

*Issue(s): Fuel Adjustment
Clause
Witness: Teresa Denney
Sponsoring Party: MoPSC Staff
Type of Exhibit: Direct Testimony
Case Nos.: ER-2024-0189
Date Testimony Prepared: June 27, 2024*

MISSOURI PUBLIC SERVICE COMMISSION

INDUSTRY ANALYSIS DIVISION

ENERGY RESOURCES DEPARTMENT

DIRECT TESTIMONY

OF

TERESA DENNEY

EVERGY MISSOURI WEST, INC.,

d/b/a Evergy Missouri West

CASE NO. ER-2024-0189

*Jefferson City, Missouri
June 27, 2024*

**TABLE OF CONTENTS OF
DIRECT TESTIMONY OF
TERESA DENNEY
EVERGY MISSOURI WEST, INC.,
d/b/a Every Missouri West
CASE NO. ER-2024-0189**

1	
2	
3	
4	
5	
6	
7	EXECUTIVE SUMMARY1
8	HISTORY2
9	CONTINUATION OF FAC4
10	TRANSMISSION COSTS7
11	SETTING THE BASE FACTOR.....9
12	ADDITIONAL REPORTING REQUIREMENTS11

1 **DIRECT TESTIMONY**

2 **OF**

3 **TERESA DENNEY**

4 **EVERGY MISSOURI WEST, INC.,**

5 **d/b/a Every Missouri West**

6 **CASE NO. ER-2024-0189**

7 Q. Please state your name and business address.

8 A. My name is Teresa Denney, and my business address is Missouri Public Service
9 Commission, 200 Madison Street, P.O. Box 360, Jefferson City, Missouri, 65102.

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

11 A. I am employed by the Missouri Public Service Commission (“Commission”) as
12 a Lead Senior Utility Regulatory Auditor.

13 Q. Please describe your educational background and work experience.

14 A. Please refer to Schedule TD-d1 attached hereto.

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

16 A. This is the first case in which I have filed testimony. However, please refer to
17 Schedule TD-d1 for a list of cases in which I have previously led or participated in.

18 **EXECUTIVE SUMMARY**

19 Q. What is the purpose of your direct testimony?

20 A. The purpose of my direct testimony is to provide the policy and the history of
21 the Fuel Adjustment Clause (“FAC”) for Everygy Missouri West, Inc., d/b/a
22 Everygy Missouri West (“EMW”), as well as the recommendation of continuing EMW’s FAC.

1 Q. In summary, what are Staff's recommendations regarding EMW's FAC to
2 the Commission?

3 A. In summary, Staff makes the following recommendations to EMW's FAC:

4 1. Continue EMW's FAC with modifications;

5 a. Continue to include the Base Factor¹ in the FAC tariff sheet for EMW,
6 calculated from the Net Base Energy Cost² ("NBEC") that the Commission
7 includes in the revenue requirement upon which it sets EMW's general rates
8 in this case;

9 b. Continue to include SPP transmission costs that EMW incurs for purchased
10 power and off-system sales ("OSS") in EMW's FAC, as the current
11 FAC tariff sheet allows;

12 c. Continue to exclude any and all transmission costs related to its Crossroads
13 generating plant from the FAC;

14 2. Order EMW to continue to provide the additional information as part of its
15 monthly FAC reports as EMW was ordered³ to do in Case Nos. ER-2016-0156,
16 ER-2018-0146, and ER-2022-0130.

17 **HISTORY**

18 Q. Please describe the history of EMW's FAC.

¹ Base Factor is defined in EMW's Original Sheet No. 127.31 as Company's base factor costs per kWh.

² Net Base Energy Cost is defined in EMW's Original Sheet No. 127.31 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".

³ Item 305, Page 13 of the Commission's *Non-Unanimous Stipulation and Agreement*, issued September 20, 2016 in File No. ER-2016-0156.

