

Exhibit No.:
Issue:Prudence; Resource Planning
Witness: John J. Reed
Type of Exhibit:Rebuttal Testimony
Sponsoring Party:Evergy Missouri Metro and Evergy
Missouri West
Case No.:EO-2023-0276/0277
Date Testimony Prepared: December 14, 2023

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EO-2023-0276/0277

REBUTTAL TESTIMONY

OF

JOHN J. REED

ON BEHALF OF

EVERGY MISSOURI METRO and EVERGY MISSOURI WEST

**Kansas City, Missouri
December 2023**

REBUTTAL TESTIMONY

OF

JOHN J. REED

CASE NO. ER-2023-0276/0277

1 **I. INTRODUCTION**

2 **Q: Please state your name, business address, by whom you are employed and in what**
3 **capacity.**

4 A: My name is John J. Reed. My business address is 293 Boston Post Road West, Suite 500,
5 Marlborough, Massachusetts 01752. I am Chairman and Chief Executive Officer (“CEO”)
6 of Concentric Energy Advisors, Inc. (“Concentric”) and CE Capital Advisors, Inc.

7 **Q: Are you the same John J. Reed who filed direct testimony in these dockets?**

8 A: Yes.

9 **Q: On whose behalf are you testifying in this proceeding?**

10 A: I am testifying on behalf of Evergy Missouri Metro, Inc. d/b/a Evergy Missouri Metro
11 (“EMM”) and Evergy Missouri West, Inc. d/b/a Evergy Missouri West (“EMW”)
12 (collectively, “Evergy” or the “Company”).

13 **Q: What is the purpose of your rebuttal testimony in this proceeding?**

14 A: The purpose of my rebuttal testimony is to respond to the Direct Testimony filed by:

- 15 ▪ Commission Staff (“Staff”) witness Brooke Mastrogiannis regarding her assertion
16 that the Company was imprudent when it “chose to do nothing” about the Power
17 Purchase Agreements (“PPAs”) in question in *Staff’s Eleventh Prudence Review*
18 *Report*.

- 1 ▪ The Office of the Public Counsel (“OPC”) witness Lena Mantle regarding her
2 assertion that the Company was imprudent in its resource planning activities, and
3 what in her opinion constitutes a “prudent” resource plan.

4 My rebuttal testimony addresses these issues from a regulatory policy perspective based
5 on my extensive experience performing prudence reviews for utilities, customers of
6 utilities, and regulators over a more than 35-year period. I am not an attorney, and I am not
7 offering a legal opinion.

8 **II. RESPONSE TO STAFF WITNESS BROOKE MASTROGIANNIS**

9 **Q: Did Staff witness Mastrogiannis apply the longstanding prudence standard in her**
10 **review of the Company’s FAC?**

11 A: No, she did not. Ms. Mastrogiannis’ testimony simply restates much of what was already
12 presented in Staff’s Prudence Report. Once again, Staff and Ms. Mastrogiannis flatly
13 ignore the well-established principles for performing a prudence review. They did not (1)
14 construct or apply a proper prudence evaluation framework, (2) focus on the
15 reasonableness of the Company’s decisions based on information that was known or
16 reasonably knowable at the time, or (3) develop a recommended disallowance based on
17 quantifying the difference between actual costs and what would have been the costs
18 incurred under a “minimally-prudent” decision. Staff and Ms. Mastrogiannis ignore
19 fundamental premises of the prudence standard including that prudence does not require
20 perfection, nor does it require achieving the lowest possible cost. They simply fail to
21 address, utilize, or satisfy the prudence standard of review. Based on the application of a
22 properly constructed prudence review, there is no reasonable indication that the Company’s
23 decisions at issue in this proceeding were imprudent and no new evidence or arguments

1 have been presented to support Staff’s claim that the Company’s actions or decisions were
2 imprudent.

3 **Q: Did Ms. Mastrogiannis suggest that the Company’s execution of certain PPAs is**
4 **imprudent?**

5 A: Ms. Mastrogiannis attempts to argue that entering into these contracts is “not necessarily”
6 imprudent¹, however, “locking customers in for 20 years, with essentially no way out,”²
7 is.

