

Exhibit No. 305

Exhibit No.: _____
Issue(s): FAC Base Factor
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Sponsoring Party: Public Counsel
Case No.: ER-2022-0129 and ER-2022-0130

TRUE-UP REBUTTAL TESTIMONY

OF

LENA M. MANTLE

Submitted on Behalf of the Office of the Public Counsel

**EVERGY METRO, INC. D/B/A
EVERGY MISSOURI METRO
AND
EVERGY MISSOURI WEST, INC. D/B/A
EVERGY MISSOURI WEST**

CASE NOS. ER-2022-0129 AND ER-2022-0130

August 25, 2022

TRUE-UP DIRECT TESTIMONY

OF

LENA M. MANTLE

**EVERGY METRO, INC.
CASE NO. ER-2022-0129**

and

**EVERGY MISSOURI WEST, INC.
CASE NO. ER-2022-0130**

1 **Q. Please state your name.**

2 A. Lena M. Mantle.

3 **Q. Are you the same Lena M. Mantle who previously testified in direct, rebuttal,**
4 **surrebuttal, and true-up direct in this case for the Office of Public Counsel?**

5 A. I am.

6 **Q. What is the purpose of your true-up rebuttal testimony?**

7 A. In this testimony I provide the Commission with a comparison of the fuel adjustment clause
8 (“FAC”) base factors as proposed by Staff and Evergy, Inc. (“Evergy”) to the actual fuel
9 and purchased power costs of Evergy Metro, Inc. (“Evergy Metro”) and Evergy Missouri
10 West, Inc. (“Evergy West”). I explain why it is important that Evergy West’s base factor not
11 be set too low in this case. Finally, I recommend the Commission set, for Evergy West, the
12 base factor at \$0.03320 per kilowatt-hour (“kWh”) calculated using the actual fuel costs
13 incurred and the actual net system input¹ (“NSI”) for the twelve months ending with the
14 true-up date of May 31, 2022. I recommend the Commission set the base factor for Evergy
15 Metro at \$0.01829 per kWh.

16 **Q. What is the base factor and what does it represent?**

17 A. The base factor is a dollars per kWh amount that represents the level of FAC costs that are
18 included in permanent rates.² It is made up of two components: 1) NSI at generation level,

¹ Net system input is the total usage of customers and the losses incurred to generate that amount of usage.

² These rates only change as a result of a general rate case.

1 and 2) FAC net costs. The largest components of the FAC net costs are fuel and purchased
2 power costs, and off-system sales revenues.

3 **Q. Would you show a comparison of the base factors of Staff and Evergy to base factors**
4 **calculated using actual costs and net system input?**

5 A. I will start with Evergy Metro. Table 1 shows Staff and Evergy's recommended base factors
6 along with the current base factor in effect at this time³ and a base factor calculated using
7 actual FAC net costs and NSI for the last two accumulation periods ("AP").⁴

8 Table 1
9 Evergy Metro Base Factor ("BF") Comparison

	Base Factor \$/kWh	Net System Input kWh	FAC Net Costs \$
Evergy	0.01824	15,418,064,484	281,225,496
Staff	0.01829	15,300,113,486	279,834,767
Current BF	0.01675	15,418,064,484	258,252,580
Last 2 AP	0.01665	15,783,637,000	262,728,966

10 **Q. What is important for the Commission to understand from this table?**

11 A. The FAC net costs calculated by Staff and Evergy are close to being the same as are their
12 recommended base factors. While the proposed base factors are above the base factor that
13 results from using Evergy Metro's actual costs and NSI of the last two accumulation periods,
14 this is not concerning to me because through the update period and currently, fuel and market
15 costs continue to rise.

16 **Q. Which of the base factors do you recommend the Commission order?**

17 A. I recommend the Commission order the Staff's base factor of \$0.01829/kWh.

³ Set in Evergy Metro's last rate case, Case No. ER-2018-0145. FAC net costs are calculated as the current base factor multiplied by Evergy's true-up NSI (\$0.01675/kWh x 15,418,064,484 kWh).

