

Exhibit No.:
Issue: Hedging
Witness: James Meitner
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Evergy Missouri Metro and Evergy
Missouri West
Case No.: ER-2022-0129 / 0130
Date Testimony Prepared: July 13, 2022

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2022-0129 / 0130

REBUTTAL TESTIMONY

OF

JAMES MEITNER

ON BEHALF OF

EVERGY MISSOURI METRO and EVERGY MISSOURI WEST

**Kansas City, Missouri
July 2022**

REBUTTAL TESTIMONY

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Case No. ER-2022-0129 / 0130

I. INTRODUCTION

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Q. Please state your name and business address.

A: My name is James Meitner. My business address is 818 S. Kansas Avenue, Topeka, Kansas.

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

A: I am employed by Evergy Kansas Central, Inc. and serve as Director Market Operations for Evergy Metro, Inc. d/b/a as Evergy Missouri Metro (“Evergy Missouri Metro”), Evergy Missouri West, Inc. d/b/a Evergy Missouri West (“Evergy Missouri West”), 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 as Evergy Kansas Central (“Evergy Kansas Central”) the operating utilities of Evergy, Inc.

Q: On whose behalf are you testifying?

A: I am testifying on behalf of Evergy Missouri Metro and Evergy Missouri West.

Q: What are your responsibilities as the Director Market Operations?

A: I oversee the day-to-day operations of the Evergy jurisdictions in the Southwest Power Pool’s Integrated Marketplace. My team is responsible for daily load and wind forecasts, demand bids, generation offers, natural gas fuel and transportation procurement, and real time communication between generating plants and SPP.

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

2 A: I graduated from Washburn University in 2004 with a Bachelor of Business Administration
3 in Finance and Economics. I graduated from Baker University in 2009 with a Master of
4 Business Administration. I began my utility career with Westar Energy, Inc. in 2004. I have
5 held several positions at Westar Energy, Inc. and Evergy, Inc., in power marketing (Evergy
6 Energy Partners) including Trading, Transmission Congestion Rights Manager, and
7 Manager of Real-Time Operations.

8 **Q: Have you previously testified in a proceeding at the Missouri Public Service**
9 **Commission (“MPSC” or “Commission”) or before any other utility regulatory**
10 **agency?**

11 A: I have not testified before the MPSC, but I have testified before the Kansas Corporation
12 Commission.

13 **Q: What is the purpose of your rebuttal testimony?**

14 A: The purpose of my rebuttal testimony is to respond to the direct testimony of Office of the
15 Public Counsel (OPC) witnesses John S. Riley and Lena M. Mantle regarding hedging.

16 **Q: In Ms. Mantle’s testimony, she states that hedging is a risky proposition. Does Evergy**
17 **consider hedging a risky proposition?**

18 A: No. In fact, Evergy considers a well-designed hedging strategy as a risk reducing exercise.
19 Regardless of a long or short energy position, taking all exposure to liquidation puts all
20 exposure at one price, similar to the “all your eggs in one basket” metaphor. By hedging a
21 portion of the position, the diversification of price/settlement exposure should be
22 considered risk reducing, not necessarily lowest price.

1 **Q: In Mantle’s testimony, she states Evergy’s past track record is not good. Why is this**
2 **irrelevant to the current hedging policy?**

3 A: I can’t speak in detail to the Great Plains Energy hedging process as I was not engaged. In
4 my discussions with the regulatory team, I can say we wouldn’t agree with Ms. Mantle’s
5 assertion of track record. Regardless, the attempt to compare the hedging programs is
6 intended to drive controversy and should be disregarded as the current hedging policy is
7 not an application of the previous Great Plains Energy hedging policy. Although it is a
8 different policy application, the same market products to be used are relevant today as they
9 were then. The hedging strategy and market products being utilized are straightforward
10 and very mainstream hedging practices commonly deployed across the electric utility
11 industry. Power and natural gas products are the most effective way to hedge fuel and
12 purchased power costs. As shared during the initial conversation of hedging with staff and
13 other stakeholders, access to all products is imperative to derive the most value for the
14 customer. Lack of liquidity, relative value when comparing available products, and
15 available generation capability all play into choosing a product that best helps reduce
16 floating price exposure in the market. The success of a hedging program should not solely
17 be measured by profit and loss, but also by price exposure reduction to the balance of the
18 jurisdictional portfolio.

