Exhibit No. 1

Evergy Missouri West – Exhibit 1
Darrin Ives
Direct Testimony
File No. ER-2023-0011

Exhibit No.: _____
Issue: Fuel Costs and PISA Deferral
Witness: Darrin R. Ives
Type of Exhibit: Direct Testimony
Sponsoring Party: Evergy Missouri West
Case Nos.: ER-2023-0011
Date Testimony Prepared: July 1, 2022

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2023-0011

DIRECT TESTIMONY

OF

DARRIN R. IVES

ON BEHALF OF

EVERGY MISSOURI WEST

Kansas City, Missouri

July 2022

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Evergy Missouri West for Authority to Implement Rate Adjustments Required by 20 CSR 4240-20.090(8) and the Company's Approved Fuel and Purchased Power Cost Recovery Mechanism	)))))	Case No. ER-2023-0011

AFFIDAVIT OF DARRIN R. IVES

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Darrin R. Ives, being first duly sworn on his oath, states:

1. My name is Darrin R. Ives. I work in Kansas City, Missouri, and I am employed by Evergy as Vice President, Regulatory Affairs.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Evergy consisting of fourteen (14) 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.

Darrin R. Ives

Subscribed and sworn to before me this 1st day of July 2022.

Notary Public

ANTHONY R. WESTENKIRCHNER
NOTARY PUBLIC - NOTARY SEAL
STATE OF MISSOURI
MY COMMISSION EXPIRES APRIL 26, 2025
PLATTE COUNTY
COMMISSION #17279952

My Commission expires:

4/26/2025

DIRECT TESTIMONY

OF

DARRIN R. IVES Case

No. ER-2023-0011

Q: Please state your name and business address.

A: My name is Darrin R. Ives. 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 Vice President – Regulatory Affairs for Evergy Metro, Inc. d/b/a Evergy Missouri Metro ("EMM"), Evergy Missouri West, Inc. d/b/a Evergy Missouri West ("EMW"), Evergy Metro, Inc. d/b/a Evergy Kansas Metro ("Evergy Kansas Metro"), and Evergy Kansas Central, Inc. and Evergy South, Inc., collectively d/b/a Evergy Kansas Central ("Evergy Kansas Central"). These are the operating utilities of Evergy, Inc.

Q: On whose behalf are you testifying?

A**:** I am testifying on behalf of EMW.

Q: What are your responsibilities?

A: My responsibilities include oversight of Evergy's Regulatory Affairs Department, as well as all aspects of regulatory activities including policy, cost of service, rate design, revenue requirements, regulatory reporting and tariff administration.

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

A: I graduated from Kansas State University in 1992 with a Bachelor of Science in Business Administration with majors in Accounting and Marketing. I received my Master of

Business Administration degree from the University of Missouri-Kansas City in 2001. I am a Certified Public Accountant holding certificates from the states of Kansas and Missouri. From 1992 to 1996, I performed audit services for the public accounting firm Coopers & Lybrand LLP. I was first employed by Kansas City Power & Light Company ("KCP&L") in 1996 and held positions of progressive responsibility in Accounting Services and was named Assistant Controller in 2007. I served as Assistant Controller until I was named Senior Director – Regulatory Affairs in April 2011. I have held my current position as Vice President – Regulatory Affairs since August 2013.

Q: Have you previously testified in a proceeding at the Missouri Public Service Commission ("Commission" or "PSC") or before any other utility regulatory agency?

A: Yes, I have testified before the Commission and the Kansas Corporation Commission ("KCC"). I have also provided written testimony to the Federal Energy Regulatory Commission ("FERC") and testified before Missouri and Kansas legislative committees.

I. PURPOSE OF TESTIMONY AND EVERGY WITNESSES

Q: What is the purpose of your testimony?

A: I will explain how the fuel cost increases experienced by EMW in the last two Fuel Adjustment Clause ("FAC") accumulation periods from June 2021 through November 2021 and December 2021 through May 2022 were extraordinary and were significantly impacted by external factors beyond the Company's control. I will then explain the basis for deferring such extraordinary cost increases under provisions of the plant-in-service accounting ("PISA") legislation enacted by the Missouri General Assembly in 2018. In addition to my testimony, the Company is sponsoring the direct testimony of Lisa

Starkebaum who addresses the mechanics of this fuel adjustment clause filing and the rate proposed by the Company.

