MISSOURI PUBLIC SERVICE COMMISSION

STAFF REPORT

FOURTH PRUDENCE REVIEW OF COSTS

RELATED TO THE FUEL ADJUSTMENT CLAUSE

FOR THE ELECTRIC OPERATIONS

OF

EVERGY METRO, INC., d/b/a Evergy Missouri Metro

(“Evergy Missouri Metro”)

CASE NO. EO-2022-0064

January 1, 2020, through June 30, 2021

Jefferson City, Missouri
February 28, 2022

** Denotes Confidential Information **

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I. EXECUTIVE SUMMARY

The Missouri Public Service Commission ("Commission") first authorized a Fuel Adjustment Clause ("FAC") for Evergy Metro, Inc., d/b/a Evergy Missouri Metro ("Evergy Missouri Metro" or "Company") f/k/a Kansas City Power & Light Company ("KCPL") in Case No. ER-2014-0370. Since then, the Commission has approved continuation of Evergy Missouri Metro's FAC with modifications in its *Report and Order* in the Company's most recent general rate cases: Case Nos. ER-2016-0285 and ER-2018-0145.

Commission Rule 20 CSR 4240-20.090(11)[1] and Missouri Revised Statute Section 386.266.5(4) require that the Commission's Staff ("Staff") conduct prudence reviews of an electric utility's FAC no less frequently than every 18 months. In this prudence review, Staff analyzed items affecting Evergy Missouri Metro's fuel costs; purchased power costs; net emission allowance costs; transmission costs; off-system sales revenues; and renewable energy credit revenues for the tenth, eleventh and twelfth accumulation periods of Evergy Missouri Metro's FAC ("prudence review period"). The tenth accumulation period started January 1, 2020, and ended June 30, 2020. The eleventh accumulation period started July 1, 2020, and ended December 31, 2020. The twelfth accumulation period started January 1, 2021, and ended June 30, 2021. Thus, the 18-month prudence review period is from January 1, 2020, through June 30, 2021 ("Review Period"). This is Staff's fourth Prudence Review Report for Evergy Missouri Metro's FAC. Table 1 identifies Staff's previous Evergy Missouri Metro FAC prudence reviews.

[1] Effective January 30, 2019.

Table 1: Completed Evergy Missouri Metro FAC Prudence Reviews

Review	File Number	Review Period
First	EO-2017-0231	July 1, 2015 through December 31, 2016
Second	EO-2019-0068	January 1, 2017 through June 30, 2018
Third	EO-2020-0263	July 1, 2018 through December 31, 2019

In evaluating prudence, Staff reviews whether a reasonable person making the same decision would find both the information the decision-maker relied on and the process the decision-maker employed to be reasonable based on the circumstances and information known at the time the decision was made, *i.e.*, without the benefit of hindsight. If either the information relied upon or the decision-making process employed was imprudent, then Staff examines whether the imprudent decision caused any harm to ratepayers. Only if an imprudent decision resulted in harm to ratepayers will Staff recommend a disallowance. However, if an imprudent decision did not result in harm to Evergy Missouri Metro's customers, then Staff may further evaluate the decision-making process, and may recommend changes to the company's business practice going forward.

Staff analyzed a variety of items in examining whether Evergy Missouri Metro was imprudent when it incurred the fuel and purchased power costs associated with its FAC. Based on its review, Staff found evidence of imprudence by Evergy Missouri Metro when Evergy Missouri Metro failed to take any action that would have allowed it to generate revenue from the sale of 1,153,813 renewable energy credits ("RECs") that were not needed to satisfy its RES compliance and simply allowed them to expire during the Review Period. Staff recommends the Commission order an Ordered Adjustment ("OA") in the amount of $3,922,964.[2]

Staff Expert/Witness: Brooke Mastrogiannis

II. INTRODUCTION

A. General Description of Evergy Missouri Metro's FAC

Table 2 identifies Evergy Missouri Metro's Commission-approved FAC tariff sheets, which were applicable for service provided by Evergy Missouri Metro to its customers

[2] This recommended disallowance does not include interest.

during the period January 1, 2020, through June 30, 2021:

Table 2

Evergy Missouri Metro's Commission-approved FAC Tariff Sheets

January 1, 2020, through June 30, 2021

P.S.C. MO No. 7
Original Sheet No. 50.21
Original Sheet No. 50.22
Original Sheet No. 50.23
Original Sheet No. 50.24
Original Sheet No. 50.25
Original Sheet No. 50.26
Original Sheet No. 50.27
Original Sheet No. 50.28
Original Sheet No. 50.29
Original Sheet No. 50.30

For each accumulation period ("AP"),[3] Evergy Missouri Metro's Commission-approved FAC allows Evergy Missouri Metro to recover from (if the actual net energy costs exceed) or refund to (if the actual net energy costs are less than) its ratepayers ninety-five percent (95%) of its Missouri jurisdictional[4] actual net energy costs ("ANEC")[5] less net base energy cost ("B")[6] which is identified as (ANEC – B)*J in Evergy Missouri Metro's FAC.[7] Evergy Missouri Metro accumulates variable fuel costs, purchased power costs, transmission costs and net emissions costs minus off-system sales revenues and renewable energy credit revenues during six-month accumulation periods. Each six-month accumulation period is followed by a twelve-month

[3] Accumulation periods are January through June and July through December.

[4] Missouri jurisdictional factor J is defined on Evergy Missouri Metro's Original Sheet No. 50.28 as Missouri Retail Energy Ratio = (MO Retail kWh sales + MO Losses) / (MO Retail kWh Sales + MO Losses + KS Retail kWh Sales + KS Losses + Sales for Resale, Municipals kWh Sales [including border customers] + Sales for Resale, Municipals Losses), where MO Losses = 6.32%; KS Losses =7.52%; Sales for Resale, Municipals Losses = 6.84%.

[5] "Actual Net Energy Costs" are equal to fuel costs (FC) plus net emission costs (E) plus purchased power costs (PP) plus transmission costs (TC) minus off-system sales revenue (OSSR) and renewable energy credit revenue (R) as defined on Evergy Missouri Metro's Original Sheet No. 50.22.

[6] Net base energy costs (B) is defined on Evergy Missouri Metro's Original Sheet No. 50.28 as net base energy costs ordered by the Commission in the last general rate case consistent with the costs and revenues included in the calculation of the FPA. Net base energy costs will be calculated as shown below S_{AP} x Base Factor ("BF").

[7] For the tenth, eleventh and twelfth accumulation periods, the (ANEC - B)*J amounts are included on line 5 of Evergy Missouri Metro's 4th Revised Sheet No. 50.31, 5th Revised Sheet No. 50.31, and 6th Revised Sheet No. 50.31, respectively.

recovery period ("RP") [8] when 95% of the (ANEC – B)*J amount (including the monthly application of interest)[9] is recovered from or returned to ratepayers through an increase or decrease in the FAC Fuel Adjustment Rates ("FAR") during the twelve-month RP. Because the FAR rarely, if ever, will exactly match the required offset, Evergy Missouri Metro's FAC is designed to true-up the difference between the revenues billed and the revenues authorized (including the monthly application of interest) for collection during recovery periods. Any disallowance the Commission orders as a result of a prudence review shall include interest at the Company's short-term interest rate and will be accounted for as an item of cost[10] in a future filing to adjust the FAR.

B. Prudence Standard

In *State ex rel. Associated Natural Gas Co. v. Public Service Com'n of State of Mo.*, the Western District Court of Appeals stated the Commission defined its prudence standard as follows:

> [A] utility's costs are presumed to be prudently incurred... However, the presumption does not survive "a showing of inefficiency or improvidence... [W]here some other participant in the proceeding creates a serious doubt as to the prudence of expenditure, then the applicant has the burden of dispelling these doubts and proving the questioned expenditure to have been prudent.
>
> In the same case, the PSC noted that this test of prudence should not be based upon hindsight, but upon a reasonableness standard: [T]he company's conduct should be judged by asking whether the conduct was reasonable at the time, under all the circumstances, considering that the company had to solve its problem prospectively rather than in reliance on hindsight. In effect, our responsibility is to determine how reasonable people would have performed the tasks that confronted the company.[11]

In reversing the Commission in that case, the Court did not criticize the Commission's definition of prudence, but held, in part, that to disallow a utility's recovery of costs from its customers based on imprudence the Commission must determine the detrimental impact of that imprudence on the utility's ratepayers.[12] This is the prudence standard Staff follows in

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[8] Recovery periods are: October through September and April through March.

[9] *See* SECTION IV. INTEREST, of this Prudence Review Report.

[10] *See* PRUDENCE REVIEWS on Evergy Missouri Metro's Original Sheet No. 50.30.

[11] 954 S.W.2d 520, 528-29 (Mo. App. W.D., 1997) (citations omitted).

[12] *Id*. at 529-30.

conducting prudence reviews. Staff reviewed for imprudence the areas identified and discussed below for Evergy Missouri Metro's tenth, eleventh, and twelfth six-month accumulation periods.

Staff Expert/Witness: Brooke Mastrogiannis

III. FUEL COSTS, PURCHASED POWER COSTS, TRANSMISSION COSTS, NET EMISSION COSTS

Evergy Missouri Metro's FAC includes four major components of costs: fuel costs, purchased power costs, net emission costs and transmission costs. It also includes two components of revenues: off-system sales revenues and renewable energy credit revenues. Table 3 is a breakdown of Evergy Missouri Metro's fuel costs, purchased power costs, net emission costs, transmission costs, off-system sales revenues, and renewable energy credit revenues for the period of January 1, 2020, through June 30, 2021:

Continued on next page

Table 3 - Confidential

**

[redacted]

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Staff Experts/Witnesses: Brooke Mastrogiannis, Lisa Wildhaber, Cynthia M. Tandy, and Amanda C. Conner

A. Staff Review of Ordinary FAC Costs

In the FAC FAR filing for Accumulation Period 12, Case No. ER-2022-0025,[13] covering the six-month period of January 2021 through June 2021, Evergy Missouri Metro requested to defer a net credit of $56,830,775 of extraordinary costs and revenues associated with the February 2021 cold weather event ("Winter Storm Uri"). After applying the Commission's current cost allocation methodology to Evergy Metro's Missouri jurisdiction, a benefit resulted for Evergy Missouri Metro customers of $32.0 million. The extraordinary costs and revenues are being sought for future recovery through an Accounting Authority Order ("AAO"), which would track and defer in a regulatory asset or liability, as appropriate, all extraordinary costs and revenues of Winter Storm Uri. The AAO case is still pending in File No. EU-2021-0283, and recovery of the amounts deferred will be addressed by the Commission in a future proceeding. As such, the deferred costs and revenues are not subject to review under this prudence review.

