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## Exhibit No. 3

Evergy Missouri West – Exhibit 3 Darren R. Ives Surrebuttal Testimony File No. EO-2022-0061

Exhibit: Issues: Special High Load Factor Market Rate Witness: Darrin R. Ives Type of Exhibit: Surrebuttal Testimony Sponsoring Party: Evergy Missouri West, Inc. Case No. EO-2022-0061 Date Testimony Prepared: January 14, 2022

## MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EO-2022-0061

## SURREBUTTAL TESTIMONY

OF

## **DARRIN R. IVES**

## **ON BEHALF OF**

## EVERGY MISSOURI WEST, INC. D/B/A EVERGY MISSOURI WEST

Kansas City, Missouri January 14, 2022

1		SURREBUTTAL TESTIMONY
2		OF
3		DARRIN R. IVES
4		Case No. EO-2022-0061
5		
6	Q:	Please state your name and business address.
7	A:	My name is Darrin R. Ives. My business address is 1200 Main, Kansas City, Missouri
8		64105.
9	Q:	By whom and in what capacity are you employed?
10	A:	I am employed by Evergy Metro, Inc. and serve as Vice President – Regulatory Affairs for
11		Evergy Metro, Inc. d/b/a Evergy Kansas Metro ("EKM"), Evergy Kansas Central, Inc. and
12		Evergy South, Inc., collectively d/b/a as Evergy Kansas Central ("EKC"), Evergy Metro,
13		Inc. d/b/a as Evergy Missouri Metro ("EMM"), Evergy Missouri West, Inc. d/b/a Evergy
14		Missouri West ("EMW" or "Company"), the operating utilities of Evergy, Inc.
15	Q:	Are you the same Darrin Ives that filed direct testimony in this case?
16	A:	Yes.
17	Q:	What is the purpose of your surrebuttal testimony?
18		I will respond to the rebuttal testimony filed on December 23, 2021, by Staff witness Robin
19		Kliethermes and Office of Public Counsel ("OPC") witness Dr. Geoff Marke in this
20		proceeding concerning the Special High Load Factor Market rate ("Schedule MKT").
21		Evergy witness Bradley Lutz also provides surrebuttal testimony in response to Staff and
22		OPC rebuttal testimony, largely responding to tariff recommendations and FAC accounting
23		and reporting recommendations.

Between the surrebuttal testimony of Mr. Lutz and myself, we address the major
 concerns with the Staff and OPC testimonies, but the fact that EMW may not address a
 particular point made or position taken by these witnesses should not be construed as an
 endorsement of that statement or position.

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## Q: Do you have initial comments?

6 A: Yes. First, I want to express Evergy's appreciation for the Commission and parties' 7 acknowledgment of the importance of the requested timing of Commission order in this 8 proceeding. Our prospective customer, Velvet Tech Services, really requires some 9 certainty of rate treatment under this timeline so that they can decide whether to initiate 10 construction plans to meet their determined requirements for commercial operation of a 11 local site. I am sure we all can appreciate the importance of this rate clarity for such a 12 significant component of their operating costs before initiating a construction program that 13 will result in an \$800 million enterprise data center in the region.

14 Second, I want to acknowledge for the Commission Evergy's appreciation of our 15 developing partnership with Velvet. We have been in discussions for quite some time and 16 Velvet helped to shape our thinking on this tariff design by bringing forward the successful 17 tariff structure in place for similarly situated customers being served by Omaha Public 18 Power District. I would also point to the surrebuttal testimony of Velvet Tech Services 19 witness Maurice Brubaker as I understand Mr. Brubaker discusses similarly competitive 20 rates available in other states with which Missouri may be in competition for new 21 prospective customers.

Third, as noted in our direct filing, this tariff not only has the potential to support
location of Velvet Tech Services in the region, but we believe it will be competitive for

1 other similarly situated customers looking at the opportunity to locate in the region. We 2 have designed the tariff to provide energy at market prices which provides for the 3 opportunity for customers under this tariff to manage their own renewable energy portfolio 4 to meet their corporate sustainability goals, while bringing additional renewable generation 5 to the region. The demand charge is constructed to bill customers under this tariff directly 6 for the cost of capacity incurred by EMW to support the new load. It also recovers the 7 costs of infrastructure required to be built by EMW to serve the customer directly through 8 the demand charge as well as other costs incurred through participation in Southwest Power 9 Pool ("SPP") directly related to serving the customer under the tariff. Finally, the customer 10 charge was developed consistently with the design of the SIL tariff to capture internal costs 11 incurred in serving the customer under this tariff. It is a simple tariff design constructed to 12 recover the incremental cost to serve customers under the tariff.

