BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Evergy Metro, Inc. d/b/a Evergy Missouri Metro for Authority to Implement Rate Adjustments Required by 20 CSR 4240-20.090(8) and the Company's Approved Fuel and Purchased Power Cost Recovery Mechanism	)))))))	No. ER-2022-0025

EVERGY MISSOURI METRO INITIAL BRIEF
REGARDING TREATMENT OF EXTRAORDINARY REVENUES

COMES NOW, Evergy Metro, Inc. d/b/a Evergy Missouri Metro ("Evergy Missouri Metro," "Metro," or "Company") and files its *Initial Brief*, pursuant to the Missouri Public Service Commission's ("Commission") *Order Setting Procedural Schedule* ("Order") issued December 2, 2021. In support thereof, the Company states as follows:

A. Introduction

1. The issue for decision in this case is whether the proposed fuel adjustment rates submitted by Evergy Metro on July 30, 2021 complied with the Commission's Fuel Adjustment Clause ("FAC") Rule at 20 CSR 4240-20.090 by excluding Metro's costs and revenues related to Winter Storm Uri that struck the Midwest in February 2021. See Joint Stip. of Facts ¶¶ 4-5, 7 (filed Dec. 16, 2021).

2. The provision of the FAC Rule that is in dispute is the last category of costs that a utility is to provide the Commission under Section 20.090(8)(A)2.A(XI). This final category, referred to here as Paragraph XI, states: "Extraordinary costs not to be pass through [the FAC], if any, due to such costs being an insured loss, or subject to reduction due to litigation or for any other reason; …." See Joint Stip. of Facts ¶ 9.

3. The disagreement between Evergy Metro and Staff is based on the meaning of the word "costs" in Paragraph XI's reference to "extraordinary costs." Because the FAC Rule, as well

as Section 386.266[1] which authorizes periodic rate adjustment mechanisms, explicitly contemplate consideration of *both* costs and revenues, Metro's FAC filing of July 30, 2021 properly excluded Winter Storm Uri costs and revenues because they were "extraordinary."

4. Evergy's exclusion of these "extraordinary" items of expense and revenues from the FAC tariff rate sheet is consistent with the Commission's longstanding practice, approved by Missouri appellate courts, that allows electric utilities to manage these issues through accounting authority order ("AAO") proceedings, not in FAC tariff filings.[2]

5. Staff has taken a narrow view of Paragraph XI, contending that it does not allow Metro to defer extraordinary revenues, only costs. See Staff Recommendation to Reject Tariff Sheet, ¶ 5 (Aug. 27, 2021). This is contrary to the legislative intent of Section 386.266, as well as numerous other provisions in the FAC Rule.

B. Paragraph XI applies to both Extraordinary Costs and Revenues under Section 386.266 and the FAC Rule

6. Section 386.266.1 authorizes the Commission to approve periodic rate adjustments outside of general rate cases "to reflect increases and decreases in its prudently incurred fuel and purchased-power costs, including transportation." The General Assembly intended that costs would be balanced with revenues. This is indicated by Section 386.266.4 which provides that proposed rate schedules may be approved by the Commission "after considering all relevant factors which may affect the costs or overall rates and charges of the corporation … [emphasis added]."

[1] All statutory references are to the Missouri Revised Statutes (2016), as amended.

[2] See note 4, infra. The Commission has relied on General Instruction 7 of the Uniform System of Accounts ("USOA") to authorize AAOs for both revenues and costs, given its language related to "items of profit and loss" which have resulted in the establishment of both regulatory liabilities (for revenues) and regulatory assets (for costs). Office of Public Counsel v. Evergy Mo. West, Inc., 609 S.W.3d 857, 866 (Mo. App. W.D. 2020); Kansas City Power & Light Co. v. PSC, 509 S.W. 3d 757, 769 (Mo. App. W.D. 2016).

7. When Section 386.266 was amended in 2018 to require additional reports from utilities with FAC mechanisms, an income statement that contained both "operating revenues" and items of "expenses" was specified. See § 386.266.15(4).

