Exhibit No. 263

MoPSC Staff – Exhibit 263
Brad J. Fortson
Surrebuttal Testimony
File Nos. ER-2022-0129 & ER-2022-0130

Exhibit No.:	
Issue(s):	*PPA cost-sharing*
Witness:	*Brad J. Fortson*
Sponsoring Party:	*MO PSC Staff*
Type of Exhibit:	*Surrebuttal Testimony*
Case Nos.:	*ER-2022-0129 and ER-2022-0130*
Date Testimony Prepared:	*August 16, 2022*

MISSOURI PUBLIC SERVICE COMMISSION

INDUSTRY ANALYSIS DIVISION

ENERGY RESOURCES DEPARTMENT

SURREBUTTAL TESTIMONY

OF

BRAD J. FORTSON

Evergy Metro, Inc., d/b/a Evergy Missouri Metro
Case No. ER-2022-0129

Evergy Missouri West, Inc., d/b/a Evergy Missouri West
Case No. ER-2022-0130

Jefferson City, Missouri
August 2022

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Evergy Missouri West, Inc. d/b/a Evergy Missouri West
Case No. ER-2022-0130

Q. Please state your name and business address.

A. My name is Brad J. Fortson, and my business address is Missouri Public Service Commission, P. O. Box 360, Jefferson City, Missouri 65102.

Q. Are you the same Brad J. Fortson who filed direct rate design testimony on June 22, 2022?

A. Yes, I am.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of Evergy Missouri West, Inc., d/b/a Evergy Missouri West ("EMW") and Evergy Metro, Inc., d/b/a Evergy Missouri Metro's ("EMM") (collectively "Companies") witnesses Ms. Linda Nunn and Ms. Kayla Messamore and the rebuttal testimony of Office of the Public Counsel's ("OPC") witness Ms. Lena Mantle in regards to Staff's recommendation to include language in the FAC tariffs for PPA cost-sharing. My surrebuttal will also respond to Company witness Mr. Eric T. Peterson and OPC witness Ms. Mantle in regards to the Central Nebraska Public Power and Irrigation District ("CNPPID") PPA. Lastly, my surrebuttal will discuss OPC witness Ms. Mantle's rebuttal in regards to EMW's recent fuel adjustment rate ("FAR") filing.

EXECUTIVE SUMMARY

Q. What did Staff recommend in direct testimony filed on June 22, 2022, in regards to Purchased Power Agreements ("PPA") in the Companies' Fuel Adjustment Clause ("FAC")?

A. Staff recommended including language to the FAC tariffs in both EMM and EMW in regards to future PPAs that lead to costs in excess of revenues. These costs flow through the FAC, therefore charging ratepayers for the majority of losses in these contracted PPAs. Staff's recommendation would hold shareholders responsible for the net costs associated with PPAs entered into after May 2019, whose costs exceed its revenues resulting in a net loss.

Q. What is the significance of May 2019?

A. As stated in my direct testimony,[1] the Prairie Queen wind farm contract is based on a fixed energy price that EMM and EMW began receiving in May 2019. Prairie Queen is the most recent PPA in which EMM and EMW have passed the costs and revenues through the FAC. Since these costs and revenues pass through the FAC, they are reviewed in Staff's FAC prudence review. To date, Staff has not raised any concerns or recommended any disallowance for Prairie Queen. Therefore, since the Prairie Queen contract began in May 2019, and Staff has reviewed this PPA as part of its most recent FAC prudence review and did not raise any concerns or recommend any disallowances, Staff proposes any PPAs signed into after May 2019 whose costs exceed its revenues and are passed through the FAC, that those net costs be borne by shareholders.

Q. How did the Company and other stakeholders respond to Staff's recommendation in rebuttal testimony?

[1] *Direct Testimony of Brad J. Fortson,* filed on June 22, 2022 in Case Nos. ER-2022-0129 and ER-2022-0130.

A. Company witness Ms. Nunn and Ms. Messamore recommend rejection of Staff's recommendation. However, OPC witness Ms. Mantle not only supports Staff's recommendation but expands on it. I will respond to all three witnesses below.

PPA COST-SHARING

Response to OPC Witness Mantle

Q. Does Ms. Mantle agree with Staff's recommendation?

A. Yes.[2] However, Ms. Mantle expands on Staff's recommendation and further recommends applying it to all PPAs whose costs and revenues pass through the FAC once their cumulative net cost exceeds 100,000 times its contracted capacity.