Company witness Lisa A. Starkebaum's direct testimony in the FAC FAR filing explained that Winter Storm Uri caused extremely cold temperatures, resulting in increased fuel and purchased power costs which were more than offset with an increase in off-system sales revenues, or a net customer benefit.(page 6) Ms. Starkebaum stated that the Company is seeking the AAO to accumulate and defer to a regulatory liability all extraordinary costs and revenues incurred resulting from Winter Storm Uri. Ms. Starkebaum explained that the Company is proposing a future FAC to flow back the benefits to customers from off-systems sales resulting from Winter Storm Uri. Ms. Starkebaum further explained that the Company calculated a three-year average baseline of February costs, using February costs for the years 2018, 2019, and 2020 for fuel, purchased power, emissions, transmission expense, and off-system sales revenues. This baseline average was compared to the February 2021 actual costs to compute the extraordinary costs in excess of the average.[14] The requested deferral of costs and revenues was pursuant to Commission Rule 20 CSR 4240-20.090(8)(A)2.A.(XI), which states, "For the period of historical costs which are being used to propose the fuel adjustment rates… Extraordinary costs not to be passed through, if any, due to such costs being an insured loss, or subject to reduction due to litigation or for any other reason."

[13] Filed July 30, 2021.

[14] Lisa Starkebaum's Direct Testimony page 6-7, filed July 30, 2021.

On August 27, 2021, Staff filed a recommendation to reject Evergy Missouri Metro's proposed tariff, stating that it was Staff's opinion that the Commission rule allows deferral of extraordinary costs but does not allow deferral of extraordinary revenues. On September 15, 2021, the Commission ordered to reject Evergy Missouri Metro's proposed tariff, and ordered the parties to determine if there is any part of the proposed adjustment not now in question that could be included in an interim FAC rate adjustment tariff revision. On September 30, 2021, Evergy Missouri Metro resubmitted its proposed FAC tariff that was originally filed on July 30, 2021, as an interim FAC tariff revision. On October 20, 2021, the Commission approved an interim tariff sheet that removed the contested components, to become effective November 1, 2021. A procedural schedule was established on December 2, 2021, for resolution of the issues. The FAC filing is unresolved at the time of this report, therefore the deferred costs and revenues will be reviewed in a future proceeding.

In Table 3 of this report are the amounts adjusted for the Storm Uri. These amounts were calculated using a three-year average baseline of February costs, using actual February costs for the years 2018, 2019, and 2020 for fuel, purchased power, emissions, transmission expense, and off-system sales revenues. This baseline average was compared to the February 2021 actual costs to compute the extraordinary costs in excess of the average. However, in every section of this report that Storm Uri affected, there will be a footnote that contains the total costs that were actually incurred before the adjustment for the deferral.

Staff Expert/Witness: Brooke Mastrogiannis

B. Utilization of Generation Capacity

1. Description

The purpose of this section is to provide an overview of Evergy Missouri Metro's available supply-side and demand response resources and review the process by which generating units are selected to satisfy native load requirements during the Review Period. Evergy Missouri Metro's generating units consist of a mixture of coal, nuclear, natural gas, diesel, and wind as indicated in Table 4[15] below titled Supply Side Resources. Table 5 provides a list of Evergy Missouri Metro's long-term Power Purchase Agreements ("PPA"). Table 6 contains a capacity summary for Evergy Missouri Metro's current fleet.

[15] Evergy Missouri Metro response to Data Request No. 0013 & 0042.

Table 4 - Confidential

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[redacted]

**

<u>Table 5 – Confidential</u>

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[redacted]

**

<u>Table 6 – Confidential</u>

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[redacted]

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2. Self – Commitment of Baseload Generation Facilities into SPP

During this FAC prudence review, Staff conducted a review of commitment status of Evergy Missouri Metro's electric generation facilities into SPP in an effort to determine any negative impacts that might be occurring because of such actions. Evergy Missouri Metro has varied electric generation facilities that are designed to provide varying types of services to its customers. These generation facilities include coal, natural gas, #2 fuel oil, nuclear, and wind turbines. Each one of Evergy Missouri Metro's generation facilities has its own distinct operating characteristics and requires specific operational guidelines to be followed as to maintain the reliability of the units as determined by Evergy Missouri Metro's plant operations teams to determine optimal plant reliability and manufacturer operational guidelines.[16] The SPP market allows participants to commit resources in different ways rather than have the market choose which units to run. SPP utilizes five resource offer commitment status designations[17] for its market participants ("MP"):

> **1. Market** – the resource is available for centralized unit commitment through its price sensitive (merit-based) price quantity offers.
>
> **2. Self** – the market participant is committing the resource through price insensitive offers outside of centralized unit commitment.
>
> **3. Reliability** – the resource is off-line and is only available for centralized unit commitment if there is an anticipated reliability issue.
>
> **4. Outage** – the resource is unavailable due to a planned, forced, maintenance, or other approved outage.
>
> **5. Not participating** – the resource is otherwise available but has elected not to participate in the day-ahead market.

SPP Market participants have stated the following reasons for self-commitment:[18]

- Testing – NERC requirement
- Public Utilities Regulatory Policy Act (PURPA)

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16 SPP, Self-committing in SPP markets: Overview, impacts, and recommendations, December 2019, Page 4.

17 *Id*, Page 5.

18 SPP, Self-committing in SPP markets: Overview, impacts, and recommendations, December 2019, Pages 7 and 8.

- Federal service exemptions
- Started by a different market
- Weather
- Long lead times
- Fuel contracts
- Other contracts
- Long minimum run times
- Commitment bridging
- Desire to reduce thermal damage to the unit due to starts and stops
- High startup costs

Some of these reasons are unavoidable and can require the resource to be offered in self-commitment status. Testing the output of a plant, as periodically required by regulatory agencies, is a frequent justification. "Some of the reasons, such as high start-up costs, fuel offer through dollar-based offer parameters. Thermal damage due to start-ups and shutdowns and resulting major maintenance could be included in mitigated offers starting in April 2019. SPP has seen a decline in self-committed generation over time and it is possible that perceptions of economic justifications have changed over time."[19]

Staff analyzed data received from Evergy Missouri Metro[20] to determine the financial impacts of the self-commit units as offered and cleared into the SPP Real-time market. Table 7 provides the summary of Staff's review by generating unit for the period of January 1, 2020, through June 30, 2021. Staff reviewed the hourly real-time transactions that were deemed self-commitment by taking the hourly real time energy cost and adding it to the hourly total revenue for that same hour for the individual generating unit that was self-committed, then compared the number of positive "In the Money" hourly transactions to the negative "Out the Money" hourly transactions. Results are shown below in Table 7. Staff then took it a step further to show the amount of revenue that corresponded to the "In vs Out" of money transactions, as well as a net settlement (revenue) or total when adding the "In the Money" to the "Out of the

[19] *Id*, Page 8.

[20] Staff Data Request No. 0054.1 in File No. EO-2022-0064.

Money" transactions, to show an overall revenue associated with self-commitment. In the revenue portion of the table below a positive/negative sign convention was used for revenues. i.e. (Negative values =Charges/Station Use; Positive values = Revenues/Generation).

Table 7 – Confidential

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[redacted]

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Staff does not have the data to perform a detailed analysis as to what would have been the additional costs to the units due to high cost of restart, increases in O&M cost and increased plant outages if Evergy Missouri Metro would have designated these units as "Market" instead of "Self-Commit." Staff is providing Table 7 as actual financial results of Evergy Missouri Metro's current practice of self-commit of its baseload generation units as described above. The overall findings from Table 7 revealed that 82% of Evergy Missouri Metro's self-commitment hourly transactions had positive revenues associated with them.

Staff further explored this issue in Case No. EW-2019-0370. Some of the findings in that case were that "the utility responses indicate that the economic minimum for each unit is based upon the physical limitations of each plant at a given point in time. These physical limitations are highly variable among plants, are affected by a variety of factors, and can vary by hour. Many of the units in question were commissioned as base load units well before the day-ahead markets were formed. These base load coal units were not designed to be cycled frequently and doing so would likely increase the likelihood of outages, increase operations and maintenance expense, and reduce the reliability of the units… Staff maintains that in order to fully understand the economic impact of self-scheduling on a given unit's profitability, an analysis at the RTO level would need to be conducted. Due to the highly confidential nature of utilities' market bidding strategies, it is highly unlikely that any party other than SPP or MISO have the raw data, modeling software access, and resources to conduct such an extensive analysis of market trends."[21]

3. Conclusion

Staff did not observe any evidence of imprudent utilization of generation resources during this prudence review.

4. Documents Reviewed

a. Evergy Missouri Metro's responses to Staff Data Request Nos. 0013, 0042, 0054, 0054.1;

b. SPP, Self-committing in SPP markets: Overview, impacts, and recommendations, December 2019; and

c. EW-2019-0370.

Staff Experts/Witnesses: Jordan T. Hull

C. Heat Rates

1. Description

Heat rates of generating units are an indicator of each unit's performance. A heat rate is a calculation of total volume of fuel burned for electric generation multiplied by the average

[21] EW-2019-0370, Staff's Second Supplemental Report, Pages 1&2.

heat content of that volume of fuel for a given time period divided by the total net generation of electricity in kilowatt hours (kWh) for that same time period.

2. Summary of Cost Implications

Heat rates are inversely related to the operating efficiency of the generating unit. Increasing heat rates of specific units over time may indicate that a specific unit's efficiency is declining. Heat rates can vary greatly depending on operating conditions including but not limited to load, hours of operation, shutdowns and startups, unit outages, derates,[22] and weather conditions. Therefore, a good indication of unit performance for frequently used units is an analysis of the trend of heat rates over time. A permanent increase in monthly heat rates is commonly the result of a decrease in a generating unit's operating efficiency. This typically occurs when additional emissions reduction equipment is added to the exhaust of the generating unit. Continued utilization of units with sustained elevated heat rates could result in Evergy Missouri Metro incurring higher fuel costs per unit of electricity generated than it would otherwise have incurred. If Evergy Missouri Metro was imprudent in response to the ongoing trend of a unit's heat rate, ratepayer harm could result from an increase in the fuel costs that are collected through Evergy Missouri Metro's FAC charges.

3. Conclusion

In reviewing the monthly heat rates of Evergy Missouri Metro's generating units and examining the reasons behind the unfavorable trends and sporadic heat rate months, Staff found no indication that Evergy Missouri Metro acted imprudently during the Review Period.

4. Documents Reviewed

a. Evergy Missouri Metro's responses to Staff Data Request Nos. 0018, 0063, and 0063.1; and

b. Monthly Outage data in the Monthly Reports submitted by Evergy Missouri Metro in compliance with Rule 20 CSR 4240-3.190.

Staff Experts/Witnesses: Jordan T. Hull

[22] Derate- To lower the rating of (a device), especially because of a deterioration in efficiency or quality.

