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Issue(s):	FAC Rate/PISA
Witness/Type of Exhibit:	Mantle/Rebuttal
Sponsoring Party:	Public Counsel
Case No.:	ER-2023-0011

REBUTTAL TESTIMONY

OF

LENA M. MANTLE

Submitted on Behalf of the Office of the Public Counsel

EVERGY MISSOURI WEST, INC. D/B/A EVERGY MISSOURI WEST

CASE NOS. ER-2023-0011

September 21, 2022

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REBUTTAL TESTIMONY

OF

LENA M. MANTLE, P.E.

EVERGY MISSOURI WEST, INC.
CASE NO. ER-2023-0011

Q. What are your name and business address?

A. My name is Lena M. Mantle and my business address is P.O. Box 2230, Jefferson City, Missouri 65102.

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

A. I am employed by the Missouri Office of the Public Counsel ("OPC") as a Senior Analyst.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the OPC.

Q. To whose direct testimony are you responding?

A. I am responding to the direct testimony of the Evergy Missouri West, Inc. ("Evergy West") witness Darrin R. Ives.

Q. Would you summarize your rebuttal testimony?

A. Darrin R. Ives' direct testimony outlines Evergy West's attempt to manipulate its fuel adjustment charge ("FAC") rate to avoid rate caps that Evergy West accepted when it elected plant in-service accounting ("PISA").[1] My rebuttal testimony to Mr. Ives' direct testimony will explain:

1. Why Evergy West's fuel and purchased power costs incurred in accumulation period 30 ("AP 30") in its FAC rate adjustment mechanism do not trigger a PISA deferral as required by section 393.1655.5;
2. The impact on customers if the Commission orders a deferral as requested by Evergy West;

[1] Evergy West elected PISA on December 31, 2018 in Case No. EO-2019-0045.

3. Why Evergy West's fuel and purchased power costs incurred in AP 30 of its FAC rate adjustment mechanism were not extraordinary but are the direct result of the resource acquisition decisions of Evergy West; and
4. How the timing aspects of this case are critical for customers to receive the customer protections in section 393.1655.3.

Q. What are your experience, education, and other qualifications?

A. I began employment at the OPC in my current position as Senior Analyst in August 2014. In this position, I have provided expert testimony in electric, natural gas, and water cases before the Commission on behalf of the OPC. I am a Registered Professional Engineer in the State of Missouri.

Prior to my employment by the OPC, I worked for the Staff of the Missouri Public Service Commission ("Staff") from August 1983 until I retired as Manager of the Energy Unit in December 2012. During my employment at the Missouri Public Service Commission ("Commission"), I worked as an Economist, Engineer, Engineering Supervisor, and Manager of the Energy Unit. After the Missouri Legislature passed section 366.266, RSMo. in 2005, enabling the electric utilities to request a FAC, I was instrumental in the development and application of the Commission's FAC rules and the FACs of the electric utilities in Missouri. I have provided testimony regarding FACs in numerous general rate cases, FAC rate change cases, and FAC prudence cases, both during my time on the Commission Staff and since my employment at the OPC.

Attached as Schedule LMM-R-1 is a brief summary of my experience with the OPC and Staff, and a list of the Commission cases in which I filed testimony, Commission rulemakings in which I participated, and Commission reports in rate cases to which I contributed as Staff. Attached as Schedule LMM-R-2 is the *Electric Utility Fuel Adjustment Clause in Missouri: History and Application Whitepaper* that provides the background and a description of various aspects of the FAC in Missouri.

Attached as Schedule LMM-R-3 is the *Resource Planning of a Vertically Integrated Utility in the RTO World* whitepaper that explains how resource planning has changed with the advent of regional transmission organizations ("RTO") such as the Southwest Power Pool ("SPP"). This whitepaper explains how a change in the resource acquisition priority from "providing reliable service at reasonable rates" prior to the advent of RTOs to "make money from the energy market to lower customers' rates" since the creation of RTO energy markets can result in volatile bills for customers.

Q. Would you summarize what is at issue in this case?

A. Evergy West is attempting to manipulate its FAC rate to avoid legislatively imposed PISA caps. Evergy West is required to file to change its FAC rate every six months to account for the difference between the actual fuel and purchased power costs it incurred over a six-month time period and the fuel and power costs that it recovered through its permanent rates in that six months. In this case, Evergy West is filing to change its FAC rate to account for the difference between the fuel and purchased power costs it incurred and the costs included in permanent rates for its AP 30, which consisted of the six-month time period between December 1, 2021 through May 31, 2022. Because Evergy West elected for PISA treatment, the rates it can charge for electric service allow Evergy West to increase shareholder earnings from plant investments. In return for this favorable treatment, Evergy West's average overall rate is subject to caps imposed by sections 393.1655.3 and 393.1655.5 RSMo. Evergy West is trying to manipulate its FAC rate to avoid these caps by deferring a portion of the costs incurred during AP 30.

Q. What was the amount of plant investment in PISA deferral regulatory asset included Evergy West's current rate case?

A. The Plant in Service PISA deferral in Staff's true-up accounting schedules is $44.8 million.[2]

Q. How is Evergy West attempting to manipulate its FAC rate in this case?

A. Evergy West witness Darrin R. Ives presents an argument to avoid the assessment of a performance penalty against Evergy West in the current general rate case, Case No. ER-2022-0130, by artificially lowering the rate that would be charged in this current FAC rate increase case.[3] In his testimony, Mr. Ives claims that the costs in Evergy West's FAC AP 30 were extraordinary[4] and requests a deferral under the plant in-service accounting legislation ("PISA statute") for $31 million of the fuel and purchased power amount ("FPA") in this case.[5] However, the costs Evergy West seeks to defer are not extraordinary nor does his argument actually rely on that contention. Instead, Mr. Ives uses the potential increase in the currently pending general rate case, ER-2022-0130, to justify his request by inappropriately claiming that the deferral mechanism of section 393.1655.5 is triggered even though that potential rate case increase (1) has not yet occurred, and (2) is not subject to the FAC regardless.