Q. Did Ms. Mantle provide an example to illustrate this?

A. Yes. To illustrate Ms. Mantle's recommendation, she provides that if the nameplate capacity of the PPA is 100 MW then no cumulative losses above $10 million (100,000 x 100 = 10,000,000) should be recovered from customers.

Q. Based on Ms. Mantle's expansion of Staff's recommendation, what would happen if the $10 million from Ms. Mantle's example has already been reached?

A. Ms. Mantle explains that if that point has already been reached, then customers should not have to pay any additional losses for that PPA, but should receive benefits if any occur through the FAC, with costs/benefits calculated on an hourly basis.[3] Ms. Mantle goes on to say that once the cumulative benefits provided to the customers equals the losses that have been paid by customers, shareholders and customers would split the losses and costs at a 50%/50% split. Therefore, the Company would recover PPA costs to a certain

[2] *Rebuttal Testimony of Lena M. Mantle,* filed on July 13, 2022, in Case Nos. ER-2022-0129 and ER-2022-0130.
[3] Ibid.

point ($10 million in the above example) but would not recover the PPA costs over that amount. However, if/when revenues equal the costs (again, $10 million in the above example), shareholders and customers would split any net loss above that amount, 50%/50%.

Q. What position does Staff take on Ms. Mantle's recommendation?

A. Staff does not oppose Ms. Mantle's recommendation. Ms. Mantle's recommendation is a reasonable expansion to the recommendation Staff made in regards to PPA's in its direct testimony. Staff's recommendation applies to PPAs entered into after May 2019. Ms. Mantle's recommendation expands on Staff's recommendation and includes all PPA's whose costs and revenues pass through the FAC. Current PPAs have net losses of approximately $468 million[4] to date that have passed through the FAC to the detriment of ratepayers, so it is more than reasonable for the Company to share in those costs going forward.

Response to Company Witnesses Messamore and Nunn

Q. Do Ms. Messamore and Ms. Nunn agree with Staff's recommendation?

A. No, both give several reasons, most of which are from the Company perspective without regard for ratepayers.

Q. On page 16 of Ms. Messamore's rebuttal testimony, she states one reason Staff's recommendation should be rejected is because it is short-sighted. Do you agree?

A. No. Ms. Messamore states the decision to enter PPAs is generally based on projected long-term economics and not short-term wholesale market conditions. Staff generally agrees with this statement. Most of the Companies' PPAs are 20-year contract terms

[4] *Rebuttal Testimony of Lena M. Mantle,* filed on July 13, 2022, in Case Nos. ER-2022-0129 and ER-2022-0130.

signed into with the expectation that revenues will outweigh costs. Unfortunately, that has not been the case.

As previously mentioned, the Companies' current PPAs have net losses of approximately $468 million. Staff's recommendation is actually a long-term view and is more of a risk mitigation mechanism for ratepayers over the entire length of PPAs signed into after May 2019 instead of over the short-term as Ms. Messamore seems to imply. As Ms. Messamore points out, Staff has previously stated that the performance of PPA contracts should be viewed on a long-term basis and not just from the results during a review period of a prudence review. This actually provides more support for Staff's recommendation that ratepayers should not be left to bear all of the risk of long-term PPAs whose costs exceed revenues over the contract period of the PPA. Performance of the Company's current PPAs to date shows that these were risky contracts that likely should not have been entered into. The Company's analysis in support of entering into these contracts has consistently shown that these PPAs would be beneficial for ratepayers by revenues exceeding costs. However, the Company's analysis has also been consistently wrong. Staff's recommendation provides risk mitigation for ratepayers if the Company's analysis of PPAs and their benefits continue to be wrong.

Ms. Messamore further states that Staff's recommendation in this case to disallow cost recovery based on short-term energy market revenues is diametrically opposed to Staff's previously stated long-term view of PPAs. Staff is unclear how Ms. Messamore came to this conclusion, since Staff's recommendation in this case is a long-term view, and not short-term.

Lastly, to support this reason to reject Staff's recommendation, Ms. Messamore states that if the decision to enter such contracts is prudent, all costs and benefits from these

PPAs should be included when establishing retail rates. Staff's previous statement about viewing PPAs on a long-term basis does not preclude Staff, or any stakeholder, from arguing prudence at any point during a PPA contract term. Staff is not arguing prudency of current PPAs or PPAs signed into after May 2019 in this case. However after approximately $468 million in current PPA net losses, it seems a more than an appropriate time to include ratepayer risk mitigation language in the FAC to ensure PPAs signed into after May 2019 do not cost ratepayers more than what current PPAs already have.