8. Section (1)(A) of the FAC Rule defines "Accumulation Period" as "the time period set by the commission in the general rate proceeding over which historical fuel and purchased power costs and <u>fuel-related revenues</u> are accumulated for purposes of determining the actual net energy costs (ANEC) [emphasis added]."

9. Section (1)(B) of the FAC Rule defines "Actual Net Energy Costs" as "prudently incurred fuel and purchased power costs net of <u>fuel-related revenues</u> of a rate adjustment mechanism (RAM) during the accumulation period; … [emphasis added]."

10. Section (1)(C) of the FAC Rule defines "Base Energy Costs" as "the fuel and purchased power costs net of <u>fuel-related revenues</u> determined by the commission to be included in a RAM that are also included in the revenue requirement used to set base rates in a general rate case; … [emphasis added]."

11. Section (1)(U) of the FAC Rule defines "Net Base Energy Costs" as "the fuel and purchased power costs net of <u>fuel-related revenues</u> billed during the accumulated period in base rates; … [emphasis added]."

12. Despite these clear references to costs and revenues, Staff focuses solely on the word "costs" in Paragraph XI as if it only refers to an increase in costs. Staff fails to consider that costs can be reduced either by lower costs or by virtue of off-setting revenues, as contemplated in the definitions in Subsection (1) of the FAC Rule.

13. The description of "[e]xtraordinary costs not to be passed through" in Paragraph XI recognizes three kinds of costs or revenues. Category (1) is: "… such costs being an insured loss"

– which would be a cost increase. Category (2) is "or subject to reduction due to litigation [emphasis added]" – which would be an offset to costs or revenues from a settlement or judgment that reduced costs. Category (3) is "or for any other reason; … [emphasis added]" – which would include costs and revenues. This interpretation reflects the language of FAC Rule Subsection 1 that defines Actual Net Energy Costs, Base Energy Costs, and Net Base Energy Costs as "net of fuel-related revenues." See 20 CSR 4240-20.090(1)(B), (C), and (U).

14. Consistent with this analysis, which conforms to the intent of Section 386.266, the Company adjusted its Actual Net Energy Costs ("ANEC") in its FAC tariff rate filing to remove the extraordinary cost and revenue impacts of Winter Storm Uri. During the 12th Accumulation Period under its FAC, Metro had increased fuel and purchased power costs caused by the storm which were more than offset by increased off-system sales revenues. Under ordinary circumstances the Company would be able to keep 5% of such revenues under the FAC's 95%/5% sharing mechanism. However, given the extraordinary financial and operational impact of Winter Storm Uri on both customers and Metro, the Company did not believe it was appropriate to use the FAC tool to manage the event. For that reason, the Company is seeking an AAO to accumulate and defer 100% of Winter Storm Uri's extraordinary costs and revenues until the next FAC accumulation period when Southwest Power Pool resettlements of costs and revenues are better known. See In re Application of Evergy Metro, Inc. and Evergy Mo. West for an Acct'g Auth. Order regarding Costs Related to February 2021 Cold Weather Event, No. EU-2021-0283 (filed June 30, 2021) ("AAO Case").

15. Staff has agreed with the Company that "Winter Storm Uri is an extraordinary event of a material nature for purposes of the Company's requests to accumulate and defer associated

costs."[3] However, Staff's reference only to "associated costs" and not to revenues is at odds with the key definitions in the FAC Rule cited above.

16. It is also contrary to the concept of AAOs which authorize both regulatory liabilities for extraordinary revenues and regulatory assets for extraordinary costs. The Commission and the Court of Appeals have both noted that whether an applicant seeks an AAO to authorize a regulatory liability or a regulatory asset for extraordinary items, the same standard applies.[4] Logically, the same standard regarding costs and revenues, consistent with the definitions of the FAC Rule and Section 386.266, should be applied in this proceeding.

C. Staff's View that Paragraph XI Applies Only to Extraordinary Costs and not to Extraordinary Revenues Will Create Unnecessary Volatility in the FAC Process which was Intended to Shield Customers from such Cost Swings

17. The Commission should not rely on the standard rate adjustment tools found in the FAC to deal with the extraordinary and unusual issues caused by Winter Storm Uri. When severe weather events have occurred in the past, the Commission has consistently authorized deferral accounting in the form of an AAO.[5] There is nothing in Section 386.266 that indicates the FAC was intended to preclude deferral under an AAO of extraordinary costs or revenues arising from severe weather events like Winter Storm Uri.