II. MARKET CAUSES OF EXCESS FUEL COST

Q: The direct testimony of Company Witness Lisa Starkebaum states that EMW's Fuel and Purchased Power Adjustment ("FPA") during the six-months ending May 2022, or 30th accumulation period, was approximately $44.6 million. Similarly, EMW's FPA for the previous six months ending November 2021, or 29th accumulation period, was $47.5 million. Why have EMW's fuel and purchased power expenses increased so dramatically in the past two FAC updates?

A: There are a variety of causes, all of which were extraordinary and were significantly impacted by external factors beyond the Company's control.[1] A leading economist noted that after the recession caused by COVID-19, "the abrupt reopening of the economy after lockdowns caught the global manufacturing sector unprepared. This has created widespread supply-chain bottlenecks and scarcity in global goods and commodities markets that have affected multiple items in the consumer-price index's (CPI) basket of goods and services. The Russian invasion of Ukraine provided a further shock to energy prices, with widespread effects across all commodities.[2]

[1] See generally "U.S., European Economies Slow Sharply as Recession Risks Grow," The Wall Street Journal (June 23, 2022) ("… surging prices of energy and food weakened demand for other goods and services"; "Russia's war in Ukraine has hit global growth as high inflation spread across the globe"; "Economies also face continuing supply-chain disruptions and the prospect of rising interest rates ...").

[2] "Angel Ubide [Economist and Managing Director, Citadel, LLC] expects inflation to subside if supply shocks fade," The Economist (May 19, 2022).

Q: Are there other causes outside of Evergy's control that have caused an increase in its fuel and purchased power costs?

A: Yes. Combining with these events are recent episodes of volatile weather and high temperatures.

Q: What have government agencies stated regarding these developments?

A: The Staff of the Federal Energy Regulatory Commission made several "key findings" in a May 19, 2022 report entitled Summer Energy Market and Reliability Assessment ("FERC Staff Report"). Based on forecasts from the U.S. National Oceanic & Atmospheric Administration for June through September 2022, FERC staff predicted a 50% to 80% likelihood of higher-than-average temperatures that could have a significant impact on demand for electricity. Natural gas prices for this summer "are expected to rise at major trading hubs across the U.S.," with wholesale electric markets "to see higher prices this summer because of hotter temperatures, slightly increased demand, and higher natural gas prices."[3] Its conclusion that "[h]igher temperatures, disruptive world events, and changing natural gas market fundamentals could affect electric and natural gas market prices … this summer" has come to pass.[4] FERC Staff emphasized that "world events will likely continue to add to the uncertainties affecting U.S. energy markets," noting that much depends on factors like the export of liquified natural gas ("LNG") from the United States, sanctions limiting the import of Russian commodities, "how the war in the Ukraine progresses, and the manner in which market participants adjust to supply and demand

[3] See FERC Staff Report at 1-2.
[4] Id. at 40.

changes."[5] As discussed below, the U.S. Department of Energy ("DOE") agrees with this assessment.

Q: What are the factors that determine wholesale electricity prices for EMW and other electric utilities?

A: Various factors determine wholesale electricity prices for the power that EMW purchases, but the cost of fuel for fossil-fuel generators is the most significant one. As DOE's Energy Information Administration ("EIA") has reported, wholesale prices are generally correlated to the price of natural gas because natural gas-fired units are often the most expensive generators dispatched to supply power. In May 2022, the natural gas price at Henry Hub averaged $8.14/MMBtu compared with $2.91/MMBtu in May 2021, an increase of 180%.[6]

Q: What has caused the increase in the price of natural gas?

A: The EIA reported in its June 2022 Short-Term Energy Outlook that natural gas prices are rising because of three major factors: (a) gas inventories are below the five-year average, (b) high demand for natural gas from the electric power sectors, given limited opportunities for natural gas-to-coal switching, and (c) the steady demand for U.S. liquified natural gas (LNG) exports.[7] It confirmed that natural gas prices are likely to increase from May, stating that on June 2, 2022 the front-month natural gas futures contract for delivery at Henry Hub settled at $8.49/MMBtu, up $1.01 from May 2, 2022.[8] This demand for LNG exports has significantly increased as Russia has curtailed gas supplies to western Europe, in response to economic sanctions imposed by the European Union.[9] The EIA reported

[5] Id. at 41.
[6] See "EIA expects significant increases in wholesale electricity prices this summer," Today in Energy (July 16, 2022).
[7] See EIA Short-Term Energy Outlook at 2 (June 2022) ("EIA June Outlook").
[8] Id. at 12-13.
[9] See EIA June Outlook at 4-5, 12-13; FERC Staff Report at 41 & n. 120.

on June 9, 2022 that so far this year 75% of total U.S. LNG cargos have gone to Europe, compared with 34% in 2021.[10]

Q: What other effects has the Russian war with Ukraine had on the U.S. energy industry?