Q. On page 17 of Ms. Messamore's rebuttal testimony, she states a second reason to reject Staff's recommendation is that it is unreasonable. Do you agree with that statement?

A. No. Ms. Messamore attempts to support this reason with discussion on the Southwest Power Pool ("SPP") wholesale market not being designed to fully recover all costs for participating generating facilities, but being designed to reliably dispatch participating generators at the lowest cost for the region. Staff does not fully understand this argument or its relevance to the issue so will not dwell on it. However, Ms. Messamore does proceed to state that penalizing a utility for PPAs that do not fully recover costs from short-term SPP market revenues is simply unreasonable. Again, Staff's recommendation is a long-term view of costs and revenues, not short-term as Ms. Messamore continues to insist. Further, the focus of Staff's recommendation is not to "penalize" the Company, but to lessen the "penalty" that ratepayers will have to bear from PPAs signed into after May 2019 if those PPA costs exceed benefits, as they historically have. Staff's recommendation is an attempt to ensure ratepayers do not have to pay for the losses of PPAs signed into after May 2019 as they do now for the current PPAs that have a net loss of approximately $468 million.

Q. A third reason Ms. Messamore provides in her rebuttal testimony is that Staff's recommendation creates a strong bias against PPAs. Do you agree with this statement?

A. No. Ms. Messamore states that penalizing utilities when short-term SPP market revenues are less than the cost of a PPA provides a very strong incentive for utilities to avoid future PPAs. Again, Ms. Messamore focuses on short-term when Staff's recommendation is a long-term view. Also again, Ms. Messamore focuses on, and claims, a "penalty" to the utility. As mentioned above, the focus of Staff's recommendation is not to "penalize" the Company, but to lessen the "penalty" that ratepayers will have to bear from PPAs signed into after May 2019 if those PPA costs exceed benefits, as they historically have. If anything, Staff's recommendation is an incentive to the Company to avoid entering into uneconomical PPAs, which is good for both the Company and its ratepayers.

Ms. Messamore's belief that Staff's recommendation would incentivize utilities to avoid future PPAs is based on her belief that Staff's recommendation creates a situation where utilities only have downside risk with PPAs, which may ultimately result in long-term resource planning decisions that are not in retail customers' best interests, as it effectively removes PPAs from the set of potential resource options and limits the utility's ability to select resources best suited to the present situation. There are a few things concerning about this argument.

First, the biggest concern Ms. Messamore appears to have is cost recovery and the concern of not being able to recover all costs. Staff notes that its recommendation is solely for costs of PPAs that pass through the FAC. There are other purposes of PPAs whose costs would not be recovered through the FAC, such as PPAs for special customers or for Renewable Energy Standard ("RES") compliance, which would seem to continue to provide incentive for utilities to seek PPAs.

Next, Ms. Messamore speaks to the utilities' downside risk with PPAs and long-term resource planning decisions that are not in the retail customer's best interest by removing PPAs, but makes no mention of the downside risk for customers by the Company signing into PPAs whose costs exceed revenues, as we currently see, and how current PPAs have not been in the customer's best interest. The Company has signed into and included PPAs as a resource with the expectation that revenues will exceed costs, but again, this has unfortunately not been the case. This again demonstrates that Staff's recommendation incentivizes the Company to avoid uneconomical PPAs which benefits both the Company and its ratepayers.

Lastly, Staff does not understand how its recommendation would effectively remove PPAs from the set of potential resource options and limits the utility's ability to select resources best suited to the present situation. In the recent past, the Company has chosen to sign into PPAs outside of the triennial Integrated Resource Planning ("IRP") process. PPAs should be included as a potential resource type with all other resource types as an input in the integration process, as a part of the triennial IRP process, to determine the appropriate low-cost resource additions.

Q. Ms. Messamore also states that Staff's recommendation is incomplete and creates many unanswered questions, such as over what period costs and revenues are netted, is the netting of costs and revenues done on an hourly basis with losses accumulated hourly, and is the net loss for one PPA netted against any net gain from other PPAs. What's your response?

A. Costs and revenues would be netted against each other for the life of each PPA contract on an hourly basis with losses accumulated hourly. For instance, in a 24-hour day, if in hour one a loss of $100 occurred, and in hour two there was a gain of $50, there would be a net loss of $50 over the two hours. This netting of costs and revenues would continue for every hour of every day throughout the entirety of the term of the PPA contract. The net loss of one PPA would not be netted against any gain from other PPAs.