18. Metro proposes to use the next FAC accumulation period after the conclusion of its requested Winter Storm Uri AAO to flow back the benefits exceeding costs that have accumulated from off-system sales related to the storm. Because the Company's proposal includes carrying costs at its weighted average cost of capital on any deferred amounts, customer interests are

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[3] Staff Recommendation, ¶ 4, AAO Case, No. EU-2021-0283 (Sept. 23, 2021).
[4] See Report & Order at 12, Office of Public Counsel v. KCP&L Greater Mo. Operations Co., No. EC-2019-0200 (Oct. 17, 2019), aff'd Office of Public Counsel v. Evergy Mo. West, Inc., 609 S.W.3d 857, 868 (Mo. App. W.D. 2020).
[5] See Report & Order at 7-8, 14, In re Southern Union Co., No. GU-2011-0392 (Jan. 25, 2012) (Joplin tornado); Order Approving Stip. & Agmt., In re Union Elec Co., No. EU-2008-0141 (Apr. 30, 2008) (ice storm).

protected from any lag caused by the timing of refunds to customers. The Company's approach allows the Commission to consider the full effects of Winter Storm Uri before allowing changes in customer rates.

19. In the Company's June 30, 2021 FAC tariff filing, Evergy Missouri Metro used a three-year average baseline with historical February costs net of revenues for 2018, 2019 and 2020. This methodology resulted in a reduction in rates during this accumulation period and would provide customers an immediate benefit while the extraordinary costs (net of fuel-related revenues) attributable to Winter Storm Uri are addressed in the AAO Case.

20. However, Staff's clearly stated position is that if Paragraph XI "allows Evergy Missouri Metro to defer extraordinary costs, it does not allow it to defer extraordinary revenues." See Staff Recommendation to Reject Tariff Sheet, ¶ 5 & Staff Memorandum at 2, 6. If only costs are deferred, the revenues that would flow through the Company's 12th Accumulation Period ("AP") would include a credit of $191.38 million (total company Metro) from Winter Storm Uri fuel-related revenue.[6] See also **Ex. A**, Metro Accounting Workpaper on FAC Rule (8)(A)2.A(XI) Extraordinary Costs.[7] This approach fails to consider the impact to customers in future fuel adjustment rate filings where fuel and purchased power costs will be flowed through the FAC in the 13th and 14th Accumulation Periods.

21. If Staff's recommendation is followed, Metro's next FAC filing for the 13th Accumulation Period will include an additional $134.55 million (total company Metro) in Winter

[6] Staff has advised Metro that the phrase "net revenues" used in the Memorandum means that the FAC tariff sheet should reflect revenues offset by costs. However, that position is inconsistent with the Staff Recommendation to Reject Tariff Sheet (as well as pages 2 and 6 of the Staff Memorandum) which clearly opposed the deferral of revenues, given Staff's interpretation of Paragraph XI.
[7] Ex. A, *Metro Accounting Workpaper on FAC Rule (8)(A)2.A(XI) Extraordinary Costs*, was provided to all parties to this docket on July 30, 2021 alongside the Company's filing of its initial proposed rate schedules (Tracking No. JE-2022-0024, which was rejected by the Commission's *Order Rejecting Tariff to Change Fuel Adjustment Rates* issued September 15, 2021); and again on September 30, 2021 when the Company filed its subsequent proposed rate schedules (Tracking No. JE-2022-0066).

Storm Uri fuel costs without offsetting fuel-related revenues. See Ex. A, Metro Accounting Workpaper on FAC Rule (8)(A)2.A(XI) Extraordinary Costs. Similar volatility will likely occur in the 14th AP because the FAC rate is updated semi-annually, with the new costs being added and previous credits dropping off.