⁴ The 12 months ending June 30, 2022.

1 **Q. Why?**

2 A. Staff’s estimated purchased power costs do not include the net costs of the Central Nebraska
3 Public Power and Irrigation District (“CNPPID”) hydro purchased power agreement (“PPA”)
4 that Evergy Metro entered into to meet the Kansas renewable energy standards. This PPA
5 provides no benefit to Evergy Metro’s Missouri customers. My rebuttal and surrebuttal
6 testimonies⁵ provide more information on why costs from this PPA should not be included in
7 Evergy Metro’s Missouri customers’ rates.

8 In addition, Staff’s fuel and purchased power estimates appropriately deal with Evergy
9 Metro’s Ponderosa wind PPA. My rebuttal and surrebuttal testimonies⁶ provide more
10 information on why costs from this PPA should not be included in Evergy Metro’s Missouri
11 customers’ rates.

12 **Q. Do you have a similar comparison for Evergy West?**

13 A. Yes. Table 2 is a comparison of Staff and Evergy’s recommended base factors for Evergy
14 West along with the current base factor and a base factor calculated using actual FAC net costs
15 and NSI for the last two accumulation periods.⁷

16 Table 2

17 Evergy West Base Factor (“BF”) Comparison

	Base Factor \$/kWh	Net System Input kWh	FAC Net Costs \$
Evergy	0.02550	8,869,052,000	226,160,826
Staff	0.03017	8,593,186,157	259,252,892
Current BF	0.02240	8,869,052,000	198,666,765
Last 2 AP	0.03320	8,945,729,246	296,965,881

⁵ Mantle Rebuttal, page 25, line 12 – page 26, line 12; Mantle Surrebuttal page 6, line 5 – page 8, line 18.

⁶ Mantle Rebuttal, page 24, line 12 – page 25, line 11; Mantle Surrebuttal page 8, line 19 – page 9, line 2.

⁷ Twelve months ending May 31, 2022.

1 **Q. What is important for the Commission to understand from this table?**

2 A. The FAC net costs have increased nearly \$100 million above the estimated FAC net costs
3 in the last case. This is shown in the table above in comparing the FAC Net costs of the
4 “Last 2 AP” (\$297 million) to the “Current BF” FAC Net costs (\$199 million).⁸ The FAC
5 net costs for the 12 months ending May 31, 2022 are 33% higher than they were in the last
6 case.

7 **Q. Is this large increase reflected in Staff and Evergy’s FAC base factors?**

8 A. No. Evergy’s normalized FAC net costs, while \$27.5 million higher than the current base
9 FAC Net Cost, are still 24% or \$71 million below the actual incurred for the 12 months that
10 ends on May 31, 2022.⁹ Staff’s estimate is a bit closer but is still 13% or \$38 million below
11 what actually occurred through true-up.

12 **Q. Why are these numbers so different from the true up actual?**

13 A. Fuel and market prices continued their rise during the true-up period which ended
14 May 31, 2022. Staff, for its estimate of true-up fuel and purchased power costs, did not
15 change its fuel prices or its market prices that it used for its direct,¹⁰ *i.e.* the relevant fuel
16 and market prices for December 31, 2021, remained and were not updated through
17 May 31, 2022.

18 **Q. Why is Evergy’s estimate of FAC net costs so different from the actual FAC net costs
19 for the true up period of 12 months ending May 31, 2022?**

20 A. Evergy’s witness Tucker stated that Evergy did not true-up fuel prices because of the
21 continued escalation of the natural gas market through the true-up period. It is her true-up
22 direct testimony that “utilizing actual pricing from the true-up period would capture elevated

⁸ Calculated using the current base factor multiplied by Evergy’s net system input, *i.e.* \$0.02240/kWh x 8,869,052,000 kWh.

⁹ True up in this case is through May 31, 2022.

¹⁰ Shawn E. Lange, Surrebuttal/True-Up Direct, page 6, lines 14 – 16; Charles T. Poston, Surrebuttal/True-Up Direct, page 5, lines 16 – 20.

