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Sponsoring Party:	Public Counsel
Case No.:	ER-2023-0210

DIRECT 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-2023-0210

April 14, 2023

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DIRECT TESTIMONY

OF

LENA M. MANTLE

EVERGY MISSOURI WEST
FILE NO. ER-2023-0210

INTRODUCTION

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. What are your experience, education, and other qualifications, particularly on the topics to which you are testifying?

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 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 at 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, thereby 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-D-1 is a brief summary of my experience with the OPC and Staff, and a list of the Commission cases I filed testimony in, Commission rulemakings I participated in, and Commission reports in rate cases to that I contributed to as Staff. Attached as Schedule LMM-D-2 is the *Electric Utility Fuel Adjustment Clause in Missouri: History and Application Whitepaper* that I wrote to provide background and a description on various aspects of the FAC in Missouri. This whitepaper provides an explanation of the operation of FACs in Missouri, including the FAC of Evergy West, and the terms used in discussing Evergy West's FAC in this testimony. Schedules LMM-D-3 and LMM-D-4 are my workpapers.

Q. What are you recommending in this testimony?

A. I recommend the Commission order Evergy Missouri West ("Evergy West") to defer the extraordinary fuel adjustment clause ("FAC") costs incurred by Evergy West in the six-month accumulation period of June 1, 2022 through November 30, 2022 to a regulatory asset account. This cost of $85,420,087 would accumulate interest at an interest rate that would keep Evergy West whole but not provide a profit to its shareholders until a decision regarding cost recovery is made in Evergy West's next general rate case.[1]

[1] In the next rate case, the Commission would make a determination of the amount of recovery, the length of the amortization period, and the interest rate that would be applied.

DETERMINATION OF EXTRAORDINARY AMOUNT

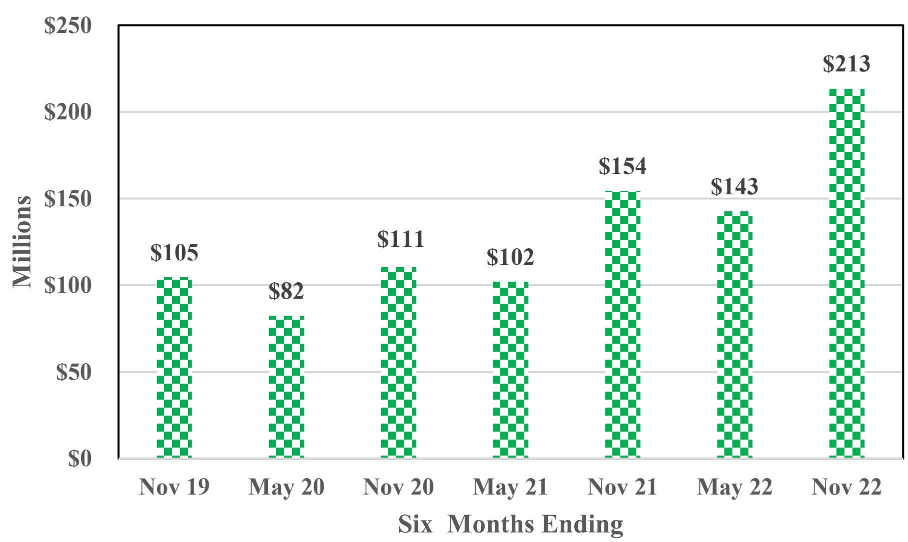
Q. What was the total FAC costs incurred by Evergy West from June 1, 2022 through November 30?

A. The total FAC costs, referred to as Actual Net Energy Costs ("ANEC"), for this time period was $213,325,427 for Evergy West's accumulation period of June 1, 2022 through November 30, 2022 ("AP 31").

Q. How does this compare to the ANEC incurred by Evergy West in prior accumulation periods?

A. The ANEC incurred in AP 31 is almost 40% higher that Evergy West's previous maximum ANEC incurred in AP 29, with the exception of the fuel costs incurred in the accumulation period that included Storm Uri[2]. The ANEC for the last seven accumulation periods is shown in the graph below.

Graph 1
Actual Net Energy Costs of Evergy West



Note: Due to the move of February 2021 costs to securitization, this graph contains "average" February costs in the six months ending May 2021.

