be as efficient and cost-effective over time as they can. Excessive use of trackers can serve to eliminate or weaken these beneficial incentives. Staff witness Keith Majors addresses regulatory lag in more detail in his rebuttal testimony.

Q. Does regulatory lag affect the earnings of a utility between general rate proceedings?

A. Yes. The operation of regulatory lag as part of the normal ratemaking process exposes a utility to the prospect of lower earnings if the utility does not control cost of service increases between general rate proceedings. However, it also allows the utility to experience higher earnings if the utility is able to reduce its cost of service that was established in the most recent rate proceeding. This "penalty/reward" aspect of current Missouri ratemaking policy would be damaged by use of trackers if applied to normal cost of service items. A company that experiences an increase in an expense that is being tracked will experience no reduction in earnings related to the increased cost (because the cost increase will be captured on its balance sheet and not on its income statement) and, therefore, the utility will have less incentive to attempt to minimize any such cost increase. On the other hand, a utility that experiences a reduction in an expense that is being tracked will experience no increase to its ongoing earnings level as a result of the decreased costs (again, because the cost decrease will be captured on its balance sheet and not on its income statement) and, therefore, would have less incentive to produce the lower cost in the first place.

Q. Is EMW proposing additional trackers in this case?

A. Yes. EMW is proposing a tracker for CIP and Cyber Security expense and a Time of Use ("TOU") tracker. EMW's request for a CIP and Cyber Security tracker is addressed below.

In Case No. ER-2022-0130, the Commission approved EMW tariffs to implement TOU residential rates.[2] This was a shift from the traditional rate structures. Consequently, EMW proposes a TOU revenue tracker in this case. Staff opposes EMW's proposal to track TOU revenues. Staff witness Sarah L.K. Lange addresses EMW's proposal for a TOU revenue tracker in her direct and rebuttal testimony.

CIP AND CYBER SECURITY TRACKER

Q. What is EMW proposing with regard to CIP and Cyber Security expenses in this case?

A. Mr. Klote's direct testimony states on page 32, beginning on line 6,

> The Company fully anticipates these expenses related to CIP and Cyber Security will increase substantially over the next few years, and more importantly, in emergency situations we need to be able to respond quickly and with flexibility to new threats surfacing every day. A tracker provides this ability. In the past costs in this area have proven to be unpredictable and can vary from amounts established in base rates. Additionally, the Company is including a security component to the Security Tracker because security threat costs are expected to have an increasing impact on the Company.

[2] Case No. ER-2022-0130, *Order Approving Compliance Tariff Sheets,* issued on November 3, 2023.

Q. What costs does EMW propose to include in the CIP and Cyber Security tracker?

A. Mr. Klote states in his direct testimony, "The Company is asking the Commission to authorize an expense tracker for CIP/Cybersecurity and physical asset security. The costs will include the addition of personnel, substantial physical security measures, computer software enhancements and support and the development of new programs to address hardening of the Company's infrastructure."

Q. Is EMW currently incurring costs for the CIP and Cyber Security?

A. Yes. Mr. Klote states in his direct testimony that "The Company has already committed significant resources toward compliance. Going forward, those efforts and resources will be increasing."

Q. Did Staff include CIP and Cyber Security costs in its direct case filed on June 27, 2024?

A. Yes. Staff analyzed data for the period of 2018-2023. Staff found the costs incurred by EMW during this period for CIP and Cyber Security is consistent year to year. Staff included actual costs incurred during the test year period, 12 months ending June 30, 2023. The following table reflects the actual annual expense incurred by EMW for CIP and Cyber Security.

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[redacted]

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Q. How does Staff's recommended level of CIP and Cyber Security using the costs incurred during the test year compare to the historical costs shown in the table above?

A. Staff's recommended level of $1,283,620 for CIP and Cyber-Security costs is comparable to the level experienced by EMW historically.

Q. Did EMW propose an adjustment for CIP and Cyber Security costs in this case?

A. No. Similar to Staff's recommendation, EMW supports a level of these costs based on the test year period, 12 months ending June 30. 2023.

Q. Mr. Klote suggests that CIP and Cyber Security costs are unpredictable and vary from the level included in base rates.[3] Do you agree?

A. No. As previously discussed and as shown in the table above, the costs incurred by EMW for CIP and Cyber Security are consistent year to year.