1 A. The Commission first authorized a FAC for EMW in its *Report and Order* in
2 EMW's 2007 general electric rate proceeding (Case No. ER-2007-0004) for EMW's two rate
3 districts, then called Aquila Networks-MPS and Aquila Networks-L&P, with the original
4 FAC tariff sheets becoming effective July 5, 2007. In EMW's subsequent electric rate cases,
5 the Commission authorized continuation with modifications of EMW's FAC. The primary
6 features of EMW's present FAC (tariff sheets numbered 127.24 through 127.34) include:

- 7 • Two 6-month accumulation periods: June through November and
8 December through May;
- 9 • Two 12-month recovery periods: March through February and
10 September through August;
- 11 • Two fuel adjustment rate ("FAR") filings annually, not later than
12 January 1 and July 1;
- 13 • A 95%/5% sharing mechanism;⁴
- 14 • FARs for individual service classifications are rounded to the nearest
15 \$0.00001, and charged on each applicable kWh billed;
- 16 • True-up of any over- or under-recovery of revenues following each
17 recovery period, with true-up amounts being included in determination of
18 FARs for a subsequent recovery period; and
- 19 • Prudence reviews of the costs subject to the FAC shall occur no less
20 frequently than every eighteen (18) months.

21 In EMW's 2022 rate case (Case No. ER-2022-0130), the Base Factor was set at
22 \$0.02983 per kWh.

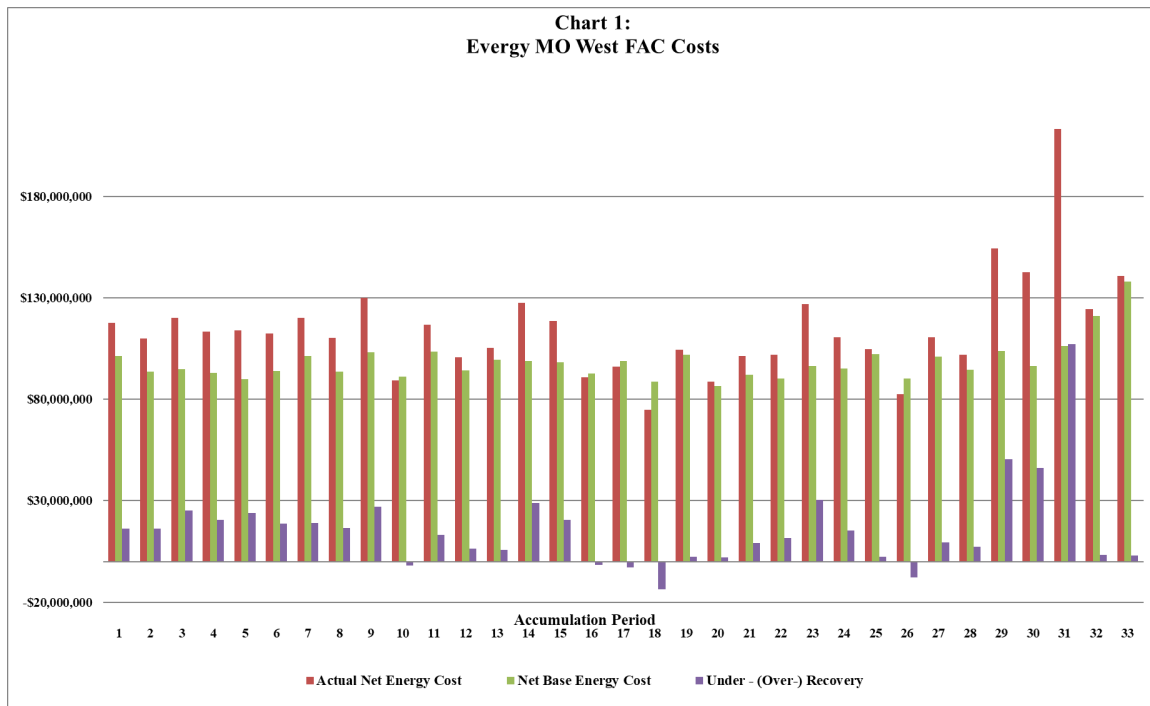
23 In the current rate case (Case No. ER-2024-0189), EMW is proposing to re-base the
24 Base Factor to \$0.02948 per kWh.