Mr. Ives argument is wrong because the inclusion of the entire FPA prior to the effective dates of the revenue requirement increase in the *current* general rate case does not meet the trigger for the deferral of FAC costs in the PISA statute. By requesting the deferral of FAC costs to reduce Evergy West's FAC rates even though it does not meet the requirements for deferral under the PISA statute, Mr.

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[2] ER-2022-0130, Staff Accounting Schedules, Accounting Schedule 02, page 1 of 1, line 16. Filed on August 25, 2022.
[3] Direct testimony of Darrin R. Ives, page 11 lns. 12 – 16.
[4] Direct testimony of Darrin R. Ives, page 2 lns. 16 – 21.
[5] *Id.*

Ives is attempting to avoid the assessment of a performance penalty against Evergy West in the current rate case, Case No. ER-2022-0130.[6]

Costs Incurred Do Not Trigger a PISA Deferral

Q. What provisions of the PISA statute are at play in this case?

A. Mr. Ives bases his argument on two subsections of section 393.1655 RSMo. that limit the increases in costs passed on to customers.[7] The first provision, section 393.1655.3, provides a general limit to rate increases for electric utilities that have elected PISA:

> 3. This subsection shall apply to electrical corporations that have a general rate proceeding pending before the commission as of the later of February 1, 2018, or August 28, 2018. If the difference between (a) the electrical corporation's average overall rate at any point in time while this section applies to the electrical corporation, and (b) 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 electrical corporation gave notice under section 393.1400, <u>reflects a compound annual growth rate of more than three percent, the electrical corporation shall not recover any amount in excess of such three percent as a performance penalty</u>.

(Emphasis added).

My understanding of this provision is that, for any applicable electric utility that elects PISA, any increase the utility's average overall rate cannot result in rate that is greater than its base average rate with a compound annual growth rate ("CAGR") of 3%. If the increase in revenue requirement in a general rate case results in an increase in the utility's average overall rate that is greater than the CAGR of 3%, then the electric utility cannot recover its revenue requirement above the CAGR of 3% in rates set in the general rate case. Evergy West is seeking to manipulate costs included in its FAC in this case to avoid a performance penalty in the general rate case.

[6] Direct testimony of Darrin R. Ives, page 11 lns. 12 – 16.
[7] Direct testimony of Darrin R. Ives, pages 10 – 12.

Q. What is the other provision of the PISA statute referenced by Mr. Ives that limits rate increases for electric utilities choosing PISA?

A. The other provision of section 393.1655 referenced by Mr. Ives that limits rate increases is as follows:

> 5. If a change in any rates charged <u>under a rate adjustment mechanism approved by the commission under sections 386.266 and 393.1030</u> would cause an electrical corporation's average overall rate to <u>exceed the compound annual growth rate limitation</u> 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. <u>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</u> 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.

(Emphasis added).

This provision is different from the prior provision in that if the 3% CAGR cap is exceeded due to the change in rates charged under one of two specific rate adjustment mechanisms, the amount to be included in the rate adjustment mechanism rate is to be reduced so the average overall rate meets the CAGR cap. Costs not recovered due to this cap are deferred and included in a regulatory asset, earning the weighted average cost of capital ("WACC") until the next general rate case in which it would be included in the revenue requirement of that case.

Q. Is the FAC a rate adjustment mechanism as defined in this section of the PISA statute?

A. Yes. It is a mechanism that has been approved by the Commission under section 386.266. Therefore, if an increase in the FAC rate due to costs included in the FAC causes the PISA average overall rate to be greater than the 3% CAGR, the amount included in the FAC is reduced to the 3% CAGR and the costs not collected through the FAC are deferred until the next rate case. This deferral of expenses would be treated as capital costs earning interest at the WACC until collected from customers.

Q. What is a compound annual growth rate?

A. A compound annual growth rate ("CAGR") is the annualized average rate of growth across time taking into account the growth that has already occurred. At the end of the first year, the CAGR is 3%. At the end of the second year, the CAGR cap is an increase of 6.09%.[8] At the end of the third year, the rate cap CAGR is 9.2727% and at the end of the fourth year the cap is 12.5509%.

Q. Can CAGR be calculated for a date other than the end of a year?

A. Yes. Evergy West includes a calculation of the daily CAGR in its workpapers provided in each FAC rate change case. The daily 3% CAGR for each day from December 6, 2018, through December 6, 2022, can be found on pages 7 through 20 of 63 of Schedule LMM-R-4.[9]

Q. Mr. Ives states in his direct testimony that the CAGR applicable to Evergy West is 12.55%.[10] Is this the CAGR for the average overall rate in this FAC rate change case?

A. No. The CAGR was 11.69% on September 1, 2022,[11] the effective date of the proposed FAC tariff sheet filed by Evergy West. On September 21, 2022, the date that this testimony will be filed, the CAGR will be 11.87%.[12] If tariff sheets are

[8] As provided by Evergy West in its workpaper "West PISA Calc CAGR – May 2022", tab "CAGR" provided by Evergy West when it filed this case.
[9] Schedule LMM-R-4 is Evergy West's response to OPC data request 8000 asking how Evergy West determined the amount of deferral it requested. It consists of the written response and four spreadsheets. The same daily CAGRs are provided in three of the spreadsheets. The pages referenced are where the daily values can be found in the first spreadsheet "West PISA Calc CAGR – May 2022 wo defer."
[10] Page 11.
[11] Page 19 of 63 of Schedule LMM-R-4.
[12] Page 19 of 63 of Schedule LMM-R-4.

effective on the date requested in the schedule of this case, December 1, 2022, the CAGR will be 12.51%.[13]

Q. What is the date for the CAGR will 12.55%?

A. On December 6, 2022, the CAGR will be 12.55%.[14]

Q. What is the significance of December 6, 2022?

A. It is the effective dates of Evergy West's proposed tariff sheets filed in its general rate case, ER-2022-0130. This is the critical date for Evergy West because, if the Commission does not defer the $31 million of FPA costs, a performance penalty will be assessed on Evergy West and its revenue requirement increase in ER-2022-0130 will be capped at a CAGR of 12.55%.