13 In summary, I would point to comments of Velvet Tech Services attached to my 14 direct testimony supporting the need for this tariff and their interest in becoming a 15 community partner in the region. Approval of this tariff will provide Velvet Tech Services 16 the clarity needed to move forward. At a time, closer to commercial operation, EMW and 17 Velvet Tech Services will finalize a Market Rate Contract and bring that in front of this 18 Commission providing the supporting detail and specific pricing terms to be utilized under 19 this tariff.

20

### 0: Please provide a brief overview of your surrebuttal testimony.

21 My testimony will respond to Staff witness Kliethermes' assertions that the Commission A: 22 should reject the Company's proposal because:

1		• the Company's request attempts to establish a rate schedule outside of a general rate
2		proceeding and it has not complied with the requirements of Section 393.355, RSMo
3		for requesting a special rate outside of a general rate proceeding;
4		• the requested tariff gives undue authority to EMW to determine appropriate SPP costs
5		without Commission approval;
6		• the requested tariff is discriminatory in that it is only available to customers who fall
7		under NAICS Code 518210 or 541511; and
8		• the requested tariff is not necessary, because the prospective customer (Velvet Tech)
9		qualifies under the Company's currently effective Special Rate for Incremental Load
10		Service (Schedule SIL) rate schedule, Large Power Service rate schedule, or Special
11		Contract rate schedule.
12		My testimony will also respond to OPC witness Marke's testimony that asserts that there
13		is:
14		• a lack of transparency and certainty regarding this request; and
15		• a failure to include sufficient safeguards to ensure that customers who choose to make
16		use of this special rate do not induce additional costs that will ultimately be borne by
17		non-participating customers.
18	Q:	Are any of these Staff and OPC assertions or concerns valid reasons to reject the
19		Company's application and tariffs in this case?
20	A:	No, they are not. As I will explain below, the Company's application and tariffs in this
21		case are consistent with the Commission's past practices with regard to the approval of
22		tariffs related to special contracts. In fact, the Commission has often approved such tariffs
23		and special contracts outside the context of rate cases and has often treated the names of

the customers on a confidential basis in order to protect their proprietary interests. The
proposed tariff is not unduly discriminatory and meets the unique needs of the very large,
high load factor data centers proposed to be built in our region. This tariff is designed to
meet the needs of these special, high load factor customers by providing an energy rate
based on the day-ahead hourly price of energy observed from the SPP Integrated
Marketplace.

7 Competitive electricity rates are very important to the data center customers and 8 represent a primary factor in their decision to choose a location. Whether it be a generally 9 available rate, the Special Rate for Incremental Load tariff or the Special Contract tariff, 10 each could produce a solution, but it is not the optimal solution for the data centers or the 11 Company. Given the sheer size of the data center customer load, the need to make the rate 12 competitive and the need to facilitate customer renewable energy goals, the Company 13 needs approval for this alternative. The current proposed tariff, if approved by the 14 Commission, will provide the alternative needed to meet this unique situation in our service 15 territory.

## 16 Q: Are there any other factors driving the Company to seek approval now instead of in 17 a rate case?

A: Yes. As I noted earlier, the design case customer, Velvet Tech Services, needs to have
assurance that the Schedule MKT rate will be available to them so that they may decide
whether to continue to make investments in the Kansas City project. Receiving approval
under timing set by the procedural schedule set for this case will give the customer this
indication. If the rate approval request were moved to a rate case and its 11-month timeline,

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the decision will come too late to inform the customer, causing them to potentially reconsider the investment or at minimum, to suspend development in response.

