MEMORANDUM

To: Missouri Public Service Commission Official Case File,
Case Nos. EO-2024-0153 (Evergy Metro) & EO-2024-0154 (Evergy West)

From: Geoff Marke, Chief Economist
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Re: Response #3 to Triennial Integrated Resource Plan and a Request that the Commission Not Find Evergy's Preferred Resource Plans Reasonable

Date: 11/4/2024

The Commission should not find the preferred resource plans of Evergy Missouri West, Inc. ("Evergy West") and Evergy Metro, Inc. ("Evergy Metro") reasonable due to the resource plans reliance on the volatile energy market to meet their customers' energy needs, inadequate modeling of the impact of the anticipated addition of large customers to their systems, and the capital limits set by Evergy management that restricts resource acquisitions.

Commission rule 20 CSR 4240-22.010(2) states that the objective of the resource planning process is to provide the public with energy services that are safe, reliable, and efficient, at just and reasonable rates, in compliance with all legal mandates, and in a manner that serves the public interest and is consistent with state energy and environmental policies.

The preferred resource plans of Evergy West and Evergy Metro as provided in these cases fails to do that. The Companies' preferred plans are unreasonable, imprudent, and will not provide safe, reliable, and efficient services, at just and reasonable rates due to the following continued unresolved OPC deficiencies.

Overview of OPC's Unresolved Deficiencies

OPC Deficiency #1: The Preferred Plans are Unreasonable:

Both the preferred plans of Evergy West and Evergy Metro have been selected to meet the Southwest Power Pool's ("SPP") (current) capacity requirements but neither plan is designed to meet its captive customers' energy needs with its own generation resources. Instead, management has elected to rely on an increasingly volatile SPP energy market to meet a significant portion of its customers energy needs thus placing the risk of volatile and extreme purchased power costs on its customers.

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OPC Deficiency #3: No Modeling of Data Center Load Growth:

The impacts of high load (megawatt or MW) and high load-factor[1] data center customers on Evergy West and Evergy Metro's capacity and energy requirements are neither modeled, nor analyzed. Furthermore, we have not received sufficient verification that Evergy Metro/West will model large data center load-growth scenarios (greater than 30 MW) moving forward.[2]

OPC Deficiency #5: Capital Budget Spending Constraints:

Resource additions are limited by capital budget spending constraints set by Evergy Metro and Evergy West's parent company Evergy, Inc.[3] ("Evergy"). As a result, captive customers continue to be exposed to additional risk exposure through the planning period.

Details Regarding Deficiency One

Modeling to Meet Capacity Requirements Not Customers Energy Needs:

Energy shortfalls have already cost Evergy West's captive customers over a billion dollars in fuel and purchased power related expenses in the past five years. Projected load growth and increased market volatility will expose captive customers of both the Companies to even greater purchased power costs moving forward absent Commission action. OPC has raised its concerns regarding Evergy West's shortfalls and overreliance on the SPP market in at least the following cases seen in Table 1:

Table 1: Case history in which OPC raised concerns regarding Evergy West's energy shortfalls

Case No.	**Filing Type**
EO-2017-0230	2017 Annual Resource Plan Update
EO-2017-0232	FAC Prudence Review
EO-2018-0045	Contemporary Resource Planning Topics
ER-2018-0146	General Rate Case
ER-2018-0180	FAC Rate Change Case
EO-2018-0269	Evergy West Triennial Integrated Resource Plan ("IRP")
EC-2019-0200	Sibley Complaint Case
ER-2021-0312	General Rate Case
ER-2022-0130	FAC Rate Change Case
EF-2023-0155	Securitization of Storm Uri Costs
EO-2023-0213	2023 IRP Update
EO-2023-0277	FAC Prudence Review
ER-2024-0189	General Rate Case
EO-2024-0154	Evergy West Triennial IRP

[1] Load Factor is the average hourly usage divided by peak demand. A high load factor means that the energy usage of the customer is fairly constant and near the peak demand of the customer.

[2] We do not believe this issue is resolved as a result of the Commission's order in separate dockets (Case Nos. EO-2025-0076 and EO-2025-0078) that requires electric utilities to "Model large load growth scenarios stemming from: 1) data centers with a demand of 30 megawatts or greater" as the expected load growth from "announced" data centers far exceed the 30 MW threshold contemplated in the Commission's order.

[3] This includes capital expenditures for Evergy's regulated Kansas electric utility Evergy Kansas Central.