Q. Would you explain how the percentage increase in the average overall rate for PISA is calculated?

A. The starting point for the average overall rate is the average rate charged customers at the end of Evergy West's last rate case. The calculation of this rate is shown under the heading of "Average Overall Rate Effective December 6, 2018" shown in the top left side of page 4 of 63 provided as Schedule LMM-R-4.[15] The Average Overall Rate takes into account the revenue requirement set in the last rate case, Case No. ER-2018-0146, and the revenue collected through two rate adjustment mechanisms that were in effect on December 6, 2018: (1) the renewable energy standard rate adjustment mechanism ("RESRAM")[16] and (2) the FAC rate adjustment mechanism[17] which includes revenues for two FAC accumulation periods AP 21 and AP 22.[18] Evergy West calculates the Average Overall Rate at

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[13] Page 20 of 63 of Schedule LMM-R-4.
[14] Page 20 of 63 of Schedule LMM-R-4.
[15] Provided to OPC in response to OPC data request 8000 asking how the $31 million deferral amount was calculated. Evergy West's response to this data request is provided in full as Schedule LMM-R-4.
[16] Commission approved under section 393.1040 RSMo.
[17] Commission approved under section 386.266 RSMo.
[18] The FAC accumulation periods are six months. The costs are recovered over a 12-month recovery period. Therefore, the FAC rate includes cost recovery for two accumulation periods.

the date base rates were set in the last general rate proceeding concluded prior to when Evergy elected PISA under section 393.1400 (ER-2018-0146) to be $0.09367/kWh.

The average overall rate calculation for Evergy West's FAC rate that should be ordered in this case is shown on that same page, page 4 of 63 of Schedule LMM-R-4, under the heading "Proposed Revenue for Recovery with semi-annual FAC rate update (30th Accumulation)". It includes the average rate from the last rate case, ER-2018-0146, the currently effective RESRAM[19] effective December 1, 2021, and the revenues being collected for Evergy West's FAC 29th and 30th accumulation periods.

Q. Mr. Ives suggests that Evergy West will exceed the 3% CAGR if the entire amount of the FPA for AP 30 is included in determination of its FAC rate.[20] If the entire amount of the FPA is included in Evergy West's FAC rate, would the percentage increase in Evergy West's average overall rate have been greater than the CAGR allowed on September 1, 2022?

A. No. If the total FPA costs are included for AP 30, Evergy West's workpapers[21] show that the average rate on September 1, 2022 as calculated by Evergy West with the entire $44.6 million would have been $0.10223/kWh; an increase of 9.14% over the base Average Overall Rate of $0.09367/kWh. This 9.14% CAGR is considerably below the September 1, 2022, PISA 3% CAGR of 11.69%; the September 21, 2022, PISA 3% CAGR of 11.87%; and the December 1, 2022, PISA 3% CAGR of 12.51%. Under no circumstances does including the total cost of the FPA in Evergy West's FAC rate result in a percentage increase in Evergy West's *current* average overall rate that would be greater than the CAGR allowed under the PISA statute.

[19] Effective December 1, 2021.
[20] Pages 10 - 11.
[21] Shown on page 4 of 63 on Schedule LMM-R-4.

Q. Would you explain what the FPA is?

A. The FAC rate adjustment mechanism approved by the Commission for Evergy West recovers *the difference* between the normalized FAC costs and revenues that were used to determine revenue requirement in the last general rate case and the fuel and purchased power costs and revenues actually incurred in the accumulation period. The FPA is 95% of this difference[22] plus an amount to true up the recovery period that ends with the filing, interest, and, in this FAC rate change filing, an imprudence amount as ordered in case no. EO-2020-0262.

Q. Is the FPA the entire amount of fuel and purchased power costs incurred in the accumulation period?

A. No. It is the *difference* between what was already collected from customers in permanent rates (sometimes referred to as base rates) and what was actually incurred in that accumulation period. In AP 30 Evergy West incurred FAC costs of $142.6 million. It collected $96.5 million for FAC cost in its permanent rates. This means that the actual costs were 48% higher than the costs included in the revenue requirement set in Evergy West's last rate case. I will discuss the reason for this large difference later in this testimony.

Q. Mr. Ives includes a table on page 11 of his testimony that shows that the total percentage increase with this FPA to be 16.0%. Why is his calculation of the percent increase different from the 9.14% CAGR provided in Evergy West's workpapers?

A. Mr. Ives inappropriately included in his calculation a percentage based on the difference between the fuel and purchase power costs included in Evergy West's last general rate case (ER-2018-0146) and Staff's fuel and purchased power costs as filed in its direct case in the current rate case ER-2022-0130.

[22] As ordered by the Commission, Evergy West's FAC allocates 5% of the difference between the FAC costs included in revenue requirement (included in the setting of permanent rates) and what was actually incurred as an incentive for Evergy West to efficiently manage its fuel and purchased power costs.

Q. Why is it inappropriate to use the difference between the fuel costs included in Evergy West's last rate case and the fuel costs included in its current rate case that has not yet been determined to calculate the percentage increase in the average overall rate in a FAC rate change case?

