BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

In the Matter of the Application of Evergy Missouri West, Inc. d/b/a 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-2023-0210

RESPONSE TO FILED TARIFFS AND STAFF RECOMMENDATION

COMES NOW the Office of the Public Counsel ("OPC") and for its *Response to Filed Tariffs and Staff Recommendation*, states as follows:

1. On December 30, 2022, Evergy Missouri West, Inc. d/b/a Evergy Missouri West ("Evergy West" or "the Company") filed a proposed rate schedule to adjust charges related to the Company's approved Fuel Adjustment Clause ("FAC").

2. On January 3, 2023, the Commission issued an *Order Directing Notice and Setting Deadlines for Intervention Applications and Staff's recommendation* that included, among others, an order that "[a]ny response to Evergy West's proposed fuel adjustment rate and/or proposed true-up amount from the Office of the Public Counsel and other parties shall be filed no later than February 8, 2023, as provided by 20 CSR 4240-20.090(8) and (9)."

3. On January 30, 2023, The Staff of the Missouri Public Service Commission ("Staff") filed its *Recommendation* in response to Evergy's proposed FAC rate schedule

4. Pursuant to this order and 20 CSR 4240-20.090(8) and (9), the OPC now files this response to Evergy's proffered rate schedule and Staff's *Recommendation* regarding the same.

5. The Commission should reject the rate schedule filed by Evergy West because that rate schedule shows the Company has calculated its Fuel and Purchase Power Adjustment ("FPA") to include extraordinary costs that should not be included in Evergy West's FPA, but rather, should be deferred for recovery until the Company's next general rate case.

Precedent for Deferral of Extraordinary Costs

6. Evergy West has previously sought and received deferral of "extraordinary" costs that would otherwise have been recovered through the company's FAC. In case ER-2022-0005, Evergy West witness Lisa A. Starkebaum filed testimony stating as follows:

> **Q: Please explain the adjustment to February 2021 actual costs incurred as a result of Winter Storm Uri.**
>
> A: 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. In order to approximate more historic normal conditions in the month of February, the Company calculated a three-year average baseline using actual February costs for the years 2018, 2019 and 2020 for fuel, purchased power costs, emissions, transmission expense and off-system sales revenues and compared the actual costs and revenues that were incurred for February 2021 to that three-year average. When compared to the three-year historic average for the month of February, Evergy Missouri West incurred approximately $297.3 million of extraordinary costs in excess of the three-year average. **This amount has been excluded from the FAR calculation and is the amount that Evergy will request to be deferred through the AAO.** The three-

> year historic average baseline replaces the February 2021 actual costs in this six-month accumulation period of December 2020 through May 2021 for purposes of this FAR filing and is more reflective of the amount of fuel and purchased power costs that would have been expected absent Winter Storm Uri.

Direct Testimony of Lisa A. Starkebaum, pg. 7 lns. 1 – 18, ER-2022-0005, EFIS Item No. 2 (emphasis added).

7. The Commission acknowledged this deferral in its *Order Approving Fuel Adjustment True-Up and Approving Tariff to Change Fuel Adjustment Rates* issued in the same case:

> Staff notes that because of the effects of the cold weather event of February 2021, Evergy West's actual total energy costs eligible for recovery through its FAC were significantly higher than the base energy costs included in its rates. **<u>Evergy West has elected to seek approval to defer $297,316,445 in "extraordinary costs" for future recovery through an Accounting Authority Order</u>**. That application is pending in File No. EU-2021-0283.

Order Approving Fuel Adjustment True-Up and Approving Tariff to Change Fuel Adjustment Rates, pg. 2 n. 1, ER-2022-0005, EFIS Item No. 6 (emphasis added).

8. Even more specifically, this Commission has expressly found that deferral of "extraordinary" costs is authorized by its rules:

> Liberty provided testimony that for the Accumulation Period from March 2021 through August 2021, Liberty's total energy costs eligible for the FAC have been higher than the base energy cost included in the Company's Missouri rates by approximately $41,638,809. Under normal circumstances, Liberty would file a FAC rate tariff designed to recover 95 percent of the energy cost differences, or approximately $39,556,868. However, due to "extraordinary costs" resulting from the February 2021 cold weather event (Winter Storm Uri), Liberty is seeking approval to

> defer collection of $23,644,802 of its total energy costs until its next general rate case, **<u>as it is allowed to do under Commission Rule 20 CSR 4240-20.090(8)(A)2.A(XI)</u>**.