⁴ The FAC requires EMW to accumulate its total energy costs over a six month accumulation period, followed by a six month recovery period during which 95% of the over- or under-recovery of Total Energy Costs over or under the Base Energy Costs is either returned to or collected from customers. This mechanism allows the Company to retain 5% of any over-collected amounts and requires the Company to absorb 5% of any under-collected amounts for each accumulation period.

CONTINUATION OF FAC

Q. Please explain the historical operation of EMW’s FAC.

A. EMW has filed for and received approval of changes to its FARs for thirty-three (33) completed accumulation periods (“AP”) (AP1 through AP33). Chart 1⁵ shows that EMW’s Actual Net Energy Cost (“ANEC”)⁶ has exceeded the then-effective Base Factors multiplied by monthly usage billed to EMW’s customers’ in twenty-eight (28) out of the thirty-three (33) completed accumulation periods and are illustrated as under-recovery amounts prior to application of the jurisdictional factor.



⁵ AP28’s Actual Net Energy Costs were reduced by approximately \$297 million because the parties agreed to remove the extraordinary costs from the FAC and securitize them. For illustrative purposes, AP31’s ANEC included approximately \$89 million of costs that were later shifted to AP32 and AP33’s true-up.

⁶ “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 EMW’s Original Sheet No. 127.25.

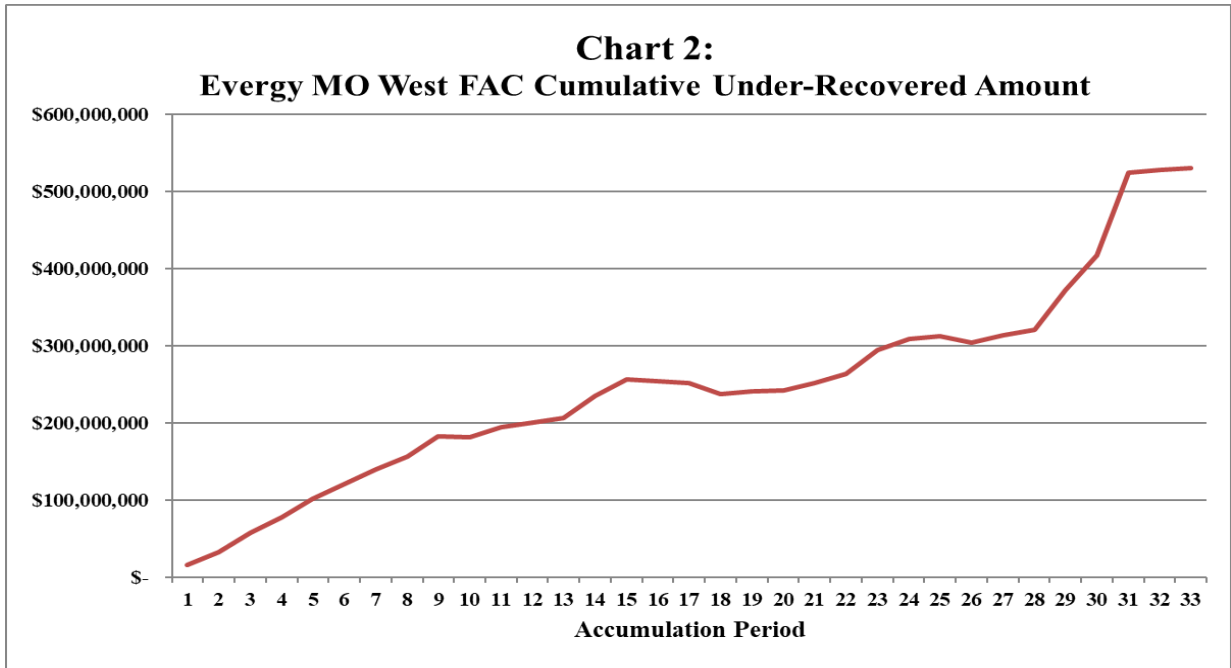
1 During five accumulation periods, EMW's NBEC exceeded ANEC; 95% of such excess
2 amounts were returned to customers during those five recovery periods ("RP").
3 In twenty-eight (28) of its accumulation periods, EMW under-collected its ANEC, and 95% of
4 the amounts of under-collection were recovered from EMW's customers during those
5 recovery periods.