3 As noted in Evergy's direct filing, significant economic development customer 4 negotiations are complex, involve a significant number of stakeholders with which a 5 customer such as Velvet Tech Services must reach agreement and can take significant time. 6 Customers of this scale and potential impact to the region are very experienced in such 7 work and execute under timelines that not only can achieve these negotiated outcomes but 8 do so in line with their business needs for development in the region. An expectation by 9 Missouri for these customers to align their development schedule around the rate case 10 timing for the serving utility and the Commission timeline to process a general rate case 11 would be unreasonable and likely remove Missouri from the list of possible locations 12 considered by such customers as Velvet Tech Services.

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## **RESPONSE TO STAFF WITNESS**

15 Q: You mentioned that the Company's application and tariffs in this case are consistent 16 with the Commission's past practices with regard to the approval of tariffs related to 17 special contracts. Are you aware of other cases in which tariffs related to special 18 contracts and special contracts themselves have been approved outside of general rate 19 cases?

A: Yes. There have been many examples over the years. While this issue is a legal argument
 that will be fully briefed in this case by EMW and parties I will summarize here the
 following cases that I am aware of in which the Commission approved tariffs related to
 special contracts and/or special contracts outside the context of general rate cases:

1 2 3 4 5 6 7		<ul> <li>NUCOR STEEL SPECIAL CONTRACT—FILE NO. EO-2019-0244</li> <li>KCP&amp;L SPECIAL CONTRACT TARIFF—CASE NOS. EO-2006-0192/0193</li> <li>KCP&amp;L SPECIAL CONTRACT—CASE NO. EO-95-67</li> <li>ARMCO STEEL SPECIAL CONTRACT—CASE NO. EO-78-227</li> </ul> In each of these cases, the Commission approved tariffs related to special contracts and/or
8		the special contracts outside the context of general rate cases. I am confident that there are
9		similar cases related to other public utilities, and they support my position that the
10		Company's application and tariffs in this case are consistent with the Commission's past
11		practice with regard to the approval of tariffs related to special contracts.
12	Q:	Please provide additional details and background on each of these cases.
13	A:	While Evergy's legal counsel will address these examples in more detail in Evergy's brief,
14		I will provide additional background for the Commission in each of these cases:
15		NUCOR STEEL SPECIAL CONTRACT—FILE NO. EO-2019-0244
16		On July 12, 2019, Evergy Missouri West ("EMW") filed its Application requesting
17		approval from the Commission for a special rate for a steel production facility in Sedalia,
18		Missouri. The Company requested that the Commission enter an appropriate Order by
19		December 1, 2019, approving the Schedule SIL (Special Incremental Load) Tariff so that
20		it would be effective no later than January 1, 2020, and authorizing the Company to serve
21		Nucor Steel Sedalia LLC ("Nucor") under the terms of a Special Incremental Load Rate
22		Contract between the Company and Nucor dated July 11, 2019. ("Agreement" or
23		"Contract") The Contract was confidential and filed under seal.
24		EMW, Nucor, and the Commission Staff entered into and filed with the
25		Commission on September 19, 2019, a Non-Unanimous Stipulation and Agreement
26		("Stipulation") proposing that the Commission should approve the contract between EMW

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and Nucor, including the contract rate, the ten-year term of the contract, and the accounting treatment of the costs and revenues associated with the Agreement.

3 EMW, Nucor and the Commission Staff filed briefs pointing out that the 4 Commission had the statutory authority under Sections 393.130, 393.140(11), and 5 393.150(1) to approve the Stipulation, and the relief requested in the stipulation and 6 agreement. Importantly, Staff's Brief stated: "The proposed special incremental load tariff 7 and Nucor special contract need not be approved pursuant to § 393.355, RSMo. While that 8 section authorizes a special rate for steel smelters, it nowhere provides that it is the 9 exclusive means by which a steel smelter may obtain an economic development rate." 10 (Staff Initial Brief, p. 2) EMW also reiterated that it was not seeking approval of the 11 Stipulation, the Agreement or the rate under Section 393.355.

12 On November 13, 2019, the Commission issued its Report and Order approving the 13 Stipulation, proposed tariff, and the Nucor Agreement. The Commission approved the 14 Stipulation, proposed tariff, and the Nucor Agreement outside the context of a general rate 15 case.