D. Plant Outages

1. Description

Generating stations' outages generally can be classified as scheduled outages, forced outages, or partial outages. Scheduled outages consist of either a planned outage or a maintenance outage. A planned outage is one that is scheduled well in advance, with a predetermined duration and occurring only once or twice a year. Scheduled outages are often planned and scheduled over one year in advance. The exact start date depends on freezing temperatures and natural gas availability. Turbine and boiler overhauls, inspections, testing, and nuclear refueling are typical planned outages. A maintenance outage is one that can be deferred beyond the end of the next weekend but must be taken before the next planned outage. A forced outage is an outage that cannot be deferred beyond the next weekend, and a partial outage, or derating, is a condition that requires the unit to be limited to an energy output below maximum capacity.

Outages taken at any of the generating units have an impact on how much Evergy Missouri Metro will pay for fuel and purchased power. Any planned outage during peak load demand times or a period of high replacement energy prices has the potential result of Evergy Missouri Metro paying more for fuel and purchased power costs than it would have paid if the outage were planned during forecasted low load times. Periodic planned outages are required to maintain each generating unit in peak operating condition to minimize forced or maintenance outages that could occur during peak load demand or periods of high replacement energy prices, typically June through August and January through February.

Staff examined the planned outages and their timing for imprudence. An example of an imprudent outage would be scheduling a planned outage of a large base load unit during a time of peak load or a period of high replacement energy prices.

Evergy Missouri Metro has little or no control over the timing of unscheduled maintenance or forced outages of the generating stations it owns and operates when such outages are the result of unforeseen events. The Company has no control over the timing of planned outages for generating stations it does not operate. These types of outages are not included as a part of this prudence review.

2. Summary of Cost Implications

An imprudent planned outage could result in an increased cost of purchased power by Evergy Missouri Metro from the SPP IM[23] as well as a decrease in off-system sales revenues through the SPP IM.

3. Conclusion

Staff did not find any evidence of imprudent planned outages by Evergy Missouri Metro during the Review Period.

4. Documents Reviewed

a. Evergy Missouri Metro's responses to Staff Data Request Nos. 0004, 0005, 0005.1, 0006; and 0046.

Staff Experts/Witnesses: Jordan T. Hull

E. Natural Gas Costs

1. Description

For the Review Period, ** [redacted] ** or ** [redacted] ** [24] of Evergy Missouri Metro's total fuel costs, purchased power costs, transmission costs, and net emission costs was associated with the natural gas used in generating electricity. The cost of natural gas includes various miscellaneous charges such as firm transportation service charges and other fuel handling expenses. During the Review Period, Evergy Missouri Metro's natural gas price averaged ** [redacted] ** per MMBtu, based on ** [redacted] ** MMBtu of natural gas purchases and purchase amounts of ** [redacted] **. Staff reviewed the contract terms and a sampling of invoices for gas purchased. Evergy Missouri Metro receives natural gas services from 24 gas supply contracts and four natural gas transportation contracts. The contracts are identified in Table 8:

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[23] Southwest Power Pool Integrated Market

[24] The natural gas costs and percentage of total fuel costs reflect the removal of extraordinary costs deferred from Accumulation Period 12, as noted in Section III.A of this report. Evergy Missouri Metro's total natural gas costs actually incurred, before the adjustment for the deferral, is ** [redacted] **or ** [redacted] **of total fuel costs, purchased power costs, transmission costs, and net emission costs.

Table 8 - Confidential

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[redacted]

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Table 9 lists the Gas Transportation Contracts in effect for the Review Period:

Table 9 – Confidential

**

[redacted]

**

Table 10 identifies Evergy Missouri Metro's intermediate and peaking generating units that burn natural gas:

Table 10 – Confidential

**

[redacted]

**

2. Summary of Cost Implications

If Evergy Missouri Metro was imprudent in its purchasing decisions relating to natural gas, ratepayer harm could result from increased FAC charges.

3. Conclusion

Staff found no indication Evergy Missouri Metro's purchases of natural gas were imprudent during the Review Period.

4. Documents Reviewed

a. Evergy Missouri Metro's responses to Staff Data Request Nos. 0001, 0007, 0013, 0023, 0024, 0024.1, 0026, 0034, 0035, 0044, 0045, 0053, 0064; and
b. Evergy Missouri Metro's monthly reports, FAR Filings and related work papers for AP 10, 11, and 12.

Staff Expert/Witness: Lisa Wildhaber

F. Coal and Rail Transportation Costs

1. Description

For the Review Period, ** [redacted] ** or ** [redacted] ** [25] of Evergy Missouri Metro's total fuel costs, purchased power costs, transmission costs, and net emission allowance costs was associated with the coal used in generating electricity. The cost of coal includes various

[25] The coal costs and percentage of total fuel costs reflect the removal of extraordinary costs deferred from Accumulation Period 12, as noted in Section III.A of this report. Evergy Missouri Metro's total coal costs actually incurred, before the adjustment for the deferral, is ** [redacted] ** or ** [redacted] ** of total fuel costs, purchased power costs, transmission costs, and emission costs.

miscellaneous charges such as rail and other ground transportation service charges, and other fuel handling expenses. Staff reviewed the contract terms of eight (8) short and long-term coal purchase contracts, as well as a sampling of invoices for coal purchased and delivered. The counterparties for the contracts are identified in Table 11:

Table 11 - Confidential

**

[redacted]

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The contracts provide coal delivery to Evergy Missouri Metro's Hawthorn 5, Iatan 1 and 2, and LaCygne 1 and 2. The price of coal can either be a fixed price for the entire contract, a fixed price for each year of the contract, a base price plus an escalation as calculated per the contract, a price determined by the Master Purchase & Sales Agreement, or a price which is index-based.

2. Summary of Cost Implications

If Evergy Missouri Metro was imprudent in its decisions relating to purchasing and transporting coal, ratepayer harm could result from an increase in FAC charges.

3. Conclusion

Staff found no indication that Evergy Missouri Metro's purchases and transportation of coal or its coal-related contracts were imprudent during the Review Period.

4. Documents Reviewed

a. Evergy Missouri Metro's responses to Staff Data Request Nos. 0001, 0007, 0008, 0009, 0013, 0021, 0023, 0027, 0028, 0029, 0030, 0034, 0035, 0044, 0045, 0053, 0064; and

b. Evergy Missouri Metro's monthly reports, FAR Filings and related work papers for AP 10, 11, and 12.

Staff Expert/Witness: Lisa Wildhaber

G. Fuel Oil Costs

1. Description

For the Review Period, ** [redacted] ** or ** [redacted] **[26] of Evergy Missouri Metro's total fuel costs, purchased power costs, transmission costs, and net emission allowance costs was associated with the fuel oil used in generating electricity. The cost of fuel oil includes various miscellaneous charges, such as rail and/or ground transportation service charges and other miscellaneous fuel handling expenses. Staff reviewed the contract terms of Evergy Missouri Metro's two (2) oil contracts that were in place during the Review Period, as well as a sampling of invoices for fuel oil purchased. The contracts provide a primary delivery location and agreement on the price. The price is based on the market price at the time Evergy Missouri Metro purchases the fuel oil. The counterparties for the fuel oil contracts are identified in Table 12:

<u>Table 12 - Confidential</u>

**

[redacted]

**

The fuel oil contracts provide delivery of fuel oil to various generating units.

2. Summary of Cost Implications

If Evergy Missouri Metro imprudently purchased fuel oil, ratepayer harm could result from increased FAC charges.

[26] The fuel oil costs and percentage of total fuel costs reflect the removal of extraordinary costs deferred from Accumulation Period 12, as noted in Section III.A of this report. Evergy Missouri Metro's total fuel oil costs actually incurred, before the adjustment for the deferral, is ** [redacted] ** or ** [redacted] ** of total fuel costs, purchased power costs, transmission costs, and emission costs.

3. Conclusion

Staff found no indication Evergy Missouri Metro's costs associated with its fuel oil contracts in place were imprudent during the Review Period.

4. Documents Reviewed

a. Evergy Missouri Metro's responses to Staff Data Request Nos. 0001, 0007, 0013, 0023, 0025, 0034, 0035, 0044, 0045, 0053, 0064; and

b. Evergy Missouri Metro's monthly reports, FAR Filings and related work papers for AP 10, 11, and 12.

Staff Expert/Witness: Lisa Wildhaber

H. Transmission Costs

1. Description

For the Review Period, ** [redacted] ** or ** [redacted] **[27] of Evergy Missouri Metro's total fuel cost, purchased power costs, transmission costs and net emission costs was associated with transmission costs. There was one tariff sheet that was in effect during this Review Period. Evergy Missouri Metro's FAC P.S.C. MO No. 7 Original Sheet No. 50.24 (Applicable to Service Provided December 6, 2018 through June 30, 2021), defines the "TC" component as:

> Transmission Costs:
>
> The following costs reflected in FERC Account Number 565:
>
> Subaccount 565000: non-SPP transmission used to serve off system sales or to make purchases for load and 26.40% of the SPP transmission service costs which includes the schedules listed below as well as any adjustments to the charges in the schedules below:
>
>> Schedule 7 – Long-term Firm and Short-term Point to Point Transmission Service
>> Schedule 8 – Non Firm Point to Point Transmission Service
>> Schedule 9 – Network Integration Transmission Service
>> Schedule 10 – Wholesale Distribution Service
>> Schedule 11 – Base Plan Zonal Charge and Region Wide Charge

[27] The transmission costs and percentage of total transmission costs reflect the removal of extraordinary costs deferred from Accumulation Period 12, as noted in Section III.A of this report. Evergy Missouri Metro's total transmission costs actually incurred, before the adjustment for the deferral, is ** [redacted] ** or ** [redacted] ** of total fuel costs, purchased power costs, transmission costs, and emission costs.

> Excluding amounts associated with portions of purchased power agreements dedicated to specific customers under the Renewable Energy Rider tariff.
>
> Subaccount 565020: the allocation of the allowed costs in the 565000 account attributed to native load;
>
> Subaccount 565027: the allocation of the allowed costs in the 565000 account attributed to transmission demand charges;
>
> Subaccount 565030: the allocation of the allowed costs in account 565000 attributed to off-system sales.

For calculating TC, Evergy Missouri Metro implemented a process whereby total transmission expenses were tabulated and then costs not allowed in the FAC were removed. Staff reviewed the transmission costs over the Review Period to verify only 26.40% of the SPP transmission service costs are included (from January 1, 2020 through June 30, 2021).[28] Evergy Missouri Metro's transmission costs during the Review Period are ** [redacted] **.

2. Summary of Cost Implications

If Evergy Missouri Metro imprudently included transmission costs in the FAC, ratepayer harm could result from increased FAC charges.

3. Conclusion

Staff found no indication that Evergy Missouri Metro's transmission costs were imprudent during the Review Period.

4. Documents Reviewed

a. Evergy Missouri Metro's General Ledger;
b. Evergy Missouri Metro's responses to Staff Data Request Nos. 0001, 0002, 0023, 0039, 0044, and 0045; and
c. Evergy Missouri Metro's monthly reports, FAR Filings and related work papers for AP 10, 11, and 12.

