Exhibit No. 301

OPC – Exhibit 301
Lena M. Mantle
Rebuttal
File No. ER-2024-0189

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Issue(s):	FAC/Crossroads
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Sponsoring Party:	Public Counsel
Case No.:	ER-2024-0189

REBUTTAL TESTIMONY

OF

LENA M. MANTLE

Submitted on Behalf of the Office of the Public Counsel

EVERGY MISSOURI WEST, INC. D/B/A EVERGY MISSOURI WEST

CASE NO. ER-2024-0189

** ______________________________ **
Denotes Confidential Information that has been redacted

August 6, 2024

PUBLIC

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REBUTTAL TESTIMONY

OF

LENA M. MANTLE

EVERGY MISSOURI WEST
FILE NO. ER-2024-0189

<u>INTRODUCTION</u>

Q. What is your name?

A. Lena M. Mantle.

Q. Are you the same Lena M. Mantle who filed direct testimony in this case?

A. Yes, I am.

Q. Would you summarize your rebuttal testimony?

A. I respond to the direct testimonies of Evergy West, Inc. ("Evergy West") Witnesses Darrin Ives and Cody VandeVelde regarding Evergy West's request to include the transmission costs associated with Evergy West's Crossroads Energy Center located in Clarksdale, Mississippi.

I also discuss the normalized fuel adjustment clause costs proposals of Evergy West and Staff and how the disparity between the two costs supports my recommendation that the Commission modify the sharing mechanism of Evergy West's fuel adjustment clause ("FAC") to 75% of the difference between actually incurred costs and normalized costs be recovered/returned to customers and 25% be absorbed or kept by Evergy West and provide support for my recommendation to the Commission regarding the base factor it should approve.

Q. What recommendations to the Commission are you supporting in this testimony?

A. In my direct testimony, I recommended that this Commission uphold the decision of prior Commissions in case nos. ER-2010-0356 and ER-2012-0175 to not allow the recovery of the transmission costs associated with Evergy Missouri West's ("Evergy West") Crossroads Energy Center ("Crossroads") located in Clarksdale, Mississippi.

In this testimony, I add to my recommendation that the Commission remain silent regarding the renewal of Evergy West's contract with Entergy for firm transmission that allows the energy provided by Crossroads to reach the Southwest Power Pool ("SPP"). This is an Evergy West management decision, not the Commission's decision. However, the Commission should make it clear to Evergy West that, given the information provided in the direct testimonies of Darrin Ives and Cody VandeVelde in this rate case, it would be imprudent for Evergy West to not renew the firm transmission contract and advise the future Commissions to not allow the recovery of costs above what Evergy West would have incurred if Crossroads, without the cost of transmission, would have continued to be a generation asset for the rest of the life of the plant.

Finally, with respect to the FAC, in addition to my recommendation in my direct testimony to change the sharing mechanism to 75\25, I recommend in this testimony the Commission approve Evergy West's base factor adjusted for OPC's positions:

1. No hedging costs/gains[1] or SPP admin costs[2] or Crossroads transmission costs be included;
2. The miscellaneous charges and revenues in FERC account 447 as proposed by Staff witness Karen Lyons with Transmission Congestion Rights ("TCR") and Auction Revenue Rights ("ARR") as proposed by OPC witness Angela Schaben in her rebuttal testimony be included instead of the amounts proposed by Evergy West; and

[1] Direct testimony of OPC witness John S. Riley, pages 7 – 12.
[2] Direct testimony of OPC witness Angela Schaben, page 23.

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3. Denominator of the base factor should be the normalized net system input consistent with the billing determinants used to set rates in this case.

Using the information provided in direct testimonies and workpapers of Evergy West and Staff witness Karen Lyons, I recommend the Commission approve a base factor of $0.02586 per kilo-watt hour ("kWh") along with a sharing mechanism of 75/25. This factor should be adjusted for the true-up net system input and TCR/ARR revenues.

EVERGY WEST'S THREAT

Q. What threat does Evergy West witness Darrin Ives make in his direct testimony regarding the treatment of Crossroads transmission cost?