A: According to an S&P Global report issued June 16, 2022, the decline in U.S. power generation from coal-fired plants (from 25% in the summer of 2021 to 23% this summer), and the decline in U.S. power sector coal inventories (29.7% lower than in 2021), as reported by the EIA, "have had a bullish impact on domestic over-the-counter coal prices, especially as producers field new inquiries from export customers amid the Russia-Ukraine War."[11] The report noted that "[s]ome global coal end-users are interested in the same US coals as domestic utilities" and "increased demand has pushed prices higher."[12]

S&P stated: "Prior to Russia's invasion of Ukraine, the Platts assessment for prompt-month ILB [Illinois Basin] barge coal was $88.15/st [short ton]." "Buoyed by low stocks" at U.S. power plants and "soaring global demand," ILB domestic barge coal price has risen 76% to around $155.15/st.[13] As a result of these international trends, coal in the U.S. has ceased being the alternative to natural gas when gas prices have spiked.

[10] See "EIA expects U.S. natural gas prices to remain high through 2022," Today in Energy (July 9, 2022).
[11] See "US summer electricity prices to climb on fuel costs, delivery constraints: EIA," S&P Global Report at 2 (June 16, 2022).
[12] Id. at 3.
[13] Id.

Q: Has EMW experienced similar increases in the cost of fuel and fuel additives necessary for the generation of electricity as a result of escalating market prices?

A: Yes. Similar to the Henry Hub increase discussed above, EMW's weighted average cost of gas (without transportation costs) in May 2021 was $2.833/MMBtu, whereas in May 2022 it was $7.848/MMBtu, an increase of over 177%.

The average cost of EMW #2 diesel fuel was approximately 90% higher in May 2022 as compared to May 2021. Increases in diesel fuel not only caused an increase in the fuel commodity itself, but are also causing increases in transportation costs for some fuel and additives used by EMW.

Further, when comparing May 2021 to May 2022 pricing, EMW's cost of coal (commodity only) increased approximately 79%. In addition to the fuel commodities themselves, fuel additives that EMW uses such as ammonia and urea have increased in cost. For example, EMW's cost of urea increased by approximately 83% comparing May 2021 to May 2022, while the cost of ammonia increased by more than 160%.

Q: Have these national trends affected the price of wholesale electricity in Southwest Power Pool ("SPP") where EMW purchases its power?

A: Yes, they have. Platts reported that SPP wholesale prices in May 2022 "climbed an average of 167%" in May 2022 compared with a year earlier, based "on higher natural gas prices and increased electricity demand from above-normal temperatures, as forwards continue to trend higher."[14] Power and gas prices in May 2022 reached their highest levels since Winter Storm Uri caused all-time record highs in February 2021. The article noted that the on-peak, day-ahead LMP [locational marginal price] at SPP's South Hub "reached as high

[14] See "Above-normal temperatures drive up SPP prices, demand in May," Platts Megawatt Daily at 5-6 (June 6, 2022).

as $109.80/MWh on May 19."[15] The average SPP South Hub wholesale price during the accumulation period of December 2021 to May 2022 was 80% higher than the average wholesale price from December 2020 to May 2021 (excluding February in both periods to exclude the effects of Winter Storm Uri) and 111% higher than the average wholesale price from December 2019 to May 2020, reflecting the impact of extreme recent inflationary pressures.

Q: Is this trend having a similar effect on the market nodes where EMW participates in SPP's wholesale market?