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## KCP&L SPECIAL CONTRACT TARIFF--EO-2006-0192/0193

17 On November 2, 2005, KCP&L applied for Commission approval of a new rate 18 schedule, entitled "Special Contracts – Customer Specific" that would authorize special 19 contracts between KCP&L and large customers subject to certain conditions contained in 20 the tariff. KCP&L's Applications also sought approval of two specific special contract 21 between KCP&L and existing industrial customers. The names of the existing industrial 22 customers were considered confidential and not disclosed publicly.

1	On December 16, 2005, the Staff of the Missouri Public Service Commission filed
2	its recommendation. Staff stated that it had reviewed "the terms of the Special Contract
3	attached to the Application in Appendix 2HC and has no objection to the Commission
4	issuing an Order approving the terms of this Special Contract because no other customer
5	class or individual customer will be adversely affected by its approval." (Staff
6	Recommendation, p. 2).
7	On March 16, 2006, the Commission issued its Order Approving Proposed Rate
8	Schedule and Special Contract in Case Nos. EO-2006-0192 and EO-2006-0193 which
9	approved the new rate schedule authorizing special contracts, and the two confidential
10	special contracts. Both orders were issued outside the context of a general rate case.
11	KCP&L SPECIAL CONTRACT—EO-95-67
12	In Case No. EO-95-67, Kansas City Power & Light Company sought the approval
13	of a tariff and special contract with a large industrial customer. The special contract, which
14	was confidential, provided a formula by which to calculate the price which the industrial
15	customer would pay to KCP&L for electric service. This special contract was approved
16	by the Commission. See In the Matter of a Special Contract filed by Kansas City Power
17	& Light Company, Case No. EO-95-67 (Order Approving Agreement and Tariff, issued
18	October 26, 1994). This contract was approved outside the context of a general rate case.
19	ARMCO STEEL SPECIAL CONTRACT—EO-78-227
20	In Case No. EO-78-227, KCP&L and Armco Steel negotiated a special contract
21	providing for occasional interruption in the supply of electric power by Company
22	to Armco. Under the terms of the Agreement, Armco had the right to recover the energy
23	forfeited as a result of curtailment during "on-peak" hours by increasing its megawatt

demand to 120 percent of prior billing demands without incurring additional demand
 charges. *Report and Order*, Case No. EO-78-227, 22 Mo.P.S.C. (N.S.) 260 (August 22, 1978).
 The Commission approved the special contract on August 22, 1978. This special
 contract was approved outside the context of a general rate case.

## 5 Q: Ms. Kliethermes has testified that EMW has not complied with the requirements of 6 Section 393.355, RSMo for requesting a special rate outside of a general rate 7 proceeding. Do you have comments?

A: Yes. EMW did not file its Application and tariffs pursuant to the terms of Section 393.355.
As a result, Ms. Kliethermes comments are not relevant to this case. As the Staff counsel
in the Nucor Steel case pointed out in Staff's brief in File No. EO-2019-0244, Section
393.355, RSMo. is not the *exclusive* means for obtaining approval of a special contract
with large customers. Like the Nucor case, EMW is relying upon the Commission's
general authority over tariffs and rates to seek approval of the tariffs in this case as has
been done for years in special contract tariff cases.

Q: Ms. Kliethermes also asserted the requested tariff gives undue authority to EMW to
 determine appropriate SPP costs without Commission approval. Do you agree?

A: No. As I explained in my direct testimony, the Company is seeking Commission approval
of the tariff only with this filing. This filing also informs the Commission about the general
form of a future Market Rate contract. The tariff is designed to meet the needs of these
special, high load factor customers by providing an energy rate based on the day-ahead
hourly price of energy observed from the SPP Integrated Marketplace. All other elements
of the proposed rate are determined based on the incremental cost to serve the customers.

1 The combination of the tariff and the Market Rate contract will provide our design 2 case customer certainty that the Special High Load Factor Market rate will be available to 3 them when they are ready to receive service and allow the customer to determine whether 4 to continue investment at the site. If the tariff is approved by the Commission, the 5 Company plans to file a Market Rate contract under the terms of the tariff at a future date. 6 At the time of the Market Rate contract filing, the Company will offer customer-specific 7 details including pricing, terms and customer agreements. To inform the Commission 8 more fully now and support approval of the tariff, the Company has included an example 9 of the Market Rate contract as an exhibit to my direct testimony in this proceeding.