A. In his direct testimony, Mr. Ives states:

> As described by Evergy witness Cody VandeVelde, the decision by the Commission on Crossroads transmission costs is timely in this case, as <u>it will inform whether or not to extend the firm transmission contract</u> for Crossroads when current contracts expire in 2029, and will also inform the development of upcoming Integrated Resource Plans for EMW.[3]
>
> (Emphasis added)

Evergy West witness Cody VandeVelde is more straightforward in his direct testimony:

> <u>Without preapproval of different rate treatment for the MISO transmission expense starting in this rate case, Evergy does not plan to renew or extend the four 75 MW firm point-to-point MISO transmission path agreements beyond February 2029.</u> This would effectively render the Crossroads generating plant useless as far as its capacity value to EMW customers. Without the firm MISO transmission path, Crossroads energy cannot be delivered into SPP on a firm basis and, more specifically, into EMW's service territory. <u>Because the energy would no longer be deliverable from Crossroads</u>

[3] Page 3.

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> and could not be claimed as capacity for the reserve margin requirements of SPP, EMW's accredited capacity would be reduced.[4]

(Emphasis added)

Q. How is this a threat?

A. As Mr. VandeVelde explains that without firm transmission, Crossroad's 300 megawatts ("MW") of capacity would no longer qualify as a resource for Evergy West. This would result in Evergy West needing an additional 300 MW of capacity by March 2029 when the current transmission contract ends. This capacity would need to be replaced with new generation or additional contracts for capacity. The alternative is paying the SPP's capacity deficiency payments.

This would be 300 MW in addition to the 325 MW combined cycle addition Evergy West has planned for 2029 meaning Evergy West would need to add 625 MW of capacity in 2029. The *2024 SPP Resource Adequacy Report*, [5] states that "[b]y 2029, the SPP [Balancing Authority] Area will be deficit by 5,950 MW." If Evergy West chooses to not renew the transmission contract, the deficit would be 6,250 MW. Any generation owner that has excess capacity will be able to command a price up to the penalty amount assessed by SPP for insufficient capacity. On page 5 of his direct testimony, Evergy West witness Vander Velde testifies:

> These deficiency payments are calculated based on a range of 125% to 200% of SPP's Cost of New Entry ("CONE") which approximates the cost to build new generation. At SPP's current CONE, $85.61/kW-year, the loss of Crossroads would equate to deficiency payments anywhere from $32 million to over $50 million annually for EMW to cover the 300 MWs of capacity that is provided.

[4] Pages 12 – 13.
[5] https://spp.org/documents/71804/2024%20spp%20june%20resource%20adequacy%20report.pdf, page 5.

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Q. How are the transmission contract costs currently treated?

A. According to Mr. Ives, "there has been zero recovery of Crossroads' transmission expense" from Evergy West customers.[6] To the best of my knowledge, I agree with Mr. Ives; there has been no cost recovery from Evergy West customers for transmission costs associated with Crossroads.

Q. Why has there been no cost recovery?

A. In its *Report and Order* in case no. ER-2010-0356, the Commission found:

> 29. In addition to the valuation, the Commission concludes that but for the location of Crossroads customers would not have to pay the excessive cost of transmission. Therefore, transmission costs from the Crossroads facility, including any related to OSS shall be disallowed from expenses in rates and therefore also not recoverable through GMO's fuel adjustment clause ("FAC").[7]

In its *Report and Order* in Evergy West's next rate case ER-2012-0175, the Commission's Discussion, Conclusion of Law, and Ruling includes the following sentence regarding transmission costs:

> Therefore, the Commission concludes that including the Crossroads transmission costs does not support safe and adequate service at just and reasonable rates, and the Commission will deny those costs.[8]

Evergy West appealed both of these orders to the Western District Court of Appeals and the court affirmed the Commission's decisions regarding the cost treatment of Crossroads in both of these cases.[9] In addition, Evergy West filed a Petition for a Writ of Certiorari in the United States Supreme Court regarding the recovery of Crossroads transmission costs, but the Supreme Court denied this request.[10]

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[6] Direct Testimony of Darrin Ives, page 16.
[7] Page 99.
[8] Page 58.
[9] *State ex rel. KCP&L Greater Mo. Operations Co. v. Mo. PSC*, 408 S.W.3d 153, 162 (Mo. App. W.D. 2013); *In re KCP&L Greater Mo. Operations Co.'s Request*, 432 S.W.3d 207, 208 (Mo. App. W.D. 2014).
[10] *Mo. ex rel. KCP&L Greater Mo. Operations Co. v. Mo. PSC*, 573 U.S. 954 (2014).