Order Approving Tariff and Approving Annual Adjustment Clause True-Up, pg. 2, ER-2022-0095, EFIS Item No. 8 (emphasis added).

9. The rule cited by the Commission reads as follows: "When an electric utility files with the commission tariff sheet(s) to change its fuel adjustment rates and serves it upon parties, the filed tariff sheet(s) shall be accompanied by— . . . [t]he following information in electronic format, where available, with formulas intact: . . . [f]or the period of historical costs which are being used to propose the fuel adjustment rates— . . . [e]xtraordinary costs not to be passed through, if any, due to such costs being an insured loss, or subject to reduction due to litigation or for any other reason[.]" 20 CSR 4240-20.090(8)(A)2.A(XI).

10. Based on the Commission's prior interpretation of this rule, costs deemed "extraordinary" are not to be passed through the FAC, but rather, are to be deferred to the utility's next rate case. *See Order Approving Tariff and Approving Annual Adjustment Clause True-Up*, pg. 2, ER-2022-0095, EFIS Item No. 8; 20 CSR 4240-20.090(8)(A)2.A(XI).

<u>Evidence of Extraordinary Costs Included in Evergy West's FPA Calculation</u>

11. There are at least three obvious factors that demonstrate that Evergy West has included extraordinary costs in its FPA calculation.

12. The first is the testimony Evergy West's witness Mr. Darin R. Ives filed in this case.

13. Mr. Ives clearly states that Evergy West's recent fuel and purchase power costs have increased "dramatically" due to causes that are "**extraordinar**y and are the product of external factors beyond the Company's control." *Direct Testimony of Darrin R. Ives*, pg. 3 lns. 9 – 14, ER-2023-0210, EFIS Item No. 3 (emphasis added).[1]

14. Mr. Ives then proceeds to provide nearly four and a half pages of testimony meant to describe the "extraordinary" nature of the Company's fuel and purchase power costs. *Id.* at pgs. 4 – 8.

15. This testimony clearly demonstrates how the Company itself considers the fuel and purchase power costs related to this accumulation period to be extraordinary.

16. The second factor is the sheer size of the fuel and purchase power costs included the calculation of the Company's FPA.

17. As shown in memorandum prepared by the OPC's witness Ms. Lena M. Mantle, which is attached as exhibit 1 to this filing, "the cost to be recovered (tariff sheet line 7) from the six months of AP 31, $101,492,930, is more than the combined

[1] The OPC does not concur that the "extraordinary" factors driving Evergy West's fuel and purchase power costs are truly "beyond the Company's control." Evergy West is experiencing extraordinary fuel and purchase power costs, but these are the result of Evergy West's business management decisions regarding its resource planning. However, this point is not material to the nature of this filing and so will not be discussed further here.

costs to be recovered the 12 months of AP 29 and 30 of $91,549,219." Lena M. Mantle, *Memorandum*, exhibit 1, pg. 1.

18. To reiterate, Evergy West is currently seeking to recover more fuel and purchase power costs in this FAC accumulation period than it sought to recover in the two immediately preceding accumulation periods **combined**. *Id.*

19. An increase in fuel and purchase power costs of this scale should, on its face, be considered extraordinary.

20. The third factor to consider in determining whether the fuel and purchase power costs of the current accumulation period are extraordinary concerns the application of the Uniform System of Accounts ("USOA").

21. As explained in the attached memorandum, the USOA provides guidelines that instruct when an expense item should be considered extraordinary. Lena M. Mantle, *Memorandum*, exhibit 1, pg. 2.

