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Case Nos.:	EO-2022-0064/0065
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NOS.: EO-2022-0064/0065

SURREBUTTAL TESTIMONY

OF

KAYLA MESSAMORE

ON BEHALF OF

EVERGY MISSOURI METRO and EVERGY MISSOURI WEST

Kansas City, Missouri
July 2022

SURREBUTTAL TESTIMONY

OF

KAYLA MESSAMORE

Case Nos. EO-2022-0064/0065

Q: Please state your name and business address.

A: My name is Kayla Messamore. My business address is 1200 Main, Kansas City, Missouri 64105.

Q: By whom and in what capacity are you employed?

A: I am employed by Evergy Metro, Inc. and serve as Vice President of Strategy and Long-Term Planning for Evergy Metro, Inc. d/b/a as Evergy Missouri Metro ("EMM" or "Missouri Metro") and Evergy Missouri West, Inc. d/b/a Evergy Missouri West ("EMW" or "Missouri West").

Q: Who are you testifying for?

A: I am testifying on behalf of EMM and EMW (collectively referred to as the ("Company").

Q: Are you the same Kayla Messamore who previously filed direct testimony in these dockets?

A: Yes.

Q: What is the purpose of your surrebuttal testimony?

A: I will respond to the rebuttal testimony of Cynthia Tandy filed on behalf of the Staff of the Missouri Public Service Commission ("Staff") on the topic of renewable energy certificates ("RECs").

Q: Can you summarize Staff's policy argument?

A: Staff is recommending an imputation of revenues for non-existent REC sales which, according to Staff, should have occurred during this Fuel Adjustment Clause ("FAC") review period for both EMM and EMW. To support its argument, Staff cites increases in REC prices, increases in excess and/or expired REC inventories, and inadequate review processes.

Q: Does the Company agree with Staff's argument?

A: No not at all. First, the methodology Staff utilized in calculating their recommended disallowance utilizes inaccurate pricing for this Review Period. Second, even discarding the temporal inaccuracy of Staff's estimate, the corrected price estimate is inappropriate to apply to the expired 2017 vintage RECs used in Staff's calculation because that level of pricing has never been available for those 2017 RECs *at any point in their lifecycle.* Third, Staff's argument that the Company's review processes were inadequate completely ignores information provided to the contrary in my Direct testimony. Finally, Staff's fundamental argument that "the majority of the excess RECs should have been sold within this Review Period", and thus revenues should be imputed is illogical, given the majority of excess RECs generated during this Review Period (2020 and 2021 vintage) have now been sold at a higher price than they would have realized during this Review Period and the revenues from those sales are already creating more customer benefit in the accumulation months that will be flowing through future FAC periods.

Q: Please describe Staff's methodology for calculating their recommended disallowance.

A: In order to calculate their recommended disallowance, Staff multiplied the number of RECs which expired during the review period (79,994 for Missouri West and 1,153,813 for Missouri Metro) by Staff's calculated "average price" for the review period ($3.40). As I mentioned in my Direct Testimony, the expired RECs are all 2017 vintage RECs (RECs generated in 2017). This "average price" is based on four datapoints provided by the Company, Ameren, and Liberty which Staff inaccurately claims produce a representative average for the period.

Q: Do you agree that Staff's average price is appropriate to apply to the Review Period?

A: No. The Company requested a daily close price series from its primary broker in the REC market – Amerex – and this price series is displayed below. As you can see, the actual average of the daily close prices was $1.62 over the combined Review Period (using December 1, 2019 through June 30, 2021 given Staff applied one average price to both Missouri West and Missouri Metro). Staff's datapoints, including the dates ascribed to them, have also been plotted on the chart below. This demonstrates what I included in my Direct Testimony regarding the $7 price being an unrepresentative outlier, which was quoted publicly in Ameren's September 2021 filing in docket EE-2022-0074 (outside of the Review Period). To supplement the pricing data below from Amerex, a more limited (June 2020-June 2022) price series was also obtained from **[redacted]**, which was the quoted source in the Ameren DR 0001 referenced in Witness Tandy's rebuttal testimony. The trend of this price series was consistent with the Amerex price series included below and also confirmed that REC prices were only near $7 for approximately two weeks in mid-August 2021. Even if the $7 price is excluded, Staff's average price would still be too high at $2.17 compared to actual average prices, but, given the Company only recently obtained this daily price information and thus it wasn't available to Staff during their review, $2.17 would at least be a viable proxy for average REC prices during the Review Period given the information available to Staff during their review. Of course, $1.62 would be the most accurate average to use given the latest information available. However there is a very important consideration in this proceeding that I will describe in more detail below: both of these prices are for <u>2021 vintage RECs</u> and are not appropriate to apply to the expired, 2017 vintage RECs being utilized in Staff's recommended disallowance calculation.