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Q. Do you agree with Mr. Ives that in these orders 'the Commission acknowledged that its decisions regarding Crossroads were a product of its unhappiness with the plant's previous owner, "the failed utility Aquila" (footnote omitted)'?[11]

A. No. The Commission, in its *Report and Order* in the second general rate case where it denied transmission cost recovery, case no. ER-2012-0175, stated in its Discussion, Conclusions of Law, and Ruling:[12]

> Crossroads is a relic of the failed utility Aquila. A full recital of Aquila's tortured history is unnecessary to the Commission's rulings,[] because it only raises the issue of how long the Commission will visit the sins of the predecessor on the successor. It is true that GMO is the same legal entity as Aquila, but it is also true that management is different.
>
> (Footnote omitted)

What Mr. Ives was quoting was a paragraph where the Commission was providing its rationale for not detailing in its *Report and Order* all of the past history of Aquila and its decision-making processes.

Q. Is this quote from the *Report and Order* an indication that the Commission, when it made its decision to disallow the transmission costs, expected that there would be a time limit on the disallowance of the costs?

A. No. It demonstrates the Commission's weariness with dealing with the shortcomings of generation planning for Aquila.

Q. What leads you to the conclusion that the Commission's disallowance was not due to its weariness with Aquila's decisions?

A. In its *Report and Order* in the previous case ER-2010-0356, the Commission found:

[11] Direct testimony on Darrin Ives, page 16.
[12] Page 57.

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> 271. When conducting its due diligence review of Aquila's assets for determining its offer price for Aquila, GPE would have considered the transmission constraints and other problems associated with Crossroads.[] It is incomprehensible that GPE would pay book value for generating facilities in Mississippi to serve retail customers in and about Kansas City, Missouri. And, it is a virtual certainty that GPE management was able to negotiate a price for Aquila that considered the distressed nature of Crossroads as a merchant plant which Aquila Merchant was unable to sell despite trying for several years.
>
> (Footnote omitted)

With this finding, the Commission explained that the Crossroads plant was a part of GPE's acquisition of Aquila. It was no longer an asset of Aquila but had become an asset of GPE, the predecessor to Evergy, Inc. ("Evergy"), the parent company of Evergy West. The "tortured history" of Aquila was no longer relevant. The Commission did not deny transmission costs because of its unhappiness with Aquila. It looked at the prudence of the decision that Evergy made when it decided that this plant, that even at a discounted price no one wanted because of where it was located, would become an asset of Evergy West.

It is also worth noting that Aquila did not assign its Merchant Crossroads plant in Mississippi to its regulated electric utility division in western Missouri and did not request the Commission allow it to recover transmission costs from its regulated, captive customers. Evergy did. This was a decision of Evergy, not Aquila. The above quote from the Commission's Report and Order shows that the Commission did not come to its decision out of weariness with Aquila's decision making but because of Evergy's decision to request recovery of imprudent transmission costs from its Evergy West captive customers.

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Q. Would you respond to the quote from the Commission order in case no. ER-2012-0175 Mr. Ives provides on page 16 of his direct testimony that "[i]t is true that GMO is the same legal entity as Aquila, but it is also true that management is different[]"?

A. The management personnel of GMO, now Evergy West, was different from Aquila. However, the policy of not building generation to meet the needs of its customers is not. The Commission had made the following finding regarding Aquila in its *Report and Order* in case no. ER-2010-0356:

> Although every other investor-owned electric utility in Missouri built generation, Aquila, Inc. had a corporate policy not to build regulated generating units that it followed until it built South Harper in 2005. Instead, Aquila, Inc. relied exclusively on purchased power to meet its retail customers' increasing demands for electricity.

The passing of time has shown that the new management had, and still has, a reluctance to build additional generation for Evergy West's customers just as Aquila's management did. Instead of building and owning generation, it has simply relied on other utilities' generation, either through purchased power agreements or the SPP energy markets, to meet the energy needs of the customers. In addition to not building, Evergy West has retired generation units and not replaced them with any comparable units.

Q. Does Mr. Ives provide any support that it is now prudent to generate electricity in Mississippi for customers that are over 500 miles away in western Missouri?

A. No, he does not. He merely labels the cost of Evergy's imprudent decision to assign a power plant in Mississippi to Evergy West as a "penalty" and asks that this penalty amount, which he states is a burden for shareholders, to be placed instead on Evergy West's customers.

Q. Does Mr. VandeVelde provide any testimony to show that paying transmission costs for Crossroads is now prudent and that the costs should be passed on to Evergy West's customers?