8 **Q: Do you agree?**

9 A: No. That amounts to nothing more than an aspirational position that is at odds with the
10 facts. First and foremost, while Ms. Mastrogiannis attempts to dodge the prudence standard
11 by testifying that the Company was “not necessarily” imprudent, she nonetheless
12 recommends a disallowance that requires a determination of imprudence which has not
13 been made.

14 Next, to consider Staff’s position that it is imprudent for Evergy “to not do
15 something about the PPAs that are halfway through their contract, and to continue to allow
16 customer harm due to long-term PPAs”³, requires a presumption of imprudence on the part
17 of the utility. This is in violation of the prudence standard. Of equal importance is the fact
18 that Staff never suggests what it would have Evergy do with the contractual obligations
19 that it prudently incurred, nor does it discuss the consequences of either paying to reform
20 these contracts or the liability of not performing under them.

¹ Mastrogiannis at 8.
² Mastrogiannis at 8.
³ Mastrogiannis at 9.

1 Even if the presumption of prudence under the prudence standard were ignored as
2 Staff implicitly recommends, Staff still ought to assess the disallowance based on the costs
3 that would have been incurred under a reasonable alternative course of action or
4 “minimally-prudent” decision, which according to Staff’s position, would be based on the
5 cost to amend or reform the contract. They have not done this! Instead, they simply
6 calculated a recommended disallowance based on what they call “PPA losses” (i.e., perfect
7 hindsight).

8 To consider Staff’s recommendations, one must abandon decades of sound
9 regulatory practice and precedent.

10 **Q: How does Staff recommend that the Company “share” in losses?**

11 A: Staff recommends that the Company and its shareholders essentially absorb, as a
12 disallowance (i.e., “share in the losses”⁴), the difference between historical energy prices
13 and PPA prices for the PPAs in question. As discussed by Ms. Messamore, this calculation
14 is flawed in numerous ways. Once again, setting aside Ms. Mastrogiannis’ complete
15 disregard for the prudence standard and her clear application of hindsight, this
16 methodology is short-sighted and applies a spot market energy only-based valuation to
17 long-life assets. As has been discussed by Company witnesses, Eversource has an obligation
18 to serve its customers and, as a result, in its resource planning activities is solving for long-
19 term capacity and energy to meet customer needs, while balancing reliable, affordable, and
20 sustainable service. The short-sighted application of hindsight in Staff’s disallowance
21 calculation is inappropriate.

⁴ Mastrogiannis at 8.

1 **III. RESPONSE TO OPC WITNESS LENA MANTLE**

2 **Q: Did OPC witness Mantle apply the longstanding prudence standard in her review of**
3 **the Company’s resource planning processes?**

4 A: No, she did not. In fact, Ms. Mantle fails to address, utilize, or satisfy the prudence standard
5 of review and, in fact, many of her arguments flat out contradict the prudence standard.
6 Ms. Mantle does not discuss the standard by which she considered the prudence of the
7 Company’s actions. She does not discuss the Company’s decision-making process, she
8 does not discuss the range of reasonable conduct based on what other firms have done, and
9 she does not evaluate the quality of the Company’s decisions based on what was known or
10 knowable at the time the decisions were made. Instead, she makes baseless accusations,
11 and relies on hindsight to support her assertions.

12 Ms. Mantle ignores other fundamental premises of the prudence standard including
13 that prudence does not require perfection, nor does it require achieving the lowest possible
14 cost. Ms. Mantle’s definition of a prudent utility would establish an impossible standard
15 which would require exceptional performance with the Company perfectly procuring
16 resources that always beat market prices.

17 Based on an unbiased review of the facts of this case, there is no reasonable
18 indication that the Company’s decisions to procure the resources and products that underlie
19 the 2021-2022 Fuel Adjustment Clause (“FAC”) were imprudent. The evidence presented
20 by Company witnesses is compelling that the Company’s decisions that have been
21 challenged by Ms. Mantle – the Company’s resource planning process, including the
22 decision to enter into the PPAs questioned in the Staff Prudence Review – are reasonable,
23 well within industry norms, and prudent.