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For the first time in this Evergy Metro resource plan filing, Evergy is revealing that it expects the energy required by Evergy Metro's customers to soon be greater than its ability to cost-effectively generate energy. Evergy's response to meeting Evergy Metro's forecasted future is the same as the decision that it has made for Evergy West in the past – build to meet capacity and rely on the SPP market for the energy its customers need, *i.e.* begin moving the risk of energy price volatility to Evergy Metro's customers just as it has done for Evergy West.

Above and beyond the filings listed in Table 1, the OPC has advocated for at least three separate but related actions to mitigate future market exposure. Those actions include:

1.) Modifying Evergy West's FAC incentive mechanism to allow for a 75% customer/25% shareholder sharing of risk exposure;
2.) The consolidation of Evergy West and Evergy Metro into one utility; and
3.) The creation of public service announcements articulating the value proposition and easily understood explanation for "why" Time-of-Use rates are being offered.

The latter two actions are agreed-to terms to the nonunanimous stipulation and agreement from Evergy West's most recently filed rate case (Case No. ER-2024-0189) and the former recommended action (75/25 sharing mechanism) is currently pending before the Missouri Public Service Commission. However, even if all three actions are adopted and exercised, Evergy Metro and West will not be able to meet all of its customers energy needs in the short-term and have to rely on the SPP market to meet energy shortfalls. Adding resources with the goal of meeting the energy needs of its customers in the future is the only remedy. Neither Evergy Metro's nor Evergy West's preferred plan attempts to accomplish this.

In previous Evergy West/Evergy Metro IRP filings, the OPC has highlighted IRP modeling deficiencies related to energy shortfalls and then pursued managerial imprudence arguments in fuel adjustment clause ("FAC") and rate case proceedings. <u>This approach has resulted in neither cost disallowances nor has it changed Evergy's management decision to continue to expose its captive customers to energy shortfalls and volatile energy market prices</u>.

On July 18, 2024, during the Missouri PSC's Agenda case discussion of Case No. EO-2023-0277, Chairman Hahn stated the following:

> Thank you, Judge. For me, reviewing your memo, there's really two questions presented: [1] is there a serious doubt as to the prudence of the FAC expenditure, because it is our responsibility to determine how reasonable people would have performed the task that confronted the company at the time. And then 2, was Evergy Missouri West's decision not to acquire sufficient generation to protect its customers from the risks of the market and instead rely on the market to meet the load imprudent.
>
> Thinking about the larger picture in this case and others that have similarly come before us it is not only one of our large electrical IOU's in a capacity shortfall, it's at least two of them. As I've said before, I think this is concerning. I do think that

> OPC did elevate the discussion of meeting the criteria as to creating a serious doubt as to imprudence in this case.
>
> As highlighted by OPC's exhibit 304, Evergy Missouri West hasn't been able to meet their load since 2008. As further highlighted by OPC, depending on the market does create risk for customers. That being said, customers also have to bear the cost if the company builds additional generation.
>
> **At the time, Evergy Missouri West relied on its uncontested IRP, showing that its least cost estimate would not be to build additional generation.** That was likely a reasonable assumption at the time, so I don't think at this time it warrants a disallowance. But times are changing, and rapidly, and for me this highlights a few issues and proposed solutions moving forward. **Again, in this case I think this highlights a need to focus on uncontested IRP's to make decisions**. It also highlights that we need to meet our capacity needs for both current and anticipated load.
>
> I would encourage our utilities to meet the challenge and build additional generation, preferably in Missouri where our ratepayers can recognize and receive the benefits of that generation, because borders matter. I don't want to lose jobs, tax revenue, or football teams to Kansas. There should be serious consideration also of merging Evergy Missouri West and Metro. I'm unsure of all the factors involved in that merger, but it may help alleviate or diminish the potential shortfalls for Evergy Missouri West. So, generally, I would not be in favor of a disallowance at this point in time.

As a result of Chair Hahn's comments (and the historical inaction in previous dockets) OPC is contesting Evergy West and Evergy Metro's triennial IRP filings.

How bad is it?

Despite over a billion dollars in excess fuel related expense losses to captive ratepayers in the past five years, Evergy management's plans to continue to over-rely on the SPP market to provide its energy shortfalls for the next twenty-year planning period. This deficiency was articulated at length in the OPC's second memorandum filed in this case and can be seen in an illustrative form in Figures 1 and 2 below.