10 Ms. Kliethermes is not correct that this approach gives undue authority to EMW to 11 determine appropriate SPP costs without Commission approval. The Market Rate contract 12 will be submitted for approval at a future date and will provide the necessary detail for the 13 Commission to review costs to serve the customer requesting service under the tariff. In 14 the filing of the Market Rate contract, the Commission will be provided all data and 15 supporting information and contracts necessary for a determination that the rate requested 16 under the Market Rate contract is just and reasonable before the customer can begin taking 17 service under the Special High Load Factor Market rate tariff.

18 Q: Do you agree with Ms. Kliethermes that the requested tariff is discriminatory in that
19 it is only available to customers who fall under NAICS Code 518210 or 541511?

A: No. However, in an effort to narrow the issues in this proceeding, EMW will agree to
delete from the proposed tariff the requirement that customers fall under NAICS Code
518210 or 541511. The Company continues to propose that customers must have a
monthly demand equal to or in excess of 100 megawatts ("MW") or is reasonably projected

to be at least 150 MW within five (5) years of the new customer first receiving service from
Company, and is able to demonstrate and maintain a load factor throughout the year of 0.85
or greater in order to qualify for the Schedule MKT. The Company also continues to
propose that the customer be required to take service at either the Substation or
Transmission voltage level. Terms of service under the Special High Load Factor tariff
will be five years with the opportunity for renewal, subject to pricing change to reflect then
current conditions.

8 Q: Do you agree with Ms. Kliethermes that the requested tariff is not necessary, because 9 the prospective customer (Velvet Tech) qualifies under the Company's currently 10 effective Special Rate for Incremental Load Service (Schedule SIL) rate schedule, 11 Large Power Service rate schedule, or Special Contract rate schedule?

A: No. As I explained in my direct testimony, while Velvet Tech or other data center
customers might qualify under the Company's general large power rates, the Special Rate
for Incremental Load tariff, or the Special Contract tariff, given the sheer size of the data
center customer load, the need to make the rate competitive, and the need to facilitate
customer renewable energy goals, the Company requires another option, and the proposed
tariff meets that need.

Unlike the general large power rate and Special Contract tariff which were found to be uncompetitive based on price, and the Special Rate for Incremental Load tariff that requires Company owned renewable resources to meet customers' corporate sustainability goals, the Schedule MKT rate offers pricing tied to the SPP market, minimizing cost and allowing customers to synchronize output from customer-sourced renewable generation to their local consumption, providing green attributes for that local consumption and

1 providing an offset to market price fluctuations. The role of the renewable resource 2 ownership is a key factor behind the Schedule MKT rate being proposed. Evergy's plans 3 to transition to cleaner energy resources and rating agency assessments of off-balance sheet 4 impacts associated with power purchase agreement arrangements create for EMW a 5 situation where it is much more price competitive to serve customers with characteristics 6 such as Velvet Tech Services under the proposed Schedule MKT rate and allow them to 7 manage their corporate sustainability goals through their own renewables portfolio than for 8 EMW to provide renewable energy resources specific to serve the load requirements of 9 such large customers with such specific corporate sustainability requirements. Having the 10 Schedule MKT rate available for this type of customer is important for Evergy, the Kansas 11 City region, and our other customers to enable Evergy to compete in attracting large, high 12 load factor customers to EMW's service area. I would note that in addition to Velvet Tech 13 Services' interest, Google has intervened in this proceeding and has expressed interest in 14 the applicability of Schedule MKT for a potential project.

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## **RESPONSE TO OPC WITNESS**

Q: OPC witness Dr. Marke raises concerns regarding the identity of the data center
entity that Evergy has been working with in developing the proposed tariff in this
case, and has stated that at a minimum, OPC believes he needs to ensure that the data
center entity is not affiliated with Evergy. Do you have a response?

A: Yes. At this juncture in the regulatory process and in the decision-making process of
 Velvet Tech Services, it is premature to disclose specific details of the owner of the possible
 data center that may locate in the Kansas City area if the proposed tariff is approved. EMW
 has steadfastly met the needs of and its commitments to the prospective customer by not

disclosing its identity. In the event the proposed tariff is approved by the Commission, and
Velvet Tech Services, or any other customer, enters into a Market Rate agreement with
EMW that will be subject to approval by the Commission, then Evergy believes that the
prospective customer will agree that would be the appropriate time to identify on a
confidential basis the identity of the customer. This treatment is consistent with previous
practice before the Commission in some of the special contract cases discussed above.