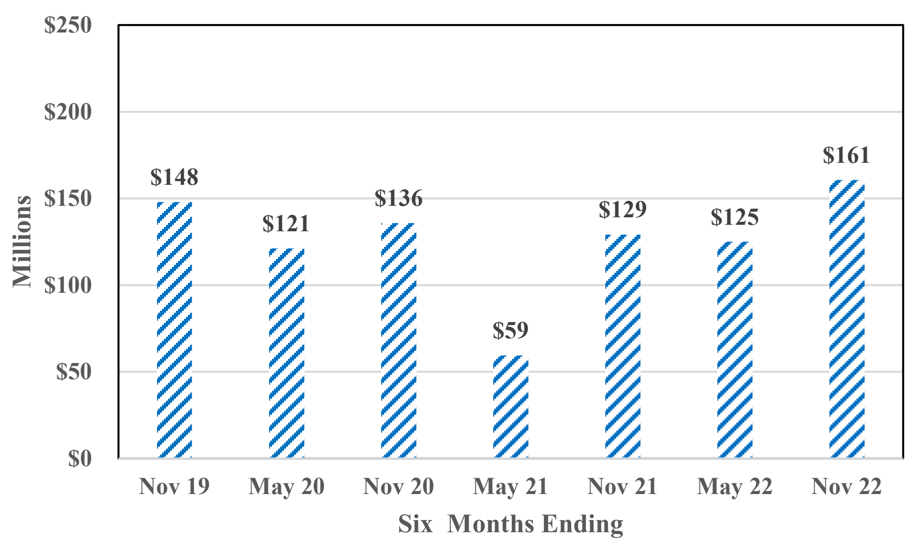
[2] Storm Uri occurred in February 2021 in accumulation period 28.

The ANEC for AP 31 is $59 million more than the next highest amount (AP 29) and is almost double the ANEC two years prior (AP 27).

Q. How does the ANEC of Evergy Metro, Inc. ("Evergy Metro"), Evergy West's sister company, compare in the six months ending November 2022?

A. Despite having to meet a load requirement that was nearly twice that of Evergy West, the ANEC for Evergy Metro was less than the ANEC for Evergy West. Moreover, while the ANEC for Evergy Metro was higher in the six months ending November 22 than it was in for any of the other six month time periods beginning November 2019, its ANEC was only 8.5% higher than its previous highest ANEC which it incurred in the six months ending November 2019.[3] The ANEC for Evergy Metro for the last seven accumulation periods is shown in Graph 2.

Graph 2
Actual Net Energy Costs of Evergy Metro



Note: There was no securitization of FAC costs for February 2021 so the six months ending May 2021 contains actual February 2021 data

[3] Evergy Metro's accumulation periods are different from Evergy West's accumulation periods. Evergy Metro monthly data was aggregated to make an accurate comparison with Evergy West.

This graph shows that, with the exception of the six months ending May 2021, there is not a lot of variation. The ANEC for the six months ending November 2022 is the highest of the seven shown but is not extreme.

Q. Why is Evergy West's ANEC so high for this accumulation period?

A. In the simplest terms, Evergy West's ANEC is extreme because it does not have enough, or the right types of, generation to sell into the Southwest Power Pool ("SPP") energy market to cover the cost SPP is charging Evergy West for its load at the time the load is taking from the SPP.

Q. Would you please explain?

A. In a regional transmission organization like SPP, absent congestion charges, the utility would be charged for the energy its customers required at the marginal energy price and the utility would receive revenue at the same marginal energy price for the generation it supplied.[4] If the generation in every hour was equal to the load, the net of revenues and payment would be zero and customers would only pay the fuel for the generation. The simplistic formula below shows this relationship.[5]

Cost to Customers = PP – OSSR + FC

Where:

PP	=	Purchased Power cost charged for load and purchased power agreements;
OSSR	=	Off System Sales Revenue provided for electricity provided into the SPP; and
FC	=	Fuel Costs incurred to generate energy.

[4] A difference in prices paid at the point of generation (the generation node) and the point load is supplied (the load node) can occur. That difference in price arises due to congestion in the transmission network and is therefore referred to as the "congestion charge." While congestion does have an impact on a utility's overall ANEC, it is not the driving cause of the high ANEC experienced by Evergy West in this case.

[5] There are numerous other charges and revenues in the ANEC but these three components make up the majority of the cost and revenues.

Assuming no congestion (so that the cost paid for the load is the same as what is offered for the generation), if the load is met by the utility's generation in both amount and timing, then PP and OSSR will net to zero leaving the fuel cost for the generation as the only cost to be recovered from customers. Unfortunately, that is not what occurred for Evergy West in this accumulation period.

