

## MEMORANDUM

**TO:** Missouri Public Service Commission Official Case File  
File No. ER-2023-0011, Tariff Tracking No. JE-2023-0005

**FROM:** Lisa Wildhaber, Lead Senior Utility Regulatory Auditor

/s/ Lisa Wildhaber      07/28/2022      /s/ Casi Aslin      07/28/2022  
Energy Resources Department / Date      Staff Counsel Department / Date

**SUBJECT:** Staff Recommendation for Rejection of Tariff Sheet Filed to Change Rates Related to Evergy Missouri West, Inc.’s, d/b/a Evergy Missouri West Fuel Adjustment Clause Pursuant to the Commission’s Report and Order in Case No. ER-2018-0146

**DATE:** July 28, 2022

### **Staff Recommendation**

On July 1, 2022, Evergy Missouri West, Inc., d/b/a Evergy Missouri West (“Evergy Missouri West” or “Company”) filed one (1) tariff sheet, 7th Revised Sheet No. 127.23, Canceling 6th Revised Sheet No. 127.23, bearing a proposed effective date of September 1, 2022, to revise Evergy Missouri West’s current annual Fuel Adjustment Rates (“FARs”) (lines 16 19, 22, and 25 on 7th Revised Sheet No. 127.23) of its Fuel Adjustment Clause (“FAC”). Evergy Missouri West also filed the direct testimony of Darrin R. Ives and Lisa A. Starkebaum on July 1, 2022, and submitted work papers to Staff in support of the direct testimony and filed tariff sheet.

Staff recommends the Commission issue an order rejecting the proposed tariff, 7<sup>th</sup> Revised Sheet No. 127.23, and direct Evergy Missouri West to file a substituted tariff sheet that includes the \$31 million fuel costs that Evergy Missouri West has proposed to defer to a Plant in Service Accounting (“PISA”) regulatory asset, which is explained further in the section entitled “PISA Deferrals” below. Under Commission Rule 20 CSR 4240-20.090(8) (H)3, the Commission can reject the proposed tariff sheets, suspend the timeline of the FAR adjustment filing, set a prehearing date, and order the parties to propose a procedural schedule. The Commission may order the electric utility to file tariff sheet(s) to implement interim adjusted FARs to reflect any part of the proposed adjustment that is not in question. If the Commission supports Staff’s position that the \$31 million in fuel costs must be included in the FAR filing, but timing prevents inclusion in the current FAR, Staff recommends including the \$31 million in the next FAR filing.

**PISA Deferrals Permitted Under Section 393.1400, RSMo, and Limitations**  
**on Rate Modifications Permitted Under Section 393.1655, RSMo**

On December 31, 2018, Evergy Missouri West elected to make the deferrals set forth in Section 393.1400.5 RSMo effective January 1, 2019 through, at least, December 31, 2023.

Relating to the \$44.6 million Fuel and Purchased Power Adjustment amount on line 11 of the proposed tariff, Mr. Ives states in his direct testimony:

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.<sup>1</sup>

It is Staff’s position that the 3% average overall rate cap computation required by PISA, which for this accumulation period is a CAGR cap of 11.6887%, prohibits using the amount of proposed re-based fuel costs under discussion in the current general rate case, which Evergy Missouri West’s submitted tariff sheets in that case have been suspended until December 6, 2022. Per Section 393.1655.3, the computation of PISA caps shall use “the electrical corporation’s average overall rate as of the date new base rates are set in the electrical corporation’s most recent general rate proceeding concluded prior to the date the electric corporation gave notice under section 393.1400...” Because of this statutory language, the Company is required to use the previous rate case revenue requirement to calculate PISA caps, instead of using proposed re-based fuel costs from the current rate case, which have not yet been set in new base rates. Staff agrees that the PISA cap calculation should include the impacts of the current and previous FAC accumulation periods, which is consistent with PISA rate cap calculations performed in previous filings and consistent with PISA statute requirements. Continued use of the 2018 rate case revenue to compute the average overall rate results in the Company not exceeding

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<sup>1</sup> Evergy Missouri West witness Darren Ives Direct Testimony, page 10 lines 8—17.

the 11.6887% CAGR overall cap, thus a PISA deferral is not required. However, appropriately including the \$31 million of fuel costs does cause the Company to exceed the Large Power 2% Cap, which for this accumulation period is a CAGR of 7.6850%. This would result in separate rates for Large Power customers and Non-Large Power customers.