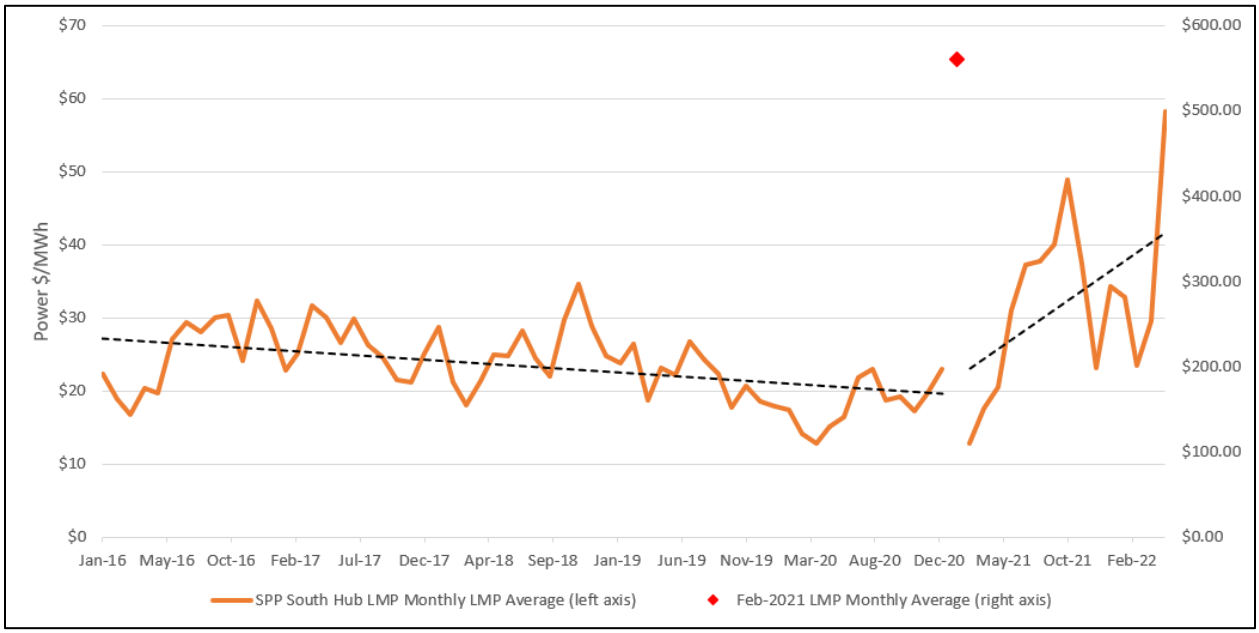
A: Yes. For example, the cost of electricity at the load node where EMW participates in the SPP wholesale markets in May 2022 was $53.32/MWh.[16] Compared with the May 2021 load node cost of $21.37/MWh, this was an increase of 150%.

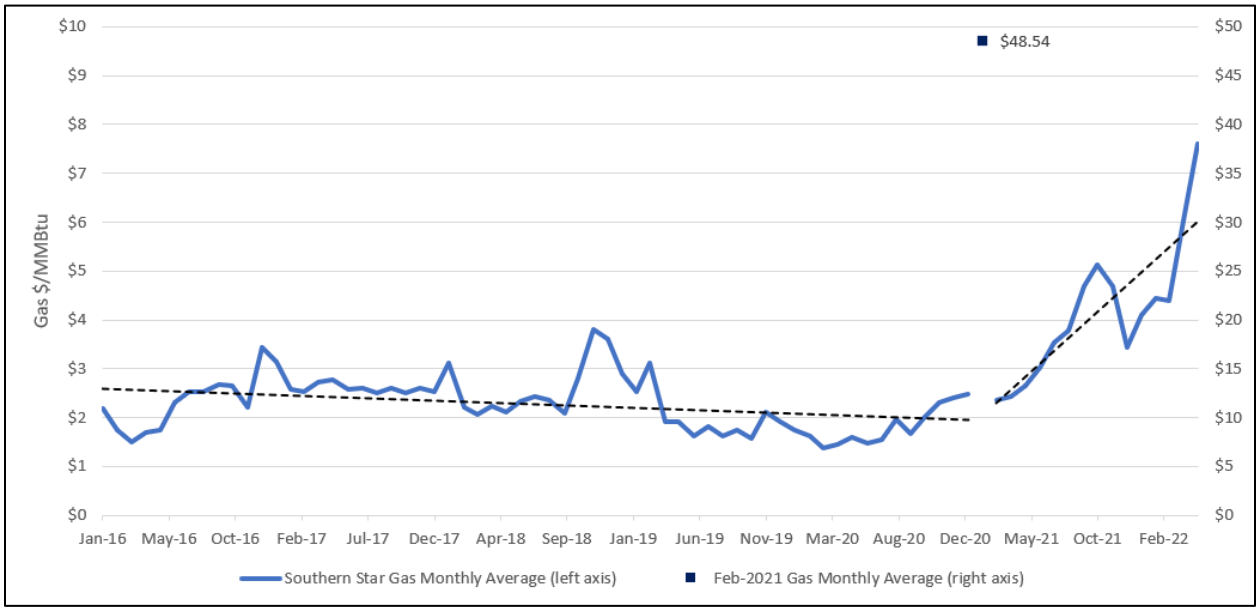
Q: Do you have additional information demonstrating that the extraordinary costs are a substantial change from historical gas and purchased power prices seen over the last several years?