Q. Does Ms. Messamore state anything further on this issue?

A. Yes. Ms. Messamore states that under Staff's recommendation, a utility would not receive credit for the capacity benefits provided by the PPA. But prior to making this statement, Ms. Messamore admits that "most" PPAs include capacity as well as energy. She also admits that capacity has value that "may or may not be difficult to quantify." Due to the unknowns that Ms. Messamore states in her own argument, Staff does not view this as a major concern with Staff's recommendation.

Ms. Messamore goes on to say that the value of Renewable Energy Certificates ("RECs") is also ignored in Staff's recommendation. The value of RECs was not ignored in Staff's recommendation any more than the value of RECs has been ignored by the Company until its recent (2022) decision to finally sell RECs[5] for the benefit of its customers.

Ms. Messamore also claims that under Staff's recommendation, a utility would not receive credit for the hedge value provided by PPAs since a PPA can create a hedge against future higher energy prices. In addition, she states that in many cases a utility will obtain firm transmission service for the generating facility under the PPA and this firm transmission may have SPP transmission congestion rights ("TCRs") associated with the service. These TCRs are intended to provide a hedge for transmission congestion costs and provide an additional revenue stream to the utility. Again, due to the speculative nature of these "benefits," Staff does not view this as a major concern with Staff's recommendation.

[5] *Direct Testimony of Kayla Messamore,* filed on May 6, 2022, in Case Nos. EO-2022-0064 and EO-2022-0065.

Q. On pages 18 and 19 of Ms. Nunn's rebuttal testimony, she adds an additional response to Staff's recommendation on behalf of the Company. What does she say, and how does Staff respond?

A. Ms. Nunn states that there are inherent costs associated with producing/procuring electricity to serve customers. Staff is well aware of that, but assumes Ms. Nunn is not implying that approximately $468 million in net losses from current PPAs that customers have had to bear the majority of are "inherent" costs. Ms. Nunn adds that Staff's recommendation contradicts the foundational regulatory principles including the Company being entitled to recover its prudently-incurred costs. Staff would argue that its recommendation is in-line with the foundational regulatory principle of offering energy services at just and reasonable rates. Customers have already been on the hook for the majority of the approximately $468 million in net losses from current PPAs, and Staff's recommendation would help ensure that they are not on the hook for additional millions of dollars from PPAs signed into after May 2019, whose costs exceed revenues, as is the case with the current PPAs.

Ms. Nunn then goes so far to say that if Staff's recommendation were adopted, the Company would never enter into a PPA again because it would be at significant risk of receiving proper cost recovery. Staff is surprised by such a bold statement. As previously mentioned, there are other purposes of PPAs whose costs would not be recovered through the FAC, such as PPAs for special customers or for RES compliance, which would seem to continue to provide a need for utilities to seek PPAs. As also previously mentioned, PPAs should be included as a potential resource type with all other resource types as an input in the integration process, as a part of the triennial IRP process, to determine the appropriate low-cost resource additions.

Ms. Nunn then proceeds to claim that Staff's recommendation would be overly burdensome resulting in increases in labor costs. Staff's understanding is that the Company is already tracking gains/losses of its PPAs, so it is unclear how Staff's recommendation would be overly burdensome since no further support for this statement was provided.

Ms. Nunn concludes by stating that the net costs of producing electricity are the exact types of costs that should be included in the FAC. Again, Staff is aware there are costs of producing electricity, but to imply that approximately $468 million in net losses from current PPAs is simply a net cost of producing electricity and going forward any additional net loss from PPAs signed into after May 2019 should be included in the FAC seems like a slap in the face to customers.

Q. Is there anything additional you would like to add before concluding your surrebuttal testimony?

A. Yes. For each PPA the Company has signed into, it has always claimed that its analysis, whether through the triennial IRP or some other calculation, indicates the PPA will be beneficial to customers. To date, PPAs signed into prior to May 2019, have in fact been the opposite of that, and have cost ratepayers the majority of the approximately $468 million in net losses from current PPAs. Staff's recommendation would simply require the Company to stand behind its claim of benefits to customers for PPAs signed into after May 2019. The Company is gambling with ratepayer money when it signs into PPAs. Staff's recommendation would alleviate some of the risk that has been forced on to ratepayers to date.

CNPPID HYDRO PPA

Q. Did Staff include the costs and revenues of the CNPPID Hydro PPA in its calculation of EMM's variable fuel and purchased power expense?