Figure 1: Evergy West Preferred Plan[4]

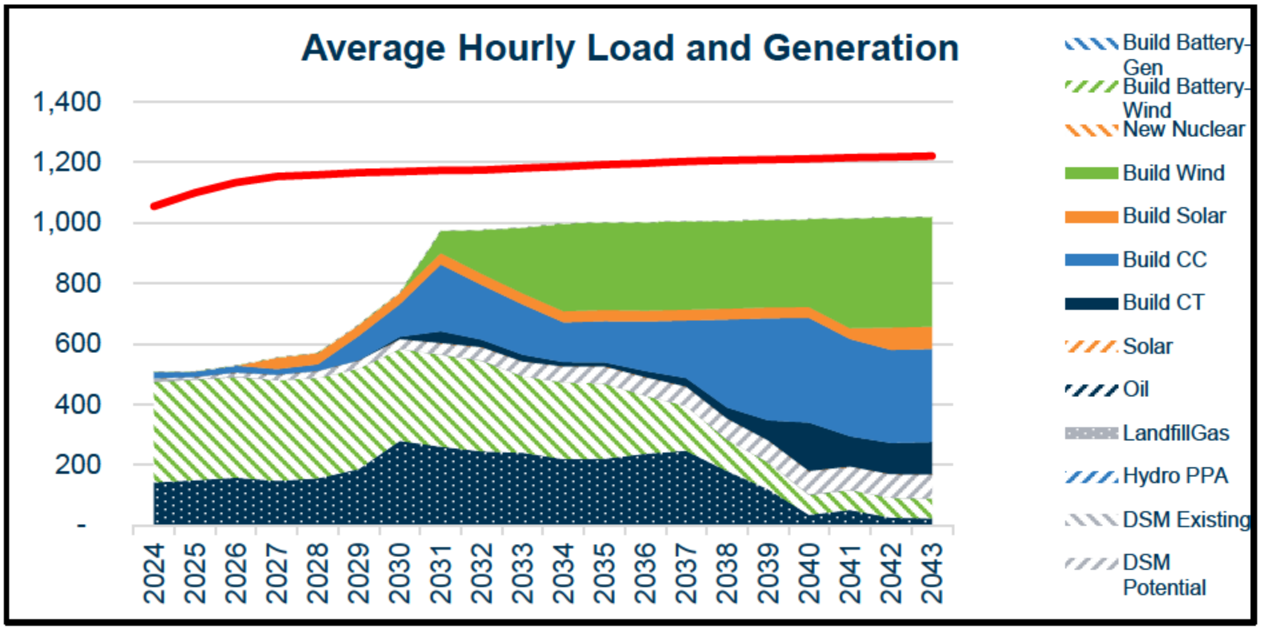
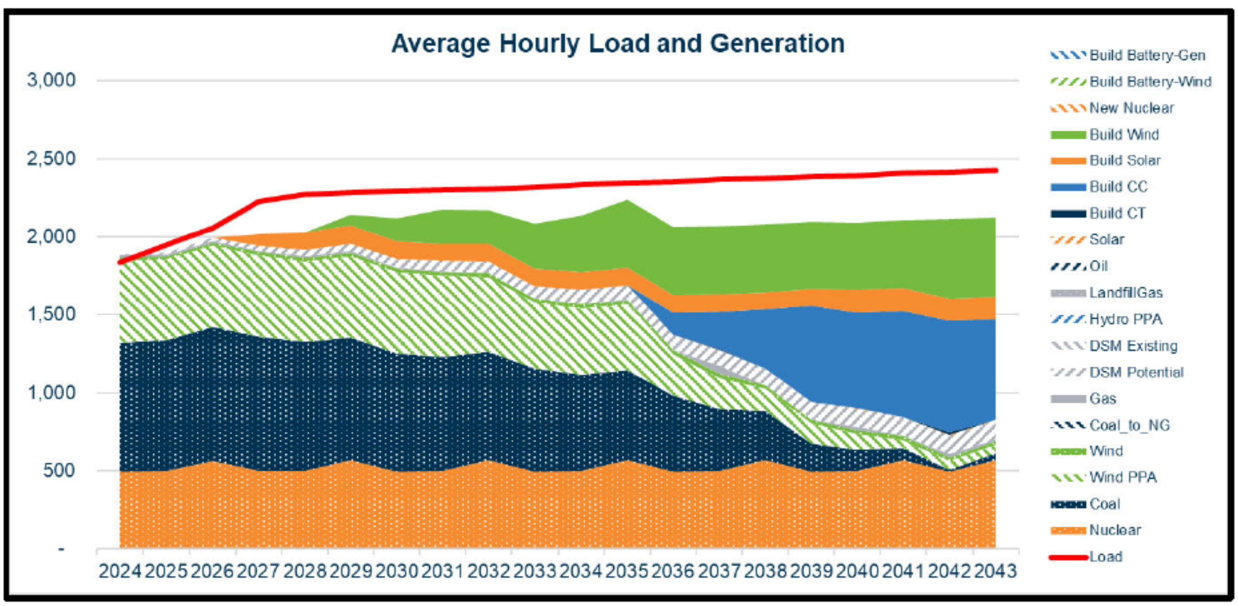