Staff Expert/Witness: Amanda C. Conner

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[28] During the last general rate case, Case No. ER-2018-0145, the Commission, in its *Order Approving Stipulations and Agreements* issued on October 31, 2018, approved the change of the FAC transmission percentage from 20.91% to 26.40%.

I. Nuclear Fuel

1. Description

For the Review Period ** [redacted] ** or ** [redacted] **[29] of Evergy Missouri Metro's fuel costs, purchased power costs, transmission costs, and net emission allowance costs is associated with nuclear fuel used in the generation of electricity at the Wolf Creek Nuclear Operating Corporation's generating unit. Evergy Missouri Metro owns 47% of Wolf Creek Nuclear Operating Corporation.

2. Summary of Cost Implications

If Evergy Missouri Metro was imprudent in its purchasing decisions relating to nuclear fuel, ratepayer harm could result from increased FAC charges.

3. Conclusion

Staff found no indication that Evergy Missouri Metro nuclear fuel costs were imprudent during the Review Period.

4. Documents Reviewed

a. Evergy Missouri Metro's responses to Staff Data Request Nos. 0023, 0035, 0044, 0045, 0066; and
b. Evergy Missouri Metro's monthly reports, FAR Filings and related work papers for AP 10, 11, and 12.

Staff Expert/Witness: Amanda C. Conner

J. Emission Allowances

1. Description

The Cross-State Air Pollution Rule ("CSAPR") is a ruling by the United States Environmental Protection Agency ("EPA") that requires a number of states, including Missouri, to reduce power plant emissions that contribute to ozone and/or fine particle pollution in other states. The CSAPR replaced EPA's 2005 Clean Air Interstate Rule ("CAIR"), following the

[29] The nuclear fuel costs and percentage of total fuel costs reflect the removal of extraordinary costs deferred from Accumulation Period 12, as noted in Section III.A of this report. Evergy Missouri Metro's total nuclear fuel costs actually incurred, before the adjustment for the deferral, is** [redacted] ** or ** [redacted] ** of total fuel costs, purchased power costs, transmission costs, and emission costs.

direction of a 2008 court decision that required EPA to issue a replacement regulation. CSAPR implementation began on January 1, 2015.

The CSAPR requires Missouri to reduce its annual emissions of sulfur dioxide (SO_2) and nitrous oxides (NO_x) to help downwind states attain the 24-hour National Ambient Air Quality Standards ("NAAQS"). The CSAPR also requires Missouri to reduce ozone season emissions of NO_x to help downwind states attain the 8-hour NAAQS.

On September 7, 2016, the EPA revised the CSAPR ozone season NO_X program by finalizing an update to CSAPR for the 2008 ozone NAAQS, known as the CSAPR Update. The CSAPR Update ozone season NO_X program largely replaced the original CSAPR ozone season NO_X program starting on May 1, 2017. The CSAPR Update further reduced summertime NO_X emissions from power plants in the eastern U.S. There was a Final Revised Cross-State Air Pollution Rule Update on March 15, 2021, that included an additional 12 states. Since Missouri was already part of the first CSAPR Update, this Revised CSAPR Update did not affect Missouri. According to Evergy Missouri Metro, there were no operational adjustments needed to comply with the CSAPR requirements.

The primary mechanism of CSAPR is a cap-and-trade program that allows a major source of NO_X and/or SO_2 to trade excess allowances when its emissions of a specific pollutant fall below its cap for that pollutant. Originally, the EPA issued a model cap-and-trade program for power plants, which could have been used by states as the primary control mechanism under CAIR. This model, with modifications, had continued under CSAPR.

To comply with CSAPR, Evergy Missouri Metro established an inventory for SO_2 and NO_x. Evergy Missouri Metro currently plans to maintain this SO_2 and NO_x allowance inventory sufficient to offset expected emissions. This inventory is tracked in Company account 158100 for Emissions Allowance Inventory and accounts 158200, 158201 and 158500 for Emission Allowance REC inventories. The Evergy Missouri Metro SO_2 and NO_x allowance inventories are valued at zero cost, and the cost for SO_2 and NO_x allowances is tracked in FERC Account Number 509000. For the Review Period, the total balance in the emission inventory accounts as of June 30, 2021 was ** [redacted] **. The Company annually balances account 509000 when the EPA yearly awards the additional allowances.

For the Review Period, Evergy Missouri Metro's total net emission allowance cost was ** [redacted] **.

2. Summary of Cost Implications

If Evergy Missouri Metro imprudently used, purchased or banked its SO_2 and NO_x allowances, ratepayer harm could result from an increase in Evergy Missouri Metro's FAC charges.

3. Conclusion

Staff found no indication that Evergy Missouri Metro was imprudent in its purchases, banking, or usage of CSAPR NO_X and SO_2 allowances.

4. Documents Reviewed

a. Evergy Missouri Metro's response to Staff's Data Request Nos. 0031, 0033, 0038, 0044, 0058, 0059, 0060 and 0061;
b. Evergy Missouri Metro's FAR filings and related work papers for AP 10, 11, and 12; and,
c. Evergy Missouri Metro's monthly reports for the time period January 1, 2020 through June 30, 2021 required by 20 CSR 4240-20.090(5).

Staff Expert/Witness: Cynthia M Tandy

K. Off-System Sales Revenue

1. Description

Off-system sales revenues ("OSSR") is a component in the calculation of Evergy Missouri Metro's FAR used to charge or refund fuel and purchased power costs to its customers. The following language was in effect during the Review Period:

Evergy Missouri Metro's FAC P.S.C. MO No. 7, Original Sheet No. 50.24, applicable to service provided from December 6, 2018 defines the "OSSR" component as:

- OSSR = Revenues from Off-System Sales:
  - The following revenues or costs reflected in FERC Account Number 447:

    Subaccount 447020: all revenues from off-system sales. This includes charges and credits related to the SPP IM, or

> other IMs, including, energy, ancillary services, revenue sufficiency (such as make whole payments and out of merit payments and distributions), revenue neutrality payments and distributions, over collected losses payments and distributions, TCR and ARR settlements, demand reductions, virtual energy costs and revenues and related fees where the virtual energy transaction is a hedge in support of physical operations related to a generating resource or load, generation/export charges, ancillary services including non-performance and distribution payments and SPP uplift revenues or credits, but excluding (1) off-system sales revenues from full and partial requirements sales to municipalities that are served through bilateral contracts in excess of one year and (2) the amounts associated with purchased power agreements associated with the Renewable Energy Rider tariff. Additional revenue will be added at an inputed 75% of the unsubscribed portion associated with the Solar Subscription Rider valued at market prices;
>
> Subaccount 447012: capacity charges for capacity sales one year or less in duration;
>
> Subaccount 447030: the allocation of the includable sales in account 447020 not attributed to retail sales.

Staff reviewed the off-system sales quantities and revenues over the Review Period, and Evergy Missouri Metro's off-system sales revenue recoverable under the FAC was in the amount of ** [redacted] **[30].

2. Summary of Cost Implications

Evergy Missouri Metro's revenues from off-system sales are an offset against total fuel and purchased power costs, transmission costs and net emission costs. This is because Evergy Missouri Metro's ratepayers pay for the resources used to produce any energy that Evergy Missouri Metro sells. Since implementing the IM, SPP has controlled the economic dispatch of Evergy Missouri Metro's generation. During times that Evergy Missouri Metro's generation exceeds Evergy Missouri Metro's retail customers' needs, Evergy Missouri Metro becomes a net seller in the SPP IM. If Evergy Missouri Metro did not make available its generating units

[30] The off-system sales revenues reflect the removal of extraordinary costs deferred from Accumulation Period 12, as noted in Section III.A of this report. Evergy Missouri Metro's total off-system sales revenues actually incurred, before the adjustment for the deferral, is ** [redacted] **.

in the SPP IM for off-system sales to be made, ratepayers could be harmed by such imprudence by an increase in Evergy Missouri Metro's FAC charges.

3. Conclusion

Staff found no indication that Evergy Missouri Metro imprudently withheld availability of its generating units in the SPP for off-system sales to be made.

4. Documents Reviewed

a. Evergy Missouri Metro's responses to Staff Data Request Nos. 0044 and 0055;
b. Evergy Missouri Metro's FAC tariff sheet during the Review Period; and,
c. Evergy Missouri Metro's monthly reports, FAR Filings and related work papers for AP 10, 11, and 12.

Staff Expert/Witness: Cynthia M. Tandy

L. Renewable Energy Credit Revenues

1. Description

The Missouri Renewable Energy Standard ("RES")[31] requires all investor-owned electric utilities in Missouri to provide at least two percent (2%) of their retail electricity sales using renewable energy resources in each calendar year 2011 through 2013, and to increase that percentage over time to at least fifteen percent (15%) by 2021. Commission rule 20 CSR 4240-20.100, Electric Utility Renewable Energy Standard Requirements, which first became effective September 30, 2010, contains the definitions, structure, operations, and procedures for implementing the RES.

The RES rule creates two categories of energy-generating resources: non-renewable energy resources (including purchased power from non-renewable energy sources) and renewable energy resources (including purchased power from renewable energy sources).[32] Renewable energy resources produce electrical energy and are:

- wind
- solar sources
- thermal sources

[31] Section 393.1020 RSMo. Supp. 2013 and Section 393.1030.1(1), RSMo. Supp. 2013.
[32] 20 CSR 4240-20.100(5)(B).

- hydroelectric sources
- photovoltaic cells and panels
- fuel cells using hydrogen produced by one (1) of the above named electrical energy sources, and other sources of energy that become available after August 28, 2007, and are certified as renewable by the Missouri Department of Natural Resources – Division of Energy ("Division of Energy").[33]

Once an energy resource is certified, it begins producing Renewable Energy Credits ("RECs"), with one (1) REC representing one (1) megawatt-hour of electricity that has been generated from the renewable energy resource. These RECs can be sold and/or traded in the market place bundled with or without the energy that generated the REC.[34] The cost of a REC (as a RES compliance cost) cannot be recovered through the FAC.[35] However, revenues from the sale of RECs are recovered through the FAC as an off-set to fuel costs. During the Review Period, the RES rule required Evergy Missouri Metro to serve at least 10% of its retail load using renewable energy resources until December 31, 2020, and then at least 15% of its retail load starting January 1, 2021. There were no REC expenses submitted under the FAC program during this Review Period.

The issue of selling or not selling RECs for Evergy Missouri Metro was addressed in Case No. EO-2019-0068 (Combined with Case No. EO-2019-0067) and the Commission issued a *Report and Order* in that case addressing this issue. The Order stated, "The Commission finds that when made, KCPL's decision not to sell the 722,628 RECs was not imprudent in light of the circumstances then existing and considered, to wit: KCPL's consideration of its customers' wishes to retain their energy's environmental attributes; KCPL's consideration that selling the RECs would reduce from 25.15% to 19.39% the percentage of power customers were receiving from renewable energy sources; KCPL's consideration that the revenue opportunities in selling the RECs were very limited; KCPL's consideration that the credit to customers of approximately $.02 per month per 1,000kWh was de minimis and outweighed by

[33] Prior Department of Economic Development – Division of Energy

[34] 20 CSR 4240-20.100(6)(B)(5)(J).