A: Yes, the charts below depict two important points. To describe the charts, the left y-axis provides price per unit. The right y-axis provides price per unit scaled to address February 2021 winter storm Uri pricing. The bottom x-axis provides timeline from January 2016 through present. First, it is clear that SPP power prices continue to be highly correlated to the price for natural gas as depicted by the relationship between the top chart (SPP South hub prices) and the bottom chart (Southern Star natural gas prices). Second, the charts demonstrate the relative consistency in pricing for SPP power and natural gas over the last six plus years until the dramatic inflation experienced post the February 2021 winter storm

[15] Id. at 6.
[16] Monthly average of day-ahead market LMPs on a 24 x 7 basis.

Uri event to present. This dramatic inflationary rise depicted post winter storm Uri reflects the unique inflationary period which has driven EMW over the aggregate increase provided under the PISA 3% CAGR.





III. RATE CAPS UNDER SECTION 393.1655

Q: What is the full amount of FAC-related costs incurred by Evergy Missouri West during the subject accumulation period?

A: Approximately $44.6 million.

Q: Please explain the implication of including the full amount of these costs in a fuel adjustment rate effective September 1, 2022, in regard to the PISA rate caps under section 393.1655?

A: Including $44.6 million in the fuel adjustment rate now would cause EMW to exceed the 3 percent Compound Annual Growth Rate ("CAGR") cap under section 393.1655.5 when considering the impacts from this FAC accumulation period, the immediately preceding FAC accumulation period and the effects of the overall rate increase (driven primarily by the rebase of fuel and purchased power in base rates) resulting from the EMW's current 2022 general rate proceeding.

Consistent with 393.1655.5 of the PISA statute, Evergy Missouri West therefore proposes to include $13.6 million of FAC-related costs in the fuel adjustment rate effective September 1, 2022, and defer the balance of $31 million for further treatment in a subsequent general rate proceeding.

Q: Please demonstrate how including the full $44.6 million in the fuel adjustment rate now would cause the Company to exceed the 3 percent CAGR cap.

A: As can be seen from the table below, FAC-related cost increases that EMW has experienced in the two latest FAC accumulation periods as compared to the base established at the time of EMW's PISA election (rates effective from EMW's last rate case, ER-2018-0146 – which established rates effective December 6, 2018) as well as the impact

of re-basing of fuel costs in base rates in the current EMW general rate case (at the level Staff has proposed in their direct case) would result in a rate increase of 16.0% for EMW. This 16.0% increase exceeds the aggregate 12.55% CAGR cap applicable to EMW under section 393.1655.3 (i.e., 3 percent per annum) before consideration of *any* non-FAC-related cost increases experienced by EMW since its last general rate proceeding in 2018.

MO West Fuel Impact on Overall Rates

		Rates Effective Dec 6, 2018	Proposed Effective Dec 6, 2022	Fuel Increase Before Adj./Deferral	Percentage Increase
Base Retail Rates - Fuel		$ 189,453,834	$ 237,099,513[A]	$ 47,645,679	6.4%
FAC Accumulation - Part 1		8,315,398	47,488,718	39,173,320	5.2%
FAC Accumulation - Part 2		11,366,822	44,603,622	33,236,800	4.4%
Total				**$ 120,055,799**	**16.0%**
		December 6, 2022 Average Overall Rate Cap			*12.55%*

[A] This is Staff's proposed fuel cost in their direct filing. The Company's direct filed net fuel was $223,258,949 or a $33,805,115 fuel increase. Fuel will be trued up to May 31, 2022 in the current rate case.

The table clearly demonstrates that the depicted exceedance of the aggregate 12.55% cap (based on a 3 percent CAGR) is due to the inflationary pressures on fuel and purchased power and the resultant impact on customers' prices. It is important to remember that, in Missouri and unlike any other state of which we are aware, FAC-related costs are recovered via both base rates (which are adjusted in general rate proceedings) and fuel adjustment rates (which are adjusted in fuel adjustment proceedings). Granting of the deferral sought by the Company will enable resolution of the ongoing general rate proceeding – whether by settlement agreement among the parties or Commission decision of contested issues or some combination thereof – without exceeding the 3 percent CAGR cap prescribed by section 393.1655.3 as a result of fuel price increases.