6 Q. What do EMW's actual FAC costs include?

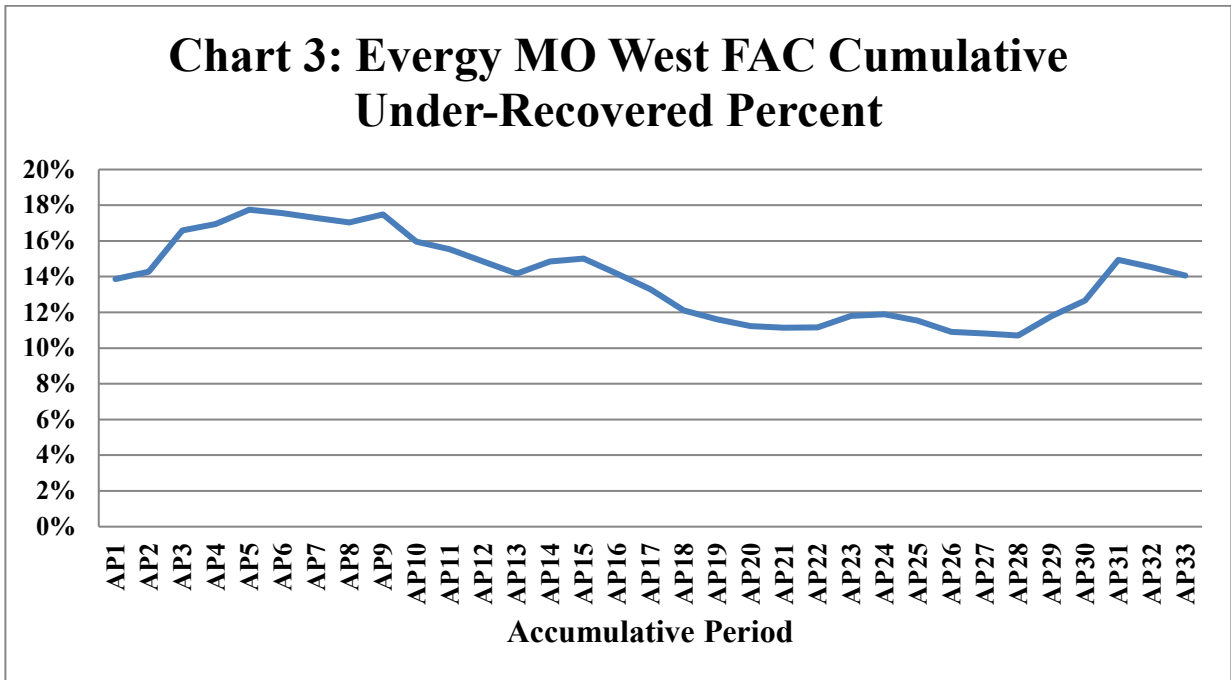
7 A. Actual FAC costs include: EMW's total booked costs as allocated for fuel
8 consumed in their generating units; purchased power energy charges, including applicable
9 transmission fees; Southwest Power Pool ("SPP") variable costs; air quality control system
10 consumables, such as anhydrous ammonia, limestone and powder activated carbon; and net
11 emission allowance costs. Actual FAC costs are offset by actual revenue from Off-System
12 Sales and actual revenue from the sale of Renewable Energy Credits.

13 Q. Has EMW under recovered any amount?

14 A. Charts 2 and 3 illustrates EMW's cumulative under-recovered amount over
15 sixteen (16) years is approximately \$531 million or about 14% of the cumulative ANEC.



1



2

3 Q. Does Staff recommend the continuation of EMW's FAC? If so, explain why.

4

A. Yes. Staff recommends that the Commission approve, with modifications, the

5

continuation of EMW's FAC. As shown in the previous charts and discussion, EMW's ANEC

6

continues to be relatively large and volatile.