Figure 2: Evergy Metro's Preferred Plan[5]



OPC offers up the following remedy:

Alter the Companies' modeling methodology to target meeting their customers' complete energy needs as opposed to simply meeting RTO imposed capacity requirements.

[4] Evergy West work paper "MOW CAAA Plan," tab "GenLoadbalance."
[5] Evergy Metro work paper "MET CAAB Plan," tab "GenLoadbalance."

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Details Regarding Deficiency Three

Unreasonable Treatment of Data Center Load Growth

Neither Evergy West nor Evergy Metro formally included an analysis of the potential impact of even one data center on its forecasted energy or peak demand. Instead Evergy included a **______ ______________ ** in its integration analysis despite knowing that the data center potential was over **________ ** for Evergy Metro.

Figures 1 and 2 above assume only the firmly committed economic development load currently in place with the known data center loads. It does not assume an increase from those existing data center customers, nor does it attempt to model for any additional data center load growth.

Moreover, Figures 1 and 2 assume that energy demand can be met in part from large differential time-of-use rates and a robust MEEIA portfolio. Evergy has agreed to update its demand-side management assumptions to accurately reflect reality; however, OPC continues to have concerns that Evergy will underreport future data center load growth assumptions moving forward. Recent Commission rulings on OPC's Special Contemporary Topics orders the Companies to:

> Model large load growth scenarios stemming from: 1) data centers with a demand of 30 megawatts or greater; 2) potential re-shoring of industries, specifically manufacturing or materials refinement; and 3) electrification of buildings and vehicles as a result of federal mandates changes in the marketplace, or evolving consumer preference.[6]

The concern here centers on whether or not Evergy will model for any amount greater than 30 MW and/or elect to not model it at all under the guise that such an analysis is cost prohibitive.

To be clear, Evergy West is short on energy today and Evergy Metro's resource plan shows that it will be short beginning in 2025. Management **plans** for both utilities to be short for at least the next twenty years of its planning cycle. Any large load customers coming online will necessarily heighten the risk exposure to all customers and necessarily show the Company has been planning in an imprudent manner.

OPC offers up the following remedy:

Develop a resource plan that includes an analysis of varying levels of new data center loads in the load forecasting section of its IRP. Specifically, model the addition of data centers with a demand of 30 MW, 60 MW, 90 MW, 250 MW, 500 MW, 1 GW, and 2 GW each with a load factor of 85%. The analysis should also include explanations of whether or not the Companies can reasonably accommodate a customer that requires the aforementioned loads and, if not, how long such an activity would reasonably take given the known constraints, including SPP generation interconnection approval, transmission and distribution build-out, and assumed generation resource procurement. Additionally, Evergy West and Evergy Metro should model what, if any,

[6] Case Nos. EO-2025-0076 and EO-2025-0078 Order Establishing Special Contemporary Resource Planning Issues p.4.

impact data centers will have on ratepayers if the AI load materializes in neighboring utilities within SPP instead of within Evergy. Specifically, the level of exposure Evergy West and Metro ratepayers may experience from a more resource constrained SPP world.

Details Regarding Deficiency Five

Capital Budget Spending Constraints

No matter what the customers' needs are in a given year of the planning horizon, the amount of resource additions was limited by Evergy "to respect expected capital budget spending considerations." Evergy's highest priority is balance sheet stability and financial metrics, not long-term price and risk reduction for its customers.

Evergy has publicly announced plans for two large, combined cycle gas plants in Kansas that will cost more than $2 billion and provide 1,400 MW of dispatchable power. As stated in Kansas Governor Laura Kelly's October 21, 2024, press release:

> "Kansas is experiencing record economic growth, and Evergy is prepared to deliver the reliable, affordable, and sustainable energy needed." Governor Laura Kelly said**.** "Evergy's multi-billion-dollar investment brings direct value to the Hutchinson and Sumner County areas in jobs and tax dollars. It also ensures Kansas can continue to invite business growth that benefits the entire state."[7]

Based on Evergy's preferred plan modeling as filed before the Kansas Corporation Commission in docket number 24-EKCE-387-CPL, Evergy Kansas Central's customers will **not** be exposed to energy shortfalls in the future due to planned retirements and increased load. Yet, Evergy has decided that customers of both Evergy West and Evergy Metro should be exposed to these energy shortfalls.