Mr. Ives' testimony also states:

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.<sup>2</sup>

Staff's position is that these increased fuel costs are, unfortunately, the norm for all utilities for the current time period and not uniquely extraordinary or unusual for Evergy Missouri West. In addition, Staff reminds the Commission that approving the Company's request to defer the \$31 million to a subsequent general rate proceeding would result in the \$31 million not being in base rates for possibly up to four years from the completion of the Company's current general rate case, in compliance with RSMo 386.266.5.(3) requiring a utility to file a general rate case with effective dates of new rates to be no later than four years after the effective date of the Commission order implementing the adjustment mechanism. Further, the \$31 million would accrue interest over that entire period costing ratepayers much more.

### **Winter Storm Uri Resettlement Adjustments**

During this Accumulation Period 30 ("AP30") the Company included adjustments to the previously reported impact of Winter Storm Uri due to resettlements of both costs and revenues from the Southwest Power Pool ("SPP"). As explained in the Company's FAR filing for Accumulation Period 28, in order to identify the extraordinary costs associated with Winter Storm Uri, Evergy Missouri West established a baseline to approximate the normal conditions for the month of February 2021. They did so by calculating a three-year average baseline using actual February costs for the years 2018, 2019, and 2020 and compared to the actual costs and revenues that were incurred for February 2021. When compared to the three-year historic average for the

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<sup>2</sup> Darren Ives Direct Testimony page 12 lines 1—5.

month of February, with costs and revenues updated through February 2022 resulting from SPP resettlements, Evergy Missouri West incurred approximately \$296.6 million of extraordinary costs in excess of the three-year average. This amounts to a \$3.2 million increase from the \$293.4 million excluded from the previous 29<sup>th</sup> accumulation period. This \$3.2 million increase in Winter Storm Uri costs has been included in the current AP30 FAR calculation as the activity flowed through the general ledger in December 2021 and February 2022. In her direct testimony, Lisa A. Starkebaum explains that this is expected to be the final adjustment to February 2021 actual costs related to Winter Storm Uri, stating: “Yes, the Company does not expect any additional resettlements from SPP. Future adjustments due to Winter Storm Uri would be the result of a FERC order.”<sup>3</sup>

### **Accumulation Period 30 FARs**

The testimony and work papers include information supporting Evergy Missouri West’s calculation of the Fuel and Purchased Power Adjustment (“FPA”) amount of \$13,604,020 (line 11.2<sup>4</sup> of 7th Revised Sheet No. 127.23) for AP30 (December 1, 2021 through May 31, 2022) reflecting the sum of:

1. The amount of \$43,690,267 on line 7 of 7th Revised Sheet No. 127.23, which is equal to 95% of the difference between: a) Evergy Missouri West’s Missouri jurisdiction<sup>5</sup> Actual Net Energy Costs (“ANEC”) (fuel costs plus net emission costs plus purchased power costs plus transmission costs less off-system sales revenue less renewable energy credit revenue), and b) Evergy Missouri West’s Missouri jurisdiction Net Base Energy Cost;
2. The true-up amount<sup>6</sup> reflected on line 8 of 7th Revised Sheet No. 127.23, of \$522,660;
3. The interest amount reflected on line 9 of 7th Revised Sheet No. 127.23, of \$551,984;

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<sup>3</sup> Evergy Missouri West witness Lisa A. Starkebaum Direct Testimony page 9, lines 12-13.

<sup>4</sup> Line 11 is the FPA amount subject to prudence review, line 11.1 is the PISA amount deferred to a PISA regulatory asset account, and line 11.2 is the FPA amount subject to recover in true-up.