1 At this time Staff does not have its estimates for EMW’s FAC Base Factor and the SPP
2 transmission costs, but will provide it and a discussion on the calculation of its Base Factor
3 when Staff files its Class Cost of Service/Rate Design direct testimony on July 12, 2024.

4 **TRANSMISSION COSTS**

5 Q. What is the company proposing to be included in the FAC for SPP
6 transmission costs?

7 A. The company is proposing to reduce the pass-through percentage of SPP
8 transmission costs from 74.57% to 69.88%.

9 Q. What does Staff recommend for SPP transmission costs?

10 A. Staff’s position is to retain the existing calculation for SPP transmission costs,
11 which is the percentage of total purchases over total market load. As stated on page 1, this is
12 specific to include the SPP transmission costs that EMW incurs only for purchased power
13 and OSS. Staff also notes the transmission costs should continue to exclude any costs related
14 to its Crossroads generating plant from the FAC (this will be further discussed in Staff witness
15 Brooke Mastrogiannis’ rebuttal testimony).

16 Q. Why is it appropriate to include only SPP transmission costs related to purchased
17 power and OSS?

18 A. Because the Commission has already ruled on this issue.
19 Evergy Missouri Metro, formerly known as Kansas City Power and Light Company (“KCPL”),
20 argued in Case No. ER-2014-0370 that SPP transmission costs associated with the charges and
21 revenues from SPP billings, and transmission costs to buy and sell energy, be recovered in rates

1 through the FAC mechanism.⁷ In this same docket KCPL stated that transmission costs were
2 rising, and projections showed that these expenses would continue to increase at a significant
3 rate from 2014 through 2019.⁸

4 The Commission stated in its Report and Order in that case,

5 KCPL argues that all of its SPP transmission fees should be included in
6 the FAC because those fees are mandatory, increasing in amount, and
7 volatile. In addition, KCPL states that since all of its power generation is
8 sold into the SPP market and purchased from that market, all SPP
9 expenses and revenues related to those individual sales and purchases of
10 transmission service must be included in the FAC.⁹

11 The Commission further stated:

12 The Commission has addressed this issue in recent rate cases.
13 In the Report and Order issued in File No. ER-2014-0258 for
14 Ameren Missouri, the Commission stated:

15 The evidence demonstrated that for purposes of operation
16 of the MISO tariff, Ameren Missouri sells all the power it
17 generates into the MISO market and buys back whatever power
18 its needs to serve its native load. From that fact, Ameren Missouri
19 leaps to its conclusion that since it sells all the power to MISO
20 and buys all that power back, all such transactions are off-system
21 sales and purchased power within the meaning of the FAC
22 statute. **The Commission does not accept this point of view.**

23 The drafters of the FAC statute likely did not envision a
24 situation where a utility would consider all of its generation
25 purchased power or off-system sales. In fact, the policy
26 underlying the FAC statute is clear on its face. The statute is
27 meant to insulate the utility from unexpected and uncontrollable
28 fluctuations in transportation costs of purchased power. At the
29 time the statute was drafted, and even in our more complex
30 present-day system, the costs of transporting energy in addition
31 to the energy generated by the utility or energy in excess of what
32 the utility needs to serve it load are the costs that are unexpected
33 and out of the utility's control to such an extent that a deviation
34 from traditional rate making is justified.

⁷ *In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service*, Case No. ER-2014-0370, Hearing Ex. No. 134, EFIS No. 344, Direct Testimony of Tim M. Rush, pgs. 17, 22.

⁸ *Id.* at 20.

⁹ *Report and Order*, ER-2014-0370, Pg. 34 (Sept., 2, 2015).