Q. Did Staff review EMW's budget, specific to CIP's and Cyber Security?

A. Yes. ** [redacted] **

Q. Please summarize Staff's position regarding EMW's proposed CIP and Cyber Security tracker.

A. For the last six years, EMW's annual historical CIP and Cyber Security costs are flat. In other words, there is very little fluctuation in the amount of costs incurred by EMW. In addition, based on the budgeted data provided by EMW, there is no indication that these

[3] Case No. ER-2024-0189, Ronald A. Klote, Direct Testimony, page 32, lines 9-10.

costs are increasing. If these costs increase in the future to a level that impacts EMW's earnings, EMW may request an increase in its next general rate case.

STORM RESERVE

Q. Please explain EMW's proposed storm reserve.

A. EMW proposes to set the storm reserve using a three-year average of storm costs to determine the level of storm costs to include in the storm reserve. Mr. Klote states the following beginning on page 28, line 14 of his direct testimony:

> The company is proposing to set a reserve level and annualized level based upon a three-year average of storm 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.

Q. Does Staff support EMW's proposed storm reserve?

A. No. EMW is asking its customers to pay in advance of potential storms occurring in the future. It is Staff's opinion that regulatory concepts such as annualizations and normalizations can be used to determine an appropriate level of these costs. Listed below are the reasons Staff opposes EMW's proposed storm reserve.

- The proposal is for unknown future storm costs.
- The threshold of $200,000 described by Mr. Klote is not material when compared to EMW's total operating expenses.
- Alternative regulatory mechanisms are available to EMW when significant storm costs are incurred. These alternative mechanisms provide ratepayers and shareholders sufficient protection from sporadic storm costs. A storm reserve would only serve to provide shareholders additional protection from storm risk.
- Storm costs are included in Staff's normalized level of distribution maintenance expense.

Q. What is the amount that EMW is proposing for the storm reserve in this case?

A. EMW's proposed annual amount for the storm reserve is $948,859. This amount is in addition to the normalized level of $12,718,998 for distribution maintenance expense proposed by EMW.

Q. Are there additional adjustments proposed by EMW for the storm reserve?

A. Yes. An adjustment was made to eliminate test year storm costs in EMW's proposed distribution maintenance normalization for the Federal Energy Regulatory Commission ("FERC") Account 593-Maintenance of Overhead Lines.

Q. Did Staff make a similar adjustment in its recommended revenue requirement for EMW?

A. No. EMW eliminated the test year storm costs to prevent double recovery in FERC Account 593-Maintenance of Overhead Lines. Since Staff does not recommend a proposed storm reserve and included a normalized level of maintenance cost, this adjustment was not necessary.

Q. Is EMW's proposed storm reserve based on the regulatory concept of known and measurable storm costs?

A. No. Known and measurable costs are amounts that are known and can be calculated with a high degree of accuracy. Mr. Klote states. "The establishment of a storm reserve would allow EMW to collect in rates the cost of storms that are significant in nature that are likely to occur in the future."[4] Potential future storm costs do not meet the known and measurable standard.

Q. Do you consider the storm threshold of $200,000 to be material?

[4] Case No. ER-2024-0189, Ronald A. Klote Direct Testimony, page 27, lines 18-20.

A. No. The $200,000 threshold of non-labor storm costs compared to EMW's operating expenses is infinitesimal. It equates to less than one half of one percent of EMW's total operating expenses.[5]

Q. What alternative regulatory mechanisms are available in the event a significant storm occurs?

A. EMW may file an Accounting Authority Order ("AAO") application with the Commission. Typically, AAOs have been used to allow utilities to capture certain unanticipated and extraordinary costs that are not included in their ongoing rate levels. An example is the occurrence of a natural disaster, such as a wind or ice storm that may impact a utility's service territory.

Q. EMW witness Ryan Mulvany asserts that, "[t]he storm reserve benefits customers by smoothing out major storm expenses year-over-year to be recovered in rates." Do ratepayers need storm costs to be smoothed out?

A. No. Year-to-year storm costs are considered in Staff's analysis of historical maintenance expense. In the event that storms cause annual costs to fluctuate, costs can be smoothed out with an appropriate normalization (i.e. average) of historical actual costs. It is unlikely that Staff would recommend rates that reflect a cost inflated by an abnormal storm, not only because Staff's analysis would remove abnormal events, but a large storm would possibly be addressed separately in an AAO.

Q. How did Staff account for EMW's storm costs in its recommended revenue requirement filed with its direct testimony on June 27, 2024?

[5] The calculation is based on total operating expenses for EMW as recommended by Staff in its revised accounting schedules filed with this rebuttal testimony.

