

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

DIRECT TESTIMONY OF

RONALD A. KLOTE

**ON BEHALF OF
EVERGY METRO, INC. D/B/A EVERGY KANSAS METRO,
EVERGY KANSAS CENTRAL, INC. D/B/A EVERGY KANSAS CENTRAL,
AND EVERGY KANSAS SOUTH, INC. D/B/A EVERGY KANSAS SOUTH**

**IN THE MATTER OF THE APPLICATION OF
EVERGY METRO, INC. D/B/A EVERGY KANSAS METRO,
EVERGY KANSAS CENTRAL, INC. D/B/A EVERGY KANSAS CENTRAL,
AND EVERGY KANSAS SOUTH, INC. D/B/A EVERGY KANSAS SOUTH
TO MAKE CERTAIN TARIFF CHANGES
REQUIRED BY KANSAS HOUSE BILL 2585**

DOCKET NO. 20-EKME-____-TAR

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I. INTRODUCTION

Q: Please state your name and business address.

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

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

A: I am employed by Evergy Metro, Inc. and serve as Director – Regulatory Affairs for Evergy Metro, Inc. d/b/a Evergy Kansas Metro (“Evergy Kansas Metro”), Evergy Kansas Central, Inc. [f/k/a/ Westar Energy, Inc.], Evergy Kansas South, Inc. [f/k/a Kansas Gas and Electric Company] (collectively referred to herein as Evergy Kansas Central) and Evergy Missouri West, Inc. and Evergy Metro, Inc. d/b/a Evergy Missouri Metro.

Q: On whose behalf are you testifying?

1 A: I am testifying on behalf of Evergy Kansas Metro [f/k/a Kansas City Power & Light
2 Company] and Evergy Kansas Central, Inc., all three collectively referred to herein as the
3 “Companies”).¹

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

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

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

9 A: In 1992, I received a Bachelor of Science Degree in Accountancy from the University of
10 Missouri-Columbia. In May 2016, I completed my Master of Business Administration
11 Degree from the University of Missouri – Kansas City. I am a Certified Public
12 Accountant holding a certificate in the State of Missouri. In 1992, I joined Arthur
13 Andersen, LLP holding various positions of increasing responsibilities in the auditing
14 division. I conducted and led various auditing engagements of company financial
15 statements. In 1995, I joined Water District No. 1 of Johnson County as a Senior
16 Accountant. This position involved operational and financial analysis of water
17 operations. In 1998, I joined Overland Consulting, Inc. as a Senior Consultant. This
18 position involved special accounting and auditing projects in the electric, gas,
19 telecommunications and cable industries. In 2002, I joined Aquila, Inc. (“Aquila”)
20 holding various positions within the Regulatory department until 2004 when I became

¹ Effective October 8, 2019, Evergy Metro, Inc. d/b/a Evergy Kansas Metro adopted the service territory and tariffs of KCP&L; *Order Approving Name Change*, Docket No. 20-KCPE-122-CCN, dated October 8, 2019. Effective October 8, 2019, Evergy Kansas Central, Inc. and Evergy Kansas South, Inc. d/b/a collectively as Evergy Kansas Central adopted the service territory and tariffs of Westar; *Order Approving Name Change*, Docket No. 20-WSEE-123-CCN, dated October 8, 2019.

1 Director of Regulatory Accounting Services. This position was primarily responsible for
2 the planning and preparation of all accounting adjustments associated with regulatory
3 filings in the electric jurisdictions. As a result of the acquisition of Aquila by Great
4 Plains Energy Incorporated (“GPE”), I began my employment with KCP&L as Senior
5 Manager, Regulatory Accounting in July 2008. In April 2013, I joined the Regulatory
6 Affairs department as a Senior Manager remaining in charge of Regulatory Accounting
7 responsibilities. In December 2015, I became Director, Regulatory Affairs responsible
8 for the coordination, preparation and filing of rate cases in our electric jurisdictions. I
9 serve in this same role currently with Evergy.

10 **Q: Have you previously testified in a proceeding before the Kansas Corporation**
11 **Commission (“Commission” or “KCC”) or before any other utility regulatory**
12 **agency?**

13 A: Yes. I have testified before the KCC, the Missouri Public Service Commission, the
14 California Public Utilities Commission, and the Public Utilities Commission of Colorado.