During the accumulation period specific to this file, ER-2023-0210, Evergy West's owned-resources supplied 1.5 million MWh to the SPP market in response to market prices and its wind purchased power agreements provided another 1.4 million MWh (when the wind was blowing) for a total of 2.9 million MWh. Its customers' load requirement, however, was 4.7 million MWh – 1.8 million MWh more than it generated.

By comparison, Evergy Metro's owned resources supplied 8.1 million MWh in response to market prices and its wind purchased power agreements provided 2.0 million MWh (when the wind is blowing) for a total of 10.1 million MWh. Its customers' load requirements for that same time period was 8.5 million MWh – 1.6 million MWh less than it generated. The purchased power and off system sales revenues for these two electric utilities is shown in Table 1 below.

Table 1
Purchased Power Costs Net of Off System Sales Revenue

	Evergy West	Evergy Metro
Purchased Power Cost	$172,176,094	$140,765,278
Off System Sales Revenue	($34,348,797)	($165,928,000)
Net Cost/(Revenue)	$137,827,297	($25,159,721)

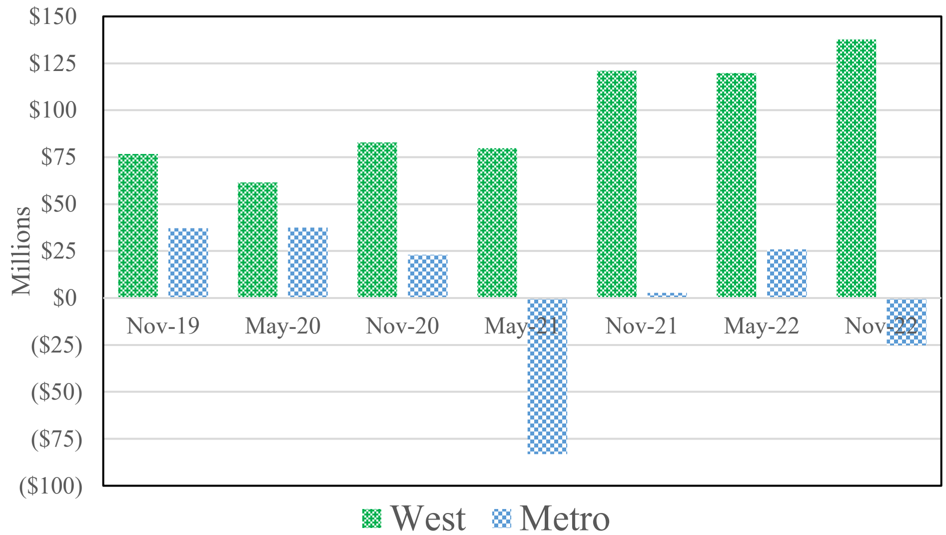
In the simple equation above, Evergy West's OSSR did not offset PP while Evergy Metro's OSSR more than offset PP, hence the difference in ANEC.

In addition, market prices change in five-minute increments depending on load and availability of resources. SPP charges the market price for energy needed to meet load at the time that the energy is required and pays the market price for the energy generated and/or supplied <u>at the time</u> that energy was supplied. Revenues from generation provided when market prices are low will not cover the cost of load that was required when market prices were high.

Because Evergy West did not have cost effective generation to sell into the market to offset the cost of its customer's energy requirement for almost 40% of its load requirement, the cost of supplying the difference was added to Evergy West's fuel costs in its ANEC. It is these excessively high purchased power costs in excess of off system sales that is driving Evergy West's ANEC to be extraordinarily high. To summarize, Evergy West incurred extraordinary costs because it has limited generation that can cost-effectively be sold into the SPP market and market prices charged for the load were high.

Table 1 above gives a snap shot for the six months ending November 2022. The difference between the purchase power costs incurred during a given accumulation period and the off system sales revenue generated during that period (PP – OSSR) for both Evergy West and Evergy Metro for the six prior six month time periods are shown in the graph below.

Graph 3
Purchased Power Cost Minus Off System Sales Revenue



Note: The purchased power and off system sales revenues in this chart are the values included in the FAR approved by the Commission. Therefore, the May 2021 value for Evergy West does not include the costs and revenues that were excluded from the FAR. No cost or revenues were excluded from Evergy Metro's May 2021 values.

