

Exhibit No.:
Issues: *Hedging*
Witness: *Krishna L. Poudel*
Sponsoring Party: *MO PSC Staff*
Type of Exhibit: *Rebuttal Testimony*
Case Nos.: *ER-2022-0129/30*
Date Testimony Prepared: *July 13, 2022*

MISSOURI PUBLIC SERVICE COMMISSION

INDUSTRY ANALYSIS DIVISION

ENERGY RESOURCES DEPARTMENT

REBUTTAL TESTIMONY

OF

KRISHNA L. POUDEL

**EVERGY MISSOURI WEST, INC. d/b/a EVERGY MISSOURI WEST
AND EVERGY METRO, INC. d/b/a EVERGY MISSOURI METRO**

CASE NO. ER-2022-0129 and CASE NO. ER-2022-0130

Jefferson City, Missouri
July 2022

1 **REBUTTAL TESTIMONY**

2 **OF**

3 **KRISHNA L. POUDEL**

4 **EVERGY MISSOURI WEST, INC. d/b/a EVERGY MISSOURI WEST and**

5 **EVERGY METRO, INC. d/b/a EVERGY MISSOURI METRO**

6 **CASE NOS. ER-2022-0129 and ER-2022-0130**

7
8 Q. Please state your name and business address.

9 A. My name is Krishna L. Poudel, and my business address is Missouri Public
10 Service Commission, P. O. Box 360, Jefferson City, Missouri 65102.

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

12 A. I am employed by the Missouri Public Service Commission (“Commission”) as
13 an Economist for the Energy Resources Department.

14 Q. What is your educational background and work experience?

15 A. Please refer to the attached Schedule KLP-r1.

16 Q. Have you previously filed testimony before this Commission?

17 A. Yes. Please refer to the attached Schedule KLP-r2 for a list of cases in which
18 I have previously filed testimony.

19 **EXECUTIVE SUMMARY**

20 Q. What is the purpose of your rebuttal testimony?

21 A. My rebuttal testimony will address (1) the proposal of Evergy Metro, Inc. d/b/a
22 Evergy Missouri Metro (“EMM”) and Evergy Missouri West, Inc. d/b/a Evergy Missouri West
23 (“EMW”) (collectively “Company” or “Companies”) to implement hedging strategies and its
24 inclusion in the FAC tariff sheets as filed in the direct testimony of Company witness

1 Jessica L. Tucker filed on January 7, 2022 and (2) the Direct Testimony of the Office of Public
2 Counsel (“OPC”) witnesses Ms. Lena Mantle and Mr. John Riley filed on June 8, 2022.

3 **HEDGING PROPOSAL - FAC**

4 Q. Did the Company propose to resume its hedging strategies?

5 A. Yes.

6 Q. Does Staff oppose the Company’s proposal to resume/implement hedging and
7 its inclusion in the FAC?

8 A. No. Staff does not oppose the Company’s resumption of hedging activities.

9 Q. Is the Company proposing any changes to its previous hedging strategies?

10 A. The Company’s hedging strategy includes a mix of long- and medium-term
11 hedges to mitigate fuel and purchased power risk for both short- and long-net positions. These
12 hedging strategies will include a combination of physical power, financial power, physical
13 natural gas, and financial natural gas. The financial hedging products will be considered
14 derivatives¹ (e.g. fixed swaps). The Company’s revised hedging policy includes milestones for
15 adjustment and flexibility to adjust to market conditions. The Company will integrate these
16 activities into the existing trading and risk management processes and intends to implement the
17 new policy as early as summer 2022.²

18 Q. Please provide further background and further explanation of the Company’s
19 hedging plan.

¹ The term derivative refers to a type of financial contract whose value is dependent on an underlying asset, group of assets, or benchmark.

² *Notice Regarding Long-Term Fuel Hedging*, Case No. ER-2016-0285, pg.2 and *Notice to Resume Fuel Hedging*, Case No. ER-2016-0156, pgs. 2 – 3.

1 A. The Companies notified parties in its *Notice to Resume Fuel Hedging*
2 filed on December 17, 2021, in Case No. ER-2016-0156, and on December 22, 2021,
3 in Case No. ER-2016-0285, of its intention to resume hedging activities from January to
4 April 2022, given uptick in market volatility.