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

16 A: My testimony will provide an overview of our filing and the reasons for the filing, will
17 address how the total rate reduction that results from the elimination of Kansas income
18 taxes was determined for both Evergy Kansas Metro and Evergy Kansas Central, and will
19 address the use of a one-step approach for Evergy Kansas Metro while using a three-step
20 phase-in over a two-year period for Evergy Kansas Central consistent with the statute.

21 **Q: What is the purpose of your filing?**

1 A: The purpose of our filing is to reduce rates for Evergy Kansas Metro and Evergy Kansas
2 Central to reflect the exemption of electric and natural gas utilities in Kansas from paying
3 Kansas state income taxes.

4 HB No. 2585 was enacted by the legislature on June 1, 2020 and requires a filing by
5 Evergy and other affected utilities within 60 days, or by July 31, 2020.

6 **Q: What are the key implications of the new law?**

7 A: The new law provides that electric and natural gas utilities are exempt from paying
8 Kansas state income tax. In addition, the law requires the utilities to file to update its
9 base rates when a change in state or federal law increases or decreases the income tax
10 rates assessed on the utility and the over-collection or under-collection of income tax
11 expense that results is greater or equal to .25% of the utility's base revenue level from the
12 most recent rate case. Section (d)(1) provides that the utility can request that the
13 Commission give "due consideration to the common interests of the public utility and its
14 customers, including, but not limited to, use of a two-year implementation of current
15 period rate changes to maintain the credit quality of the utility by ensuring that any such
16 change in retail rates will not cause the utility's credit metrics that are traditionally
17 considered by the credit rating agencies to deteriorate to a level that could impair the
18 utility's current credit rating."

19 **Q: What is Evergy proposing with this filing?**

20 A: Evergy is proposing to implement the rate reduction for Evergy Kansas Metro in one
21 phase, effective January 1, 2021, and the rate reduction for Evergy Kansas Central in
22 three phases over a two-year period, with changes effective on January 1, 2021, January

1 1, 2022, and January 1, 2023. I discuss how our proposal to utilize a three-step phase-in
2 for Evergy Kansas Central is consistent with the statute below. Ms. Wright explains
3 why, consistent with the protections included in the statute, it is necessary to utilize a
4 three-phase process for Evergy Kansas Central in order to mitigate the possibility of
5 impairment of Evergy Kansas Central's credit rating. Mr. Lutz explains how the total
6 rate reduction was allocated to each customer class and how Evergy utilized the proof of
7 revenues from its last general rate cases to develop new rates for each customer class.

8 **Q: How was the impact of the exemption from Kansas state income tax on Evergy**
9 **Kansas Metro's revenue requirement determined?**

10 A: In order to calculate the impact on the removal of state income tax from the revenue
11 requirement, Evergy Kansas Metro took the final revenue requirement model from its last
12 general rate case and removed the state income tax percentage from the overall
13 calculation. The difference between the before and after revenue requirement
14 calculations was then identified to get the impact of the state income tax change.

15 **Q: What was the total impact on Evergy Kansas Metro's revenue requirement?**

16 A: The total impact on Evergy Kansas Metro's revenue requirement is a decrease of
17 \$8,580,710.

18 **Q: What is the impact in terms of a percentage of the overall base rate revenue**
19 **requirement?**

20 A: The percentage decrease applied to the Evergy Kansas Metro tariffs is 1.4949%, as
21 reflected in Schedule BDL-1 attached to the Direct Testimony of Bradley Lutz.

1 Q: **How was the impact of the exemption from Kansas state income tax on Evergy**
2 **Kansas Central's revenue requirement determined?**

3 A: The same method was used for Evergy Kansas Central as for Evergy Kansas Metro. The
4 revenue requirement calculated in the final Evergy Kansas Central model from its last
5 general rate case was compared to the same model with the state income tax taken out.
6 The difference is the amount that will impact Evergy Kansas Central tariffs.

7 Q: **What was the total impact on Evergy Kansas Central's revenue requirement?**

8 A: The total impact on Evergy Kansas Central's revenue requirement is a decrease of
9 \$21,629,594. However, the Company is requesting to implement the overall decrease
10 over a two-year period in three steps. The first step would be a reduction of
11 \$5,407,398.50 effective on January 1, 2021. The second step would be an additional
12 reduction of \$5,407,398.50 effective on January 1, 2022. The final step would be an
13 additional \$10,814,797.00 reduction effective on January 1, 2023.

