Exhibit No.:
Issue: Fuel Costs and PISA Deferral
Witness: Darrin R. Ives
Type of Exhibit: Direct Testimony
Sponsoring Party: Evergy Missouri West
Case Nos.: ER-2023-0210
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2023-0210

DIRECT TESTIMONY

OF

DARRIN R. IVES

ON BEHALF OF

EVERGY MISSOURI WEST

Kansas City, Missouri

December 2022

DIRECT TESTIMONY

OF

DARRIN R. IVES Case

No. ER-2023-0210

Q: Please state your name and business address.

A: My name is Darrin R. Ives. 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 – Regulatory Affairs for Evergy Metro, Inc. d/b/a Evergy Missouri Metro ("EMM"), Evergy Missouri West, Inc. d/b/a Evergy Missouri West ("EMW"), Evergy Metro, Inc. d/b/a Evergy Kansas Metro ("Evergy Kansas Metro"), and Evergy Kansas Central, Inc. and Evergy South, Inc., collectively d/b/a Evergy Kansas Central ("Evergy Kansas Central"). These are the operating utilities of Evergy, Inc.

Q: On whose behalf are you testifying?

A**:** I am testifying on behalf of EMW ("Company").

Q: What are your responsibilities?

A: My responsibilities include oversight of Evergy's Regulatory Affairs Department, as well as all aspects of regulatory activities including policy, cost of service, rate design, revenue requirements, regulatory reporting and tariff administration.

Q: Please describe your education, experience and employment history.

A: I graduated from Kansas State University in 1992 with a Bachelor of Science in Business Administration with majors in Accounting and Marketing. I received my Master of

Business Administration degree from the University of Missouri-Kansas City in 2001. I am a Certified Public Accountant holding certificates from the states of Kansas and Missouri. From 1992 to 1996, I performed audit services for the public accounting firm Coopers & Lybrand LLP. I was first employed by Kansas City Power & Light Company ("KCP&L") in 1996 and held positions of progressive responsibility in Accounting Services and was named Assistant Controller in 2007. I served as Assistant Controller until I was named Senior Director – Regulatory Affairs in April 2011. I have held my current position as Vice President – Regulatory Affairs since August 2013.

Q: Have you previously testified in a proceeding at the Missouri Public Service Commission ("Commission" or "PSC") or before any other utility regulatory agency?

A: Yes, I have testified before the Commission and the Kansas Corporation Commission ("KCC"). I have also provided written testimony to the Federal Energy Regulatory Commission ("FERC") and testified before Missouri and Kansas legislative committees.

I. PURPOSE OF TESTIMONY AND EVERGY WITNESSES

Q: What is the purpose of your testimony?

A: I will explain how the fuel cost increases experienced by EMW in this 31st Fuel Adjustment Clause ("FAC") accumulation period covering the months of June through November 2022 continued to be significantly impacted by external factors outside the Company's control, and which far surpassed the prior two FAC accumulation periods: (a) the 29th Accumulation Period from June 2021 through November 2021 (No. ER-2022-0174) and (b) the 30th Accumulation Period from December 2021 through May 2022 (No. ER-2023-0011). I will then address the resulting deferral of fuel and purchased power costs under the provisions of the plant-in-service accounting ("PISA") legislation enacted by the

Missouri General Assembly in 2018. In addition to my testimony, the Company is sponsoring the direct testimony of Lisa Starkebaum who addresses the mechanics of this fuel adjustment clause filing and the rate proposed by EMW.

II. MARKET CAUSES OF EXCESS FUEL COST

Q: The direct testimony of Company Witness Lisa Starkebaum states that EMW's Fuel and Purchased Power Adjustment ("FPA") during the six-months ending November 2022 for the 31st Accumulation Period was approximately $104.2 million. Similarly, EMW's FPAs for the previous two six-month accumulation periods ending May 2022 and November 2021 were $44.6 million and $47.5 million, respectively. Why have EMW's fuel and purchased power expenses increased so dramatically in the recent FAC updates?