19 **Q: Why is cross-hedging (use of natural gas derivatives to hedge purchased power)**
20 **important in a robust hedging strategy?**

21 A: There are several reasons Evergy believes cross-hedging is an important tool. First, solely
22 relying on the power markets is extremely difficult in SPP. There is very low liquidity in
23 power transactions and typically, those that do occur, are transacted at pricing hubs that

1 have no Missouri West and Metro pricing nodes included in their definition. Secondly,
2 financial natural gas transactions are a much cleaner settlement transaction than physical
3 natural gas transactions. When purchasing physical natural gas, the entity must take
4 possession of the natural gas on the pipeline. If SPP does not commit enough natural gas
5 generation to consume the physical natural gas, the entity may be forced to sell the long
6 natural gas position back on the pipeline at a price that includes penalty rates. Third,
7 according to the SPP market monitoring unit's 2021 annual market report, electricity prices
8 generally follow gas prices. Whether or not a utility is physically burning natural gas at an
9 owned generator when short generation to load when natural gas in on the margin, that
10 utility is exposed to the price of natural gas without a hedging program. This hedging
11 program, with the inclusion of cross-hedging, will reduce the price exposure the customer
12 has in those instances.

13 **Q: Why does Evergy believe cross-hedging is necessary in the hedging policy?**

14 A: As discussed earlier, a hedging policy is designed to reduce settlement statement price
15 exposure. A hedging policy is not about reliability or necessarily creating electricity. For
16 example, in 2021, Evergy Missouri West relied on 48.5% of capacity from natural gas and
17 oil. However, natural gas and oil only accounted for 3% of Evergy Missouri West's energy
18 in the same time frame. Whether the demand bid is covered by natural gas, a fuel purchase
19 or purchased power from the market, it is a floating risk. As pointed out above, electricity
20 prices generally follow gas prices. Therefore, an effective hedge to floating price exposure
21 would be either financial or physical natural gas or power. Due to low liquidity in the
22 bilateral power market, it is imperative that natural gas products be used as a hedging
23 product.

1 **Q: In 2016, Riley stated that it wasn't prudent to hedge given consistent low natural gas**
 2 **price levels, the lack of significant volatility, and the lack of concern about potential**
 3 **significant natural gas prices. Have things changed since then?**

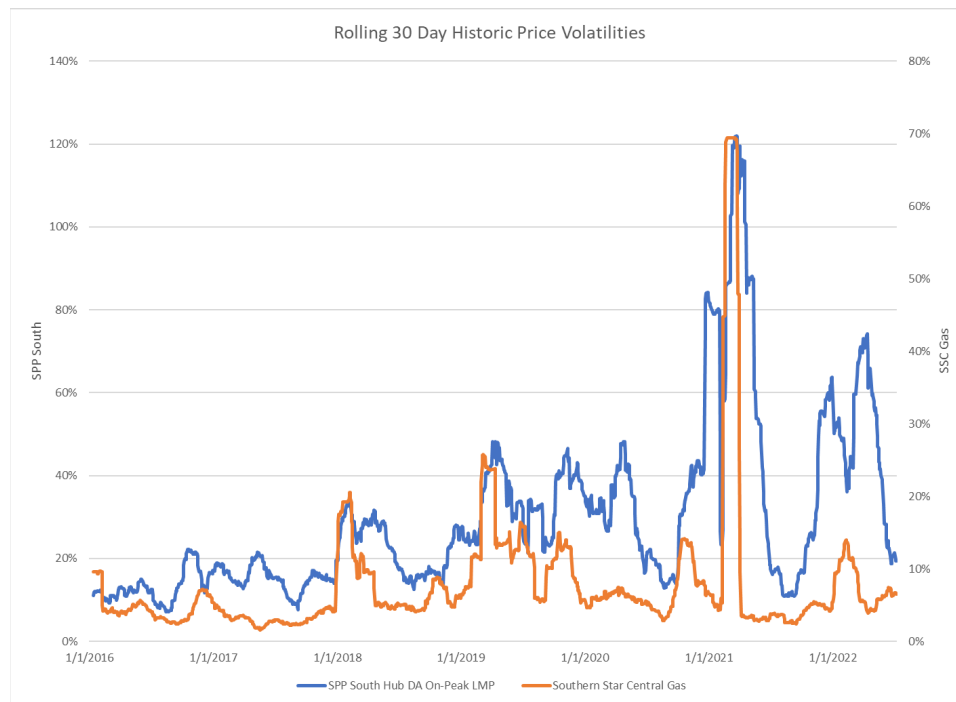
4 **A:** Yes. Natural gas price levels are significantly higher and volatility in these markets is
 5 significant when compared to 2016. As shown in the below table, the average yearly prices
 6 at the Southern Star Natural Gas Index have increased significantly when comparing 2021
 7 and 2022 to 2016.