1 market pricing that may not be reflective of pricing over the next three years.”¹¹ Therefore,
2 instead of including actual natural gas prices in its true-up estimates of fuel and purchased
3 power costs, Evergy used forecasted 2023 – 2025 natural gas prices.

4 **Q. Do you disagree with Ms. Tucker regarding natural gas prices?**

5 A. I agree that utilizing actual natural gas pricing through the true-up period is unlikely to be
6 reflective of pricing over the next three years. However, I am not as certain as Ms. Tucker
7 that the natural gas prices will decline from Evergy’s almost \$8.00 weighted average price
8 of gas it purchased in May 2022 to the \$3.50 that Evergy Used in its fuel modeling. Gas
9 prices have increased even more since May 31, 2022 and stayed high during the summer,
10 the time when natural gas prices are typically low. The date this testimony is being filed,
11 August 25, 2022, the spot market price for gas is \$9.30/mmBtu.¹²

12 **Q. Did Evergy update its market prices for its true up estimates of fuel and purchased**
13 **power for Evergy West and Evergy Metro?**

14 A. Ms. Tucker did not provide that information in her true-up direct. Based on the results of
15 her fuel cost estimates, I presume that Evergy did not update the market prices in its true up
16 fuel and purchased power estimates.

17 **Q. Did Staff or Evergy use a different approach for Evergy Metro than it did in estimating**
18 **Evergy West’s fuel and purchased power costs?**

19 A. No.

20 **Q. Then why is Evergy and Staff’s estimated FAC net costs so far below the actual**
21 **incurred for the 12 months ending May 31, 2022 for Evergy West while Every Metro’s**
22 **is relatively close?**

23 A. Evergy Metro has generation that it sells into the market to provide revenue to offset load
24 market costs. According to Staff’s true-up fuel run, Evergy Metro sold 21.6 million

¹¹ Tucker Surrebuttal/True-Up Direct, page 8, lines 13 – 16.

¹² <https://www.cmegroup.com/market-data/delayed-quotes/energy.html>

1 megawatt hours (“MWh”) of energy while its load was 15.3 MWh, *i.e.* it sold into the market
2 6.3 MWh more than it purchased for its customers. Evergy West does not have much
3 generation to sell into the market. Staff’s fuel model shows that it sold 4.5 million MWh
4 and paid for 8.3 million MWh to meet its customers’ load requirement; *i.e.* it bought 4.1
5 million more MWh than it sold.

6 Evergy’s decision for Evergy West to rely on the market instead of generation results
7 in Evergy West’s fuel and purchased power costs being at the mercy of the market at a much
8 greater extent than Evergy Metro.

9 **Q. With the actual FAC costs passing through the FAC, why does it matter if the base**
10 **factor is set on costs that are much lower than actual?**

11 A. Prior to the passing of Plant In-Service Accounting (“PISA”) statute,¹³ I would have been
12 okay with the fuel costs used to set the base factor being much lower than what I thought
13 they should be. I am not an attorney, but it is my understanding that when Evergy West
14 elected PISA, its rates became constrained to no more than a three percent compound annual
15 growth rate (“CAGR”). If average rates go over the 3% CAGR cap in a rate case, then the
16 revenue requirement is capped at that 3% CAGR and Evergy West does not get to recover
17 the revenue requirement above that amount.¹⁴ Statute refers to this as a “performance
18 penalty.” However, if the average rate increases above the 3% CAGR because of an
19 adjustment to the FAC rate, Evergy West gets to not only defer the amount that causes the
20 rates to go above the 3% CAGR but also gets to earn interest at the weighted average cost
21 of capital (“WACC”).¹⁵

22 In summary, if Evergy West can keep the rate increase in this case below the PISA
23 cap and instead pass the increase through the FAC rate, then it eventually gets to impose a
24 higher rate increase on its customer by earning a return on any portion of fuel expense¹⁶ that

¹³ Section 393.1400 RSMo.