22. Such absurdly huge swings in customer bills are inconsistent with the goal of the FAC to reduce volatility in rates. The FAC Rule requires an electric utility to file a "detailed explanation of any rate volatility mitigation feature" in its FAC. See FAC Rule § (2)(A)12. The Commission is similarly called upon to review "the magnitude of each cost or revenue type" and "the volatility of each cost or revenue type" in its consideration of a utility's request. See FAC Rule § (2)(D)3. Staff's recommendation is at odds with the Rule's policies of promoting rate stability, as well as its consideration of *both* costs and revenues. To the contrary, Staff's approach will whipsaw customers, causing frustration and discontent similar to what they are experiencing today with volatile gasoline prices.

23. If the Commission endorses Staff's recommendation, it will also prevent Evergy's Missouri electric utilities from treating the extraordinary effects of Winter Storm Uri in a consistent manner. In Evergy Missouri West's recent FAC case, Staff accepted the removal of both Winter Storm Uri related costs and revenues from its fuel clause as "extraordinary costs" under the FAC Rule's Paragraph XI. See Staff Recommendation for Approval of Tariff Sheet, In re Evergy Mo. West, Inc. Application for Auth. to Implement Rate Adjustments, No. ER-2022-0005 (Aug. 2, 2021). Evergy Mo. West's Application and Staff's recommendation were approved by the Commission. See Order Approving Fuel Adjustment True-Up and Tariff to Change Fuel Adjustment Rates, Id. (Aug. 18, 2021).

24. However, in the subject case Staff recommended that the tariff include off-system sales revenues related to the storm, but agreed that Metro could defer extraordinary Winter Storm Uri costs and exclude them from the FAC. See Staff Memorandum at 2, 6.

25. Both Metro and Evergy Missouri West asserted that Paragraph XI permits them to request that "extraordinary" costs and revenues not be passed through the FAC. The difference in the two FAC cases is that Evergy Missouri West's off-system sales were far below the level of the storm-caused increase in fuel and purchased power costs, but Metro's storm-related off-system sales revenues exceeded its fuel and purchased power costs.

26. Since the Actual Net Energy Costs (ANEC) must be netted of revenues, both of Evergy's Missouri utilities consistently applied Paragraph XI and removed both costs and revenues related to Winter Storm Uri. Staff, on the other hand, applied one standard to Metro in this case, and another to Evergy Missouri West in its FAC filing. Staff's narrow and asymmetrical interpretation should be rejected by the Commission.

D. The FAC 95%/5% Sharing Mechanism has No Place when Extraordinary Revenues and Costs are at Issue

27. Staff's position would also treat customers of Evergy's two Missouri utilities differently for no logical reason. Under Staff's interpretation of "extraordinary costs" in Paragraph XI process, Evergy Metro's customers would receive 95% of the extraordinary revenues incurred during the 12th Accumulation Period and Metro itself would receive 5% of those extraordinary revenues. This would occur before the next FAC accumulation period when more information will be known from the SPP resettlement of transactions that occurred during Winter Storm Uri.

28. By contrast, Staff endorsed the use of an AAO to remove *all* fuel and purchased power costs, and all off-system sales revenues from Evergy Missouri West's FAC that were associated with the extraordinary events caused by Winter Storm Uri. Just because the amounts

in each of these categories are different for Metro than they are for Missouri West does not justify two separate methods to address the results of a singular extraordinary event.

29. Additionally, because the AAOs proposed by both Evergy Metro and Evergy Missouri West propose that the extraordinary revenues be deferred subject to carrying costs, customers are assured of receiving a net benefit that reflects the time value of money. See R. Klote Direct Testimony at 16.

E. The Commission should use this Proceeding to begin to address the Missouri-Kansas Jurisdictional Cost Allocation Issue

30. Staff's recommendation also ignores the jurisdictional allocation issue that was raised in the AAO Case which is relevant to this proceeding, given Staff's recommendation that a credit should be provided to Metro customers.[8] Because of the conflict between the methodologies of this Commission and the Kansas Corporation Commission, Metro customers would receive a credit of approximately 107% of Evergy Metro Inc.'s actual off-system sales across Missouri and Kansas. See AAO Case, Application, ¶ 34.