There are two important things to note about this graph. First, this graph makes plain the impact increasing market prices have had on Evergy West's customers. The ever increasing difference between the purchased power costs with off-system sales revenues experienced by Evergy West is driven primarily by increases to the fuel costs (as opposed to changes in generation and demand, for example). Second, it is important to note the difference between Every West and Evergy Metro. Evergy West does not have the resources to cover its load requirements while Evergy Metro has more than enough.[6]

This is demonstrated in the six months ending May 2021 which includes the extremely high market prices in February 2021. In these six months, Evergy Metro's revenues exceeded its purchased power costs by over $80 million. That excess revenue then offset a portion of the fuel costs reducing the ANEC that was

[6] The fact that that revenues do not always cover or exceed Evergy Metro's purchased power costs demonstrates that there is congestion in the SPP market.

passed to its customers. The net of Evergy West's actually incurred purchased power and off-system sales revenues received for that same six month time period, by comparison, was $370 million; an amount that would dwarf the other values if included in the graph above. The reason that $370 million dollar figure is <u>not</u> included in the graph above, is because the Commission allowed Evergy West to defer a portion of the excess purchase power costs because they were "extraordinary."

Q. Can Evergy West control market prices?

A. No, it cannot. However, it can control the resources it has available to it to respond to market prices.

Q. Is Evergy West's ANEC in this accumulation period extraordinary?

A. Yes. Utilities, including Evergy West, typically ask the Commission for deferral of extreme costs that they would not ordinarily recover due to regulatory lag to give them an opportunity to recover the costs from customers. It is almost certain that, if Evergy West did not have an FAC, it would be asking the Commission for an AAO so that it could recover the costs incurred in its next rate case. In this case, though, Evergy West does have mechanisms to make itself mostly whole – and earn a profit for its shareholders resulting from this extraordinary cost – because it can recover those costs through its FAC and through plant in service accounting ("PISA"). However, the presence of a FAC does not make the costs any less extraordinary. These mechanisms only change who assumes the risks and burdens associated with the extraordinary costs. Because of the impact of this cost on customers, I am asking for deferment regarding the recovery of the costs to the next rate case. I am also asking that the Commission not allow Evergy West to earn a profit on extraordinary costs that it incurred, which would thereby increase the expense that is passed on to customers.

Q. Is the entire amount of Evergy West's ANEC extraordinary?

A. No. Evergy West normally incurs fuel and purchased power costs to meet its customers' load requirement. In fact, a normalized level of fuel and purchased power costs are included in base or permanent rates. Therefore, OPC is not asking for the Commission to set aside the entire ANEC of $213,325,427 as extraordinary.

Q. How did you determine the extraordinary amount of $85,420,087?

A. Table 2 shows how the extraordinary amount was determined.

Table 2
Calculation of Extraordinary Amount

Tariff Sheet Line #			**Non-Extraordinary**	**AP 31**
	Actual Net Energy Cost (ANEC)	AP 25	$ 104,627,314	
		AP 27	$ 110,662,965	
		AP 29	$ 154,378,423	
		Average	$ 123,222,901	
1	**Actual Net Energy Cost (ANEC)**		**$ 123,222,901**	**$ 213,325,427**
2	Net Base Energy Cost (B)		$ 106,268,999	$ 106,268,999
2.1	Base Factor (BF)		$ 0.02240	$ 0.02240
2.2	Accumulation Period NSI (S_{AP})		4,744,151,719	4,744,151,719
3	(ANEC-B)		$ 16,953,902	$ 107,056,428
4	Jurisdictional Factor (J)		99.792852%	99.792852%
5	(ANEC-B)*J		$ 16,918,782	$ 106,834,663
6	Customer Responsibility		95%	95%
7	95% *((ANEC-B)*J)		$ 16,072,843	101,492,930
8	True-Up Amount (T)		$ 220,443	$ 220,443
9	Interest (I)		$ 2,510,702	$ 2,510,702
10	Prudence Adjustment Amount (P)		$ (48,796)	$ (48,796)
11	**Fuel and Purchased Power Adjustment (FPA)**		**$ 18,755,192**	**$ 104,175,279**
			Extraordinary Cost	**$ 85,420,087**

In order to approximate the portion of Evergy West's ANEC for AP 31 that was non-extraordinary ANEC, I averaged the ANEC for the June through November accumulation periods of the previous three years.[7] I then used this amount as the ANEC to calculate the fuel and purchased power adjustment ("FPA")[8] of $18,755,192. The amount of $85,420,087 that I am asking be deferred is the difference between the FPA of $104,175,279 using the actually incurred ANEC and the FPA that results from using the non-extraordinary ANEC of $18,755,192.