A: Similar to the direct testimony I provided in the previous 30th Accumulation Period in Case No. ER-2023-0011, there are a variety of causes, all of which are extraordinary and are the product of external factors beyond the Company's control.[1] As the Staff of the Federal Energy Regulatory Commission ("FERC") recently stated in an October 2022 report entitled "Winter Energy Market and Reliability Assessment," these causes include changes in weather, the domestic and international natural gas markets, and coal supply and transportation constraints caused by rail service issues.[2] When EMW's predecessor Aquila was first granted an FAC, this Commission concluded: "The price of natural gas, coal, and railroad freight rates to transport that coal are established by national, and in some cases,

[1] See generally "U.S., European Economies Slow Sharply as Recession Risks Grow," The Wall Street Journal (June 23, 2022) ("… surging prices of energy and food weakened demand for other goods and services"; "Russia's war in Ukraine has hit global growth as high inflation spread across the globe"; "Economies also face continuing supply-chain disruptions and the prospect of rising interest rates ...").

[2] Winter Energy Market and Reliability Assessment, 2022-2023 (Oct. 25, 2022) ("FERC Staff Winter 2022-23 Report").

international markets. Aquila does not have control over those prices. Similarly, Aquila does not have control over the prices it must pay for purchased power." See Report & Order at 36, In re Aquila, Inc., No. ER-2007-0004 (May 17, 2007)

Q: What did FERC Staff forecast earlier this year for the summer of 2022 which includes this 31st Accumulation Period (June-November 2022)?

A: FERC Staff made several "key findings" in a May 19, 2022 report entitled Summer Energy Market and Reliability Assessment ("FERC Staff Summer 2022 Report"). Based on forecasts from the U.S. National Oceanic & Atmospheric Administration for June through September 2022, FERC staff predicted a 50% to 80% likelihood of higher-than-average temperatures that could have a significant impact on demand for electricity. Natural gas prices for this summer "are expected to rise at major trading hubs across the U.S.," with wholesale electric markets "to see higher prices this summer because of hotter temperatures, slightly increased demand, and higher natural gas prices."[3] Its conclusion that "[h]igher temperatures, disruptive world events, and changing natural gas market fundamentals could affect electric and natural gas market prices … this summer" has come to pass.[4] FERC Staff emphasized that "world events will likely continue to add to the uncertainties affecting U.S. energy markets," noting that much depends on factors like the export of liquified natural gas ("LNG") from the United States, sanctions limiting the import of Russian commodities, "how the war in the Ukraine progresses, and the manner in which market participants adjust to supply and demand changes."[5].

[3] See FERC Staff Summer 2022 Report at 1-2.
[4] Id. at 40.
[5] Id. at 41.

Q: Were the forecasts by FERC Staff accurate?

A: Yes, they were accurate. The Energy Information Administration ("EIA") of the U.S. Department of Energy ("DOE") reported earlier this month that the average price of natural gas at Henry Hub increased dramatically from $3.91/MMBtu in 2021 to $6.48/MMBtu in 2022.[6] This confirmed the trends that EIA reported this fall, as the Henry Hub spot price averaged $8.80/MMBtu, up from $7.28/MMBtu in July, because of continued strong demand for gas in the electric power sector.[7] "Natural gas was key to meeting electricity demand peaks throughout the country during the hot July, especially in Texas, when several records were set for daily peak electricity demand."[8] EIA's December 2022 report stated that natural gas prices are expected to increase from the November 2022 average of $5.50/MMBtu "as a result of both higher winter natural gas demand and rising LNG exports," with Henry Hub spot prices averaging more than $6.00/MMBtu.[9]

Q: What are the factors that determine wholesale electricity prices for EMW and other electric utilities?