A. No.

Q. Please explain why not.

A. The CNPPID Hydro PPA contract began in 2014,[6] and it is Staff's understanding this PPA was entered into to meet the Kansas Renewable Energy Standard ("RES").[7] It is also Staff's understanding that this PPA is not needed to meet the Missouri RES.[8] In EMM's last general rate case, ER-2018-0146, the Company agreed to exclude the costs and revenues associated with the CNPPID Hydro PPA from the Company's FAC calculations.[9] While the stipulation and agreement explicitly stated the costs and revenues associated with the CNPPID Hydro PPA would be excluded from the Company's FAC, it was silent on any further cost recovery. Staff did not include the costs and revenues associated with the CNPPID Hydro PPA in its calculation of EMM's variable fuel and purchased power expense in this rate case. For all of these reasons, Staff recommends the costs and revenues associated with the CNPPID Hydro PPA continue to not be included in the Company's FAC, but also not be included in the Company's base rates.

<u>EMW'S RECENT FUEL ADJUSTMENT RATE FILING</u>

Q. What did EMW propose in its most recent FAR filing?

A. On July 1, 2022, EMW filed in Case No. ER-2023-0011, a request to change its FAC rate based on costs incurred December 1, 2021, through May 31, 2022. In this filing, EMW proposes to include $13.6 million in FAC-related costs in the FAR effective September 1, 2022, and to defer the balance of $31 million in FAC-related costs incurred

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[6] *Rebuttal Testimony of Eric T. Peterson,* filed on July 13, 2022, in Case Nos. ER-2022-0129 and ER-2022-0130.
[7] *Rebuttal Testimony of Lena M. Mantle,* filed on July 13, 2022, in Case Nos. ER-2022-0129 and ER-2022-0130.
[8] Ibid.
[9] *Non-Unanimous Partial Stipulation and Agreement* filed on September 19, 2018, pg. 8. The Commission approved this stipulation in its *Order Approving Stipulations and Agreements* issued on October 31, 2018.

during the subject accumulation period to the plant in service accounting ("PISA") regulatory asset created under section 393.1400.[10]

Q. What did Ms. Mantle recommend in this case in regards to EMW's FAR filing?

A. Ms. Mantle does not believe a deferral is necessary. However, if there is a deferral, Ms. Mantle recommends it should be handled in this case since the costs that are the subject of the FAR fling were incurred from December 1, 2021, through May 31, 2022.[11]

Q. What does Ms. Mantle offer as support for her recommendation for including any deferral from EMW's FAR filing in this case?

A. The Commission's *Order Establishing Test Year* issued on March 3, 2022, in this case set the test year as the 12 months ending June 30, 2021, updated through December 31, 2021, and trued-up through May 31, 2022. Ms. Mantle states correctly that the costs subject to the FAR filing were incurred during months that fall within the true-up date of this case.

Q. What did Staff recommend in EMW's FAR filing?

A. On July 28, 2022, Staff filed its *Staff Recommendation* recommending the Commission issue an order rejecting the proposed tariff and direct EMW to file a substituted tariff sheet that includes the $31 million fuel costs that EMW proposed to defer to a PISA regulatory asset. Staff further stated that if the Commission supports Staff's position that the $31 million in fuel costs must be included in the FAR filing, but if timing prevents inclusion in the current FAR, Staff recommends including the $31 million in the next FAR filing.

Q. What is the current status of the EMW FAR filing?

[10] *Direct Testimony of Darrin R. Ives,* filed on July 1, 2022, in Case No. ER-2023-0011.
[11] *Rebuttal Testimony of Lena M. Mantle,* filed on July 13, 2022, in Case Nos. ER-2022-0129 and ER-2022-0130.

A. On August 8, 2022, EMW filed its *Response to Staff Recommendation and Request for Hearing* requesting the Commission issue an order setting this matter for hearing and ordering the parties to develop a proposed procedural schedule. The Commission has yet to issue an order in the EMW FAR filing.

Q. Does this conclude your surrebuttal testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Evergy Metro, Inc. d/b/a Evergy Missouri Metro's Request for Authority to Implement a General Rate Increase for Electric Service	)	Case No. ER-2022-0129
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	)	Case No. ER-2022-0130

AFFIDAVIT OF BRAD J. FORTSON

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW BRAD J. FORTSON and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Surrebuttal Testimony of Brad J. Fortson*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

Brad J Fortson

BRAD J. FORTSON

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 11th day of August 2022.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: April 04, 2025
Commission Number: 12412070

D Suzie Mankin

Notary Public