Q. What is the guideline that the Commission typically uses in determining whether a cost is extraordinary?

A. The Commission typically uses the following Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts ("USoA") guidelines:[9]

> Those items related to the effects of events and transactions which have occurred during the current period and which are of unusual nature and infrequent occurrence shall be considered extraordinary items. Accordingly, they will be events and transactions of significant effect which are abnormal and significantly different from the ordinary and typical activities of the company, and which would not reasonably be expected to recur in the forseeable future. (In determining significance, items should be considered individually and not in the aggregate. However, the effects of a series of related transactions arising from a single specific and identifiable event or plan of action should be considered in the aggregate. To be considered as extraordinary under the above guidelines, an item should be more than approximately 5 percent of income, computed before extraordinary items. Commission approval must be obtained to treat an item of less than 5 percent, as extraordinary. (See accounts 434 and 435.)

Q. What is five percent of Evergy West's income?

A. According to Evergy West's *Statement of Income* submitted to the Commission on March 31, 2023, [10] Evergy West's electric operating revenue for the calendar year

[7] Accumulation period 25 - June 2019 through November 2019; accumulation period 27 - June 2020 through November 2020; and accumulation period 29 – June 2021 through November 2021.
[8] This includes the true-up amount, interest, and a prudence adjustment previously ordered by the Commission in Case No. EO-2022-0065.
[9] Uniform System of Accounts, General Instruction 7, 18 CFR Pt. 101.
[10] Evergy West EFIS submission BSOR-2023-1284.

of 2022 was $860,692,636. Five percent of this amount is $43,034,632. This is much lower than the $85 million OPC is asking to be deferred in this case. OPC's requests meets the requirement that the cost be greater than 5% of Evergy West's income.

Q. The USOA references "events and transactions of significant effect which are abnormal and significantly different from the ordinary and typical activities of the company, and which would not reasonably be expected to recur in the forseeable future." Is it unreasonable to expect an ANEC of this extraordinary amount to reoccur in the foreseeable future?

A. No. As long as market prices remain high and Evergy West continues to rely on the SPP market to meet its customers' energy needs, it is likely to reoccur.

Q. Then why should the Commission determine this cost extraordinary?

A. In the last FAC rate change case, ER-2023-0011, Evergy West witness Darrin R. Ives, Certified Public Accountant and Vice President – Regulatory Affairs, testified that the fuel costs incurred by Evergy West in the previous two accumulation periods, AP 29 and AP 30, were extraordinary.[11] He went on to explain in the hearing, that the costs were extraordinary in these two accumulation periods *because they were reoccurring* when he responded to the following question from his attorney:[12]

> Q. Do you agree with Staff and Public Counsel's contention that the costs in this accumulation period are not extraordinary?
>
> A. No. You know, it's interesting and I'll address the question that was brought up is, you know, why extraordinary now if not extraordinary in accumulation period 29. *It's the persistence of the market conditions.*

(Emphasis added)

[11] Direct testimony, page 2, lines 16 – 19.
[12] ER-2023-0011, EFIS item 32, page 65, lines 17 – 24.

If Evergy West truly thought that the ANEC in AP 29 and 30 were extraordinary, then it should be in agreement with OPC that the ANEC in this filing is extraordinary since it is almost 50% higher than the ANEC in the last accumulation period that Mr. Ives testified was extraordinary. Evergy West should file to defer a portion of the costs in a manner that would not reward its shareholders for its actions that resulted in it incurring costs that were extraordinary.

COST RECOVERY WITHOUT AN AAO

Q. If the Commission does not defer the amount OPC has requested for recovery determination in the next rate case, how would this case proceed?

A. It is my understanding that, because Evergy West elected PISA treatment under Missouri Statute 393.1400, the impact of the FAC rate on Evergy West's average overall rate is capped at the compound annual growth rate of three percent beginning December 6, 2018.[13] However this does not mean that the cost incurred above the cap that would be recovered through the FAC would not be recovered from the customers. The PISA statute requires that any costs that would normally be recovered through the FAC that would drive Evergy's average overall rate above the cap are deferred and are recorded in a regulatory asset account that ultimately receives rate base treatment. Beginning with the next rate case, the prudently incurred amount would be included in rates over the next twenty years earning a return on the unamortized balance over that same twenty-year period.[14] Statute requires the return to be Evergy West's weighted average cost of capital and the amortization period to be twenty years.