1 **Q: What is Ms. Mantle alleging to be “imprudent”?**

2 A: Ms. Mantle asserts that EMW does not have enough “insurance” generation and is
3 therefore relying too much on bi-lateral purchases or SPP market purchases to cover
4 customer needs. Ms. Mantle would have you believe that Evergy’s resource planning
5 decisions no longer represent a “cost effective” strategy and are therefore imprudent.

6 **Q: Isn’t this a lopsided argument? What if market prices were below the cost of owned
7 generation resources?**

8 A: Yes, it is lopsided and invalid. Let’s set Ms. Mantle’s application of hindsight and complete
9 disregard for the prudence standard aside for a moment and indulge her argument that
10 Evergy ought to have procured more “cost-effective” resources, i.e., rate-based generation,
11 to meet customer needs. If Evergy had built or acquired more “insurance” generation to
12 meet customer needs, and market conditions had changed such that prices for energy and
13 capacity were now below the cost of the “insurance”, there is no doubt in my mind that
14 Ms. Mantle would also be alleging the decision to build generation was imprudent. I note
15 that Staff is objecting to just that – that market prices are currently less than the cost of the
16 “insurance” generation acquired through the PPAs in question. OPC and Staff’s positions
17 therefore seek to “have it both ways.”

18 **Q: Doesn’t that make Ms. Mantle’s standard of imprudence impossible to meet?**

19 A: Yes, it does. By Ms. Mantle’s “standard”, in order for a Company’s resource planning
20 decisions to be prudent, a load-serving entity must match or beat the market at all times.
21 She testifies that getting the right resource mix “with risks appropriately balanced between
22 shareholders and customers over a variety of potential futures of costs, market prices, and

1 customer requirements” is extremely important.⁵ This is indeed the purpose of resource
2 planning, which always represents the Company’s best estimate of potential “futures of
3 costs, market prices, and customer requirements”. However, it is not possible to perfectly
4 procure resources for every possibility within that “range of potential futures”, and making
5 a claim of imprudence after the fact without looking at the information that was known or
6 knowable at the time the decision was made is simply unjust, unreasonable, and illogical.

7 Ms. Mantle’s standard for resource planning therefore appears to be naïve and
8 impossible to achieve absent a crystal ball. It is also impossible to evaluate without total
9 reliance on hindsight. Ms. Mantle’s standard, therefore, is the antithesis of the prudence
10 standard in that it is all about results being achieved and not at all about the quality of
11 decision making.

12 **Q: Please respond to Ms. Mantle’s criticism of Evergy’s resource planning whereby the**
13 **combined resources and loads of its operating utilities are used to satisfy SPP’s**
14 **resource adequacy requirements.**

15 A: Ms. Messamore’s rebuttal testimony explains why Ms. Mantle’s testimony on this point is
16 factually and fundamentally wrong. As discussed by Ms. Messamore, EMW conducts its
17 power planning to do what is best for EMW’s customers, not to maximize benefits for the
18 rest of Evergy. In this context, where EMW determines that it requires additional capacity
19 resources to meet reliability standards, it could meet that need through new resource
20 additions, through bilateral capacity-only purchases from other SPP members, or through
21 capacity contracting with affiliated entities. However, as Ms. Messamore testifies, EMW
22 ultimately presents and relies on a preferred resource plan specific to EMW.

⁵ Mantle, at 5.