Year	Southern Star Natural Gas Index Yearly Average/MMBtu	% increase from 2016
2016	\$2.27	
2021	\$3.47*	53%
2022	\$5.34^	135%

*Excludes February 2021 data
 ^January through May 2022

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10 These higher prices directly impact the prices of the purchased power market.
 11 Additionally, volatility in both natural gas and power is greater than what we saw in 2016
 12 when looking at the rolling 30-day historical price volatilities



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1 Given this volatility, price increases, and net positions (forecasted non-gas generation vs.
2 forecasted load), reducing floating price exposure is only achieved through a fixed price
3 power or natural gas product.

4 **Q: Do you agree with OPC witness Riley's response in 2016 stating hedging for**
5 **purchased power is unnecessary?**

6 A: No, I do not. OPC states they are not aware of any other Missouri electric utility that
7 engages in this type of purchased power hedging. If GMO's practice of hedging purchased
8 power price volatility was a reasonable and prudent utility practice, it would be employed
9 by other Missouri electric utilities. I think it is important to note that not all Missouri
10 electric utilities have the same portfolio make up and don't have the same market
11 exposures. Therefore, employing the same policy to a different portfolio make up would
12 be imprudent. Evergy Missouri West has a different exposure than Evergy Metro and those
13 entities have different exposures than other electric utilities. That is why it is important to
14 understand the forecasted volumetric risk and make decisions to reduce that.

15 **Q: Will stakeholders get an opportunity to evaluate the effectiveness of the hedging**
16 **program?**

17 A: Yes. Hedges will get evaluated in each 6-month FAC accumulation period review by the
18 parties and commission. Again, the strategy is clearly to diversify price exposure and not
19 to fix all prices at one price point.

20 **Q: Why does Evergy feel it is more appropriate to include hedging impacts in the**
21 **prudency review of the FAC rather than in rate cases?**

22 A: Gains and losses associated with hedging activity flowing through the FAC is timelier and
23 more appropriate. If gains and losses associated with hedging activities are handled

1 through rates, there is a mismatch of timing compared to the fuel and purchased power
2 costs incurred. Future customers would get the benefit or detriment of hedging activity
3 that occurred for a different time period. Recovery of gains and losses through rates or
4 through the FAC will not change Evergy's approach to monitoring and evaluating the
5 program and making necessary changes as warranted. Evergy stated in the notice to resume
6 fuel hedging that it will work with parties in its pending rate cases to address any necessary
7 changes needing to be made to the company's Fuel Adjustment Clause tariffs to allow
8 hedging settlements and costs to be included in the tariffs. Defining hedging as bad or poor
9 just because it was an additional cost is incorrect. The value achieved versus the cost
10 should absolutely be balanced. If Staff or OPC has an opinion or recommendation about
11 the amount of hedging activity that should occur, Evergy fully supports the open dialogue
12 to arrive at a hedging policy that is defined as prudent by all parties.

13 **Q: Does Evergy support ongoing conversations about the hedging program with Staff**
14 **and other stakeholders?**

15 A: Yes, Evergy encourages ongoing communication and education about the hedging
16 program. This conversation will ensure all parties are on the same page about the risk
17 reducing value of the hedging activity.

18 **Q: Do you believe it is prudent to have a hedging program?**

19 A: Yes. It is important to have the ability to diversify pricing risk, most notably in higher
20 price, higher volatility markets. Understanding the unique net positions of a portfolio help
21 drive prudent hedging decisions. It is worth repeating that hedging activity is not intended
22 to "make money" or lock in the lowest price. It is not possible to predict the moves in the
23 natural gas and power markets. Rather, a hedging program provides diversification of

1 pricing exposure that should help lower volatility in fuel and purchased power when
2 compared to no hedging.

3 **Q: Does that conclude your testimony?**

4 A: Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Evergy Metro, Inc. d/b/a Evergy)
Missouri Metro's Request for Authority to) Case No. ER-2022-0129
Implement A General Rate Increase for Electric)
Service)


In the Matter of Evergy Missouri West, Inc. d/b/a)
Evergy Missouri West's Request for Authority to) Case No. ER-2022-0130
Implement A General Rate Increase for Electric)
Service)

AFFIDAVIT OF JAMES MEITNER

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

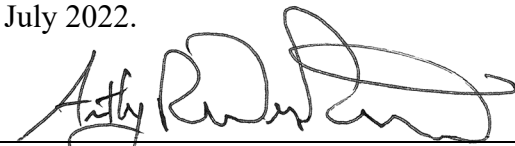
James Meitner, being first duly sworn on his oath, states:

1. My name is James Meitner. I work in Topeka, Kansas, and I am employed by Evergy Kansas Central, Inc. as Director Market Operations.
2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Evergy Missouri Metro and Evergy Missouri West consisting of eight (8) 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.



James Meitner

Subscribed and sworn before me this 13th day of July 2022.



Notary Public

My commission expires: 4/26/2025