A. Consistent with historical EMW general rate cases, Staff normalized non-labor distribution expense. In this case, Staff recommends a 3-year average (2021-2023) of distribution costs for EMW with the exception of the FERC Account 593-Maintenance of Overhead Lines. The chart below depicts Staff's recommended annual level for distribution expense by FERC account.

Distribution Maintenance				
FERC Account	**Description**	**Staff Recommended Annual Level**		**Period Used to Determine Annual Level**
590	Maintenance of Supervision and Engineering	$	6,512	3-Year Average, 2021-2023 Calendar Years
591	Maintenance of Structure	$	171	3-Year Average, 2021-2023 Calendar Years
592	Maintenance of Station Equipment	$	(131,473)	3-Year Average, 2021-2023 Calendar Years
593	Maintenance of Overhead Lines	$	13,898,374	Last Known, 12 mos Ending Dec 31, 2023
594	Maintenance of Underground Lines	$	262,578	3-Year Average, 2021-2023 Calendar Years
595	Maintenance of Line transformers	$	7,464	3-Year Average, 2021-2023 Calendar Years
596	Maintenance of street lighting and signal systems	$	748,073	3-Year Average, 2021-2023 Calendar Years
597	Maintenance of Meters	$	26,669	3-Year Average, 2021-2023 Calendar Years
598	Maintenance of Miscellaneous distribution plant	$	1,013,981	3-Year Average, 2021-2023 Calendar Years

Q. Why did Staff base its recommended annual level for FERC Account 593-Maintenance of Overhead Lines on actual costs incurred during the update period, the 12 months ending December 31, 2023, and base its recommended annual level for the remaining distribution accounts on a 3-year average?

A. As described in Staff witness Nathan Bailey's direct testimony[6] in this case, Staff analyzes several years of actual non-labor maintenance expense incurred by EMW. The analysis includes reviewing the costs by FERC account and by function (Production, Transmission, Distribution). During its review, Staff looks for trends that may have occurred during the period of review, and also events that may have occurred that may have impacted costs during the period of review. Staff recognizes that the costs recorded in FERC account

[6] Case No. ER-2024-0189, Nathan Bailey, CPA, Direct Testimony, page 6, lines 14-25.

593-Maintenance of Overhead Lines have increased. Consequently, Staff recommended an annual level based on the update period.

Q. Does EMW record storm costs in additional FERC accounts?

A. Yes. EMW records storm costs in several FERC accounts. However, approximately 75%-80% of storm costs are recorded in FERC account 593. Schedule KL-r1 provides additional historical annual storm costs by FERC account incurred by EMW for the period of 2011 through May 2024.

Q. Does Staff recommend an adjustment for storm costs EMW records in other FERC accounts?

A. No. Storm costs recorded in other FERC accounts are immaterial when compared to the storm costs recorded in FERC account 593. In addition, the costs are relatively flat. In other words, there is very little fluctuation with these costs. As a result, Staff accepted the costs recorded in the test year as representative of ongoing costs.

Q. Please summarize Staff's position on EMW's proposed storm reserve.

A. Staff opposes EMW's proposal to establish a storm reserve for potential future storms. EMW's proposal violates the known and measurable concept by asking its customers to pay in advance to fund a storm reserve for storms that may or may not occur in the future. Staff utilized normal ratemaking methods by including a normalized level of maintenance expense and, to the extent EMW incurs significant storm costs in the future, other regulatory mechanisms are available for possible recovery, such as an AAO.

I&D RESERVE

Q. Please explain EMW's proposed I&D reserve.

A. To determine the level of I&D costs to include in the reserve, Mr. Klote states the following on page 27, lines 8-10 of his direct testimony:

> The Company is proposing to begin establishing the reserve by increasing operating expense equal to the annual amount calculated from a five-year average of claims experience incurred over a three-year period.

Q. What is the proposed I&D balance for EMW?

A. The proposed I&D reserve balance for EMW is $56,589.[7] This amount is above and beyond the normalized level proposed by EMW.

Q. Does Staff support EMW's proposed I&D reserve?

A. No. Similar to EMW's request for a storm reserve, EMW is asking its customers to pay in advance for costs related to certain events that have not occurred, in this case costs related to I&D claims. These costs are not known and measurable and regulatory concepts such as normalizations and annualizations can be used to determine an appropriate level to include in EMW's cost of service. Also like EMW's proposed storm reserve, its request for an I&D reserve simply transfers the risk of potential I&D claims from EMW and its shareholders to ratepayers to the detriment of customers.

Q. How did Staff account for EMW's I&D costs in its recommended revenue requirement filed with its direct testimony on June 27, 2024?