<sup>5</sup> See line 4 of 7th Revised Sheet No. 127.23 and definition of J on Original Sheet No. 127.21.

<sup>6</sup> The true-up amount was requested by Evergy Missouri West in its July 1, 2022 filing in File No. EO-2023-0010.

4. The Commission-ordered prudence adjustment amount from Case No. EO-2020-0262 reflected on line 10 of 7<sup>th</sup> Revised Sheet No. 127.23, of (\$160,892); and
5. The proposed PISA Deferral per Section 393.1400 reflected on line 11.1 of 7<sup>th</sup> Revised Sheet No. 127.23 of (\$31,000,000), as explained above.

The proposed Current Period Evergy Missouri West FAR of \$0.00157 per kWh (line 13 of 7<sup>th</sup> Revised Sheet No. 127.23) is equal to Evergy Missouri West's FPA amount of \$13,604,020 divided by the estimated Recovery Period 30 ("RP30")<sup>7</sup> Retail Net System Input ("RNSI") at the generator level<sup>8</sup> ("SRP") of 8,659,609,098 kWh (line 12 of 7<sup>th</sup> Revised Sheet No. 127.23).

Because of differences in line losses for secondary, primary, substation, and transmission voltage service levels,<sup>9</sup> tariff sheet lines 14, 17, 20, and 23 reflect different current period FARs for service taken at secondary, primary, substation, and transmission voltage service levels.

The Accumulation Periods, Recovery Periods, and other specifications of Evergy Missouri West's FAC for AP30 are set out in its tariff sheets identified in the following table:

<b>For Service Provided December 6, 2018 and Thereafter</b>
Original Sheet No. 127.13
Original Sheet No. 127.14
Original Sheet No. 127.15
Original Sheet No. 127.16
Original Sheet No. 127.17
Original Sheet No. 127.18
Original Sheet No. 127.19
Original Sheet No. 127.20
Original Sheet No. 127.21
Original Sheet No. 127.22

<sup>7</sup> RP30 includes September 1, 2022 through August 31, 2023.

<sup>8</sup> See definition of SRP on Original Sheet No. 127.22.

<sup>9</sup> The voltage adjustment factors (VAFs) for Evergy Missouri West for primary, secondary, substation and transmission voltage service levels are included on lines 26 through 29 of 7<sup>th</sup> Revised Sheet No. 127.23.

Listed below are Evergy Missouri West’s proposed Current Annual FARs on 7th Revised Sheet No. 127.23, and the Evergy Missouri West Current Annual FARs on 6th Revised Sheet No. 127.23 together with the changes between them for primary, secondary, substation, and transmission voltage service levels.

<b>Evergy Missouri West Current Annual Fuel Adjustment Rates \$ per kWh</b>			
<b>Service</b>	<b>Proposed 7th Revised Sheet No. 127.23</b>	<b>Currently Effective 6th Revised Sheet No. 127.23</b>	<b>Difference</b>
<b>Secondary</b>	\$0.00737	\$0.00650	\$0.00087 Increase
<b>Primary</b>	\$0.00726	\$0.00641	\$0.00085 Increase
<b>Substation</b>	\$0.00716	\$0.00632	\$0.00084 Increase
<b>Transmission</b>	\$0.00715	\$0.00631	\$0.00084 Increase

The proposed changes to FARs will result in an increase to the typical Evergy Missouri West residential customer’s monthly bill (based on 1,000 kWh) before taxes of \$0.87, i. e., from \$6.50 to \$7.37.