A. No. His support for the inclusion of the transmission costs of Crossroads is to provide testimony that replacing Crossroads with new generation would be more costly than the cost of Crossroads plus the cost of transmission.

Q. Do you disagree with Mr. VandeVelde that new generation would be more costly than paying the transmission costs?

A. No. It does not take a resource planning model run to show that replacing a generating unit with 22 years of depreciation with new generation would be more costly than continuing to run this generation plant through its useful life.[13] Crossroads was built in 2002. Its depreciation rate is set on a life of approximately 50 years. Therefore, it is about 45% depreciated. This accounts for the big cost difference between Crossroads and new generation.

Including transmission costs in revenue requirement would be less costly than adding new capacity but that does not make the decision to assign a generation plant in Mississippi to a utility in Missouri prudent. Staying the course set out by past Commission decisions to not allow cost recovery of imprudent transmission costs is even less costly to Evergy West's customers.

Resource planning decisions are decisions that impact costs for decades. Imprudence is not subject to time. While it may be costly to Evergy, customers should not have to pay for Evergy's imprudent decisions regardless of the passage of time. Customers should not be required to pay for imprudent decisions for the entirety of the time that decision impacts customers.

[13] The present value of revenue requirement ("PVRR") of current modeling with Crossroads includes the cost of transmission. Assuming that the decisions are prudent, then the PVRR is the cost to the customers. However, due to the imprudence adjustment, PVRR is not representative of the cost to the customers.

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Q. How should the Commission respond to Every West's threat to not renew its transmission contract if transmission costs are not included in revenue requirement?

A. The Commission should not bow to this threat. Evergy West will be in for another general rate case before the transmission contract ends.[14] Evergy West has not shown that having to pay transmission costs for a plant so far away is now a prudent decision. Its testimony that transmission cost has significantly increased demonstrates the wisdom of past Commission decisions to not allow transmission costs to be recovered.

This Commission should remain consistent with the decisions of past Commissions and disallow the recovery of Crossroads transmission costs. It should remain silent regarding the renewal of the transmission contract for that is an Evergy West management decision. However, the Commission should warn Evergy West that any actions taken that result in a premature loss of electricity from Crossroads would be imprudent and will likely result in cost disallowances in the future. Any increase in cost due to acquiring generation to replace the capacity of Crossroads would be borne by shareholders as would any penalties assessed by SPP for insufficient capacity.

If the cost of transmission is too much for shareholders, then it is too much for customers. Customers should neither have to pay more than they currently pay, nor should they be forced to accept more energy market risk than they already do because of Evergy West's past imprudent resource planning decisions. The fact that alternatives now, fourteen years later, are more expensive does not change the imprudence of assigning a power plant in Mississippi, that could not be sold to any other buyer due to transmission constraints, to Evergy West.

[14] Section 386.266.5(3) RSMo. requires electric utilities with an FAC to file a general rate case with the effective date of new rates to be no later than four years after the effective date of the Commission order implementing the FAC.

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<u>SUPPORT FOR A CHANGE TO AN FAC 75/25 SHARING MECHANISM</u>

Q. What in the filed direct testimony of the parties supports the 75/25 sharing mechanism for Evergy West's FAC that you recommended the Commission approve in your direct testimony?

A. There are two reasons that the Commission should approve a 75/25 sharing mechanism that have become apparent with the filing of Staff's direct testimony.

1. The great disparity between the FAC base factors recommended by Evergy West and Staff; and
2. Evergy West's attempted manipulation of the use of its FAC to achieve a rate increase much larger than it seems to be asking for.

I will further explain each of these reasons in the rest of this testimony.

Q. Do you have a recommendation for the Commission regarding Evergy West's FAC?

A. Yes. I reaffirm the recommendation in my direct testimony for the Commission to change the sharing mechanism in Evergy West's FAC to 75/25.[15] In this testimony I add to that recommendation that the Commission approve the net FAC costs as proposed by Evergy West:

1. Without its proposed hedging costs, SPP administrative costs, and Crossroads transmission costs; and
2. With the miscellaneous charges and revenues in FERC account 447 as proposed by Staff witness Karen Lyons with Transmission Congestion Rights ("TCR") and Auction Revenue Rights ("ARR") as proposed by OPC witness Angela Schaben in her rebuttal testimony.[16]

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[15] Of the difference between the net FAC cost that Evergy West actually incurs and the amount included in base rates in this case, 75% would be recovered/returned to customers and 25% would be absorbed/retained by Evergy West.

