BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Fourth Prudence Review of Costs Subject to the Commission-Approved Fuel Adjustment Clause for Evergy Metro, Inc. d/b/a Evergy Missouri Metro	)))))	**File No. EO-2022-0064**
In the Matter of the Tenth Prudence Review of Costs Subject to the Commission-Approved Fuel Adjustment Clause of Evergy Missouri West, Inc. d/b/a Evergy Missouri West	)))))	**File No. EO-2022-0065**

POSITION STATEMENT OF
EVERGY MISSOURI METRO AND EVERGY MISSOURI WEST

COMES NOW, Evergy Metro, Inc. d/b/a Evergy Missouri Metro ("EMM") and Evergy Missouri West, Inc. d/b/a Evergy Missouri West ("EMW")(collectively "Evergy" or "Company"), and for its Position Statement states as follows:

List of Issues

Issue: Was it imprudent for Evergy Missouri Metro and Evergy Missouri West to allow 1,153,813 and 79,994 renewable energy credits ("RECs") respectively to expire during the review period of this case rather than to take action which would have allowed the companies to generate revenues from those RECs. If so, should Staff's recommended disallowances be adopted by the Commission?

Position: No, it was not imprudent for Evergy Missouri Metro and Evergy Missouri West to allow 1,153,813 and 79,994 renewable energy credits ("RECs") respectively to expire during the review period of this case rather than to take action which would have allowed the companies to generate revenues from those RECs.

As the Commission observed in its *Report and Order*, pp. 24-25 in File No. EO-2019-0067, although the tariff expressly contemplates the sale of RECs and provides that when such sales occur the revenues will flow back to customers through the tariff formulas, the tariff does not, in fact, mandate their sale.

The Company was not imprudent in choosing not to sell the RECs under the prudence standard applied by the Commission and the courts.[1] The Company's surveys show its customers value its ability to demonstrate that a key component of the power it sold was provided from renewable energy resources. Many of the Company's largest customers have announced plans to reduce their carbon footprint by using more renewable energy resources for the power they consumed.

When made, the Company's decision not to sell 1,153,813 RECs for EMM and 79,994 RECs for EMW RECs was not imprudent in light of the circumstances then existing at the time the decision was made. In particular, the Company considered its customers' wishes to retain their energy's environmental attributes. The Company considered that selling the RECs would reduce the percentage of power customers were receiving from renewable energy sources.

The Company also considered that the revenue opportunities in selling the RECs were very limited. Given the pricing available for the expired RECs in this case, the corresponding value (assuming all expired 2017 RECs could have been sold, which is unlikely) would be $505,861 across both EMM and EMW which is still approximately $0.02 per month for a customer with an average usage of 1,000 kWh per month ($0.04 for Missouri Metro and $0.003 for Missouri West),

[1] In the Matter of the Determination of In-Service Criteria for the Union Electric Company's Callaway Nuclear Plant and Callaway Rate Base and Related Issues and In the Matter of Union Electric Company of St. Louis, Missouri, for Authority to File Tariffs Increasing Rates for Electric Service Provided to Customers in the Missouri Service Area of the Company, *Report and Order*, 27 Mo. P.S.C. (N.S.) 183, 194 (March 29, 1985); State ex rel. Associated Natural Gas Co. v. Public Service Com'n of State of Mo., 954 S.W.2d 520, 529-530 (Mo. App. W.D., 1997).

as it was when the Commission determined in the EO-2019-0067 Order that the credit was "de minimis" and outweighed by the Company's customers' desires to receive energy bundled with their corresponding renewable energy credits and thereby reduce their carbon footprint".[2] In fact, based on demand for RECs of a given vintage peaking right around the year they are created, the time these 2017 RECs would have held the most value, combined with a liquid market for sale, was during the EO-2019-0067 Review Period and not this one. (Messamore Surrebuttal, pp. 6-7) As a result, the Commission should not adopt Staff's proposed disallowances in this case.

In this case, Staff is recommending an imputation of revenues of $2,503,774.21 for EMM, and $173,586.98 for EMW for non-existent REC sales which, according to Staff, should have occurred during this FAC review period. (Tandy Surrebuttal, File No. EO-2022-0064, p. 4; Tandy Surrebuttal, File No. EO-2022-0065, p. 4) In order to calculate their recommended disallowances, Staff multiplied the number of RECs which expired during the review period (79,994 for EMW and 1,153,813 form EMM) by Staff's calculated "average price" for the review period. (Messamore Surrebuttal, p. 3)

To support its argument, Staff cites increases in REC prices, increases in excess and/or expired REC inventories, and inadequate review processes. (Messamore Surrebuttal, p. 2; Tandy Rebuttal, File No. EO-2022-0064, pp. 3-4; Tandy Rebuttal, EO-2022-0065, pp. 3-4) However, Staff's arguments are misplaced and should be rejected.