In her direct testimony Ms. Starkebaum states:

Evergy Missouri West’s Actual Net Energy Costs (“ANEC”), less the \$3.2 million in SPP resettlements of February 2021 related to Winter Storm Uri, exceeds the base energy costs included in base rates by approximately \$46 million. When compared to the prior 29<sup>th</sup> accumulation period, the ANEC are \$11.7 million lower in the 30<sup>th</sup> accumulation period than the previous 29<sup>th</sup> accumulation period. This is due to a \$9.1 million, or 7%, decrease in purchased power expense and lower fuel costs of \$10.7 million, or 8%, driven by 41% less generation including the sale of Renewable Energy Credits (“RECs”). The 30<sup>th</sup> accumulation period of December through May typically has lower retail load requirements than the previous 29<sup>th</sup> accumulation period of June through November. In December 2021, weather was warmer than normal by 305 heating degree days, resulting in a 7% decrease in demand. However, this decrease in demand was offset by higher natural gas prices. For December 2021 through May 2022, the published NYMEX natural gas contract settlement price averaged \$5.48, which is 22% higher than the \$4.51 averaged in June through November 2021.

Lastly, the Company experienced a decrease in off-system sales revenues of \$7.8 million, or 70%, compared to the prior 29<sup>th</sup> accumulation period.<sup>10</sup>

### **Staff Review**

Staff reviewed Evergy Missouri West's proposed 7th Revised Sheet No. 127.23, canceling 6<sup>th</sup> Revised Sheet No. 127.23, the direct testimony of Evergy Missouri West witnesses Lisa A. Starkebaum and Darrin R. Ives, and the work papers in this filing, in addition to Evergy Missouri West's monthly information reports filed in compliance with 20 CSR 4240-20.090(5) for AP30. Staff verified that the actual fuel and purchased power costs less off-system sales revenues match the fuel and purchased power costs less off-system sales revenues in Evergy Missouri West's proposed 7th Revised Tariff Sheet No. 127.23<sup>11</sup>. Staff reviewed Evergy Missouri West's monthly interest rates that are applied to 95% of the jurisdictional monthly cumulative under-/over- recovery of base fuel and purchased power costs for AP30 and verified that the monthly interest rates and calculations of monthly interest amounts are correct.

The information filed with the proposed tariff sheet and work papers includes sufficient data to calculate Evergy Missouri West's FARs based on the actual fuel, purchased power, emission allowance and transmission costs net of off-system sales revenue and renewable energy credit revenue provided by Evergy Missouri West for AP30.

Attachment A includes three charts providing a summary of Evergy Missouri West's thirty (30) FAC rate adjustment filings. Chart 1 illustrates a) Evergy Missouri West's actual net energy cost, net base energy cost and under- (over-) recovery amounts for each accumulation period, and b) that there have been twenty-five (25) accumulation periods with under-recovered amounts and five (5) accumulation periods with over-recovered amounts (AP10, AP16, AP17, AP18, and AP26). Chart 2 illustrates Evergy Missouri West's FAC cumulative under-recovered amount at the end of each accumulation period with the cumulative under-recovered amount through AP30 of approximately \$418 million. Chart 3 illustrates Evergy Missouri

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<sup>10</sup> Evergy Missouri West witness Lisa A. Starkebaum, Direct Testimony, pg. 6, ln. 20 through pg. 7, ln. 14.

<sup>11</sup> Due to resettlement adjustments for Winter Storm Uri, the actual December 2021 and February 2022 amounts are adjusted in this proposed 7th Revised Sheet No. 127.23.

West's FAC cumulative under-recovered percentage at the end of each accumulation period with the cumulative under-recovered percentage through AP30 of approximately 13%.