A. Consistent with historical EMW general rate cases, Staff normalized I&D costs. In this case, Staff recommends a 5-year average (2019-2023) of I&D costs for EMW. Staff witness Nathan Bailey addresses I&D expense in his direct testimony.

Q. Is there a difference between Staff and EMW with regard to the normalization of I&D costs?

[7] EMW 5-year normalized level of $169,738 divided by three.

A. The only difference is due to timing. Specifically, EMW used the 5-year period of June 2019 through June 2023 that results in a normalized level of $169,738. On the other hand, Staff used the 5-year period of December 2019 through December 2023 that results in a normalized level of $168,259.

Q. Mr. Klote suggests that the I&D reserve is necessary to address unpredictability of these costs, "rather than trying to predict precisely when and in what amount these costs will be incurred."[8] Do you agree?

A. No. As previously discussed, when developing a revenue requirement in a general rate case, regulatory principles, such as annualizations and normalizations, are used with the intention to match the relationship with a utility investment, revenue, and expense. The goal is to maintain the relationship, not to precisely predict one cost over the other. When the relationship no longer exists, the utility can request a rate increase.

Q. Mr. Klote states the I&D reserve "will provide a smoothing of annual expenses associated with I&D claims which are volatile year to year."[9] Do you agree this is necessary?

A. No. Normalizing these costs as Staff recommends smooths out the rate impact of any fluctuations in these costs. Establishing an I&D reserve does not lead to an I&D cost that is more normal than a five-year normalization adjustment.

Q. Please summarize Staff's position on EMW's proposed I&D reserve.

A. Staff opposes EMW's proposal to establish a I&D reserve for potential future I&D claims. EMW's proposal violates the known and measurable concept by asking its customers to pay in advance for claims that have not occurred. Normal ratemaking methods

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[8] Case No. ER-2024-0189, Ronald A. Klote, Direct Testimony, page 26, lines 20-21.
[9] Case No. ER-2024-0189, Ronald A. Klote, Direct Testimony, page 27, line 1.

can be used to determine an appropriate level of I&D expense when developing a revenue requirement.

PROPERTY TAX TRACKER

Q. Was legislation passed in 2022 that allows a utility to track and defer to the utility's next general rate case the difference between property taxes actually paid and property taxes included in the revenue requirement used to set rates?

A. Yes. Section 393.400 RSMo states, in part:

> Electrical corporations, gas corporations, sewer corporations, and water corporations shall defer to a regulatory asset or liability account any difference in state or local property tax expense actually incurred, and those on which the revenue requirement used to set rates in the corporation's most recently completed general rate proceeding was based. The regulatory asset or liability account balances shall be included in the revenue requirement used to set rates through an amortization over a reasonable period of time in such corporation's subsequent general rate proceedings. The commission shall also adjust the rate base used to establish the revenue requirement of such corporation to reflect the unamortized regulatory asset or liability account balances in such general rate proceedings. Such expenditures deferred under the provisions of this section are subject to commission prudence review in the next general rate proceeding after deferral.[10]

Q. What is EMW's recommendation for the property tax deferrals allowed through the property tax legislation?

A. EMW witness Melissa Hardesty states in her direct testimony, beginning on page 11, line 10, "The Company has deferred property tax expense incurred in excess of the amount that was allowed in base rates from the 2022 Rate Case, in accordance with Missouri Revised Statute Section 393.400. We are requesting that we be allowed to amortize the balance of this tracker at June 30, 2024 back through cost of service over four years."

[10] Section 393.400.2, RSMo.

Q. Please explain Staff's position with regard to the property tax tracker.

A. Staff included the unamortized balance of property taxes based on the base level of property taxes approved by the Commission in the Stipulation and Agreement in Case No. ER-2022-0130. The unamortized level is the difference between the base level established in a previous rate case and the actual property taxes incurred through a subsequent rate case. The 2022 rate case was the first general rate case following the implementation of the property tax tracker. Staff recommends an unamortized balance as of the update period, December 31, 2023 of $(373,010). Staff further recommends a four-year amortization of this balance. This results in an annual amortization expense of $(93,003)[11].

The primary driver of the difference between Staff's recommendation and EMW's proposal is EMW's proposal to include deferred property taxes back to 2018. This is four years prior to the implementation of the statute.

Q. Do you agree with EMW's proposal to include the unamortized balance going back four years as Ms. Hardesty explains?

A. No. Essentially, EMW is asking the Commission to retroactively recover property tax expense incurred by EMW since their 2018 general rate case, Case No. ER-2018-0146, four years prior to the implementation of the property tax tracker legislation.