[16] See the rebuttal testimony of OPC witness Angela Schaben.

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This cost should be divided by net system input consistent with the kWh usage used to normalized rate case billing determinants in this case. I will provide support for these recommendations in the rest of this testimony.

Q. Should these costs be used only in the calculation of Evergy West's net base FAC cost?

A. No. The amount in the revenue requirement for each of these costs and revenues should be consistent with what is in Evergy West's FAC. To do otherwise would result in customers paying these costs twice or Evergy West not recovering the full amount to which it is allowed under the law.[17]

Q. What is the FAC base factor?

A. The FAC base factor is the portion of the permanent rates set in the most recent general rate case that recovers the net FAC energy costs included in revenue requirement after consideration of all relevant factors. The FAC rate ("FAR") collects/returns the difference between the moneys billed in the base rates (net FAC costs)[18] and the actual costs Evergy West incurs over the accumulation period.[19]

In this case, both Evergy West and Staff have developed a base factor given their various positions on normalized FAC costs and normalized customer usage. Their base factors are simply the normalized base energy costs proposed by each party divided by the normalized net system load. This net system load is based on the customer energy requirement used to determine normalize revenues in the general rate case and calculate rates of the new revenue requirement.

[17] See my direct testimony, Schedule LMM-D-2, *Electric Utility Fuel Adjustment Clause in Missouri: History and Application Whitepaper*, pages 13 – 15.
[18] In the FAC tariff sheets, this is the net base energy costs or NBEC.
[19] In the FAC tariff sheets, this is the actual net energy costs or ANEC.

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Q. What are the base factors recommended by Evergy West and Staff and how do they compare to the currently effective Evergy West FAC base factor?

A. This information is shown in Table 1 below.

Table 1
Base Factor Comparison

	Base Factor	Difference from Current	% Difference
Current	0.02983		
Evergy West	0.02948	(0.00035)	(1.17%)
Staff	0.03467	0.00484	16.22%

According to its direct testimony, going forward, Evergy West estimates, based on a $/kWh basis, that its net FAC costs will be lower than they currently are going forward. Staff estimates these costs will be over 16% higher.

Q. Why are the base factors so different?

A. Attached as Confidential Schedule LMM-R-1 is a comparison of the energy costs and revenues that each of these two parties have included in their calculation of the net base energy cost.[20] An examination of these net costs shows that most of the difference between these two estimates is the purchased power costs and off-system sales revenues estimates. The difference between all other costs and revenues is less than $6 million. Table 2 shows a summary of Schedule LMM-R-1.

[20] Staff's net base FAC costs were not filed. This information was only provided in the Staff workpaper "Denney EMW FAC base factor FINAL."

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Table 2
Summary of Base Factor Calculations

	Evergy West	Staff	Difference
Fuel	**__________	__________**	(2,569,955)
Purchased Power	**__________	__________**	62,408,004
Other Purchased Power	**__________	__________**	(10,525,133)
Transmission	**__________	__________**	18,928,316
Off System Sales Revenue	**__________	__________**	(111,546,775)
Other Off-System Sales Revenue	**_______	_______ **	8,020
Net Fuel & Purchased Power Cost	**265,389,469**	**308,695,012**	**(43,305,543)**

While the differences between the normalized purchased power costs and off-system sales revenue positions is important and should be explained, what is more informative is the net of the two.

Q. What does purchased power cost consist of?

A. The majority of purchased power costs is incurred in two ways: (1) costs of generation from contracts with wind projects, and (2) costs SPP charges Evergy West for its load.

Q. What does off-system sales revenues consist of?

A. Off-system sales is the revenue received from SPP for Evergy West's generation that is provided to SPP and transmission congestion rights ("TCR") and auction revenue rights ("ARR") revenues.

Q. You previously stated that the most important way to look at purchased power and off system sales is the net of the two. What is the net of the purchased power and off system sales revenues for Evergy West and Staff?