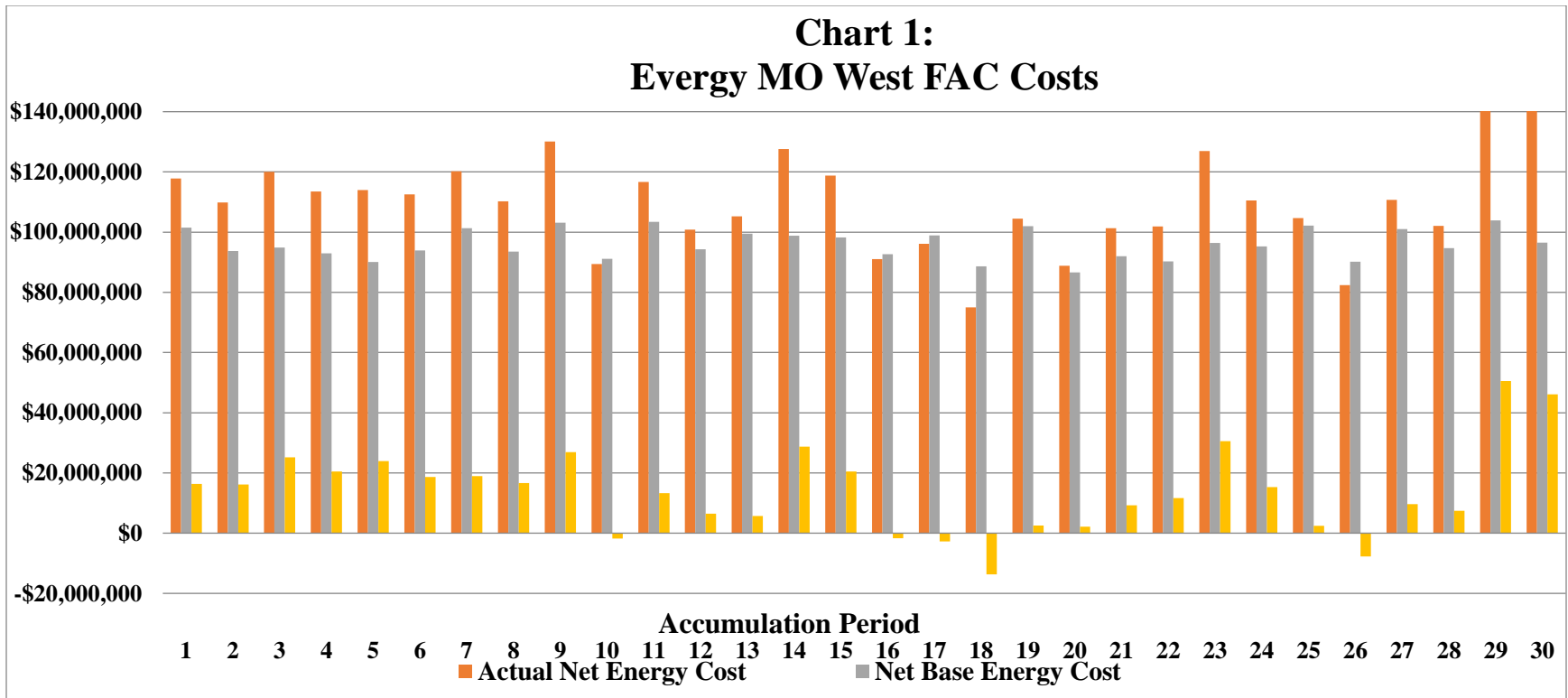
### **Staff Recommendation**

Evergy Missouri West requests that its proposed 7<sup>th</sup> Revised Sheet No. 127.23, cancelling 6<sup>th</sup> Revised Tariff Sheet No. 127.23, become effective on September 1, 2022. The Company filed the tariff sheet with 60 days' notice. Although the Company's filing is timely, for the reasons discussed above, Staff recommends that the Commission issue an order rejecting the proposed tariff rate sheets and issue an order directing Evergy Missouri West to file a substituted tariff sheet that includes the \$31 million costs in this AP 30 filing. If the Commission supports Staff's position that the \$31 million in fuel costs must be included in the FAR filing, but timing prevents inclusion in the current FAR, Staff recommends including the \$31 million in the next FAR filing.