A. There are two separate problems with Mr. Ives calculation. First, he is attempting to use changes in revenue requirement associated with a rate case that has not yet concluded and for which rates are not currently in effect. I cannot find *anything* in the PISA statute that allows the use of future costs in the calculation of the percentage increase due to FAC costs nor anything that states the change in the average overall rate only applies to the fuel and purchased power costs. Second, the difference between the fuel and purchase power costs included in Evergy West's last general rate case (ER-2018-0146) and Staff's fuel and purchased power costs as filed in its direct case in the current rate case ER-2022-0130 is not an amount "charged under" Evergy West's FAC. It is important for the Commission to understand that while these may be "fuel" costs, they do not flow through Evergy West's FAC and are instead collected in its base rates. As with the first problem, I can again find *nothing* in the PISA statute that allows costs not charged under the FAC or another appropriate rate adjustment mechanism to be considered when determining if a change in the amount charged through the FAC or another appropriate rate adjustment mechanism warrants deferral under section 393.1655.5. These costs should not be considered when determining whether a change in its FAC rate would cause Evergy West to exceed its rate caps because the change in fuel and purchase power costs included in Evergy West's base rates was not and are not currently effective and are not costs that would be recovered through a FAC rate regardless.

Q. Does Mr. Ives' table "demonstrate how including the $44.6 million in the fuel adjustment rate now would cause [Evergy West] to exceed the 3% CAGR cap"[23] as Mr. Ives asserts?

A. No. His table shows how, if the conclusion of this FAC rate case is delayed beyond the effective date of the new rates from case no. ER-2022-0130 *and* the amount included in base rates to cover fuel and purchase power costs are included in the calculation, the inclusion of the entire $44.6 million would cause Evergy West to exceed the 3% CAGR cap.

The calculations provided in Evergy West's workpapers on page 4 of 63 of my Schedule LMM-R-4 demonstrate how including the $44.6 million in the fuel adjustment rate *now* would result in an average overall rate below the 3% CAGR cap and removing the need for a deferral in this case.

Q. In addition to the issues regarding the timing of the rates included in Mr. Ives' testimony, is there any other problem with his analysis?

A. Yes. The change between the fuel and purchase power costs included in Evergy West's last general rate case (ER-2018-0146) and what will be ordered as the result of Evergy West's current rate case (ER-2022-0130) is not "a change in any rates charged under a rate adjustment mechanism approved by the commission under sections 386.266 and 393.1030[.]" It is therefore completely inappropriate for Mr. Ives to include this amount in his calculation. To reiterate a previous point, the FAC rate adjustment mechanism approved by the Commission for Evergy West recovers *the difference* between the normalized FAC costs and revenues that were used to determine revenue requirement in the last general rate case and the fuel and purchased power costs and revenues actually incurred in the accumulation period. The fuel costs included *in* Evergy West's permanent rates as a part of fuel re-basing in a general rate case are not recovered through Evergy West's FAC and therefore should not be considered when determining whether a change in its FAC would

[23] Question on page 10 that Mr. Ives provided his table in response to.

cause Evergy West to exceed the rate caps imposed by section 393.1655.5 of the PISA statue.

Q. What would the average rate be if the Commission approves Evergy West's request to defer $31 million?

A. If the Commission approves the deferral of $31 million prior to the effective date of rates in the current Evergy West general rate increase case ER-2022-0130, the average rate would be $0.09861/kWh; an increase of 5.27% over the base.

If the Commission approves the deferral and the stipulated revenue increase in ER-2022-0130, the average rate would be $0.10309/kWh; an increase of 10.06% above the base Average Overall Rate of $0.09367/kWh.[24]

Q. It is obvious that including the entire FPA amount in Evergy West's FAC before the effective date of new rates in case no. ER-2022-0130 would not result in an average rate that exceeds the PISA CAGR cap. Did Mr. Ives explain in his testimony how Evergy West determined the amount that it is requesting be deferred?

A. I could not find an explanation in his direct testimony so I sent OPC data request 8000 asking how the $31 million amount was determined. Evergy West's response in its entirety is attached as Schedule LMM-R-4.

Q. Would you summarize Evergy West's response?

A. Every West's witness Lisa Starkebaum provided Evergy West's response to OPC data request 8000. She responded that Evergy West looked at the outcomes of three scenarios:

1) Inclusion of the entire $44.6 million FPA with the average overall rate as calculated on September 1, 2022;[25]

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[24] Calculated by inserting the stipulated increase of $45.2 million into Evergy West's workpaper "West PISA Calc CAGR – May 2022 w 2022 rate case Adj.xls" provided in response to OPC data request 8000 and attached to this testimony on page 39 of 63 in Schedule LMM-R-4

[25] Revenues from ER-2018-0146.

2) Inclusion of the entire $44.6 million FPA with the total revenues Evergy West requested in its current rate case, case no. ER-2022-0130;[26] and
3) Inclusion of $13.6 million adjusted FPA with the total revenues Evergy West requested in its current rate case.[27]

Q. What did the results of Evergy West's analysis of these three scenarios show?

A. The result of the first scenario with the entire FPA included,[28] showed that if the entire FPA was included in Evergy West's FAC rates on September 1, 202 (the date it requested its proposed FAC rate change tariff sheet go into effect), the total average rate would be $0.10223/kWh; an increase of 9.14% over the base average overall rate. It also shows that this projected rate change is less than the 3% CAGR of 11.6887% on September 1, 2022.