5 On April 25, the Company met with Staff and OPC and shared its proposed longer-term
6 hedging strategies in order to mitigate fuel and purchased power risk for both short and long
7 term positions. On May 26, 2022, the Company filed another *Notice to Resume Fuel Hedging*
8 in Case No. ER-2016-0156, and a *Notice Regarding Long-Term Fuel Hedging* in
9 Case No. ER-2016-0285, (collectively “Notices”) notifying the Commission of its intent to
10 implement a long-term hedging strategy.

11 In its Notices for the requested resumption of hedging transactions of natural gas and
12 purchased power (including cross-hedging), the Company stated it would record all hedging
13 gains to FERC Account 254, Regulatory Liability and hedging losses to FERC Account 182.3,
14 Other Regulatory Assets or FERC Account 186, Deferred Debits, as specified in the Agreement.
15 The Company further stated it would work with parties in its pending rate cases (ER-2022-0129
16 and ER-2022-0130) to address any necessary changes needing to be made to the Company’s
17 FAC tariff sheets to allow hedging settlements and costs to be included in the tariff.

18 Q. Is there any contradiction among the parties’ positions regarding the Company’s
19 proposed hedging plan and its inclusion in the FAC tariff sheets?

20 A. Yes there are. The Company has requested to include hedging costs, gains, and
21 losses in its FAC. OPC witness Ms. Mantle argues the Company’s FACs should not include

1 hedging costs, gains and losses. In her direct testimony³, Ms. Mantle states that hedging is a
2 risky proposition, and the Company's past track record of hedging is not good.

3 In his direct testimony in the same cases, OPC witness John S. Riley also discusses
4 issues related to fuel hedging. However, Mr. Riley takes no official position on whether the
5 Company should or should not resume its hedging program, as this would be a management
6 decision. Mr. Riley further states that the Company's hedging practices should be conducted
7 prudently and cautiously, and that the Companies must follow the *Non-Unanimous Partial*
8 *Stipulation and Agreement* ("Stipulation") that was signed by the parties and approved by the
9 Commission in Case Nos. ER-2016-0156 and 0285. Mr. Riley also states that the Companies
10 could resume hedging, but the agreement was quite clear that cross-hedging⁴ was not to be
11 resumed, and results of new hedging was not funneled through FAC.

12 Q. Would a Commission Order in the current general rate cases (ER-2022-0129
13 and ER-2022-0130) approving the Companies request to resume hedging activities and include
14 hedging costs, gains, and losses in the FAC supersede the previous agreement in ER-2016-0156
15 and ER-2016-0285 in regards to hedging?

16 A. Yes.

17 Q. Does Staff oppose the Companies' proposed resumption/plan of hedging and its
18 inclusion in the FAC?

19 A. No.

20 Q. What is your recommendation with regard to hedging at this time?

³ *Direct Testimony of Lena M. Mantle*, pg. 19, filed on June 8, 2022 in Case Nos. ER-2022-0129 and ER-2022-0130

⁴ Cross-hedging refers to the practice of hedging risk using two distinct assets with positively correlated price movements.

1 A. Hedging is a safeguard measure to mitigate risk. The primary risk here is market
2 volatility. However, it is not cost free. Hedging (including cross-hedging) is an internal
3 management strategy of the Companies. This is done as a risk mitigation measure to avoid spot
4 market pricing exposure and provide budget consistency for forecasting purposes. Staff does
5 not oppose the proposed hedging language in the FAC tariff sheets in order to mitigate the
6 market volatility and ensure the reliability of power supply now and into
7 the future.

8 Q. Will Staff continue to monitor the Company's hedging strategy and the hedging
9 costs, gains, and losses?

10 A. Yes. Staff conducts a FAC prudence review no less frequently than every
11 18 months, and the Company's hedging strategy and hedging costs, gains, and losses will be
12 reviewed in each of those FAC prudence reviews.

13 Q. Does this conclude your rebuttal testimony?

14 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)

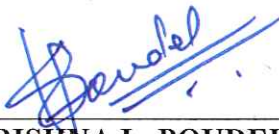
In the Matter of Evergy Missouri West, Inc.)
d/b/a Evergy Missouri West's Request for) Case No. ER-2022-0130
Authority to Implement a General Rate)
Increase for Electric Service)

AFFIDAVIT OF KRISHNA L. POUDEL, PhD

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW KRISHNA L. POUDEL, PhD and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Rebuttal Testimony of Krishna L. Poudel, PhD*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.




KRISHNA L. POUDEL, PhD

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 22nd day of June, 2022.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: April 04, 2025
Commission Number: 12412070



Notary Public