1 **Q: Is a strategy of purchasing energy from the SPP market and/or through**
2 **bilateral capacity PPAs inherently imprudent as suggested by Ms. Mantle?**

3 A: No, and under the circumstances that EMW faced as it had to make its resource planning
4 decisions, this strategy was the best option for EMW's customers based on what was
5 known or reasonably knowable at the time, as demonstrated by the Company's resource
6 planning analyses and as discussed in by Ms. Messamore. In any organized market for
7 electricity, many of the participants will be net negative in their pool transactions and many
8 others will be net positive. That is how a market balances, and it is this process that reduces
9 the cost of meeting load requirements for the entirety of the pool. No pool participant will
10 be worse off for having been active in pool transactions; the very nature of pooling is that
11 greater efficiency is achieved based on a participant's substitution of more efficient pool
12 resources for less efficient resources that would have been available operating on a stand-
13 alone basis. Ms. Mantle equates a result of being net negative in pooled energy transactions
14 with being imprudent in resource planning; in fact, being net negative in energy
15 transactions, while also achieving the required level of reliable capacity, signifies that the
16 participant's least-cost benefits from participation in the pool were substantial as compared
17 to what would have been achieved on a stand-alone basis. This certainly does not equate
18 to having made imprudent decisions.

19 **Q: Please respond to Ms. Mantle's disallowance calculation.**

20 A: Ms. Mantle and OPC's recommended disallowance of \$86M starts with the weighted
21 average variable costs for EMW and EMM compared to EMW's actual net energy costs.
22 OPC repeats this exercise for fixed costs, and the disallowance is equal to the decrease in
23 variable costs less the increase in fixed costs. This weighting methodology completely

1 ignores that the inverse impact would need to be true for EMM – any lowering of costs for
2 EMW customers would necessarily raise costs for EMM customers. This asymmetrical
3 treatment is entirely unfair.

4 **IV. CONCLUSION**

5 **Q: Please summarize your conclusions.**

6 A: Ms. Mastrogiannis ignores the well-established principles of prudence and relies
7 exclusively on hindsight or “how things turned out” to justify Staff’s recommended
8 disallowance for this FAC review period. Further, Staff does not even properly calculate
9 its recommended disallowance as it does not compare the outcomes under the contracts to
10 what would have been the outcomes under an alternative set of prudent decisions at the
11 time the contracts were signed.

12 Staff essentially seeks to replace the Commission’s standard of prudence for costs
13 being recoverable with one which adopts “risk sharing” as a new form of regulation. The
14 regulatory principle relating to cost recovery has been clear for many decades—utilities
15 are entitled to recover their prudently incurred costs, and a reasonable opportunity to earn
16 a fair return on the assets that are the product of prudent investment.

17 Similarly, Ms. Mantle flatly ignores the well-established principles for performing a
18 prudence review. Her position as to what would constitute prudent resource planning is
19 misinformed at best and not at all within the mainstream of utility conduct. Based on the
20 material I reviewed, the evidence supports that the Company’s decisions regarding the
21 resource planning and power purchases that have been challenged by Ms. Mantle were
22 reasonable, prudent and well within industry norms. Ms. Mantle’s testimony regarding
23 what she alone considers prudent resource planning should be given no weight and OPC’s

1 recommended disallowances should be rejected. Missouri precedent on all of these points
2 is fully aligned with the national mainstream and with the National Regulatory Research
3 Institute (“NRRRI”) standards. In order for a prudence disallowance to be warranted, a party
4 would have to show that EMW’s conduct was outside the range of what a reasonable utility
5 would have done based on what was known or reasonably knowable at the time the decision
6 was made. Neither Ms. Mantle nor Ms. Mastrogiannis attempt to make this showing.

7 In fact, Ms. Mastrogiannis and Ms. Mantle did not apply the established prudence
8 standard at all. They did not (1) construct or apply a proper prudence evaluation framework,
9 (2) focus on the reasonableness of the Company’s decisions based on information that was
10 known or reasonably knowable at the time, and (3) develop a recommended disallowance
11 based on quantifying the difference between actual costs and what they concluded would
12 have been the costs incurred under a “minimally-prudent” decision.

13 Finally, these witnesses, having seen that some risks did not turn out as expected,
14 seek to have prudently-incurred costs absorbed or “shared” by the utility’s shareholders,
15 which is simply another label for costs being disallowed. There is no basis for such an
16 abrupt and inequitable change in direction for Missouri’s regulatory framework being
17 applied in this case.

18 **Q: Does this conclude your testimony at this time?**

19 **A:** Yes, it does.