A. The net positions of Evergy West and Staff are shown in Table 3 below.

Table 3

Net Purchased Power and Off System Sales Revenue

	Evergy West	Staff
Purchased Power	**__________	__________**
Off System Sales Revenue	**__________	__________**
Net Cost	**160,234,683**	**219,890,588**

Q. Would you explain the significance of these large net fuel and purchased power costs?

A. As I explain in my whitepaper, *Resource Planning of a Vertically Integrated Utility in the RTO World*, attached to my direct testimony as Schedule LMM-D-4, if a utility has generation to cost effectively meet its customers' load requirements, the revenue that SPP pays for its generation will be near the cost of its load charged by SPP. The balance between the costs and the revenues is an indication of the ability of the utility to meet its customers' load requirements cost effectively with its own generation. When revenue for generation is near or greater than the cost of the load, this is an indication that the utility can meet the loads of its customers regardless of whether or not it belongs to an RTO. Revenue for generation is less than the cost to meet the load requirements in the magnitude shown in Table 3 is a reflection of the utility's reliance on other utilities and the energy market and its lack of cost-effective generation to meet its customers' load requirement. The greater the difference, the greater the reliance on the electricity generated by others to meet load.

The large net normalized costs recommended by both Evergy West and Staff demonstrates that Evergy West is heavily reliant on energy from other utilities to meet its customer requirements and this is something that both Evergy West and Staff expect to continue into the future.

Q. What is the significance of the almost $60 million differences in the net positions?

A. This signifies the potential volatility of the energy market for almost all the difference is due to the net of purchased power costs and off-system sales revenue.

Q. Since Evergy West has an FAC, who bears the risk of this energy market volatility?

A. The 95/5 sharing mechanism of Evergy West's current FAC results in the customers bearing 95% of this risk. Evergy West bears 5% of the risk. If Evergy West's base factor was approved by the Commission and the net position of Staff actually occurs, customers would be billed an additional $57 million while Evergy West, the entity who has made the decision to rely on the market, absorbs less than $3 million – a risk that Evergy West is okay with assuming.

Q. What would the impact be if the Commission approved the Staff's base factor and market prices were such that the net position was that of Evergy West's in this case?

A. If that was to occur, then Evergy West would reduce customer bills by $57 million and get to keep almost $3 million of the savings resulting in recovery of more than its costs.

Q. What would be the impact if the sharing mechanism was changed to 75/25 as you recommend in your direct testimony?

A. If the Commission adopted Evergy West's base factor and the actual was at the level predicted by Staff, customers would be billed almost an additional $45 million and Evergy West would absorb about $15 million of the increased cost. This is a risk that Evergy West is less willing to accept.

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If the Commission adopted Staff's base factor and the actual cost incurred were reflective of Evergy West's position, Evergy West would return $45 million to customer and would get to keep $15 million of the savings.

Q. Which of these two base factors do you recommend the Commission approve?

A. I recommend the Commission approve Evergy West's base factor adjusted for OPC's positions:

1. No hedging costs/gains, SPP admin costs, or Crossroads transmission be included;
2. The miscellaneous charges and revenues in FERC account 447 as proposed by Staff witness Karen Lyons with Transmission Congestion Rights ("TCR") and Auction Revenue Rights ("ARR") as proposed by OPC witness Angela Schaben in her rebuttal testimony be included instead of the amounts proposed by Evergy West; and
3. The agreed to normalized net system input that result from the billing determinants used to set rates be used as the denominator of the base factor.

With these changes, I recommend the Commission approve a base factor of $0.02586/kWh along with a sharing mechanism of 75/25.

Q. Why not use Staff's higher base factor?

A. Using Staff's base factor would result in a larger rate increase for customers because much of the difference in the net FAC costs would be reflected in base rates. Evergy West filed this case with little mention of the impact of the change to FAC costs and with very little change to its net FAC cost seemly in an effort to keep its requested rate increase low. The news release included in its minimum filing requirements merely states that "[t]he request also includes a 0.57% increase

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to account for increased fuel costs" even though its requested FAC base factor decreases.[21] Staff's normalized net FAC costs are $43 million greater than Evergy West's normalized costs which is over 40% of Evergy West's stated request of $104 million.

Evergy West is using the FAC to manipulate the increase to customer permanent rates believing that it will recover almost all the fuel costs that it underestimated from its customers through its FAC. It appears to me that the current sharing mechanism of 95/5 that requires Evergy West to only absorb 5% of the costs above what is in rates is not enough of an incentive to prevent Evergy West from manipulating its revenue requirement increase request.