22. In particular, the USOA states: "[t]o be considered as extraordinary under the above guidelines, an item should be more than approximately 5 percent of income, computed before extraordinary items." *Id.*

23. Per the calculations performed by the OPC's witness, "[f]ive percent of Evergy West's gross income in 2021 was $42,194,549." *Id.*

24. The fuel and purchase power costs to be recovered in the present FAC accumulation period, which amounts to $101,492,930, is more than double the 5% threshold found in the USOA. *Id.* at pgs. 1 – 2.

25. For all three of the reasons thus laid out, there can be absolutely no question that the fuel and purchase power costs included in Evergy West's calculation of the FPA for this accumulation period include extraordinary costs.

<u>Calculation of the Extraordinary Costs that should be removed from Evergy West's FPA</u>

26. In order to calculate the extraordinary costs that should be removed from Evergy West's FPA, the OPC employed the same methodology used by Evergy West itself in case ER-2022-0005. *See Direct Testimony of Lisa A. Starkebaum*, pg. 7 lns. 1 – 18, ER-2022-0005, EFIS Item No. 2.

27. Specifically, the OPC used a three-year average of the actual net energy costs for the same June through November time period for the previous three years. Lena M. Mantle, *Memorandum*, exhibit 1, pgs. 2 – 3.

28. Using this method results in normalized net energy costs of $123,222,900, which is considerably less than the $213,352,427 in actual net energy costs incurred by the Company during in this accumulation period. *Id.* at 3.

29. As explained in a previous case by Evergy's witness Ms. Starkebaum, this three year average "is more reflective of the amount of fuel and purchased power costs that would have been expected absent" the extraordinary circumstances described by Evergy witness Mr. Ives. *Direct Testimony of Lisa A. Starkebaum*, pg. 7 lns. 1 – 18, ER-2022-0005, EFIS Item No. 2.

30. Using this three-year average to calculate the proper FPA for this FAC rate change case results in a recovery amount of $18,755,192. *Id.*

31. This roughly $19 million dollar amount represents the proper FPA necessary to recover just the non-extraordinary fuel and purchase power costs Evergy West incurred during this accumulation period. *See Direct Testimony of Lisa A. Starkebaum*, pg. 7 lns. 1 – 18, ER-2022-0005, EFIS Item No. 2.

32. Subtracting this from the $104,175,279 FPA that would otherwise be billed (if the extraordinary costs are left in the calculation) leaves a balance of $85,420,087 as the amount of extraordinary costs that should be deferred pursuant to 20 CSR 4240-20.090(8)(A)2.A(XI). Lena M. Mantle, *Memorandum*, exhibit 1, pg. 3.

Evergy's Rate Schedule Should be Rejected and a new Rate Schedule Ordered with the Proper Deferral

33. The Commission should reject Evergy's proffered rate schedule because it seeks recovery of $85,420,087 in extraordinary costs that should instead be deferred for consideration in a later rate case. 20 CSR 4240-20.090(8)(A)2.A(XI).

34. This is consistent with the Company's own request in prior cases, the testimony provided in this case, and the Commission's decisions in previous cases. *See Direct Testimony of Lisa A. Starkebaum*, pg. 7 lns. 1 – 18, ER-2022-0005, EFIS Item No. 2; *Direct Testimony of Darrin R. Ives*, pg. 3 lns. 9 – 14, ER-2023-0210, EFIS Item No. 3; *Order Approving Tariff and Approving Annual Adjustment Clause True-Up*, pg. 2, ER-2022-0095, EFIS Item No. 8.

35. The Commission should therefore order Evergy West to file a substitute rate schedule with an FPA of $18,755,192 and order the remaining balance of $85,420,087 to be deferred for consideration in a future rate case.

WHEREFORE, the Office of the Public Counsel respectfully requests the Commission order Evergy West to file a substitute rate schedule with an FPA of $18,755,192 and order the remaining balance of $85,420,087 to be deferred for consideration in a future rate case and to grant any other such relief as is reasonable under the circumstances.

Respectfully submitted,

By: /s/ John Clizer

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CERTIFICATE OF SERVICE

I hereby certify that copies of the forgoing have been mailed, emailed, or hand-delivered to all counsel of record this eighth day of February, 2023.

/s/ John Clizer