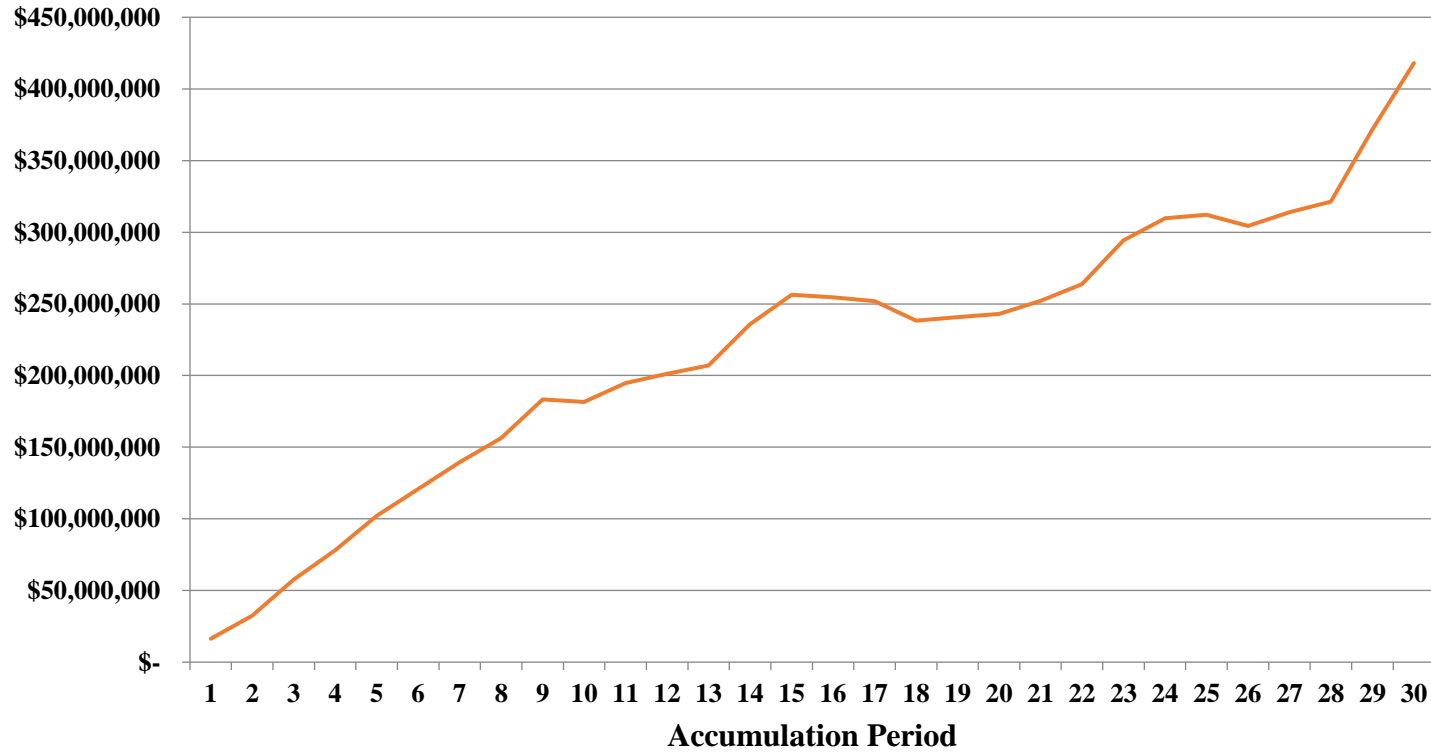
Staff has verified that Evergy Missouri West is not delinquent on any assessment and has filed its 2021 Annual Report. Evergy Missouri West is current on its submission of its Surveillance Monitoring reports as required in 20 CSR 4240-20.090(6) and its monthly reports as required by 20 CSR 4240-20.090(5). Except for Evergy Missouri West's RP26 true-up filing in File No. EO-2023-0010 (also filed on July 1, 2022) and File Nos. EU-2021-0283 and EF-2022-0155, which the overall impact is unknown at this time, Staff is not aware of any other matter pending before the Commission that affects or is affected by this tariff filing. Staff's recommendation for the Current Period FARs is based solely on the accuracy of Evergy Missouri West's calculations, and is not indicative of the prudence of the fuel costs during AP 30.







**Chart 2:  
Everygy MO West FAC Cumulative Under-Recovered Amount**



**Chart 3: Every MO West FAC Cumulative Under-Recovered Percent**