7 Until that time, EMW is seeking approval of a tariff that will facilitate the next step
8 in securing this large, high load factor customer to EMW's service area to the benefit of
9 Missouri, EMW, and its other customers. As to Dr. Marke's concern about affiliation of
10 such customer to Evergy, I can personally attest that neither Velvet Tech Services, nor any
11 other prospective customer that I am aware of that would be interested in or could qualify
12 under this tariff is affiliated to Evergy, Inc. or any of its subsidiaries.

# Q: Dr. Marke also offers his perspective regarding the time afforded and communication provided by Applicants to parties and the Commission and his opinion that a rate case proceeding is the best venue to consider such economic development tariff offerings or contracts. Do you have a response?

17 A: Yes. First, as noted above, I recognize the timing consideration provided by the
18 Commission and parties with the procedural schedule in this case and I appreciate the
19 parties' willingness to attempt to help Evergy in demonstrating Missouri's ability and
20 willingness to be responsive to Velvet Tech Services timing needs to execute their business
21 plans.

Second, in addition to the time in this procedural schedule, including EMW's offers
to meet and work through questions and concerns, EMW first met with representatives

from Staff and OPC on September 14<sup>th</sup> of 2021 to preview this filing and the structure of 1 2 our proposal. We held a second meeting with representatives from Staff and OPC on September 23<sup>rd</sup> to discuss this filing. For the September 23<sup>rd</sup> meeting, a draft of the 3 4 proposed tariff and the exemplar Market Rate contract were provided to the attendees. 5 During these meetings, EMW solicited feedback from the attendees, offered additional 6 meetings if parties were interested including an offer of further meetings in October. No 7 follow up meetings were requested by the parties after the information presented in the 8 September meetings.

9 While as we have discussed in this filing, EMW had been in dialogue with Velvet
10 Tech Services for quite some time, the initial meeting was conducted shortly after EMW
11 was confident that this tariff structure and expected pricing was agreeable and workable
12 for both EMW and Velvet Tech Services. This meeting was approximately 1 <sup>1</sup>/<sub>2</sub> months
13 before the tariff filing.

14 Lastly, and not to rehash what I mentioned earlier, any recommendation that an 15 economic development process to attract entities looking globally for sites to locate 16 facilities of this size can be conducted by addressing special contract needs and tariffs 17 through a general rate case process is not based on an understanding of the intensity and 18 complexity of such a competitive process. The timing of a general rate case is subject to 19 filing needs of EMW and requires months to prepare and, in Missouri, eleven months to 20 process from filing to rates effective. Such a delayed decision would signal to prospective 21 customers that Missouri is not interested in economic development. Such a lengthy and 22 cumbersome process would mean that Missouri will not attract customers like Velvet Tech 23 Services.

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## Q: Do you still believe the Special High Load Factor Market rate tariff is appropriate and should be approved by the Commission as filed?

3 A: Yes, I do. I would note that the surrebuttal testimony of Bradley Lutz describes tariff 4 modifications acceptable to EMW based upon comments received from parties in their 5 rebuttal testimony. With those modifications, the Special High Load Factor Market rate 6 tariff provides EMW with an important additional option to serve large load, high load 7 factor customers such as Velvet Tech Services, incorporate customer-sourced renewable 8 generation resources, and secure economic benefit to the State. Further, when combined 9 with the subsequent Market Rate contract filing, the proposal by EMW provides the 10 Commission with ample visibility to costs and the reasonable recovery of those costs from 11 customers receiving service under the tariff. With this tariff filing, EMW, the Commission 12 and interested parties have the benefit of a prospective customer who can serve as the 13 design case and this has allowed EMW to provide further detail as to the expected detail 14 and form of the overall application of the proposed rate. EMW reiterates its request that 15 the Commission approve this tariff as proposed with modifications described in the 16 surrebuttal testimony of Bradley Lutz.

- 17 Q: Does this conclude your testimony?
- 18 A: Yes.