[35] 20 CSR 4240-20.100(6)(A)(16).

KCPL's customers' desires to receive energy bundled with their corresponding renewable energy credits and thereby reduce their carbon footprint."[36]

The Commission also quoted a statement in its *Report and Order*, directly from Evergy witness Jeff Martin, "KCPL determined at least some of its customers preferred not to lose the environmental attributes of the power they were purchasing."[37] Staff does not disagree that specific customers such as the City of Kansas City benefits directly from Evergy Missouri Metro selling electricity from renewable energy sources. However, in regard to the FAC, the question is whether all ratepayers benefit. Mr. Martin's testimony in that case demonstrates that Evergy's holding of the RECs until expiration are benefitting "some" of the customers. Evergy's customers can claim this indirect benefit from the energy they are purchasing from Evergy as "renewable energy resources" up to the 10 to 15% requirement established by the State of Missouri. However, any RECs beyond those requirements would benefit all ratepayers if they were sold to offset the fuel costs. If certain customers are interested in renewable energy, they should be allowed to actually purchase the RECs from Evergy, allowing those customers to claim renewable energy as a resource in a more direct manner. This would be a benefit to all ratepayers.

Lastly, the *Report and Order* further referenced Evergy witness Jeff Martin stating, "More than half of the Missouri customer members of the KCPL's Customer Advisory Panel had said they were "likely" or "somewhat likely" to participate in a solar program if offered by KCPL at a cost of $5 to $10 per month."[38] Staff believes this statement is irrelevant to the issue of selling non-solar RECs, since solar RECs are not included as revenues in the FAC.

In the current Review Period, the issue of not selling but instead letting non-solar RECs expire was reevaluated again since there were significant changes in the circumstances that Staff was unable to ignore, as further addressed below. Staff continues to question the prudency of allowing RECs to expire that could bring in revenue for the benefit of all ratepayers if they were sold.

[36] *Report and Order* in Case No. EO-2019-0067, page 12, paragraph 17.

[37] *Report and Order, Page 11, #13 referring to* Evergy witness Jeff Martin's Direct Testimony in Case No. EO-2019-0067, Exhibit 1, pages 5-7.

[38] Evergy witness Jeff Martin's Direct Testimony in Case No. EO-2019-0067, Exhibit 1, pages 6-7.

Staff sent several data requests to review the sale of RECs in this Review Period. In Staff Data Request No. 0057, Staff asked, "Did Evergy Missouri Metro sell any RECs (wind, solar, etc.) during the Review Period of January 1, 2020 through June 30, 2021?... If "no", please provide the reason why no RECs were sold." Evergy Missouri Metro responded, "Evergy Missouri Metro did not sell any RECs during the Review Period of January 1, 2020 through June 30, 2021… Evergy RECs were expired rather than sold. This is to ensure our customers receive as much renewable energy as possible since we cannot double count sold RECs as renewable energy delivered to customers." Staff sent a follow up DR 57.1 for clarification on the statements in the response to DR 57.

Evergy's response to DR 57.1 was, "Evergy customers have expressed that they value renewable energy as a key component of the total energy provided by Evergy. If Evergy sold RECS from Evergy's renewable resources, it would be as if the renewable energy was not produced for Evergy retail customers but instead for the buyer of the RECs. Double counting would occur if both Evergy and the buyer claimed the energy from the sold RECs as renewable." Staff disagrees with both statements in this response to DR 0057.1. The producing or acquiring of renewable energy is for the purpose of meeting the requirements by the State of Missouri and any RECs beyond that may have some value to certain customers, but selling the RECs would directly benefit <u>all</u> ratepayers. Evergy could sell excess RECs to specific customers so those customers could further claim to be using renewable energy.

Staff also disagrees with the statement of "double counting." In Staff's opinion, the sales of RECs does not create double counting. When the excess RECs are sold, the ownership of those RECs would transfer to the buyer of the RECs and then the sales of the RECs would be used by Evergy to offset the fuel expense under the FAC mechanism, creating a benefit to all ratepayers. Evergy would only claim ownership of the renewable energy to the point of sale and then the buyer would claim ownership of the renewable energy. Ownership of the RECs by Evergy and the buyer would never be at the same time and would not be "double counted." In Staffs opinion, the statement of "double counting" is not viable.

In addition to the statement in DR 0057.1 that Evergy customers have expressed that they value renewable energy, Staff asked Evergy Missouri Metro in DR 0067 if they have sent any surveys out to all customers asking if they would rather have their FAC charge reduced by selling RECs on the market or prefer to keep the RECs until expiration for their "energy's environmental attributes." Evergy Missouri Metro's response to DR 0067 stated, "The Company has not surveyed all Evergy Metro customers asking them if they would rather have their FAC charge reduced by selling RECs on the market or prefer to keep the RECs until expiration." Therefore, the statement in DR 0057.1 that Evergy customers have expressed that they value renewable energy as a key component of the total energy provided by Evergy does not have as much merit since they have not surveyed all ratepayers.

Staff also reviewed DR 0041 in this case along with prior case information, including Evergy Missouri Metro's 2021 IRP Annual Update and the 2021 RES Compliance Plan, and all sources suggests the number of non-solar RECs will increase significantly in the coming years. On January 1, 2021 (during this Review Period), the maximum level of the RES rule requirement of 15% was reached and even with this increase, the Company's excess and expired RECs increased. The following table summarizes the data of non-solar RECs from 2017 to 2021:

<u>Table 13 - Confidential</u>

**

[redacted]

**

There have been a number of significant changes in regards to whether to sell non-solar RECs since the *Report and Order* in Case No. EO-2019-0067 was issued by the Commission. Following are changes to the previous circumstances:

1) The value of selling a REC has increased significantly since the *Report and Order* was issued. The value of RECs has increased from approximately $.84 per REC to as high as $7.[39]

2) The required RECs for Missouri has increased from 10% to 15% (50% increase) starting January 1, 2021. Even with the increase in the required amount of RECs in Missouri for 2021, the amount of available RECs for consideration of selling has increased and will likely continue to increase.

3) The significant increase in the amount of excess and/or expired RECs grew consistently and continues to increase. The expired RECs has gone from 425,580 in 2017 to 1,850,711 in 2021[40] (even with the 15% increase in required RECs in 2021). In Table 13, the excess and expired RECs have increased significantly since the *Report and Order* was issued and the amount of revenue that could have been generated from selling non-solar RECS during the time of the *Report and Order* has increase significantly. Staff remains concerned with the continued growth of excess/expired RECs in this Review Period and the likelihood of even more significant growth of excess/expired RECs in subsequent years following this Review Period. This is confirmed by Evergy Missouri Metro in its 2021 Integrated Resource Plan Annual Update and 2021 Renewable Energy Standard Compliance Plan. The price per REC also increased significantly during the Review Period since the *Report and Order.*

4) The *Report and Order* also states that*, "*KCPL's consideration that the revenue opportunities in selling the RECs were very limited."[41] According to Allied Market Research on renewable energy, RECs had a value in the market of $881.7 billion in 2020 and expect to reach $1,977.6 billion by 2030.[42] Staff has also reviewed various other resources on the REC market along with the future market of RECs. Therefore, it seems there will be tremendous growth in the market in the next ten years.

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[39] Value quoted by Ameren publically in EE-2022-0074 case.

[40] The information was not available in time of this report. An estimate was done from prior years on growth and actual expired RECs.

[41] *Report and Order* in Case No. EO-2019-0067, page 25.

[42] www.alliedmarketresearch.com/renewable-energy-certificates-market

5) According to Evergy 2021 Integrated Resource Plan Overview, Evergy itself indicates their renewable energy sources from wind is anticipated to increase from 27% in 2020 to 33% in 2030.

6) There are other electric companies in Missouri and other states that continue to sell their excess RECs to help offset costs. In Missouri, any sale from RECs would help offset the cost of fuel in the FAC.[43] Selling excess RECs would benefit all ratepayers as opposed to the current benefit to "some" ratepayers.

Table 14 is a comparison of non-solar RECs that were produced/acquired, required for compliance, excess and expired for this Prudence Review versus the last Prudence Review. In just 18 months, excess non-solar RECs increased 18% and expired non-solar REC increased 72%.

**

[redacted]

**

On January 7, 2022, in Case No. ER-2022-0129, Evergy Missouri Metro filed direct testimony explaining its proposed Green Pricing Renewable Energy Credit ("REC") Program ("Green Pricing Program").[44] The proposed Green Pricing Program appears to be an attempt to

[43] This is applicable for Empire, however for Ameren the revenues are returned to all ratepayers through the RESRAM. With either mechanism, the sales are returned to all ratepayers.

[44] Case No. ER-2022-0129 Direct Testimony of Kimberly H. Winslow, pages 48-51.

potentially address Staff's concern going forward from the effective date of rates in that case. The proposed Green Pricing Program, however, does nothing to address Staff's concern for this Review Period.

When determining the disallowance amount, Staff used averages and information from many sources to determine the cost of a non-solar REC in the market during the Review Period. Evergy Missouri Metro was unable to provide specific information on expired RECs and the cost as of June 30, 2021 or December 31, 2021. Since RECs can be sold and purchased throughout the country, the prices can vary depending on the types of RECs, supply and demand, brokers used and fees, etc. Staff used the value of RECs for other Missouri electric utility companies as a guide along with Evergy's response to DRs 0057-0057.3.

For the Review Period from January 1, 2020, through June 30, 2021, averages were used to determine a reasonable REC price during this time. Evergy responded to DR 0057.2 that on 12/31/20, wind RECs sold for ** [redacted] **. A Data Request was also sent to Liberty Utilities (dba, The Empire District Electric Company) (DR 0390) for Case No. ER-2021-0312, and their response on the value of RECs for Liberty using Green-e Eligible National REC was ** [redacted] ** on January 7, 2020, to ** [redacted] ** on June 30, 2021. According to an Ameren publically quoted statement in Case No. EE-2022-0074, they indicate the REC price per REC was $7.

An average from all three sources was used to determine the price per non-solar REC for the disallowance. Based on that, it was determined that a reasonable cost to use was $3.40 per REC. Therefore, the total recommended disallowance for this Prudence Review is $3,922,964, plus interest.[45] Although the Commission in its *Report and Order* determined the effect of selling the RECs versus holding the RECs was not significant enough to order any disallowances, it is Staff's opinion that this is no longer the case with the change in circumstances during this Review Period and the effect is now very significant. The decision to not sell non-solar RECs during this Review Period has a tremendous financial impact on ratepayers.