The second scenario with the entire FPA amount and the increase of revenue requirement from Evergy West's expected rate increase in the yet to be concluded rate case,[29] showed the projected average rate on December 6, 2022 would be $0.10905/kWh which equates to an increase of 16.42%.[30] This is $0.00362/kWh above the rate cap of the 3% CAGR of 12.5509% on December 6, 2022. This workpaper shows that this $0.00362/kWh above the rate cap equates to $31,087,997. The workpaper describes this $31 million as "Amount Deferred (393.1655.5)". However, because it includes the revenue requirement increase that should go into effect after Evergy West's FAC rate, this amount is the performance penalty if the entire $44.6 million FPA was included in Evergy West's FAC rate and the revenue requirement was set at Evergy West's requested revenue requirement in the rate case.

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[26] Not in effect at the time that this FAC rate change was requested.
[27] Not in effect at the time that this FAC rate change was requested.
[28] Page 4 of 63 of Schedule LMM-R-4.
[29] Page 21 of 63 of Schedule LMM-R-4.
[30] This amount is greater than what was provided in Mr. Ives direct testimony because it includes the average rate for the RESRAM.

The final scenario workpaper[31] is what Evergy West is hoping to accomplish in this case. The FPA is reduced \$31 million to \$13,604,020 resulting in an increase in the average overall rate if Evergy West would receive the revenue requirement increase in the rate case it requested of exactly the 3% CAGR of 12.55%. There would be no performance penalty assessed and Evergy West could recover the \$31 million in a future rate case.

Q. What do you conclude from these workpapers?

A. The \$31 million deferred amount was determined to maximize the increase that Evergy West could receive in its current general rate case without surpassing the CAGR cap.

Mr. Ives provides the following rationale for asking for a deferral of costs that would increase its average PISA rate:[32]

> 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.

It is Mr. Ives' position that the Commission should allow Evergy West to defer a significant amount of fuel and purchased power costs that would flow through Evergy West's FAC rate adjustment mechanism and be recovered in 12 months even though including the full amount does not cause the average rate to exceed the PISA CAGR. If the Commission terms this a PISA deferral, Evergy West's revenue requirement increase would not be limited in the current general rate increase case.

[31] Page 39 of 63 of Schedule LMM-R-4.
[32] Page 11.

Q. Do you agree with Mr. Ives when he states the treatment Evergy West is requesting is explicitly provided for in section 393.1655.5 of the PISA statute?[33]

A. No. Mr. Ives' interpretation of this statute is clearly wrong. Section 393.1655.5 begins with the qualification of "[i]f 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* …" (emphasis added). The costs in this FAC rate adjustment mechanism filing do not cause Every West's average overall rate to exceed the CAGR limitation, as demonstrated by the Company's own internal workpapers.[34] Mr. Ives argument is premised on a calculation of the effect changing Evergy West's FAC rate would have on Evergy West's average overall rate that is based on: (1) rates that are not currently in effect, and (2) rates that are not charged through Evergy West's FAC regardless. This is clearly contrary to the plain and ordinary language of the statute as I read it.

<u>**Impact of a Deferral as Requested by Evergy West**</u>

Q. What would be the impact of the deferral requested by Evergy West?

A. If the Commission grants Evergy West a PISA deferral, Evergy West will receive

1) The entire Commission-ordered revenue requirement increase in the current rate case, ER-2022-0130, up to $60,500,000 until the next rate case,
2) $13.6 million over the next 12 months with interest at short-term borrowing, and
3) $31 million of expenses deferred as capital assets earning a return of 8.25%.[35]

[33] Page 12.
[34] Scenario 1, Page 4 of 63 of Schedule LMM-R-4.
[35] If the Commission grants the deferral and delays recovery until the next rate case, the $31 million could increase up to $42 million with interest by the time it gets included in the rates effective in the next rate case. If amortized over four years, this amount would increase revenue requirement by more than $10 million.

While customers' FAC rates will be lower for 12 months, the permanent rates will be higher until the next Evergy West rate case – which could be up to four years. If the Commission grants deferral and includes the deferral in the current general rate case, the revenue requirement will increase by at least $7.8 million.[36]

Q. What would be the impact if the Commission orders all of Evergy West's FPA be recovered through Evergy West's FAC rate adjustment mechanism rates?

A. If the deferral is not granted and the entire amount is included in Evergy West's FAC rate:

1) Evergy West's revenue requirement rate increase in ER-2022-0130 would be capped as required by the PISA statute until Evergy West's next general rate case, and
2) Evergy West will recover $44.6 million over the next 12 months at its short-term borrowing rate as required by Evergy West's FAC and section 386.266.

Customers would see higher bills for the next 12 months as the $44.6 million is recovered through Evergy West's FAC rates.[37] However, the portion of their bills based on permanent rates set in the rate case would be lower until Evergy West's next general rate increase. There would be no deferral of costs accumulating interest at 8.25% and no increase to the revenue requirement because of a deferral for this FAC rate case in either the current general rate case or Evergy West's next general rate case.

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[36] $31 million amortized over four years. This amount does not include interest at 8.25% that Evergy West would also recover from customers.

[37] Non-large power customers would see greater increases in their FAC rates due to a limitation on the large power class average overall rate increase of a CAGR of 2% as provided in section 393.1655.6.

FPA Costs in AP 30 Were Not Extraordinary

Q. What is your response to Mr. Ives assertion that the costs in this accumulation period are extraordinary due to external factors?[38]

A. The reason for the vast difference between the normalized fuel and purchased power costs included in the last rate case and what actually occurred, rests squarely on Evergy West's lack of generation resources to earn revenues to offset the high market prices paid for its load. I do agree with Mr. Ives testimony that during this accumulation period there were inflationary pressures not seen for years due to the pandemic and Russia's war with Ukraine.[39] I agree that fuel costs were high during this six-month period.[40] However, I do not agree that the increase in Evergy West's fuel and purchased power costs incurred because of these increased fuel and market prices caused the fuel and purchased power costs in this accumulation period to be extraordinary. The increase in Evergy Wests' FAC costs were due to Evergy West's decision to not procure sufficient generation to cover their customers' loads. Evergy West's high FPA costs in AP 30 are a direct result of Evergy West's resource planning decisions not due external factors, which have consistently affected all electric utilities in this region.