A: As noted above, various factors determine wholesale electricity prices for the power that EMW purchases, but the cost of fuel for fossil-fuel generators is the most significant one. As FERC Staff, the EIA, and others have observed, natural gas is the marginal fuel in electricity markets like Southwest Power Pool ("SPP") in which EMW participates. Accordingly, increased natural gas prices are correlated with increased electricity prices because higher gas prices increase overall power prices when gas-fired generation sets the

[6] EIA Short-Term Energy Outlook: Overview Graph at 1 (Dec. 2022) ("EIA December Outlook").
[7] EIA Short-Term Energy Outlook at 1 (Sept. 2022).
[8] Id. at 12.
[9] EIA Short-Term Energy Outlook at 1 (Dec. 2022); SPP Market Monitoring Unit, "State of the Market: Summer 2022" at 32 (Oct. 31, 2022).

marginal price at which electricity clears the market.[10] Of the many factors that contributed to higher Henry Hub spot natural gas prices in 2022 were rising domestic gas consumption, lower inventory storage levels, and the continued growth in LNG exports.[11]

Q: Why has the growth in LNG exports contributed to the price of natural gas that EMW buys?

A: According to FERC Staff, over the last decade the expansion of LNG export capability "has integrated formerly disparate North American regional natural gas markets into the global market."[12] As a result, events like the unplanned outage at the Freeport LNG terminal near Houston, Texas, and the Russian invasion of Ukraine that prompted European sanctions on Russia and subsequent decisions by European markets "to significantly increase their purchases of LNG from the constrained global supply chain" have caused "record high global LNG prices in Summer 2022."[13] FERC Staff concluded: "Global LNG prices can impact domestic natural gas prices, given a tight balance between domestic natural gas production and demand. U.S. domestic natural gas prices are unlikely to rise high enough to match or exceed global LNG prices this winter, with Henry Hub winter 2022-2023 futures at $6.82/MMBtu compared to Asian and European LNG price markers at around $30/MMBtu for December 2022 (as of October 12, 2022)."[14]

Q: Given these developments, what does the EIA forecast for this winter?

A: EIA forecasts wholesale prices for on-peak power to rise "in all areas of the country during the winter months as the winter becomes colder," with increases in December-February

[10] FERC Staff Winter 2022-23 Report at 4.
[11] Id. at 5.
[12] Id. at 5-6.
[13] Id. at 6.
[14] Id.

ranging from "33% higher than last winter in California (CAISO) to more than 60% higher in the mid-Atlantic (PJM) and central (SPP) regions."[15]

Q: Has EMW experienced similar increases in the cost of fuel and fuel additives necessary for the generation of electricity as a result of escalating market prices?

A: Yes. Similar to the Henry Hub increase discussed above, EMW's weighted average cost of gas (without transportation costs) in August 2021 was $4.087/MMBtu, whereas in August 2022 it was $7.521/MMBtu, an increase of over 84%.

The average cost of EMW #2 diesel fuel was approximately 71% higher in August 2022 compared to August 2021. Increases in diesel fuel not only caused an increase in the fuel commodity itself, but are also causing increases in transportation costs for some fuel and additives used by EMW. Further, when comparing August 2022 to August 2021 pricing, EMW's cost of coal (commodity only) increased approximately 52%.

In addition to the fuel commodities themselves, fuel additives such as ammonia have increased in cost. For example, EMW's cost of ammonia increased by roughly 60% comparing August 2021 to August 2022.

Q: Have these national trends affected the price of wholesale electricity in Southwest Power Pool ("SPP") where EMW purchases its power?

A: Yes, they have. The SPP Market Monitoring Unit recently reported that gas prices at the Panhandle Eastern hub during the summer of 2022 (June-August) rose 114% to $7.31/MMBtu compared with $3.42/MMBtu in the summer of 2021. In August 2022 gas prices hit a new all-time high (outside of February 2021) at $8.03/MMBtu.[16] Regarding

[15] EIA Short-Term Energy Outlook at 8 (Dec. 2022).
[16] SPP Market Monitoring Unit, "State of the Market: Summer 2022" at 1, 32 (Oct. 31, 2022) ("SPP Market Monitor Report").

wholesale electricity prices, the SPP Market Monitor stated: "Day-ahead prices increased from an average of $33.30/MWh in summer 2021 to $74.63/MWh in 2022, an increase of 124 percent." Similarly, real-time prices increased 127% over the summer of 2021, rising from $30.68/MWh to $69.65/MWh."[17] The Market Monitor advised that the highest off-peak and on-peak prices were found in three regions of SPP, including "the southeast portion of the SPP footprint" which includes "western Missouri" and EMW's service territory.[18]

Q: Is this trend having a similar effect on the market nodes where EMW participates in SPP's wholesale market?