¹⁴ Section 393.1655.3 RSMo.

¹⁵ Section 393.1655.5 RSMo.

¹⁶ The FAC consist of expenses. Expenses in a rate case are recoverable but do not earn a return.

1 is deferred. If the revenue requirement in this case includes a realistic but higher fuel cost,
2 then Evergy is at risk of hitting the PISA cap. In addition with a higher FAC base, it is less
3 likely to be able to defer any costs and will not earn a return on any of the fuel expenses.
4 PISA provides utilities an incentive to underestimate the FAC costs included in revenue
5 requirement in a rate case; an incentive that is greater than the 5% loss that it will assume
6 through the FAC for underestimating the FAC costs.

7 **Q. Is Evergy West near the 3% CAGR cap?**

8 A. Yes. Evergy West filed for a change to its FAC rate in Case No. ER-2023-0011 that would
9 result, if all the cost were included in the FAC, in an actual CAGR of 9.1385%. The CAGR
10 on December 6, 2022¹⁷ will be 12.5509%. This would mean that any revenue increase
11 above \$27,467,501 would be a penalty that Evergy West could not recover from its
12 customers. The calculation of these values is shown in Schedule LMM-TR-1.

13 **Q. Would you walk through the scenario of what costs would be facing Evergy West's**
14 **customers if the FAC base factor is set artificially low?**

15 A. If the FAC is artificially low, the permanent rates¹⁸ that are set to go into effect on
16 December 6, 2022, are lower than if the correct amount is included. The next FAC rate
17 change is scheduled for less three months later on March 1, 2022. However, it is likely that
18 the next FAC rate change will result in Evergy West exceeding its PISA 3% CAGR cap.¹⁹
19 Customers will only pay the portion of the FAC costs up to the 3% CAGR and the rest will
20 be deferred, with WACC interest, for recovery from the customers in the next rate case
21 increasing the rate change in the next case. So while the customers would get a reprieve
22 from paying the FAC costs in March 2023, they will be charged that amount plus WACC
23 for those FAC amounts in the future.

¹⁷ Operation of Law date for this case.

¹⁸ These rates only change in general rate cases. They will include the net FAC costs ordered by the Commission. Future FAC rate changes will be based off of the difference between actual FAC costs and the FAC costs included in permanent rates.

¹⁹ The current base factor will be in effect until December 6, 2022 so even if the base factor is increased in this case, the large difference between base costs and actual cost is likely to continue until December 6, 2022.

1 **Q. In the alternative, what is the impact of including higher FAC Net Cost in the revenue**
2 **requirement in this case?**

3 A. It is likely that Evergy West's revenue requirement will be greater than \$27.5 million
4 meaning that Evergy West would have to accept a performance penalty and not recover any
5 revenue requirement over \$27.5 million. The FAC rate change Evergy files for
6 March 1, 2023 should be low, not hitting the 3% CAGR cap and triggering the deferment
7 of costs.

8 **Q. What is your recommendations regarding Evergy West's base factor?**

9 A. Since neither Staff nor Evergy updated fuel and market prices that reflect the rise in these
10 costs during the true-up period, the Commission should use the NSI and actual FAC net
11 costs for the twelve month time period ending May 31, 2022 as shown in the table above.

12 If the Commission cannot agree with this base factor, it should order, for Evergy
13 West, the Staff's FAC base factor shown Table 2 above.

14 **Q. Is this a punitive attempt to punish Evergy West?**

15 A. No. Evergy West elected PISA. With PISA, Evergy is still recovering much more than it
16 would under traditional ratemaking and customers are paying more. Evergy West also
17 asked for continuation of the FAC. The established process for determining the FAC base
18 factor should not be manipulated to avoid the customer protection provided in PISA.
19 Evergy's shareholders are benefiting greatly from PISA, and they will continue to benefit
20 from PISA even if their average rates hit the PISA cap.

21 **Q. Does this conclude your true-up rebuttal testimony?**

22 A. Yes, it does.