[45] This disallowance is derived by calculating an average of $3.40 per REC by the amount of expired RECs of 1,153,813 during the Review Period.

2. Summary of Cost Implications

Evergy Missouri Metro could have decreased all ratepayers FAC charges by selling excess RECs instead of letting them expire. Due to the many changes in circumstances with selling RECs, as explained above, Staff is recommending the Commission find that Evergy Missouri Metro acted imprudent in its management of RECs during this Review Period causing harm to its ratepayers by increased FAC charges.

3. Conclusion

Staff has found that Evergy Missouri Metro has acted imprudently by not selling its excess RECs but instead allowing them to expire. This action has caused harm to all ratepayers by increasing FAC charges. Staff could not find that Evergy Missouri Metro took any action that would have allowed it to generate revenue from its 1,153,813 RECs that were not needed to satisfy its RES compliance and were simply allowed to expire during the Review Period. Staff recommends the Commission issue an Ordered Adjustment ("OA") in the amount of $3,922,964 which is equal to 1,153,813 RECs multiplied by Staff's estimated average sales price of $3.40 per REC during the 18-month Review Period.

4. Documents Reviewed

a. Evergy Missouri Metro's responses to Staff Data Request Nos. 0041, 0041A, 0041.1, 0041.2, 0044, 0056, 0057, 0057.1, 0057.2, 0057.3, 0065, and 0067;
b. File No. EO-2019-0067 information;
c. File No. EO-2019-0068, Data Request Nos. 0044.2, 0044.6;
d. Liberty Data Request 0390, Case No. ER-2021-0312;
e. Case No. ER-2022-0129, Direct Testimony of Kimberly H Winslow Page 48-51, iii.Green Pricing Renewables Energy Credit ("REC") Program;
f. email correspondence with Randy Erickson, Evergy.
g. Evergy Missouri Metro 2021 Annual Renewable Energy Standard Compliance Plan (April 2021); and,
h. Evergy 2021 Integrated Resource Plan Overview.

Staff Expert/Witness: Cynthia M. Tandy

M. Cimarron 2 Wind Farm Purchased Power Agreement

1. Description

Evergy Missouri Metro has a long-term (20-year) PPA with CPV Cimarron II Renewable Energy Company, LLC for energy and RECs generated by the Cimarron 2 Wind Farm located in Kansas. The contract is based on ** [redacted] ** MW of capacity that Evergy Missouri Metro began receiving on June 1, 2012 at a fixed price of ** [redacted] ** per MWh. The contract is a "take-or pay" contract for renewable wind energy and RECs, (i.e., Evergy Missouri Metro has to receive and pay for the energy whether it needs the energy or not), which is a standard feature of many wind PPAs. The contract is for the energy and RECs generated by the wind farm. In its response to Staff Data Request No. 0057 Evergy Missouri Metro stated, "Evergy MO Metro did not sell any RECs during the Review Period of January 1, 2020 through June 30, 2021."[46] Total costs of electricity under the Cimarron 2 PPA was ** [redacted] ** with revenue associated with sales of ** [redacted] ** which resulted in a net loss of ** [redacted] ** for the Review Period.

2. Summary of Cost Implications

If Evergy Missouri Metro was imprudent by purchasing energy to meet its demand at a cost that exceeded Evergy Missouri Metro's cost to generate that energy itself, ratepayer harm could result from that imprudence through an increase in FAC charges. Commission Rule 20 CSR 4240-20.090(1)(B) and (C) and Evergy Missouri Metro's FAC allow purchased power costs and revenues in FERC Account Number 555 to be recovered through the FAC. Staff found no indication that Evergy Missouri Metro imprudently included the Cimarron Wind Farm PPA costs in the FAC.

3. Conclusions

Staff has identified that the Cimarron Wind Farm PPA is creating a significant amount of additional costs compared to the revenue received. In the Report and Order in Case No. EO-2019-0067, the Commission stated, "The Commission will not replace the companies' primary supposition at the point of decision that the PPAs were being acquired in the context of a long term, twenty-year investment with a supposition that the investment was short term,

[46] This is addressed further in the REC section III.L above.

and then apply a hindsight test and pronounce the investments imprudent." Staff is not recommending a disallowance related to this issue at this time.

4. Documents Reviewed

a. Evergy Missouri Metro's responses to Staff Data Request Nos. 0001, 0002, 0020, 0023, 0042, 0044, 0045, 0052, and 0057;
b. Evergy Missouri Metro 2020 Annual Renewable Energy Standard Compliance Plan;
c. Evergy Missouri Metro 2021 Annual Renewable Energy Standard Compliance Plan;
d. Staff Report in Case No. EO-2020-0331; and
e. Staff Report in Case No. EO-2021-0347.

Staff Expert/Witness: Brooke Mastrogiannis

N. Slate Creek Wind Project Purchased Power Agreement

1. Description

Evergy Missouri Metro has a long-term (20-year) PPA with Slate Creek Wind Project, LLC for energy and RECs generated by the Slate Creek Wind Project beginning in November 2015. The contract is also a "take-or pay" contract for renewable wind energy and RECs, and is based on a fixed energy price of ** [redacted] ** per MWh and a capacity of ** [redacted] ** MW. In its response to Staff Data Request No. 0057 Evergy Missouri Metro stated, "Evergy MO Metro did not sell any RECs during the Review Period of January 1, 2020 through June 30, 2021."[47] Cost of electricity under the Slate Creek Wind Project PPA was ** [redacted] ** with revenue associated with sales of ** [redacted] ** which resulted in a net loss of ** $4,793,661 ** for the Review Period.

2. Summary of Cost Implications

If Evergy Missouri Metro was imprudent by purchasing energy to meet its demand at a cost that exceeded Evergy Missouri Metro's cost to generate that energy itself, ratepayer harm could result from that imprudence through an increase in FAC charges. Commission Rule 20 CSR 4240-20.090(1)(B) and (C) and Evergy Missouri Metro's FAC allow purchased power costs and revenues in FERC Account Number 555 to be recovered through the FAC.

[47] This is addressed further in the REC section III.L above.

Staff found no indication that Evergy Missouri Metro imprudently included the Slate Creek Wind Farm PPA costs in the FAC.

3. Conclusions

Staff has identified that the Slate Creek Wind Farm PPA is creating a significant amount of additional costs compared to the revenue received. In the Report and Order in Case No. EO-2019-0067, the Commission stated, "The Commission will not replace the companies' primary supposition at the point of decision that the PPAs were being acquired in the context of a long term, twenty-year investment with a supposition that the investment was short term, and then apply a hindsight test and pronounce the investments imprudent." Staff is not recommending a disallowance related to this issue at this time.

4. Documents Reviewed

a. Evergy Missouri Metro's responses to Staff Data Request Nos. 0001, 0002, 0020, 0023, 0042, 0044, 0045, 0052, and 0057;
b. Evergy Missouri Metro 2020 Annual Renewable Energy Standard Compliance Plan;
c. Evergy Missouri Metro 2021 Annual Renewable Energy Standard Compliance Plan;
d. Staff Report in Case No. EO-2020-0331; and
e. Staff Report in Case No. EO-2021-0347.

Staff Expert/Witness: Brooke Mastrogiannis

O. Osborn Wind Energy Purchased Power Agreement

1. Description

Evergy Missouri Metro has a long-term (20-year) PPA with NextEra Energy Resources for energy and RECs generated by the Osborn Wind Energy Center located in Missouri. The contract is based on a fixed price of ** [redacted] ** per MWh and ** [redacted] ** MW of capacity that Evergy Missouri Metro began receiving in December 2016. In its response to Staff Data Request No. 0057 Evergy Missouri Metro stated, "Evergy MO Metro did not sell any RECs during the Review Period of January 1, 2020, through June 30, 2021."[48] The contract is a "take-or pay" contract for renewable wind energy and RECs, which is a standard feature of

[48] This is addressed further in the REC section III.L above.

many wind PPAs. The contract is for the energy and RECs generated by the wind farm. Cost of electricity under the Osborn Wind Energy PPA was ** [redacted] ** with revenue associated with sales of ** [redacted] ** which resulted in a net loss of ** [redacted] ** for the Review Period.[49]

2. Summary of Cost Implications

If Evergy Missouri Metro was imprudent by purchasing energy to meet its demand at a cost that exceeded Evergy Missouri Metro's cost to generate that energy itself, ratepayer harm could result from that imprudence through an increase in FAC charges. Commission Rule 20 CSR 4240-20.090(1)(B) and (C) and Evergy Missouri Metro's FAC allow purchased power costs and revenues in FERC Account Number 555 to be recovered through the FAC. Staff found no indication that Evergy Missouri Metro imprudently included the Osborn Wind Farm PPA costs in the FAC.

3. Conclusions

Staff has identified that the Osborn Wind Farm PPA is creating a significant amount of additional costs compared to the revenue received. In the Report and Order in Case No. EO-2019-0067, the Commission stated, "The Commission will not replace the companies' primary supposition at the point of decision that the PPAs were being acquired in the context of a long term, twenty-year investment with a supposition that the investment was short term, and then apply a hindsight test and pronounce the investments imprudent." Staff is not recommending a disallowance related to this issue at this time.

4. Documents Reviewed

a. Evergy Missouri Metro's responses to Staff Data Request Nos. 0001, 0002, 0020, 0023, 0042, 0044, 0045, 0052, and 0057;
b. Evergy Missouri Metro 2020 Annual Renewable Energy Standard Compliance Plan;
c. Evergy Missouri Metro 2021 Annual Renewable Energy Standard Compliance Plan;

[49] During this prudence review Staff discovered SPP revenues not reported correctly in the Company's monthly report filings tab 5(K). Staff confirmed this with Evergy Missouri Metro. As such, the Osborn Wind PPA revenue associated with sales is actually ** [redacted] **, which resulted in a net loss of ** [redacted] **. These monthly report filings will be updated in March 2022. The overall FAR filings and what was reported in the general ledger account were correct, this is just an update to the monthly report tab 5(K).

d. Staff Report in Case No. EO-2020-0331; and

e. Staff Report in Case No. EO-2021-0347.

Staff Expert/Witness: Brooke Mastrogiannis

P. Spearville 3 Wind Energy Facility Purchased Power Agreement

1. Description

Evergy Missouri Metro has a long-term (20-year) PPA with Spearville 3, LLC for energy and RECs generated by the Spearville 3 Wind Energy Facility located in Kansas. The contract is based on a fixed price of ** [redacted] ** per MWh and ** [redacted] ** MW of capacity that Evergy Missouri Metro began receiving in October 2012. The contract is a "take-or pay" contract for renewable wind energy and RECs, which is a standard feature of many wind PPAs. The contract is for the energy and RECs generated by the wind farm. In its response to Staff Data Request No. 0057 Evergy Missouri Metro stated, "Evergy MO Metro did not sell any RECs during the Review Period of January 1, 2020, through June 30, 2021".[50] Cost of electricity under the Spearville 3 PPA was ** [redacted] ** with revenue associated with sales of ** [redacted] ** which resulted in a net loss of ** [redacted] ** for the Review Period.