14 Q: **What is the impact in terms of a percentage of the overall base rate revenue**
15 **requirement?**

16 A: The first step beginning January 1, 2021 would have a percentage decrease of 0.4183%.
17 The second step beginning January 1, 2022 would be an additional 0.4201% decrease
18 based on 2021 revenue levels. The third step beginning January 1, 2023 would be an
19 additional decrease of 0.8437% based on 2022 revenue levels. The resulting total
20 revenue percentage change due to the KS state tax exemption based on current revenue
21 levels is a 1.6733% decrease, as reflected in Schedule BDL-2 attached to the Direct
22 Testimony of Bradley Lutz.

1 **Q: Does the statute support a three-step phase in over a two-year period?**

2 A: Yes, the legislation clearly gives the utility the ability to propose, and the Commission
3 the discretion to approve, implementation methods for the required rate reduction that are
4 designed to “maintain the credit quality of the utility by ensuring that any such change in
5 retail rates will not cause the utility’s credit metrics that are traditionally considered by
6 the credit rating agencies to deteriorate to a level that could impair the utility’s current
7 credit rating.” The law indicates that the utility can propose options “including, but not
8 limited to, use of a two-year implementation of current period rate changes.” The use of
9 a three-step phase-in, which will occur over a two-year period (from January 1, 2021 and
10 January 1, 2023) is consistent with the intent of the legislation and, as Ms. Wright
11 explains, is essential to utilize the phased implementation envisioned in the statute in
12 order to protect the credit quality of Evergy Kansas Central and mitigate potential
13 impacts that a degradation of credit quality would have on the company and on its
14 customers.

15 **Q: Will the Company track in a deferral account the amounts of the retail rate change**
16 **that resulted from the phased in approach beginning January 1, 2021?**

17 A: Yes. As stated in HB 2585 the Company shall do the following: (A) Track and defer any
18 overcollection or undercollection of income tax expenses as a regulatory liability or asset,
19 as appropriate, that will accrue interest at the utility’s weighted average cost of capital, as
20 determined by the Commission in the utility’s most recent general rate proceeding; and
21 (B) refund or collect the balance of such amounts in its next full general rate proceeding.
22 As a result of this application filing, for Evergy Kansas Central the Company will defer
23 the overcollection of Kansas Income Tax expense in a regulatory liability and will

1 provide a refund mechanism in the Company's next general rate case of the amount of
2 the deferral accumulated beginning January 1, 2021.

3 **Q: What happens to excess accumulated deferred income taxes resulting from this**
4 **change in Kansas Income Taxes?**

5 A: Consistent with HB 2585, excess accumulated deferred income tax balances resulting
6 from the change in Kansas Income Taxes will remain unamortized on the Company's
7 books until new retail rates take effect in the Company's next general rate case. These
8 balances through the use of an amortization will be reflected in rates at that time.

9 **Q: How does the Company's credit quality impact its customers?**

10 A: As Ms. Wright describes in detail in her testimony, degraded credit quality has the
11 potential to increase customer rates. As the cost of borrowing money increases due to the
12 degradation of the credit quality, the overall revenue requirement to provide safe and
13 reliable service increases causing overall higher rates for our customers.

14 **Q: What happens to the Evergy Kansas Central High Performance Incentive Program**
15 **("HPIP") Kansas tax credits?**

16 A: Unused Evergy Kansas Central HPIP credits will be written down as there will be no
17 Kansas state income tax to offset after 2020.

18 **Q: What is the anticipated balance of unused HPIP credits that will be written down?**

19 A: Evergy Kansas Cental does not yet know the amount of HPIP credits that will be utilized
20 in the Kansas Combined Evergy income tax returns for 2019 and 2020 but we expect the
21 amount of unused credits will be approximately \$180 million.

1 **Q: What is the impact to rates from the write off of the HPIP credits?**

2 A: There will be no impact from the write-down because these HPIP credits are deferred in a
3 regulatory liability account until such time as they are utilized to reduce Evergy Kansas
4 Central's income tax liability. The regulatory liability would then amortize to income
5 over the life of the property as a reduction to income tax expense in cost of service.
6 Therefore, the reduction of HPIP credits will be offset by the reduction to the associated
7 regulatory liability. Instead of receiving the benefit from the amortization, the customer
8 will now receive the benefit in cost of service immediately with the Kansas tax rate at
9 zero.

10 **Q: What will happen to the HPIP credits that have been or will be utilized?**

11 A: For HPIP credits that have been or will be utilized to reduce Evergy Kansas Central's
12 Kansas tax liability, Evergy Kansas Central will continue to amortize to income over the
13 life of the property as a reduction to income tax expense in cost of service.

14 **Q: Does this conclude your testimony?**

15 A: Yes it does.