[13] Section 393.1655.5 RSMo.
[14] Section 393.1400.2(3) RSMo.

Q. How would Evergy West's election of PISA impact the total amount its customers would ultimately pay for costs incurred from May 2022 through November 2022?

A. My analysis shows that with PISA treatment, customers would ultimately pay $296 million for the $213 million ANEC Evergy West incurred and customers would still be paying for the costs incurred in the six months ending November *2023* in November *2043*.

Customers have already paid $106 million in their base rates for the ANEC incurred. Using the actual ANEC and removing the amount already paid, the FPA would be $104 million.[15] PISA would cap the amount of this cost that recovered through the FAC at $56 million. The remaining $48 million would be placed in a regulatory asset account until the next Evergy West general rate case and would accumulate interest at the weighted average cost of capital of 8.25%.[16] The table below shows the total amount that customers would ultimately pay for this accumulation period.

Table 3
Total Cost of PISA Treatment

	PISA
ANEC	**$213,325,427**
Collected in Base Rates	$106,268,999
Collected through FAC	$56,279,046
Amortized Amount	$47,898,201
Interest Until Next Rate Case	$8,229,210
Interest Over Ammort Period	$77,792,592
Total Interest	$86,021,802
Total Cost	**$296,468,048**

[15] See Table 2 for derivation of FPA.
[16] ER-2022-0210, *Stipulation and Agreement*, page 2, paragraph 2.

Q. Would the PISA cap be reached if the Commission orders a deferral of ANEC costs as requested by OPC?

A. No. The deferral would reduce the FPA to $18,755,192 which falls below the PISA cap of $56,279,046.

Q. If $85 million is deferred as requested by OPC, what would be the ultimate impact on what the customers pay?

A. One of the benefits of an AAO is that the ultimate amount customers would be billed would be dependent upon the Commission ordered treatment of the costs in Evergy West's next rate case. The Commission would determine the amount to be amortized, the length of the amortization period, and the interest rate, if any, that would be applied. Table 4 shows a comparison of the PISA treatment to two alternative treatments of the full deferred amount.

Table 4
Comparison of PISA Treatment and Deferral

		Deferral	
	PISA	Alternative 1	Alternative 2
ANEC	**$213,325,427**	**$213,325,427**	**$213,325,427**
Collected in Base Rates	$106,268,999	$106,268,999	$106,268,999
Collected through FAC	$56,279,046	$18,755,192	$18,755,193
Amortized Amount	$47,898,201	$85,420,087	$85,420,087
Interest Until Next Rate Case	$8,229,210	$9,042,789	$9,042,789
Interest Over Amortization Pd	$77,792,592	$58,491,413	$33,145,134
Total Interest	$86,021,802	$67,534,202	$42,187,923
Total Cost	**$296,468,048**	**$277,978,480**	**$252,632,202**
Amortization Period	20 Yr	20 Yr	10 Yr
Interest rate	8.25%	5.16%	5.16%
Next Rate Case	3 Yr	3 Yr	3 Yr

As shown in this table, the full costs to customers from reducing the interest rate is $18.5 million. Reducing the interest rate and shortening the amortization period, which the Commission could do if it defers the extraordinary costs, reduces the amount billed by $44 million.

CONCLUSION

Q. Would you summarize your testimony?

A. Evergy West incurred record fuel and purchased power costs in the six months ending November 2022 because it did not have generation that was cost-effective in the SPP market to offset the costs of its load. Because Evergy West has an FAC, almost all of the risks of extraordinary costs are assumed by the customers. Because Evergy West elected PISA, without action of the Commission, customers will be required to pay not only the excessive cost but a profit on a portion of that excessive cost.

Absent the FAC, Evergy West would be assuming the risk of excessive FAC costs and would be requesting the Commission allow it to place these costs in a regulatory asset account so it would have an opportunity as determined in the next rate case to recover these costs. Instead, in this case, OPC is asking, for its clients – Evergy West's customers that have been forced to assume the risk, that the Commission defer these costs for consideration in the next rate case and that Evergy West's shareholders not be rewarded for the extraordinary costs Evergy West incurred in this accumulation period.

Q. Does this conclude your direct testimony?

A. Yes.

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

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 direct 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 14th day of April 2023.

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.