2. Summary of Cost Implications

If Evergy Missouri Metro was imprudent by purchasing energy to meet its demand at a cost that exceeded Evergy Missouri Metro's cost to generate that energy itself, ratepayer harm could result from that imprudence through an increase in FAC charges. Commission Rule 20 CSR 4240-20.090(1)(B) and (C) and Evergy Missouri Metro's FAC allow purchased power costs and revenues in FERC Account Number 555 to be recovered through the FAC. Staff found no indication that Evergy Missouri Metro imprudently included the Spearville 3 Wind Energy PPA costs in the FAC.

3. Conclusions

Staff has identified that the Spearville 3 Wind Energy PPA is creating a significant amount of additional costs compared to the revenue received. In the Report and Order in Case No. EO-2019-0067, the Commission stated, "The Commission will not replace the companies'

[50] This is addressed further in the REC section III.L above.

primary supposition at the point of decision that the PPAs were being acquired in the context of a long term, twenty-year investment with a supposition that the investment was short term, and then apply a hindsight test and pronounce the investments imprudent." Staff is not recommending a disallowance related to this issue at this time.

4. Documents Reviewed

a. Evergy Missouri Metro's responses to Staff Data Request Nos. 0001, 0002, 0020, 0023, 0042, 0044, 0045, 0052, and 0057;
b. Evergy Missouri Metro 2020 Annual Renewable Energy Standard Compliance Plan;
c. Evergy Missouri Metro 2021 Annual Renewable Energy Standard Compliance Plan;
d. Staff Report in Case No. EO-2020-0331; and
e. Staff Report in Case No. EO-2021-0347.

Staff Expert/Witness: Brooke Mastrogiannis

Q. Waverly Wind Farm Purchased Power Agreement

1. Description

Evergy Missouri Metro has a long-term (20-year) PPA with Waverly Wind Farm, LLC for energy and RECs generated by the Waverly Wind Farm beginning in November 2015. The contract is also a "take-or pay" contract for renewable wind energy and RECs, and is based on a fixed energy price of ** [redacted] ** per MWh and a capacity of ** [redacted] ** MW. In its response to Staff Data Request No. 0057 Evergy Missouri Metro stated, "Evergy MO Metro did not sell any RECs during the Review Period of January 1, 2020, through June 30, 2021".[51] Cost of electricity under the Waverly Wind Farm PPA was ** [redacted] ** with revenue associated with sales of ** [redacted] ** which resulted in a net loss of ** [redacted] ** for the Review Period.

2. Summary of Cost Implications

If Evergy Missouri Metro was imprudent by purchasing energy to meet its demand at a cost that exceeded Evergy Missouri Metro's cost to generate that energy itself, ratepayer harm could result from that imprudence through an increase in FAC charges. Commission

[51] This is addressed further in the REC section III.L above.

Rule 20 CSR 4240-20.090(1)(B) and (C) and Evergy Missouri Metro's FAC allow purchased power costs and revenues in FERC Account Number 555 to be recovered through the FAC. Staff found no indication that Evergy Missouri Metro imprudently included the Waverly Wind Farm PPA costs in the FAC.

3. Conclusions

Staff has identified that the Waverly Wind Farm PPA is creating a significant amount of additional costs compared to the revenue received. In the Report and Order in Case No. EO-2019-0067, the Commission stated, "The Commission will not replace the companies' primary supposition at the point of decision that the PPAs were being acquired in the context of a long term, twenty-year investment with a supposition that the investment was short term, and then apply a hindsight test and pronounce the investments imprudent." Staff is not recommending a disallowance related to this issue at this time.

4. Documents Reviewed

a. Evergy Missouri Metro's responses to Staff Data Request Nos. 0001, 0002, 0020, 0023, 0042, 0044, 0045, 0052, and 0057;
b. Evergy Missouri Metro 2020 Annual Renewable Energy Standard Compliance Plan;
c. Evergy Missouri Metro 2021 Annual Renewable Energy Standard Compliance Plan;
d. Staff Report in Case No. EO-2020-0331; and
e. Staff Report in Case No. EO-2021-0347.

Staff Expert/Witness: Brooke Mastrogiannis

R. Rock Creek Wind Project Purchased Power Agreement

1. Description

Evergy Missouri Metro has a long-term (20-year) PPA with Rock Creek Wind Project, LLC for energy and RECs generated by the Rock Creek Wind Farm located in Missouri. The contract is also a "take-or pay" contract for renewable wind energy and RECs, and is based on a fixed energy price of ** [redacted] ** per MWh and a capacity of ** [redacted] ** MW, beginning August 2017. In its response to Staff Data Request No. 0057 Evergy Missouri Metro stated, "Evergy MO Metro did not sell any RECs during the Review Period of January 1, 2020, through June 30, 2021."[52] Cost of electricity under the Rock Creek Wind Project was ** [redacted] ** with revenue associated with sales of ** [redacted] ** which resulted in a net loss of ** [redacted] ** for the Review Period.[53]

2. Summary of Cost Implications

If Evergy Missouri Metro was imprudent by purchasing energy to meet its demand at a cost that exceeded Evergy Missouri Metro's cost to generate that energy itself, ratepayer harm could result from that imprudence through an increase in FAC charges. Commission Rule 20 CSR 4240-20.090(1)(B) and (C) and Evergy Missouri Metro's FAC allow purchased power costs and revenues in FERC Account Number 555 to be recovered through the FAC. Staff found no indication that Evergy Missouri Metro imprudently included the Rock Creek Wind Project PPA costs in the FAC.

3. Conclusions

Staff has identified that the Rock Creek Wind Project PPA is creating a significant amount of additional costs compared to the revenue received. In the Report and Order in Case No. EO-2019-0067, the Commission stated, "The Commission will not replace the companies' primary supposition at the point of decision that the PPAs were being acquired in the context of a long term, twenty-year investment with a supposition that the investment was short term, and then apply a hindsight test and pronounce the investments imprudent." Staff is not recommending a disallowance related to this issue at this time.

4. Documents Reviewed

a. Evergy Missouri Metro's responses to Staff Data Request Nos. 0001, 0002, 0020, 0023, 0042, 0044, 0045, 0052, and 0057;
b. Evergy Missouri Metro 2020 Annual Renewable Energy Standard Compliance Plan;
c. Evergy Missouri Metro 2021 Annual Renewable Energy Standard Compliance Plan;

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[52] This is addressed further in the REC section III.L above.

[53] During this prudence review Staff discovered SPP revenues not reported correctly in the Company's monthly report filings tab 5(K). Staff confirmed this with Evergy Missouri Metro. As such, the Rock Creek Wind PPA revenue associated with sales is actually ** [redacted] **, which resulted in a net loss of ** [redacted] **. These monthly report filings will be updated in March 2022. The overall FAR filings and what was reported in the general ledger account were correct, this is just an update to the monthly report tab 5(K).

d. Staff Report in Case No. EO-2020-0331; and

e. Staff Report in Case No. EO-2021-0347.

Staff Expert/Witness: Brooke Mastrogiannis

S. Prairie Queen Wind Purchased Power Agreement

1. Description

Evergy Missouri Metro has a long-term (20-year) PPA with Prairie Queen Wind Farm, LLC for energy and RECs generated by the Prairie Queen Wind Farm located in Kansas. The contract is also a "take-or pay" contract for renewable wind energy and RECs, and is based on a fixed energy price of ** [redacted] ** per MWh and a capacity of ** [redacted] ** MW, beginning May 2019. In its response to Staff Data Request No. 0057 Evergy Missouri Metro stated, "Evergy MO Metro did not sell any RECs during the Review Period of January 1, 2020, through June 30, 2021."[54] Cost of electricity under the Prairie Queen Wind Project was ** [redacted] ** with revenue associated with sales of ** [redacted] ** which resulted in a net gain of ** [redacted] ** for the Review Period.

2. Summary of Cost Implications

If Evergy Missouri Metro was imprudent by purchasing energy to meet its demand at a cost that exceeded Evergy Missouri Metro's cost to generate that energy itself, ratepayer harm could result from that imprudence through an increase in FAC charges. Commission Rule 20 CSR 4240-20.090(1)(B) and (C) and Evergy Missouri Metro's FAC allow purchased power costs and revenues in FERC Account Number 555 to be recovered through the FAC. Staff found no indication that Evergy Missouri Metro imprudently included the Prairie Queen Wind PPA costs in the FAC.

3. Conclusions

Staff has identified that the Prairie Queen Wind PPA is creating more revenue received than additional costs In the Report and Order in Case No. EO-2019-0067, the Commission stated, "The Commission will not replace the companies' primary supposition at the point of decision that the PPAs were being acquired in the context of a long term, twenty-year investment with a supposition that the investment was short term, and then apply a hindsight

[54] This is addressed further in the REC section III.L above.

test and pronounce the investments imprudent." Staff is not recommending a disallowance related to this issue at this time.

4. Documents Reviewed

a. Evergy Missouri Metro's responses to Staff Data Request Nos. 0001, 0002, 0020, 0023, 0042, 0044, 0045, 0052, and 0057;
b. Evergy Missouri Metro 2020 Annual Renewable Energy Standard Compliance Plan;
c. Evergy Missouri Metro 2021 Annual Renewable Energy Standard Compliance Plan;
d. Staff Report in Case No. EO-2020-0331; and
e. Staff Report in Case No. EO-2021-0347.

Staff Expert/Witness: Brooke Mastrogiannis

T. Pratt Wind Purchased Power Agreement

1. Description

Evergy Missouri Metro has a long-term (30-year) PPA with Pratt Wind, LLC for energy and RECs generated by the Pratt Wind Farm located in Kansas. The contract is also a "take-or pay" contract for renewable wind energy and RECs, and is based on a fixed energy price of ** [redacted] ** per MWh and a capacity of ** [redacted] ** MW, beginning November 2018. In its response to Staff Data Request No. 0057 Evergy Missouri Metro stated, "Evergy MO Metro did not sell any RECs during the Review Period of January 1, 2020, through June 30, 2021."[55] Cost of electricity under the Pratt Wind Project was ** [redacted] ** with revenue associated with sales of ** [redacted] ** which resulted in a net loss of ** [redacted] ** for the Review Period.[56]

2. Summary of Cost Implications

If Evergy Missouri Metro was imprudent by purchasing energy to meet its demand at a cost that exceeded Evergy Missouri Metro's cost to generate that energy itself, ratepayer harm

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[55] This is addressed further in the REC section III.L above.