<u>National Green-e REC Pricing (2021 Vintage, $/REC)</u>[1]

[redacted]

[1] Source: Amerex daily close prices (mids); H2 (second half) 2021 prices shown as 2021 prices beginning in October 2021.

Q: Why does the vintage of the REC matter when determine in establishing pricing?

A: As I described in my Direct testimony, generally, the "older" a REC is, the less value it has. This is not due to some inherent degradation of the REC itself, but is a 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. It is only in very specific circumstances where a customer may be looking for historical RECs to make a particular historical year "greener" (which I'll refer to as "ad hoc demand" for particular vintages). This is where the distinction described in my Direct testimony, which witness Tandy referred to as "conflicting", comes into play: there is always a "market" for RECs of historical vintages, in that they *can* be sold. However, the ability to sell them – and the price realized for that sale – is dependent on finding a buyer for those particular RECs. This is why my Direct Testimony referred to a lack of *demand* for the 2017 RECs which are currently being marketed, and not a lack of a market. This lack of demand can more generally be described as a lack of liquidity, which can occur at the REC market or vintage year level, and this lack of liquidity means that there are few buyers (and/or sellers) participating in that market and, as a result, both trade volumes and prices decline.

Q: What does this mean for the 2017 expired RECs included in Staff's recommended disallowance?

A: It means that the average price of 2021 RECs, whether it is \$3.40, \$2.17, or \$1.62 was *never* available for those 2017 RECs because, by the time they were three years old in 2020, the liquidity in the market for those RECs had declined to the level of only "ad hoc demand" and there would have been a significant discount on the pricing of those RECs, assuming there were buyers available for them at all.

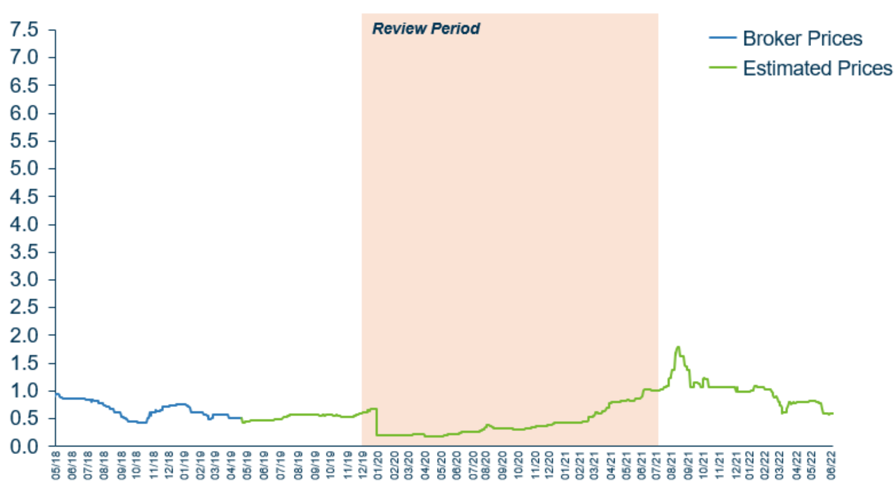
Q: What price do you believe would have been realized for the expired RECs if they were sold during the Review Period?

A: Given the lack of actual pricing data for these illiquid vintages, a proxy is required to estimate the value of these potential sales. As described in Direct testimony, REC sales executed during 2022 for historical RECs (2019 vintage) indicate a realized price of ~25% of current-year REC prices. Given an average price for 2021 RECs of $1.62 during the Review Period, this would equate to a proxy price of approximately $0.41/REC for any RECs for which a buyer was found.

Q: How does this compare to the pricing at the time of EO-2019-0067 when the Commission ruled that the revenue opportunities in selling RECs were very limited?

A: This estimated price is lower than those at the time of the EO-2019-0067 Report and Order. In that case, Staff's recommended disallowance was $350,351. Given the pricing calculated above and the expired 2017 REC volume in this case, the corresponding value (assuming all expired 2017 RECs could have been sold, which is unlikely) would be $505,861 across both Metro and Missouri West 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), as it was when the Commission determined in the EO-2019-0067 Order that the credit was "de minimis and outweighed by KCPL'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. To illustrate this point, a price series for 2017 RECs is shown below. Daily broker prices are only available for 2017 RECs until April 2019, when the market became so illiquid that close prices were no longer maintained. From that point on, prices are estimated based on a discount applied to current-year RECs which is informed by Evergy's actual sales of historical RECs in 2022.

Actual and Estimated REC Pricing (2017 Vintage, \$/REC)[3]



[2] *Report and Order*, File No. EO-2019-0067, December 6, 2019, p. 25.
[3] Source: Amerex daily close prices (mids); Estimated prices based on liquidity discount realized for 2018-2020 RECs sold in early 2022 applied to current-year REC prices provided by Amerex (~20% for 2020, 75% for 2018 and 2019).