Q. How did you come to this conclusion?

A. First, the FPA or difference between what Evergy West included in revenue requirement and actual FAC costs incurred in this accumulation period, AP 30, is $2.9 million (6.1%) less than the FPA in Evergy West's last accumulation period, AP 29. Evergy West did not claim in its testimony in its FAC rate change case for AP29[41], that the costs incurred in AP 29 were extraordinary. AP 29 was June 1, 2021 through November 31, 2022 - the six months immediately preceding AP 30. Evergy West faced many of the same external factors in AP 29 that it did in AP 30

[38] Ives Direct Testimony, page 2 ln 18.
[39] *Id.* page 3.
[40] *Id.* pages 8 through 9.
[41] Case No. ER-2022-0174.

and yet it did not claim that the FPA for AP 29 was "extraordinary." It did not consider the costs that it incurred "extraordinary" until it discovered that including the total FPA in AP 30, while not hitting the cap for deferral provided in the PISA statute, *would limit the amount of revenue requirement increase that it could get in the general rate case*.

The PISA statute provides no avenue for Evergy West to recover the revenue requirement increase above the limit set by statute. This limit is a customer protection that the statute calls a "performance penalty." If Evergy West can get the Commission to delay the recovery of all the FPA through its FAC rate mechanism until after rates in the current general rate increase goes into effect by claiming the costs were "extraordinary," Evergy West could get a PISA deferral that its own analysis shows is not available to it when it filed for its FAC rate change.

Finally, and perhaps most persuasively, Every Metro, Inc. ("Evergy Metro"), a sister company of Evergy West, did not ask for a deferral of costs due to extraordinary circumstances for costs it incurred over nearly the same six month time period *despite incurring the same high fuel and purchase power costs.*[42] This is because, in its FAC rate change case currently before this Commission, case no. ER-2023-0031, Evergy Metro's filed FAC actual net energy costs is nearly the same amount as its FAC costs included in its permanent rates. The difference is only $1.7 million. This means, despite the recent increase and volatility in fuel and market prices that is out of its control, Evergy Metro's FAC costs nearly matched what was included in its revenue requirement set nearly four years ago.

[42] Evergy Metro's has a FAC rate change case before the Commission, Case No. ER-2023-0031, which covers an accumulation period of January 1, 2022 through June 30, 2022, nearly the same as Evergy West's AP 30 of December 1, 2021 through May 31, 2022.

Q. Were Evergy Metro's fuel costs less than Evergy West's fuel costs?

A. I compared the FAC costs from December 1, 2021 through May 31, 2022 of the two utilities as provided in the minimum filing requirements of the Commission for FAC rate change cases.[43] According to the information provided by the companies, Evergy Metro's fuel costs were $105.3 million while Evergy West's fuel costs were about one fourth of that at $23.3 million. It would seem that the increase in fuel costs had a greater impact on Evergy Metro than it did Evergy West, yet it Evergy West, not Evergy Metro, is the utility crying "extraordinary."

Q. How did the purchased power costs of the two utilities compare?

A. Evergy Metro's purchased power costs were greater than Evergy West but only by 13%.

Q. Then how could Evergy Metro's FPA have been so much lower than Evergy West's FPA?

A. Evergy Metro has a variety of cost-effective generation resources that it offers into the SPP energy market to generate revenue at much the same times that its customers need energy meaning that when load costs are high, its generation resources are providing revenues to offset the load costs. Evergy West has very limited generation resources, much of which are intermittent relying on the wind for generation. The generation it offers into the market at times that its customers need energy is limited. It generates very little revenue above its variable costs of energy offered into the market.

This difference is evident when comparing the off-system sales revenues of the two utilities. Evergy West, in this six month time period, only had off-system sales revenues of $3.3 million while Evergy West had $113.4 million in off-system sales revenues.

[43] For Evergy Metro I used the costs and revenues for the time period of December 1, 2021 through May 31, 2022 provided with its FAC rate change cases ER-2022-0206 and ER-2023-0031.

It is the sum of the fuel costs and off-system sales revenues that determine the actual fuel and purchased power costs used to calculate the FPA of an accumulation period. The actual costs and revenues for these two utilities and the normalized fuel costs recovered in permanent rates as provided in their FAC minimum filings in their FAC rate change cases are shown below in Table 1.[44]

Table 1
FAC Costs and Revenues

	West	Metro
Fuel	$ 23,322,446	$ 105,323,425
Purchased Power	$ 123,065,144	$ 139,297,880
Transmission Costs	$ 6,000,434	$ 7,010,512
Total Costs	$ 152,388,024	$ 251,631,817
REC sales	$ (6,501,413)	$ (11,202,442)
Off Sys Sales Revenue	$ (3,299,153)	$ (113,364,823)
Total Revenue	$ (9,800,566)	$ (124,567,265)
Total Actual	$ 142,587,458	$ 127,064,552
Amount in Rev Req	$ 96,513,978	$ 124,346,875

This data tells of the drastic difference in fuel costs and off-system sales revenues and tells the story of the difference between these two utilities. From December 1, 2021 through May 31, 2022, Evergy Metro and Evergy West faced the same fuel prices. Evergy Metro and Evergy West faced the same market prices. Evergy Metro and Evergy West faced the same weather. Evergy West and Evergy Metro had the same management – their parent company Evergy, Inc. ("Evergy"). The drastic difference in fuel costs and market revenue is due to Evergy's management decisions regarding the generation assets of the two utilities.