First, the methodology that Staff utilized in calculating their disallowance utilizes inaccurate pricing during the Review Period. (Messamore Surrebuttal, pp. 2) The Staff initially included an outlier pricing data point of $7.00/REC from Ameren that was outside the Review Period, and skewed Staff's "average price" calculation used for Staff's disallowances. In the Surrebuttal

[2] *Report and Order*, pp. 11-12 , File No. EO-2019-0067 (November 6, 2019).

testimony of Cynthia M. Tandy, Staff revised its disallowance to exclude the $7.00/REC from its "average price" analysis. (Tandy Surrebuttal, EO-2022-0064, pp. 1-2; Tandy Surrebuttal, File No. EO-2022-0065, pp. 1-2)

Second, even discarding the temporal inaccuracy of Staff's estimate and excluding the $7/REC outlier, the corrected price estimate is inappropriate to apply to the 2017 vintage RECs used in Staff's calculation of its disallowance because that level of pricing has never been available for those 2017 RECs at any point *during their lifecycle*. (Messamore Surrebuttal, p. 2)

Third, Staff's argument that the Company's review processes were inadequate and imprudent ignores information provided to the contrary in the Company's direct testimony. (Messamore Surrebuttal, p. 2) Finally, Staff's fundamental argument that "the majority of the excess RECs should have been sold within this Review Period" (Tandy Rebuttal, p. 10, lines 3-4), and thus revenues should be imputed is misplaced, given the majority of excess RECs generated during this Review Period (2020 and 2021 vintages) have now been sold at a higher price than they would have realized during this Review Period and the revenues from those sales will flow through the FAC. (Messamore Surrebuttal, p. 2)

Inaccurate Pricing

In calculating the Staff's "average price" for RECs, Staff initially utilized in the Staff Report, Direct Testimony of Brad Fortson, and the Rebuttal Testimony of Cynthia M. Tandy, a datapoint ($7.00/REC) from Ameren that was an outlier and outside the Review Period. The inclusion of this outlier data point skewed the Staff's calculation of the average price for the RECs during the Review Period. (Messamore Surrebuttal, p. 3) Although Staff eventually recognized its error in its Surrebuttal Testimony, Staff's revised disallowance is still highly flawed.

Even if the outlier data point is excluded from the Staff's analysis, the "corrected" price would still be too high and would not apply to 2017 vintage RECs used in Staff's calculation. (Messamore Surrebuttal, p. 4) As Ms. Messamore explains in her testimony, the "older" a REC is, the less value it has. This is the result of significantly declining demand for those older vintages (as compared to recent-vintage RECs). Most potential REC customers are looking for RECs to meet current or future sustainability goals or compliance requirements. Staff has not taken into account the substantially reduced value of vintage 2017 RECs in calculating its proposed disallowance. (Messamore Surrebuttal, pp. 4-8)

Based upon available broker information and experience with REC sales so far, 2017 vintage RECs were valued at a substantial discount from current year vintage RECs, and Ms. Messamore has determined that a more appropriate value for 2017 vintage RECs would be approximately \$0.41/REC. (Messamore Surrebuttal, p. 6)

Staff has acknowledged that it also failed to take into account the broker and transaction fees associated with every sale. (Tandy Surrebuttal, File No. EO-2022-0064, p. 9; Tandy Surrebuttal, EO-2022-0065, p. 9) In addition, Staff failed to recognize and adjust for a fee for CRS Listing each facility annually. (Messamore Direct, p. 12)

<u>Evergy's Review Process for Sale of RECs</u>

Beginning in 2020, the Company utilized an Annual Valuation Procedure to assess the current value of soon-to-expire RECs and determine whether the current market value merits the sale of those RECs. In addition to this annual process, Evergy was also monitoring the price of RECs on an ongoing basis. (Messamore Direct, p. 8)

A new policy was developed beginning in the second half of 2021 and implemented in early 2022. This change in policy beginning in the middle of the year, when the Annual Valuation

Procedure occurs annually at the end of the year, demonstrates that the Company was monitoring the market on an ongoing basis – via its Trading department – and identified the change in the market outside of the Annual Procedure. As a result of that change, a new procedure has been developed and implemented early in 2022 which formalizes ongoing monitoring of REC value and inventories as well as facilitating the sale of *all* excess RECs, and not just soon-to-expire or expired RECs. These changes would not have happened when they did if the Company's review processes were inadequate, as staff witness Tandy asserts. (Messamore Direct, p. 8)

Given the roughly four-fold increase in REC prices (beginning mostly in the Spring of 2021), the Company began selling recent vintage excess RECs in early 2022 and has realized significant revenues from the sale of excess RECs at this time. The average price realized for EMW and EMM 2021 vintage RECs sold in early 2022 was approximately $3.30 compared to an average price for 2021 RECs of $1.62 in the Review Period. This means that the realized revenues were twice what they would have been if they'd occurred over the course of this Review Period, as suggested by Staff. These revenues will flow through the FAC and will benefit customers. As a result, Staff has no basis for claiming imputed revenues for a supposed "lost opportunity" to sell these excess RECS. (Messamore Surrebuttal, pp. 8-10)

Conclusion

For these reasons, the Commission should not adopt the proposed disallowances recommended by Staff in this proceeding.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that the above document was filed in EFIS on this 19th day of July 2022, with notification of the same being sent to all counsel of record.

/s/ Roger W. Steiner

Roger W. Steiner