Q: Please summarize your testimony regarding Staff's recommended disallowance related to expired RECs.

A: The facts surrounding these expired 2017 RECs in terms of their potential market value and de minimis impact on customer costs, as compared with customers' desire for bundled energy and renewable energy credits remain as they were at the time of the Commission's Report and Order in EO-2019-0067. The Commission's ruling at that time should apply in this case as well and there should be no disallowance.

Q: What does Staff assert regarding the Company's review processes as they relate to the REC market?

A: Per Witness Tandy's rebuttal testimony: "Staff believes in regard to the amount of money involved with RECs, a review only once a year, as Evergy Missouri West did during the Review Period, is not sufficient. Evergy Missouri West admits that prices of RECs are very volatile with changing market conditions. The evaluation of this funding source only once a year is an imprudent action in itself."

Q: Is this an accurate assessment of the Company's review processes during the Review Period?

A: No. Per my Direct testimony: "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.*" (emphasis added) I went on to explain that 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 witness Tandy asserts.

Q: Witness Tandy makes an assertion that "the majority of the excess RECs should have been sold within this Review Period" as support for the calculation of imputed revenue as a recommended disallowance. Do you agree with this assertion?

A: No. First of all, this argument is inconsistent with a calculated disallowance based on the sale of *expired* (2017) RECs because it moves to asserting that the majority of *excess* RECs should have been sold. As a result, this argument is largely irrelevant in supporting the recommended disallowance itself other than demonstrating a more general desire from Staff that excess RECs of all vintages should be sold (including expired RECs). Given the Company began doing just that in early 2022 and has realized significant revenues from the sale of excess RECs at this time, it is illogical to claim that revenue should be imputed in an earlier Review Period when, due to the Company's new process, the revenues will appear in an upcoming Review Period. In fact, as I will describe below, by selling at the time it did, the Company has benefitted customers more significantly as a result of higher REC market prices than would have occurred under Staff's suggestion to sell earlier. At this point in 2022, the majority of RECs generated during this review period (2020 and 2021 vintage RECs) which are forecasted to be "excess" have in fact been sold and proceeds are already beginning to accumulate for return to customers in future FAC periods. If, hypothetically, REC prices were higher during this Review Period (December 2019-June 2021) than when the RECs were actually sold, an argument could be made that there was lost opportunity by waiting until 2022 to sell RECs. Alternatively, if REC prices had been the same across both periods, an argument could be made that there should be interest applied for the delay. However, neither of those are the case.

Q: How have realized prices from REC sales in 2022 compared to what would have been realized during this Review Period?

A: The average price realized for Missouri West and Metro 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 a result, Staff has no basis for claiming imputed revenue for a supposed "lost opportunity" to sell these excess RECs.

Q: Please summarize your testimony.

A: Staff's calculation of its recommended disallowance is based on inaccurate pricing for this FAC review period and includes the inappropriate application of 2021 REC pricing to 2017 vintage RECs. Using a more appropriate price for 2017 RECs, the overall revenue opportunity available from selling those RECs during the review period was de minimis and, as a result, the Commission's ruling from EO-2019-0067 should apply and there should be no disallowance. Furthermore, due to the Company's ongoing monitoring of the REC market and the resulting development of a new REC sale process, which includes the sale of all *excess* RECs (not just expired RECs), the Company has captured additional value for customers which will flow through future FAC periods than would have been realized if the majority of excess RECs were sold during this Review Period – as Staff asserts they should have been. For all of these reasons, there should be no disallowance or finding of imprudence regarding the Company's management of its excess REC inventory.

Q: Does this conclude your testimony?

A: Yes, it does.

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 of Evergy Metro, Inc. d/b/a Evergy Missouri Metro	)	Case 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	)	Case No. EO-2022-0065

AFFIDAVIT OF KAYLA MESSAMORE

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Kayla Messamore, being first duly sworn on his oath, states:

1. My name is Kayla Messamore. I work in Kansas City, Missouri, and I am employed by Evergy Metro, Inc. and serve as Vice President of Strategy and Long-Term Planning for Evergy Metro, Inc. d/b/a Evergy Missouri Metro ("EMM") and Evergy Missouri West, Inc. d/b/a Evergy Missouri West ("EMW").

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of EMM and EMW consisting of eleven (11) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

4.

Kayla Messamore
____
Kayla Messamore

Subscribed and sworn before me this 6th day of July 2022.

____
Notary Public

My commission expires: 4/26/2025

ANTHONY R. WESTENKIRCHNER
NOTARY PUBLIC - NOTARY SEAL
STATE OF MISSOURI
MY COMMISSION EXPIRES APRIL 26, 2025
PLATTE COUNTY
COMMISSION #17279952