[56] During this prudence review Staff discovered SPP revenues not reported correctly in the Company's monthly report filings tab 5(K). Staff confirmed this with Evergy Missouri Metro. As such, the Pratt Wind PPA revenue associated with sales is actually ** [redacted] **, which resulted in a net loss of ** [redacted] **. These monthly report filings will be updated in March 2022. The overall FAR filings and what was reported in the general ledger account were correct, this is just an update to the monthly report tab 5(K).

could result from that imprudence through an increase in FAC charges. Commission Rule 20 CSR 4240-20.090(1)(B) and (C) and Evergy Missouri Metro's FAC allow purchased power costs and revenues in FERC Account Number 555 to be recovered through the FAC. Staff found no indication that Evergy Missouri Metro imprudently included the Pratt Wind PPA costs in the FAC.

3. Conclusion

Staff has identified that the Prairie Queen Wind PPA is creating more additional costs compared to the revenue received. In the Report and Order in Case No. EO-2019-0067, the Commission stated, "The Commission will not replace the companies' primary supposition at the point of decision that the PPAs were being acquired in the context of a long term, twenty-year investment with a supposition that the investment was short term, and then apply a hindsight test and pronounce the investments imprudent." Staff is not recommending a disallowance related to this issue at this time.

4. Documents Reviewed

a. Evergy Missouri Metro's responses to Staff Data Request Nos. 0001, 0002, 0020, 0023, 0042, 0044, 0045, 0052, and 0057;
b. Evergy Missouri Metro 2020 Annual Renewable Energy Standard Compliance Plan;
c. Evergy Missouri Metro 2021 Annual Renewable Energy Standard Compliance Plan;
d. Staff Report in Case No. EO-2020-0331; and
e. Staff Report in Case No. EO-2021-0347.

Staff Expert/Witness: Brooke Mastrogiannis

U. Purchased Power Costs

1. Description

Evergy Missouri Metro's FAC Original Sheet No. 50.23, applicable to service provided from December 6, 2018 through the effective date of this tariff sheet and thereafter, define the Purchased Power Costs ("PP") components, which are purchases of power through the SPP IM and not electric generated by the Company.

Staff has determined that Evergy Missouri Metro's total purchased power expense for the prudence Review Period is ** [redacted] **[57], as shown previously in Table 3. More detail for the cost of PP is shown in Table 15.

Table 15 – Confidential

**

[redacted]

**

Evergy Missouri Metro had eight long-term purchase power agreements in effect at the start of the Review Period: Cimarron 2, Slate Creek, Spearville 3, Waverly, Osborn, Rock Creek, Pratt, and Prairie Queen. Staff also reviews long-term purchased power contracts during a general rate case. As a result of that review, a determination is made regarding what generation plants and purchased power contracts should be input into Staff's fuel model. The outcome of the most recent general rate case is taken into consideration regarding the prudency of long-term purchased power contracts. Staff also considers the Company's Integrated Resource

[57] The purchased power costs reflect the removal of extraordinary costs deferred from Accumulation Period 12, as noted in Section III.A of this report. Evergy Missouri Metro's total purchased power costs actually incurred, before the adjustment for the deferral, is [redacted] ** or ** [redacted] **of total fuel costs, purchased power costs, transmission costs, and emission costs.

Plan ("IRP") and IRP Annual Updates regarding the prudency of long-term purchased power contracts.

Cimarron 2, Slate Creek, Osborn, Spearville 3, Waverly, Rock Creek, Pratt and Prairie Queen

Evergy Missouri Metro had long-term purchased power contracts with eight wind farms during the Review Period. A further description of these contracts can be found in Sections III. M, N, O, P, Q, R, S, and T of this report. Not included in these sections of Staff's Report is the new purchased power wind contracts that Evergy Missouri Metro has recently signed into since the associated costs and revenues have not been sought for recovery through the FAC. However, Staff is aware of these additional purchased power wind contracts and provided as part of its Staff Report in the most recent Evergy Missouri Metro 2020 IRP Annual Update[58] concerns with these additional purchased power wind contracts. Given that a majority of Evergy Missouri Metro's current wind PPAs are creating more costs for ratepayers than revenues and additional purchased power wind contracts could put ratepayers at greater risk, Staff notes in its Staff Report in Case No. EO-2020-0280 "that this risk could be addressed fairly through risk mitigation or risk sharing in the Commission-approved fuel adjustment clauses of the Companies." Subsequently, Staff's Report in the most recent Evergy Missouri Metro Triennial IRP Filing in Case No. EO-2021-0036 also stated, "Staff echoes its past comments in regards to Evergy Metro and PPAs, and that ratepayers should not have to bear all of the risk of PPAs which are entered into when there is not a need for capacity to meeting minimum capacity requirements. To remedy this concern, Staff suggests as it has before, that ratepayer risk mitigation or risk sharing could be addressed fairly in the Commission-approved fuel adjustment clause of Evergy Metro."

Non-firm Short-term Energy

Evergy Missouri Metro purchases hourly energy in the SPP IM. Since implementing the SPP IM, SPP has controlled the economic dispatch of Evergy Missouri Metro's generation. During times that Evergy Missouri Metro's load exceeds Evergy Missouri Metro's generation, Evergy Missouri Metro becomes a net purchaser in the SPP market. These SPP market purchases are from other electric suppliers to help meet Evergy Missouri Metro's load during

[58] Case No. EO-2020-0280.

times of forced or planned plant outages and during times when the market price is below the marginal cost of providing that energy from Evergy Missouri Metro's generating units. Under the SPP IM, Evergy Missouri Metro's generation is offered to the SPP IM and energy needed for native load requirements is purchased from the SPP market. "Spot purchases and sales are made based upon SPP market and operating conditions for the entire SPP footprint." Costs for the SPP IM purchases are included as "Non-Firm Short-term Energy" in Table 3 and Table 15 of this report. Further discussion of Evergy Missouri Metro's participation in these markets can be found in Section III.B. of this report.

2. Summary of Cost Implication

If Evergy Missouri Metro erred when it booked costs from purchased power contracts or if Evergy Missouri Metro imprudently participated in the SPP IM, ratepayer harm could result from an increase in costs collected through the FAC.

3. Conclusion

Staff found no indication of imprudence by Evergy Missouri Metro related to its purchasing short-term capacity, booking long-term purchased power contracts, or purchasing non-firm short-term energy.

4. Documents Reviewed

a. Evergy Missouri Metro's responses to Staff Data Request Nos. 0001, 0002, 0019, 0020, 0023, 0042, 0044, 0045, 0052, 0057, and 0069;

b. PPA Contracts;

c. Staff Report in EO-2020-0280 and EO-2021-0036; and

c. Section III.B. of this report.

Staff Expert/Witness: Brooke Mastrogiannis

IV. INTEREST

1. Description

During each accumulation period, Evergy Missouri Metro is required to calculate a monthly interest amount based on Evergy Missouri Metro's short-term debt borrowing rate that is applied to the under-recovered or over-recovered fuel and purchased power costs. Evergy

Missouri Metro's short-term debt rate is calculated using the daily one-month United States Dollar London Interbank Offered Rate ("LIBOR"), using the last previous actual rate for weekends and holidays or dates without an available LIBOR, and the Applicable Margin for Eurodollar Advances. A simple mathematical average of all the daily rates for the month is then computed. For the Review Period, Evergy Missouri Metro's average monthly interest rate from January 1, 2020, through June 30, 2021, was ** [redacted] ** with the total amount of interest accumulated for the period of ** [redacted] **. The interest amount is component "I" of Evergy Missouri Metro's FAC.

2. Summary of Interest Implications

If Evergy Missouri Metro imprudently calculated the monthly interest amounts or used short-term debt borrowing rates that did not fairly represent the actual cost of Evergy Missouri Metro's short-term debt, ratepayers could be harmed by FAC charges that are too high.

3. Conclusion

Staff found no evidence Evergy Missouri Metro imprudently determined the monthly interest amount that was applied to the under-recovered or over-recovered fuel and purchased power costs.

4. Documents Reviewed

a. Evergy Missouri Metro's responses to Staff Data Request Nos. 0001 and 0044;
b. Evergy Missouri Metro's monthly interest calculation work papers in support of the interest calculation amount on the under-recovered or over-recovered balance; and
c. Evergy Missouri Metro's monthly reports, FAR Filings and related work papers for AP 10, 11, and 12.

Staff Expert/Witness: Amanda C. Conner

<u>BEFORE THE PUBLIC SERVICE COMMISSION</u>

<u>OF THE STATE OF MISSOURI</u>

In the Matter of the Fourth Prudence Review of Costs Subject to the Commission-Approved Fuel Adjustment Clause of Evergy Metro, Inc. d/b/a Evergy Missouri Metro	)))))	<u>Case No. EO-2022-0064</u>

AFFIDAVIT OF AMANDA C. CONNER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW AMANDA C. CONNER and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff Recommendation in Memorandum form;* and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

Amanda C. Conner
AMANDA C. CONNER

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 28th day of February, 2022.

Dianna L. Vaught
Notary Public

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: July 18, 2023
Commission Number: 15207377

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Fourth Prudence Review of Costs Subject to the Commission-Approved Fuel Adjustment Clause of Evergy Metro, Inc. d/b/a Evergy Missouri Metro	)))))	Case No. EO-2022-0064

AFFIDAVIT OF JORDAN T. HULL

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW JORDAN T. HULL and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation in Memorandum form;* and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

Jordan Hull
JORDAN T. HULL

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 28th day of February, 2022.

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: July 18, 2023
Commission Number: 15207377

Dianna L. Vaught
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Fourth Prudence Review of Costs Subject to the Commission-Approved Fuel Adjustment Clause of Evergy Metro, Inc. d/b/a Evergy Missouri Metro	)))))	Case No. EO-2022-0064

AFFIDAVIT OF BROOKE MASTROGIANNIS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW BROOKE MASTROGIANNIS and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff Recommendation in Memorandum form;* and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

Brooke Mastrogiannis
BROOKE MASTROGIANNIS

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 26th day of February, 2022.

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: July 18, 2023
Commission Number: 15207377

Dianna L. Vaught
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Fourth Prudence Review of Costs Subject to the Commission-Approved Fuel Adjustment Clause of Evergy Metro, Inc. d/b/a Evergy Missouri Metro	)))))	Case No. EO-2022-0064

AFFIDAVIT OF CYNTHIA M. TANDY

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW CYNTHIA M. TANDY and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff Recommendation in Memorandum form;* and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

Cynthia M. Tandy

CYNTHIA M. TANDY

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 26th day of February, 2022.

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: July 18, 2023
Commission Number: 15207377

Dianna L. Vaught
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Fourth Prudence Review of Costs Subject to the Commission-Approved Fuel Adjustment Clause of Evergy Metro, Inc. d/b/a Evergy Missouri Metro	)))))	Case No. EO-2022-0064

AFFIDAVIT OF LISA WILDHABER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW LISA WILDHABER and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff Recommendation in Memorandum form;* and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

Lisa Wildhaber
LISA WILDHABER

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 28th day of February, 2022.

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: July 18, 2023
Commission Number: 15207377

Dianna L. Vaught
Notary Public