[44] Workpapers for this table are attached as confidential Schedule LMM-R-7.

Evergy West does not have generation resources to sell in the market to offset the cost of purchasing its customer's energy requirement from the SPP energy market. Much of its generation comes from wind purchased power agreements that cost more than the revenues they generate. It has limited coal generation and a lot of combustion turbine generation whose costs to run are dependent upon the price of natural gas. Evergy West's reliance on the market instead of owned resources means that its fuel costs are low but so are its revenues from the SPP market to offset load costs of the market.

Evergy Metro's higher fuel cost shows that it has generation that is cost-effective to sell into the SPP energy market. The fact that its off-system sales revenue ($113 million) is greater than its fuel costs ($105 million) shows that Evergy Metro earned a profit on its generation. Evergy Metro's FAC costs were close to what was estimated in the last rate case because it has generation to offset the costs of purchasing energy from SPP to meet its customers' requirements.

The generation position of these two utilities is *completely* under the control of their parent utility, Evergy, Inc. ("Evergy"). Evergy has chosen to add only intermittent resources to Evergy West's generation portfolio and chose to retire prematurely its wholly owned base load generation resource. Evergy made the choice to rely on the SPP market for energy for Evergy West's customers. That market has become volatile and now Evergy West is crying "extraordinary" and manipulating this filing in an attempt to avoid the consequences, not of circumstances beyond its control, but of its own decisions. Evergy Metro has resources that allows it to weather uncontrollable circumstances without submitting its customers to the unseen and unforecasted volatility in the fuel and energy markets.

Q. To summarize your position, is Evergy West's FPA costs for AP 30 due to external extraordinary factors as Mr. Ives contends?

A. No. All of the electric utilities in Missouri are facing the same external factors and yet Evergy West is the only electric utility that is claiming that its fuel and purchased power costs are extraordinary. In fact, the FAC costs of Evergy Metro, Evergy West's sister company, have been nearly the same as the costs that were included in its permanent rates. This signifies that the increase in FAC costs is not due to external factors but due to the resource acquisition decisions of Evergy West.

In addition, Evergy West's FPA costs in AP 30 were lower than the FPA costs in AP 29 and Evergy West did not claim, at the time of the last FAC rate change case, that these costs were extraordinary.

Q. Are there any costs associated with the February 2021 Storm Uri included in Evergy West's FPA in AP 30?

A. No. According to Evergy West's response to OPC data request 8007,[45] costs and revenues related to Storm Uri were removed from the FPA costs in AP 30.

Q. Mr. Ives states that there is a basis for deferring extraordinary costs under provisions of the PISA statute.[46] Are there provisions for deferral of costs considered extraordinary in the PISA statute?

A. Again, I do not see anything in the PISA statute that allows for PISA deferral treatment for extraordinary costs.

Q. Mr. Ives brings up the existence of a force majeure concept in section 393.1655.7(7).[47] Does the FPA in this case meet the definition of force majeure as defined in section 393.1655.7(7)?

A. Section 39.1655.7(7) defines force majeure event as:

[45] Attached as Schedule LMM-R-5.
[46] Page 2.
[47] Page 13, lns. 4 - 5.

> an event or circumstance that occurs as a result of a weather event, an act of God, war, terrorism, or other event which threatens the financial integrity of the electrical corporation that causes a reduction in revenues, an increase in the cost of providing electrical service, or some combination thereof, and the event has an associated fiscal impact on the electrical corporation's operations equal to three percent or greater of the total revenue requirement established in the electrical corporation's last general rate proceeding after taking into account the financial impact specified in section 393.137. Any force majeure event shall be subject to commission review and approval, and shall not preclude the commission from reviewing the prudence of any revenue reductions or costs incurred during any proceeding to set rates;

Q. Did Mr. Ives claim that the FPA in this FAC rate change case met the definition of a force majeure?

A. No. Mr. Ives did not claim that the FPA in this FAC rate change case met the definition even though the $44.6 million FPA in this FAC rate change case is more than 3% of the revenue requirement set in the last rate case. Mr. Ives only pointed out that this demonstrated the legislature's intent that Evergy West not be penalized for costs outside of its control.

Q. In your opinion, does this FPA cost meet the section 393.1655.7(7) definition of force majeure?

A. No. This amount does not threaten the financial integrity of Evergy West because it could recover it through its FAC rate mechanism just as it did the FPA of its last accumulation period which was greater than the FPA of AP 30.

Q. Is there a difference in how a PISA deferral would be treated and how extraordinary costs have been treated by the Commission?

A. The difference is in the interest accumulated – a PISA deferral would get an interest rate of 8.25% applied to it while the interest rate for extraordinary costs would be set by the Commission and could be as low as zero. Both a PISA deferral and the deferral of extraordinary costs would be recovered in revenue requirement as set in a general rate case and the amount would be amortized over a set number of years to be determined in the next rate case.

Q. If the Commission determines that this is an extraordinary cost, should the deferral receive PISA treatment?

A. No. A utility should be made whole for extraordinary costs, but it should not earn a profit at the customers' expense on an extraordinary cost.

Q. Mr. Ives claims that the PISA deferral that he is requesting is consistent with paragraph XI of the Commission's FAC rule.[48] What is paragraph XI?

A. There is no paragraph XI in the Commission's FAC rule. What Mr. Ives is referring to is the Commission's FAC rule 20 CSR 4240-20.090. In Section 8 of this rule, which provides the minimum filing requirements of a FAC rate change filing, there is the requirement A.2(XI) that requires the electric utility to include in its minimum filing requirements a list of any "[e]xtraordinary costs not to be passed through [the FAC], if any, due to such costs being an insured loss, or subject to reduction due to litigation or for any other reason[.]"