31. The allocation issue raised in the AAO matter shows that credits to customers in the current FAC process include revenue from off-system sales that never occurred. Crediting customers in both Missouri and Kansas with such "phantom" revenue is a cost to Metro that has no basis in fact. Because Staff recommends that a credit be flowed back in this case to customers from Metro's off-system sales revenue, this jurisdictional allocation issue should be analyzed and steps taken to ensure that before any benefits are provided to customers, they reflect an accurate assessment of what those off-system sales actually were.

[8] The conflict between the cost allocation methodologies of the Commission and the Kansas Commission are described in the Application of the AAO Case, No. EU-2021-0283, at Paragraphs 33-34 and in the Direct Testimony of Darrin R. Ives at pages 29-33 (June 30, 2021).

32. The unusual and abnormal impacts of Winter Storm Uri, which Staff agrees was an extraordinary event, must be dealt with here and in the AAO Case. However, Evergy does not ask the Commission to fix the jurisdictional allocation mismatch in this case. It will submit proposals to address jurisdictional allocations in the Metro's upcoming general rate case. See Darrin R. Ives Direct Testimony at 33, AAO Case.

WHEREFORE, the Company asks that the Commission to find that Paragraph XI applies to both Extraordinary Costs and Extraordinary Revenues; to approve the Winter Storm Uri revenue adjustment contained in the Company's July 30, 2021 FAC tariff filing; and to address the Company's pending AAO Application in No. EU-2021-0283, including its request regarding the jurisdictional allocation issue.

Respectfully submitted,

/s/ Roger W. Steiner

Roger W. Steiner, MBN 39586
Phone: (816) 556-2314
E-mail: roger.steiner@evergy.com
Evergy, Inc.
1200 Main – 16th Floor
Kansas City, Missouri 64105
Fax: (816) 556-2787

Karl Zobrist, MBN 28325
Dentons US LLP
4520 Main Street, Suite 1100
Kansas City, MO 64111
Phone: (816) 460-2400
Fax: (816) 531-7545
karl.zobrist@dentons.com

James M. Fischer, MBN 27543
Fischer & Dority, P.C.
101 Madison, Suite 400
Jefferson City, MO 65101
Phone: (573) 636-6758
Fax: (573) 636-0383
jfischerpc@aol.com

Attorney for Evergy Missouri Metro

CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been hand delivered, emailed or mailed, postage prepaid, this 22nd day of December 2021, to all parties of record.

/s/ Roger W. Steiner
Attorney for Evergy Metro, Inc.

Evergy Missouri Metro (formerly Kansas City Power & Light Company)
Information below for Evergy Missouri Metro
8 (A) 2.A (XI) - Extraordinary costs not to be passed through

February 2021 calculated at March 31, 2021
Average amounts are 2018, 2019 and 2020 Actual data submitted in fuel clause filings to MPSC

Metro*			
	Avg Feb	Variance from Avg Feb	Actual Feb
Fuel	19,705,914	36,698,794	56,404,708
Fuel disallowed	(996,709)	(381,378)	(1,378,087)
Fuel	18,709,205	36,317,416	55,026,621
Purchases	12,459,475	89,433,201	101,892,676
Hydro disallowed	(683,043)	7,783,592	7,100,549
Renewable tariff	-	1,446,220	1,446,220
PP disallowed	-	(509,704)	(509,704)
Purchased Power	11,776,432	98,153,309	109,929,741
Transmission	6,143,365	(924,091)	5,219,274
Trans disallowed	(1,158,201)	263,561	(894,640)
SPP disallowed	(3,924,184)	741,361	(3,182,823)
Transmission	1,060,980	80,831	1,141,811
Sales	(9,821,513)	(191,764,842)	(201,586,355)
Capacity	249,427	370,848	620,275
Wholesale	150,761	11,663	162,424
Sales	(9,421,325)	(191,382,331)	(200,803,656)
Total	22,125,292	(56,830,775)	(34,705,483)

*Amounts reflected on this schedule are on a Total Company Metro basis prior to applying the Missouri jurisdictional allocation percentage.