Q. Would you explain in greater detail?

A. By ignoring the increases in FAC costs in its requested revenue requirement increase, Evergy West's request for an increase is less than it would be if all costs, FAC and non-FAC costs, were reasonably normalized. However, because Evergy West has an FAC it can be assured that it will be able to bill its customers for those increased costs through its FAC. Evergy West is thus okay with absorbing 5% of the difference between actual costs and the FAC costs it is recommending because that will artificially lower its total revenue requirement increase in this case, thus making its request seem much more reasonable that it actually is while being assured that it will be able to bill 95% of the increases to the FAC costs.

[21] Evergy West's proposed base factor is less than the current base factor even though FAC costs increase because Evergy West's normalized kWh increased more than its net FAC costs.

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Q. What did you review to determine that Evergy West's normalized net FAC costs are low?

A. I compared Evergy West's normalized FAC costs to the actual FAC costs that Evergy West incurred in the twelve months ending November 2023[22] and May 2023.[23] To get an apples-to-apples comparison, I removed from Evergy West's proposed normalized net FAC costs the additional costs it is asking to be added in this case that is not in the current FAC[24] and added TCR revenues consistent with the manner that OPC and Staff has been told are currently included.[25] Table 4 shows this comparison.

Table 4
<u>Comparison of Evergy West Proposed to Actual</u>

	Evergy West FAC Costs		12 Months Ending Actual	
	Proposed	Proposed Adj	Nov-23	May-24
Fuel	**			**
Purchased Power	**			**
Transmission	**			**
OSSR	**			**
Total	**$ 265,389,469**	**$ 232,761,310**	**$ 265,316,039**	**$ 258,493,776**
Net PP & OSSR	160,234,683	149,308,825	181,570,409	175,844,833

[22] From Section 8 workpapers filed by Evergy West in FAR change case nos. ER-2023-0444 and ER-2024-0205.
[23] From Section 8 workpapers filed by Evergy West in FAR change case nos. ER-2024-0205 and ER-2024-0382.
[24] These costs consist of Crossroads transmission costs, hedging costs, and SPP administrative costs. These are costs that are not included in Evergy West's current FAC.
[25] Evergy West has told Staff and OPC that all TCR revenues are included in its FAR filings. Evergy West made an adjustment for congestion in its proposed normalized TCR revenues.

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This table shows that the adjusted costs[26] in Evergy West's proposed FAC are $33 million[27] and $26 million[28] less than the actual costs incurred in the twelve months ending November 2023 and May 2024 respectively. In effect, it is Evergy West's position that it expects current FAC costs to decline 11% below what it actually incurred in the 12 months ending May 2024. This seems unlikely in the current environment where costs are rising.

Q. What is the purpose of comparing the normalized net FAC costs with actual costs?

A. The comparison is a sanity check. Normalized costs varying widely from actual, does not mean the normalized costs are wrong. However, rational explanations should be provided for the differences. I found no Evergy West testimony explaining why it expects FAC costs to decrease.

Q. Would Evergy West still get recovery of its costs if its normalization is wrong and costs rise or even stay the same?

A. Yes. Because it has an FAC, Evergy West would get to bill its customers 95% of its wrong guess.

Q. Are there any other consequences to Evergy West guessing too low on FAC costs?

A. Yes. Because these costs are also in the revenue requirement, the total rate increase will be less.

[26] Adjusted to be consistent regarding costs currently included.
[27] Twelve month ending November 2023 actuals minus Evergy West rate case adjusted: $265,316,039 - $232,761,310 = $32,554,729.
[28] Twelve month ending May 2024 actuals minus Evergy West rate case adjusted: $258,493,776 - $232,761,310 = $25,732,466.

Q. Isn't that good for customers?

A. Not necessarily. It is hiding costs from the Commission and customers. When the higher FAC costs are reflected in the FAC rate, customers' bills are only slightly lower[29] than they would have been if Evergy West had a more realistic normalization estimate. Now, in this case, Evergy West can adopt the Staff's estimated net FAC cost and honestly state that it is Staff's position and that the Commission ordered that the rates should be higher than what it filed for thus blaming higher rates on the Commission.

However, Evergy West's low normalized fuel costs combined with a change to the sharing mechanism from 95/5 to 75/25 would be beneficial to customers. If Evergy West's estimates are accurate, then there will be no impact to it due to the change in the sharing mechanism. If they are too low, then the customers only have to pay 75% of Evergy West's error.