1 Therefore, of the three reasons Ameren Missouri incurs
2 transmission costs cited earlier, the costs that should be included
3 in the FAC are 1) costs to transmit electric power it did not
4 generate to its own load (true purchased power) and 2) costs to
5 transmit excess electric power it is selling to third parties to
6 locations out of MISO (off-system sales). **Any other**
7 **interpretation would expand the reach of the FAC beyond**
8 **its intent.**¹⁰

9 Lastly, the Commission summarized its decision:

10 The evidence shows in this case that on a daily basis, KCPL sells all of
11 the power it generates into the SPP market and purchases from SPP
12 100% of the electricity it sells to its retail customers. However, based on
13 the Commission's analysis in the two cases cited above, it would not be
14 lawful for KCPL to recover all of its SPP transmission fees through the
15 FAC. In addition, while KCPL's transmission costs are increasing, those
16 costs are known, measurable, and not unpredictable, so the costs are
17 not volatile. The Commission concludes that the appropriate
18 transmission costs to be included in the FAC are 1) costs to transmit
19 electric power it did not generate to its own load (true purchased power);
20 and 2) costs to transmit excess electric power it is selling to third parties
21 to locations outside of SPP (off-system sales).¹¹

22 Q. Why is it appropriate the transmission costs continue to exclude any costs related
23 to the Crossroads generating plant from the FAC?

24 A. This will be further discussed in Staff witness Keith Majors' direct testimony
25 and witness Brooke Mastrogiannis' rebuttal testimony.

26 **SETTING THE BASE FACTOR**

27 Q. Is setting the Base Factor in EMW's FAC tariff sheets critical?

28 A. Yes. Correctly setting the Base Factor in EMW's FAC tariff sheets is critical to
29 both a well-functioning FAC and a well-functioning FAC sharing mechanism. For the reasons
30 below, Staff recommends the Commission require the Base Factor in EMW's FAC be set based

¹⁰ *Id.* (emphasis added) (quoting *Report and Order*, ER-2014-0258 (Apr. 29, 2015)).

¹¹ *Report and Order*, ER-2014-0370, Pg. 35 (Sept. 2, 2015).

1 on the Base Energy Cost that the Commission includes in the revenue requirement on which it
2 sets EMW's general rates in this case.

3 Q. Please provide examples illustrating why setting the base factor is so critical.

4 A. Table 1 below shows the three scenarios in which the FAC Base Energy Cost
5 used to set the FAC Base Factor is equal to, less than, or greater than the Base Energy Cost in
6 the revenue requirement upon which the Commission sets general rates:

Table 1: Base Energy Cost Case Studies				
		Case 1	Case 2	Case 3
Line	95%/5% Sharing Mechanism	Energy Cost in FAC Equal To Base Energy Cost in Rev. Req	Energy Cost in FAC Less Than Base Energy Cost in Rev. Req	Energy Cost in FAC Greater Than Base Energy Cost in Rev. Req
a	Revenue Requirement	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000
b	Base Energy Cost in Rev. Req.	\$ 4,000,000	\$ 4,000,000	\$ 4,000,000
c	Base Energy Cost in FAC	\$ 4,000,000	\$ 3,900,000	\$ 4,100,000
Outcome 1: Actual Net Energy Cost <u>Greater Than</u> Base Energy Cost in Revenue Requirement				
d	Actual Total Energy Cost	\$ 4,200,000	\$ 4,200,000	\$ 4,200,000
Billed to Customer:				
= b	in Permanent Rates	\$ 4,000,000	\$ 4,000,000	\$ 4,000,000
e = (d - c) x 0.95	through FAC	\$ 190,000	\$ 285,000	\$ 95,000
f=b + e	Total Billed to Customers	\$ 4,190,000	\$ 4,285,000	\$ 4,095,000
g= f - d	Kept/(Paid) by Company	\$ (10,000)	\$ 85,000	\$ (105,000)
Outcome 2: Actual Energy Cost <u>Less Than</u> Base Energy Cost in Revenue Requirement				
h	Actual Energy Cost	\$ 3,800,000	\$ 3,800,000	\$ 3,800,000
Billed to Customer:				
= b	in Permanent Rates	\$ 4,000,000	\$ 4,000,000	\$ 4,000,000
i= (h - c) x 0.95	through FAC	\$ (190,000)	\$ (95,000)	\$ (285,000)
j = b + i	Total Billed to Customers	\$ 3,810,000	\$ 3,905,000	\$ 3,715,000
k= j - h	Kept/(Paid) by Company	\$ 10,000	\$ 105,000	\$ (85,000)

7
8 Case 1 illustrates that if the FAC Base Energy Cost used for the Base Factor is equal to
9 the Base Energy Cost in the revenue requirement used for setting general rates, the utility does
10 not over- or under-collect as a result of the level of total actual energy costs.