A: Yes. For example, the cost of electricity at the load node where EMW participates in the SPP wholesale markets in August 2022 was $78.60/MWh.[19] Compared with the August 2021 load node cost of $36.48/MWh, this was an increase of 115%.

III. RATE CAPS UNDER SECTION 393.1655

Q: What is the full amount of FAC-related costs incurred by Evergy Missouri West during the subject accumulation period?

A: Approximately $104.2 million.

Q: Please explain the impact of this FPA in regard to the PISA rate caps under section 393.1655?

A: As discussed in the direct testimony of Company witness Lisa A. Starkebaum, after performing the PISA cap tests, the FPA of $104.2 million causes EMW to exceed the 3 percent Compound Annual Growth Rate ("CAGR") cap under section 393.1655.5. When

[17] Id. at 1, 33.
[18] Id. at 35-36.
[19] Monthly average of day-ahead market LMPs on a 24 x 7 basis.

considering the impacts from the most recent general rate case (Case No. ER-2022-0130) and update to base revenues in addition to the impacts from this FAC accumulation period as well as the immediately preceding FAC accumulation period, the average overall rate computed is $0.11161 compared to the 2018 baseline of $0.09367, a 19.15% increase. This increase exceeds the Average Overall Rate Cap of 13.3372% at March 1, 2023.

Q: How does the Company propose to treat the subject FAC-related costs in this proceeding?

A: Consistent with 393.1655.5 of the PISA statute, Evergy Missouri West is including $56.3 million for recovery in this filing and is deferring $47.9 million of FAC-related costs to the PISA regulatory asset created under section 393.1400 for further treatment in a subsequent general rate proceeding. This treatment is explicitly provided for in section 393.1655.5 of the PISA statute which states:

> If a change in any rates charged under a rate adjustment mechanism approved by the commission under sections 386.266 and 393.1030 would cause an electrical corporation's average overall rate to exceed the compound annual growth rate limitation set forth in subsection 3 or 4 of this section, the electrical corporation shall reduce the rates charged under that rate adjustment mechanism in an amount sufficient to ensure that the compound annual growth rate limitation set forth in subsection 3 or 4 of this section is not exceeded due to the application of the rate charged under such mechanism and the performance penalties under such subsections are not triggered. Sums not recovered under any such mechanism because of any reduction in rates under such a mechanism pursuant to this subsection shall be deferred to and included in the regulatory asset arising under section 393.1400 or, if applicable, under the regulatory and ratemaking treatment ordered by the commission under section 393.1400, and recovered through an amortization in base rates in the same manner as deferrals under that section or order are recovered in base rates.

Q: Will the Commission and the parties have an opportunity to review the prudence of the amounts deferred?

A: Yes. All amounts incurred by EMW for fuel and purchased power as reflected in EMW's Fuel and Purchased Power Adjustment ("FPA") during the six-months ending November 2022 for the 31st Accumulation Period of approximately $104.2 million are available for prudence review in the standard FAC prudence review under the rate adjustment mechanism approved by the Commission pursuant to Section 386.266 and the Commission's FAC Rule at 20 CSR 4240-20.090, inclusive of the $47.9 million deferred subject to section 393.1655.5.

IV. SUMMARY

Q: Please summarize your testimony.

A: I explained that the fuel and purchased power cost increases experienced by EMW during the six-month accumulation period ending November 30, 2022, continued to be significantly impacted by external factors beyond the control of EMW. I also addressed the PISA legislation, specifically section 393.1655.5 of the PISA statute regarding the deferral of FAC-related costs in excess of the 3 percent CAGR rate cap.

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 Application of Evergy Missouri West 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	))))))	Case No. ER-2023-0210

AFFIDAVIT OF DARRIN R. IVES

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Darrin R. Ives, being first duly sworn on his oath, states:

1. My name is Darrin R. Ives. I work in Kansas City, Missouri, and I am employed by Evergy as Vice President – Regulatory Affairs.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Evergy Missouri West consisting of ten (10) 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.

Darrin R. Ives

Subscribed and sworn before me this 30th day of December 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