Q. Has Evergy West manipulated the use of its FAC in this way before?

A. Yes. In case no. ER-2010-0356, Evergy West, then known as KCP&L Greater Missouri Operations Company or GMO, filed to increase its base rates by over 15%.[30] In this case GMO was asking to include costs of Iatan 2 but did not rebase its FAC. The FAC was relatively new and with the addition of a large coal plant drawing most of the attention, Staff did not realize until late in the rate case process that GMO had not asked to rebase its FAC and GMO did not explain it to Staff even in technical discussions until late in the process. When Staff realized that it had misunderstood GMO's request for much of the case and that much of what it had agreed to would result in a mismatch between revenue requirement and costs

[29] Based on the current sharing mechanism approved by the Commission.
[30] This was the second general rate increase case after the Commission initially approved an FAC for Evergy West. The previous case, Evergy West had rebased its FAC in its initial filing. I was Manager of the Commission's Energy Department during this case.

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in the FAC, Staff and other parties to the case resolved as much as it could and settled the case.

Q. How does Staff's normalized FAC costs compare to Evergy West's twelve months ending November 2023 and May 2024 actual net FAC costs?

A. Staff's normalized costs, adjusted so included costs and revenues are consistent with the current FAC,[31] are $5.7 million and $12.5 million higher than the actual costs in the twelve-month actuals ending November 2023 and May 2024. However, the net purchased power and off system sales revenue is $12.7 million[32] and $18.5[33] million respectively. Table 5 below shows this comparison.

Table 5
Comparison of Staff's Proposed to Actual

	Staff FAC Costs		12 Months Ending Actuals	
	Proposed	Proposed Adj	Nov-23	May-24
Fuel	** ____	____	____	____ **
Purchased Power	** ____	____	____	____ **
Transmission	** ____	____	____	____ **
OSSR	** ____	____	____	____ **
Total	**$ 289,853,258**	**$ 271,011,504**	**$ 265,316,039**	**$ 258,493,776**
Net PP & OSSR	$ 207,103,508	$ 194,308,428	$ 181,570,409	$ 175,844,833

Q. Staff's net FAC costs seem to be closer to actual than Evergy West's proposed costs. Why again are you recommending the Commission adopt Evergy West's net fuel cost for calculation of the base factor instead of Staff's?

A. First, a comparison to actual is merely a sanity check. The actual cost is not a target. Staff's total normalized costs being closer to actual does not necessary mean that these costs are any more correct given the volatility of the energy market.

[31] Removal of hedging and capacity contract costs.

[32] Staff adjusted minus twelve months ending November 2023 actual: $265,316,039 – $271,011,504 = $12,738,019.

[33] Staff adjusted minus twelve months ending May 2024 actual: $258,493,776 - $258,493,776 = $18,463,595.

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Second, Evergy West's normalized cost would result in a lower overall increase in revenue requirement. If Evergy West's estimates are accurate, then customers would not have to wait to receive the benefits of lower FAC costs until FAC rates change. If Staff's estimates are correct and the incentive mechanism is 75/25, the customers only have to pay 75% of the difference.

Q. Are you proposing the Commission manipulate the FAC to reduce the revenue requirement increase knowing actual FAC cost will be recovered in the FAC as you have charged Evergy West is trying to do?

A. No. The energy market is volatile and Evergy West has chosen to rely on market energy to meet its customers' load requirements. Both Evergy West and Staff's normalized net FAC costs demonstrate that both these parties expect Evergy West's reliance on the energy market to continue and they demonstrate that there is volatility in the market. Evergy West chose to rely on the energy market and it should take on some of the risk of the reliance on the market. By setting the normalized FAC costs at the level proposed by Evergy West and changing the sharing mechanism to 75/25, the Commission will be transferring a portion of the risk that otherwise would almost completely be borne by ratepayers to Evergy West.

Q. Does this conclude your rebuttal testimony?

A. Yes.

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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	))))	<u>Case No. ER-2024-0189</u>

<u>AFFIDAVIT OF LENA M. MANTLE</u>

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Lena M. Mantle, of lawful age and being first duly sworn, deposes and states:

1. My name is Lena M Mantle. I am a Senior Analyst for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

Lena M Mantle

Lena M. Mantle
Senior Analyst

Subscribed and sworn to me this 5th day of August 2024.

TIFFANY HILDEBRAND
NOTARY PUBLIC - NOTARY SEAL
STATE OF MISSOURI
MY COMMISSION EXPIRES AUGUST 8, 2027
COLE COUNTY
COMMISSION #15637121

Tiffany Hildebrand

Tiffany Hildebrand
Notary Public

My Commission expires August 8, 2027.