1 Case 2 illustrates that if the FAC Base Energy Cost used for the Base Factor is less than
2 the Base Energy Cost in the revenue requirement used for setting general rates, the utility will
3 collect more than was intended (over-recover) and customers will pay more than the FAC was
4 designed for them to pay, regardless of the level of actual energy costs.

5 Case 3 illustrates that if the FAC Base Energy Cost used for the Base Factor is greater
6 than the Base Energy Cost in the revenue requirement used for setting general rates, the utility
7 will not collect all of the costs that was intended (under-recover) in the FAC design, and
8 customers will pay less than the entire amount intended, regardless of the level of actual
9 energy costs.

10 These three cases illustrate the importance of setting the Base Factor in the FAC
11 correctly, i.e., revising the Base Factor to match the Base Energy Cost in the revenue
12 requirement used for setting general rates. If the Base Factor in the FAC is set correctly, the
13 customers will not see such a huge swing of over or under recovery in its subsequent
14 Fuel Adjustment Rate filings.

15 **ADDITIONAL REPORTING REQUIREMENTS**

16 Q. What additional reporting requirements is Staff proposing for EMW?

17 A. Due to the accelerated Staff review process necessary with FAC adjustment
18 filings,¹² Staff recommends the Commission order EMW to continue to provide the following
19 information as part of its monthly reports or at Staff's request:

- 20 1. Monthly SPP market settlements and revenue neutrality uplift charges;

¹² The Company must file its FAC adjustment 60 calendar days prior to the effective date of its proposed tariff sheet. Staff has 30 calendar days to review the filing and make a recommendation to the Commission. The Commission then has 30 calendar days to approve or deny Staff's recommendation.

- 1 2. FAC monthly reports;
- 2 3. Within 30 calendar days of the effective date of each and every coal and coal
- 3 transportation, natural gas, fuel oil, nuclear fuel, and purchased power
- 4 contract EMW enters into, EMW provide both notice to the Staff of the
- 5 contract and opportunity to review the contract at EMW's corporate
- 6 headquarters or at some other mutually-agreed-upon place;
- 7 4. Maintain at EMW's corporate headquarters or at some other mutually
- 8 agreed-upon place and make available within a mutually-agreed-upon time
- 9 for review, a copy of each and every coal and coal transportation, natural
- 10 gas, fuel oil and nuclear fuel contract EMW has that is in or was in effect for
- 11 the previous four years;
- 12 5. Provide Staff with a monthly natural gas fuel report that includes all
- 13 transactions, spot and longer term; the report will include term, volumes,
- 14 price, and analysis of number of bids;
- 15 6. Notify Staff within 30 calendar days of any material change in EMW's fuel
- 16 hedging policy and provide the Staff with access to new written policy;
- 17 7. Provide Staff its Missouri Fuel Adjustment Interest calculation workpapers
- 18 in electronic format with all formulas intact when EMW files for a change
- 19 in the cost adjustment factor;
- 20 8. Provide a copy of EMW's internal policy for participating in
- 21 SPP's Integrated Market;
- 22 9. If EMW revises any internal policy for participating in SPP, within
- 23 30 calendar days of that revision, provide a copy of the revised policy with
- 24 the revisions identified for Staff to retain; and, the monthly as-burned fuel
- 25 report supplied by EMW required by 20 CSR 4240-3.190(1)(B) shall
- 26 explicitly designate fixed and variable components of the average cost per
- 27 unit burned including commodity, transportation, emissions, tax, fuel blend,
- 28 and any additional fixed or variable costs associated with the average cost
- 29 per unit reported.