The law allows a utility to defer the difference between actual property taxes incurred by the utility and the base level established in a previous rate case to a regulatory asset and the unamortized balance is included in rate base in a subsequent rate case. The base level was first

[11] The unamortized balance of $(373,010) and annual amortization of $(93,003) is corrected from the amounts included in the direct testimony filed on June 27, 2024.

established in EMW's last general rate case, Case No. ER-2022-0130. EMW's proposal to include costs it incurred 4 years before the law was passed is inappropriate.

Q. Does this conclude your rebuttal testimony?

A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

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-2024-0189

AFFIDAVIT OF KAREN LYONS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW KAREN LYONS and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Rebuttal Testimony of Karen Lyons*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

Karen Lyons
KAREN LYONS

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 31st day of July 2024.

[signature]
Notary Public

Case No. ER-2024-0189
Evergy Missouri West Historical Storm Costs

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Account													
563000-Trans Op Overhead Lines A	$ 2,445												
563002-Trans Op Overhead Lines G			3,176	612									
563010-Trans Op Oh Lines Lost Time			4,981	11,855									
566000-Trans Op Misc Expense			18,202										
571003-Trans Maint Oh Lines Structure				824									
571004-Trans Maint Oh Lines Cndct - Dvc	7,400		28,525										
571005-Trans Maint Oh Lines Tree Hcut										16,008			
580000-Dist Ops Superv and Eng	5,481	132	2,452										
583000-Dist Ops Oh Lines	11,726	41,478	141,949	106,339	56,703	57,498	92,820	54,069	195,844	173,655	159,158	210,826	107,717
584000-Dist Ops Underground Lines	11,726	40,724	139,225	106,334	56,126	57,443	88,253	55,402	196,406	171,937	159,152	210,824	107,796
586001-Dist Ops Meter Expenses											12,858		
588000-Dist Ops Misc Dist Expense	10,073	709	41,822	867	22,020	12,554	28,061	3,330	54,325	34	1,092	982	1,622
593000-Dist Mtce Oh Perform Line Cle		13,505	20,988	128,369	65,928	71,619	86,422	70,012	227,559	198,719	146,472	395,889	290,159
593002-Dist Mtce Oh Poles - Fixtures	46,901	164,285	553,125	415,492	230,485	228,876	352,516	220,388	782,601	898,995	444,979	843,299	467,101
593003-Dist Mtce Oh Conductors - Devic	47,905	164,287	553,355	414,998	224,034	228,257	352,330	221,241	782,601	707,031	636,796	843,130	473,199
593004-Dist Mtce Oh Prop Dmg Uncolle				58		628							
597000-Dist Mtce Meters			291		582								
901000-Cust Account Supervision Exp			788		992								
903000-Cust Records - Collection Exp	3,080		1,807		2,205		2,907	2,269			2,283		2,840
908000-Customer Assistance Expense							3,083				3,233		
910000-Misc Customer Service Exp									848				
920000-A and G Labor Expense	413					197	392				6,960		
921000-A and G Office Supplies and Expenses	718		17								624		22
925000-Injuries And Damages			11		16	6	42		130	1,559	2,722	2,752	1,175
926000-Employee Pensions and Benefits			5,623	26,320	16,088	16,228	40,082	17,524	67,477	29,189	49,853	51,974	40,785
926500-Empl Pens and Bens Loadings			5,566	37,352	25,153	19,245	15,103	10,443	35,422	29,189	48,693	42,888	25,997
926502												1,636	692
926509												18,070	(18,604)
926508-EMPL PENS and OTH POST RTMT LOADINGS - NSC								88	29,019				
926510												812	(38)
926511-Empl Pens and Bens JO Offset	17,365	50,284	108,134										
935													1,350
Grand Total	**$165,233**	**$475,404**	**$1,630,037**	**$1,249,419**	**$700,333**	**$692,549**	**$1,062,011**	**$654,764**	**$2,372,233**	**$2,226,315**	**$1,674,876**	**$2,623,083**	**$1,501,814**
Percentage of account 593 to total storm costs	57%	72%	69%	77%	74%	76%	75%	78%	76%	81%	73%	79%	82%

Source DR 183 in Case Number ER-2022-0130 (2011-2021)
Source DR 183 in Case Number ER-2022-0130 (January -June 2022)
Source DR 268 in Case Number ER-2024-0189 (July 2022-May 2024)

Case No. ER-2024-0189
Schedule KL-r1