Q. Does this minimum filing requirement permit deferral of extraordinary fuel costs consistent with PISA as Mr. Ives testifies?

A. No. It only requires that the electric utility identify any extraordinary cost that is not being included in its FAC. It makes no mention of the cost recovery treatment of the extraordinary cost.

Q. In its minimum filing requirements, did Evergy West include any extraordinary costs not to be passed through its FAC in this FAC rate change case?

A. Yes. However, there is no mention of the $31 million Mr. Ives is asking to defer in this case or how the amount was determined in the minimum filing requirement Mr. Ives identified as support for his deferral request. Evergy West, in its minimum filing requirement to identify extraordinary costs, provided Storm Uri resettlement

[48] Page 13.

costs that were included in the SPP costs for December 2021 and February 2022 in AP 30. It did not identify any other costs in this time period as being excluded from the FPA because the costs were extraordinary.

<u>Impact of Timing of this Request</u>

Q. What is the most important date for this FAC rate change case?

A. The important date is December 6, 2022, the date that new rates become effective in Evergy West's general rate increase case. If new FAC rates become effective prior to the date of new rates in the general rate increase case, then, because it has elected PISA, Evergy West has to absorb a performance penalty.

This is what would have happened had Evergy West not requested a deferral of $31 million. Its FAC rate would have increased on September 1, 2022 to recover $44.6 million over 12 months ending August 31, 2023. The PISA 2% cap on the average overall rate of large power customers would have gone into effect increasing the amount to be recovered from non-large power customers. The 3% CAGR cap would limit the revenue requirement increase that would go into effect on December 6, 2022, the effective date of new rates in the current rate case.

Q. What is the potential impact of Evergy West request for a deferral?

A. Delays that make it more likely for the effective date of the new FAC rate to be after December 6, 2022.

Q. Would you explain?

A. In the past, in FAC rate filings that Staff or OPC opposed, the Commission has ordered that substitute FAC tariff sheets be filed with costs that were not in dispute. For the disputed amounts, procedural schedules were developed that would put off a resolution for months. Evergy is aware of this process for it has had FAC rate changes filings that contained such disputes.

If Evergy West could get this filing to proceed at the same pace, with a resolution after December 6, 2022, then the revenue requirement requested by

Evergy West would go into effect because the average rate would remain below the 3% CAGR of the PISA statue.[49] At that time, there would be a deferral because the rate adjustment mechanism increase that would drive the average rate above the 3% CAGR would be due to a change in rates charged under a rate adjustment mechanism.[50] Exactly how much would be deferred would be dependent upon the timing of the order in Evergy West's FAC rate change case. Ultimately, regardless of whether or not the deferral met the statute when it was requested, by the time the Commission made a decision, it would meet the deferral requirements of PISA. Evergy West would be able to get around the customer protection of the performance penalty provided by the 3% CAGR of the PISA statute that it elected.

Q. What actions should the Commission take to assure that customers get the protection provided for them in the PISA statute?

A. The Commission should immediately order that Evergy West file a substitute tariff that includes all of Evergy Wests FPA to assure that Evergy West's FAC rate change takes effect before the effective dates of new rates in Evergy West's current general rate case, ER-2022-0130.

<u>Summary</u>

Q. Would you summarize this testimony?

A. Chairman Silvey had the following discussion with the Public Utility Fortnightly ("PUF") magazine (attached as Schedule LMM-R-6) in July 2019 about the PISA legislation:

> **PUF:** What's the Commission's role in implementation of the grid modernization plan?

[49] Section 393.1655.3.
[50] Section 393.1655.5.

> **Chair Silvey:** First, under the legislation, the company is required to file a five-year capital investment plan with the Commission. Then every year they're required to file an update to that plan.
>
> That includes specific capital investment for the first year and then projected capital investment for the remaining four years. Every year they will file, and we'll review it.
>
> Then we get more active on the backside. When they come in for their rate case, we will be reviewing the expenditures for prudence, making sure that what they did was prudent and beneficial to the ratepayers.
>
> We also check that it is in compliance with chapter 393, which Senate Bill 564 addresses. ***We'll make sure for example; they don't spend any more than six percent on smart meters or that they spend at least twenty-five percent on grid modernization and during that time they haven't gone beyond the rate caps that were set forth in the legislation.***
>
> **PUF:** So, there is a formula to this?
>
> **Chair Silvey:** Yes. To a degree, in order for them to take advantage of Plant-in-Service Accounting, there are certain things that they have to meet and certain rate caps that they have to stay below. Then there are investment benchmarks that they have to meet. ***We'll make sure that they're doing those and that they're doing them in a way that makes sense for the ratepayers.***
>
> (Emphasis added).

We are asking the Commission to see through Evergy West's thinly veiled attempt to manipulate the FAC rate change filings by actively seeking to circumvent statutory PISA rate caps devised to provide ratepayer protection. Should the Commission choose to approve Evergy West's deferral request, the statutory PISA rate caps shall be rendered meaningless.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

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 by20 CSR 4240-20.090(8) and the Company's Approved Fuel and Purchased Power Cost Recovery Mechanism	))))))	<u>File No. ER-2023-0011</u> Tracking No. JE-2023-0005

AFFIDAVIT OF LENA M. MANTLE

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Lena M. Mantle, of lawful age and being first duly sworn, deposes and states:

1. My name is Lena M. Mantle. I am a Senior Analyst for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

Lena M. Mantle
Lena M. Mantle
Senior Analyst

Subscribed and sworn to me this 21st day of September 2022.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI
TIFFANY HILDEBRAND
My Commission Expires
August 8, 2023
Cole County
Commission #15637121

Tiffany Hildebrand
Tiffany Hildebrand
Notary Public

My Commission expires August 8, 2023.