Direct Testimony of
Teresa Denney

1 10. Maintain at EMW's corporate headquarters or at some other mutually
2 agreed-upon place and make available within a mutually agreed-upon time
3 for review, a copy of each and every bilateral energy or demand
4 sales/purchase contract;

5 11. Continue to provide Staff access to all contracts and policies upon Staff's
6 request, at EMW's corporate office in Kansas City, Missouri; and

7 12. Include in its FAC monthly reports, the amounts of TCRs and ARR's that are
8 attributed to each purchased power agreement, specifically reported in tab
9 5(K)3.

10 Q. Does this conclude your Direct Testimony?

11 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Evergy Missouri West, Inc.)
d/b/a Evergy Missouri West's Request for)
Authority to Implement A General Rate)
Increase for Electric Service)

Case No. ER-2024-0189

AFFIDAVIT OF TERESA DENNEY

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

COMES NOW TERESA DENNEY and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Direct Testimony of Teresa Denney*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

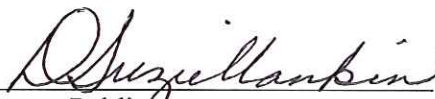


TERESA DENNEY

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 18th day of June 2024.





Notary Public

Teresa L. Denney

Educational Background

I received a Bachelor of Science Degree in Finance from Columbia College, in May of 2017.

Employment History

My previous work experience includes employment with Missouri Farm Bureau as an assistant to the Legislative Director/Lobbyist, where my duties included tracking pertinent bills applicable to the industry and assisting with the implementation and training in various agricultural programs. I also held various positions with Missouri state government before completing my college education. In 2013, I began my auditing/financial career with the Missouri Water and Wastewater Conference. I held the position of financial manager before promoting to the assistant executive director. My duties included auditing 501c3 exemption compliance for the central office and six regional offices; preparing cost benefit analysis of operational income, expenses and budget forecasting; and performing the daily financial/managerial operations of the company. I reported directly to the executive director and board of directors. In 2022, I joined the Missouri Public Service Commission as a Senior Utility Regulatory Auditor and was recently promoted to a Lead Senior Utility Regulatory Auditor. In this position, I perform extensive examinations of utility companies' Missouri Energy Efficiency Investment Act (MEEIA) prudence reviews, Fuel Adjustment Clause prudence reviews, rate cases, etc. I prepare workpapers to report audit results and provide written testimony to detail the findings of the audit.

Teresa Denney
Case Participation Lead Senior Utility Regulatory Auditor

Company Name	Case Number	Testimony/Issues
Evergy Missouri West	EO-2023-0206/ ER-2023-0210	January 2023 FAR/True Up Filing – Lead Staff
Evergy Missouri West/ Evergy Missouri Metro	EO-2023-0276/ EO-2023-0277	March 2023 Staff Report - Fuel Costs (FERC Accounts 501 & 547, Coal, Oil, & Natural Gas), Fuel Transportation Costs, & Nuclear Fuel
Ameren Missouri	EO-2023-0180	April 2023 MEEIA Prudence Review – Actual & Billed Program Costs & Long Lead Projects Program Costs
Evergy Missouri West/ Evergy Missouri Metro	EO-2023-0407/ EO-2023-0408	June 2023 Staff Report – EM&V, EM&V Contractors, Labor, & Interest
Ameren Missouri	ER-2024-0028/ EO-2024-0029	August 2023 FAR/True Up Filing – Lead Staff
Ameren Missouri	EO-2024-0053	September 2023 FAC Prudence Review – Purchase Power, Off System Sales, & Net Emission Allowance Cost/Revenues
Liberty (Empire)	ER-2024-0118/ EO-2024-0119	October 2023 FAR/True Up – Lead Staff
Liberty (Empire)	EO-2024-0151	November 2023 Staff Report- Actual Program Costs, Throughput Disincentive (TD) & Billed TD
Evergy Missouri West	ER-2024-0189	June 2024 Rate Case - Testimony (Direct - Fuel Adjustment Clause)
Ameren Missouri	ER-2024-0275/ EO-2024-0277	April 2024 FAR/True Up – Lead Staff