The rate increase to result from the Company's general rate proceeding would be nowhere close to exceeding the PISA CAGR cap but for the impact of fuel and purchase

power (FAC-related) costs. As I discussed above, the Company's FAC-related costs are significantly impacted by external factors outside of our control and have been subject to inflationary pressures not seen for many years due to the extraordinary events of the pandemic and Russia's war on Ukraine. As a result, consistent with 393.1655.5 of the PISA statute, the Company is seeking deferral of a portion of these costs.

Q: How does the Company propose to treat the subject FAC-related costs in this proceeding?

A: Evergy Missouri West proposes to include $13.6 million in FAC-related costs in the fuel adjustment rate effective September 1, 2022, and to defer the balance of $31 million in FAC-related costs incurred during the subject accumulation period to the PISA regulatory asset created under section 393.1400. This treatment is explicitly provided for in section 393.1655.5 of the PISA statute which states:

> If a change in any rates charged under a rate adjustment mechanism approved by the commission under sections 386.266 and 393.1030 would cause an electrical corporation's average overall rate to exceed the compound annual growth rate limitation set forth in subsection 3 or 4 of this section, the electrical corporation shall reduce the rates charged under that rate adjustment mechanism in an amount sufficient to ensure that the compound annual growth rate limitation set forth in subsection 3 or 4 of this section is not exceeded due to the application of the rate charged under such mechanism and the performance penalties under such subsections are not triggered. Sums not recovered under any such mechanism because of any reduction in rates under such a mechanism pursuant to this subsection shall be deferred to and included in the regulatory asset arising under section 393.1400 or, if applicable, under the regulatory and ratemaking treatment ordered by the commission under section 393.1400, and recovered through an amortization in base rates in the same manner as deferrals under that section or order are recovered in base rates.

Q: Is there other relevant authority the Commission should consider?

A: Yes. Such a deferral is also consistent with paragraph XI[17] of the Commission's FAC rule given the extraordinary circumstances surrounding the Company's fuel cost increases. Furthermore, although not implicated here, the existence of a "force majeure" concept included in section 393.1655.7(7) further demonstrates the legislature's intent that the utility not be penalized for costs outside its control such as the extraordinary fuel cost increases experienced by EMW during this accumulation period.

The Company's proposal also avoids, for purposes of the fuel adjustment rate to be effective on September 1, 2022, exceeding the two percent CAGR cap applicable to large power customers under section 393.1655.6 which would be triggered if the Company includes the full $44.6 million in FAC-related costs in the fuel adjustment rate now, requiring excess amounts to be re-allocated to other customer classes for recovery.

Q: Will the Commission and the parties have an opportunity to review the prudence of the amounts deferred in the general rate case in which EMW seeks to recover the regulatory asset in rates?

A. Yes, the opportunity for prudence review and adjustment of the FAC amounts deferred under section 393.1655.5 is clearly preserved in the PISA legislation under section 393.1400.2(2). That statute provides that the regulatory asset shall be adjusted to reflect any prudence disallowances ordered by the Commission under the same processes used in general rate proceedings for rate-base additions.

[17] 20 CSR 4240-20.090(8)(A)2.A.(XI).

IV. SUMMARY

Q: Please summarize your testimony.

A. I explained that the fuel cost increases experienced by EMW during the six-month accumulation period ending May 31, 2022, were extraordinary and were significantly impacted by external factors outside of our control - including hyper-inflationary effects of the pandemic and Russia's war on Ukraine in addition to weather – clearly drivers that are beyond the control of EMW. I also explained how fuel cost increases since EMW's last general rate proceeding, including the Staff's proposed re-basing of fuel costs in EMW's base rates in its ongoing general rate proceeding, would cause EMW's rates to increase by an amount greater than the 3 percent CAGR rate cap applicable to EMW under the PISA legislation before consideration of any non-fuel cost increases experienced by EMW since its last general rate case. Finally, as section 393.1655.5 of the PISA statute requires deferral of FAC-related costs in excess of the 3 percent CAGR rate cap and because paragraph XI[18] of the Commission's FAC rule permits deferral of extraordinary fuel costs, EMW proposes to include $13.6 million of FAC-related costs in the fuel adjustment rate effective September 1, 2022, and defer the balance of $31 million for further treatment in a subsequent general rate case.

Q: Does this conclude your testimony?

A: Yes, it does.

[18] Id.