Capital budget expenditures should be based on customers' needs and the SPP resource adequacy requirements at least cost. OPC and Staff have worked with Evergy Metro (then Kansas City Power and Light Company) and the Empire District Electric Company in the past to develop regulatory plans that limited the impact of large expenditures on the financial metrics of the companies. However, with the advent of the SPP energy market, Evergy's ability to depend on that market, and recover market costs from its customers through the fuel adjustment clause allows Evergy's financial metrics to be highest priority. Meeting customers' needs through owned resources to reduce the risks of reducing reliance on the market is not a managerial priority, even though Storm Uri and Storm Elliot demonstrated the high cost of this risk on customers.

[7] Office of the Governor: Kansas (2024) Governor Kelly Announces Evergy to Invest More than $2B in Two New High-efficiency Natural Gas Plants. https://governor.kansas.gov/governor-kelly-announces-evergy-to-invest-more-than-2b-in-two-new-high-efficiency-natural-gas-plants/

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OPC offers up the following remedy:

Develop a resource plan that allows enough generation resources to be built to meet customers' energy needs for Evergy West and Evergy Metro with minimal dependence on the SPP energy markets. Provide a comparison of the capital budget for these plans and the preferred plans filed. In addition, develop and compare annual balance sheets and financial metrics of the plan that will meet the energy needs with Evergy West and Evergy Metro preferred plans in these dockets.

Requested Commission Actions

The Commission's electric utility resource planning rules contemplate a scenario where parties have not reached consensus on a utility's resource plan filing.

20 CSR 4240-22.080(10) states:

> If full agreement on remedying deficiencies or concerns is not reached, then, within sixty (60) days from the date on which the staff, public counsel, or any intervenor submitted a report or comments relating to the electric utility's triennial compliance filing, the electric utility may file a response and the staff, public counsel, and any intervenor may file comments in response to each other. The commission will issue an order which indicates on what items, if any, a hearing will be held and which establishes a procedural schedule.

Furthermore, 20 CSR 4240-22.080(17) states:

> If the commission finds that the filing achieves substantial compliance with the requirements outlined in section (16), **the commission may acknowledge the utility's preferred resource plan or resource acquisition strategy as reasonable at a specific date. The commission may acknowledge the preferred resource plan or resource acquisition strategy in whole, in part, with exceptions, or not at all. Acknowledgment shall not be construed to mean or constitute a finding as to the prudence, pre-approval, or prior commission authorization of any specific project or group of projects**. In proceedings where the reasonableness of resource acquisitions are considered, consistency with an acknowledged preferred resource plan or resource acquisition strategy may be used as supporting evidence but shall not be considered any more or less relevant than any other piece of evidence in the case. Consistency with an acknowledged preferred resource plan or resource acquisition strategy does not create a rebuttable presumption of prudence and shall not be considered to be dispositive of the issue. Furthermore, in such proceedings, the utility bears the burden of proof that past or proposed actions are consistent with an acknowledged preferred resource plan or resource acquisition strategy and must explain and justify why it took any actions inconsistent with an acknowledged preferred resource plan or resource acquisition strategy. (emphasis added)

Evergy management is generously compensated to make managerial decisions regarding how to provide the public with energy services that are safe, reliable, and efficient, at just and reasonable rates. That is not OPC's job or the Commission's job. Only Evergy management alone should be held responsible and accountable for its inactions to date and its insufficient planned actions moving forward.

As such, we are prepared to go to hearing and provide additional evidence above and beyond what has been filed in this docket to date if the Commission elects to hold a hearing on the reasonableness of Evergy's preferred resource plans. We are also comfortable with having this document serve as a formal placeholder and public declaration that Evergy West and Evergy Metro's triennial IRPs have been formally contested on the grounds stated above and that future cost disallowances in future prudence reviews cannot be the basis for nullification due to OPC's not filing a contested IRP motion.

We do not believe that Evergy Missouri Metro and West's preferred resource plans are reasonable and strongly recommend that the Commission either support that conclusion or remain silent on that issue in this docket as two reasonable actions afforded to the Commission as contemplated in the resource planning rules.