BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

In the Matter of the Ninth 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-2020-0262
In the Matter of the Third 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-2020-0263

RESPONSE TO STAFF'S NINTH PRUDENCE REVIEW REPORT FOR EVERGY MISSOURI WEST AND THIRD PRUDENCE REVIEW REPORT FOR EVERGY MISSOURI METRO AND REQUEST FOR AN EVIDENTIARY HEARING

COMES NOW the Office of the Public Counsel ("OPC") and for its *Response to Staff's Ninth Prudence Review Report for Evergy Missouri West and Third Prudence Review Report for Evergy Missouri Metro and Request for an Evidentiary Hearing*, states as follows:

1. Staff filed its Ninth Prudence Review Report for Evergy Missouri West in case EO-2020-0262 and its Third Prudence Review Report for Evergy Missouri Metro in case EO-2020-0263 on August 28, 2020.

2. In both cases, the Staff found no evidence of imprudence on the part of the respective company, though, this finding was tempered in the case of Evergy Missouri West in that the Staff found no imprudence only because the Company agreed to defer the costs associated with the retirement of the Sibley Generating

Facility recorded during the review period and seek recovery of those costs through another mechanism.

3. The OPC disagrees with Staff's assessment of no imprudence on three grounds.

<u>Imprudence of Wind PPA Costs Incurred by Both Companies</u>

4. The OPC believes the wind purchase power agreements (PPAs) entered into by both companies for stated "economic reasons" were imprudent.

5. The OPC notes that the combined loss to date for these wind PPAs amount to more than $227 million.

6. Additional information regarding the imprudence of these wind PPAs can be found in the *Memorandum* prepared by the OPC and included as Attachment A of this pleading.

7. Despite its firm conviction regarding the imprudence of these massive losses incurred by Evergy, the OPC nevertheless acknowledges that the Commission has previously indicated that it will not provide any disallowance of these costs during the pendency of the PPAs. *See* EO-2019-0067, *Report and Order*, pg. 26 ("OPC's argument, on the other hand, that the PPAs were not needed when acquired to meet Missouri RES requirements or customers' needs and that values declining before the PPA acquisition continued to decline afterwards, presupposes the PPAs were acquired as only short-term investments. The Commission will not replace the companies' primary supposition at the point of decision that the PPAs were being acquired in the context of a long term, twenty-year investment with a supposition

that the investment was short term, and then apply a hindsight test and pronounce the investments imprudent").

8. While the OPC remains concerned that this decision by the Commission will ultimately render the immense losses that Evergy has and will continue to incur because of these wind PPAs unrecoverable (thereby forever saddling Evergy customers with the burden of paying for incredibly uneconomic PPAs the Company claims were entered into for "economic reasons"), the OPC is loathe to directly re-litigate an issue the Commission has stated it is unwilling to address.

9. Therefore, while the OPC still maintains that the more than $227 million in losses arising from these wind PPAs resulted from imprudence, the OPC is **not** seeking a disallowance of any costs related to those PPAs at this time and is **not** requesting an evidentiary hearing related to this matter.

Imprudence of Collecting Retirement Costs through the FAC

10. Staff's prudence report for Evergy Missouri West appears to condition its finding of no imprudence on the Company's stated willingness to defer the costs associated with the retirement of the Sibley Generating Facility recorded during the review period that had been previously included in the FAC and instead seek recovery of those costs through another mechanism.

11. To begin with, the OPC notes that Staff's analysis of this issue is wrong. The costs associated with the retirement of the Sibley Generating Facility should not have flown thorough the FAC per the terms of Evergy West's tariffs. The Commission has previously found that the violation of its FAC tariff by a utility is imprudent. *In*

the Matter of Ameren Missouri's First FAC Prudence Review, EO-2010-0255, *Report & Order*, pg. 2 ("Ameren Missouri acted imprudently, improperly and unlawfully when it excluded revenues derived from power sales agreements with AEP and Wabash from off-system sales revenue when calculating the rates charged under its fuel adjustment clause"). This decision was appealed to, and ultimately upheld by, the Missouri Western District Court of Appeals *State ex rel. Union Elec. Co. v. PSC*, 399 S.W.3d 467, 491 (Mo. App. WD 2013) (emphasis added).

12. The Staff's proposed Ordered Adjustment ("OA") in the amount of $1,039,343 would serve as a cure for this imprudence, but does not eliminate the existence of the imprudence itself.

13. Staff is therefore wrong to say that there was no imprudence.

14. Moreover, while Staff has identified costs imprudently recovered thorough the FAC by Evergy West related to the retirement of the Sibley Generating Facility, the same cannot be said for similar costs incurred by Evergy Metro related to the retirement of the Montrose Generating Facility.

15. These costs, which the OPC believes amount to $193,276 with proper Missouri allocation, were imprudently included in the FAC costs used to set rates for Evergy metro Customers and should now be removed and returned to those customers.

Imprudence Related to Evergy not Entering into a Capacity Sale Contract and Other MEEIA Related Costs

16. In its *Second MEEIA Prudence Review of Cycle 2 Costs Related to the Missouri Energy Efficiency Investment Act* filed in cases EO-2020-0227, Staff recommended disallowances related to Evergy Metro failing to enter into any capacity sales contracts despite being very long on capacity.

17. The Company responded by filing a motion to limit the scope of the proceeding in that case and argued explicitly that "[c]apacity sales are subject to the Company's Fuel Adjustment Clause, and should be addressed in an FAC prudence audit, not a MEEIA prudence audit."

18. Staff and the OPC both filed motions in opposition to Evergy's motion to limit proceeding and the Commission ultimately issued an order denying that motion.

19. The OPC fully supports resolution of Evergy's imprudence on this issue in the pending MEEIA prudence review case. Because the Company itself has put forward the argument that this disallowance should be applied in an FAC prudence review, however, the OPC believes that it should be raised in this case as well.

20. Evergy's failure to enter into a capacity contract despite being long on capacity was an act of imprudence that must be addressed and rectified whether it be in the MEEIA prudence review case or the present FAC prudence review case.

21. In addition to the capacity contract issue, there are two other costs involved in the MEEIA prudence review case that also have impacts on Evergy's FAC prudence review.

22. First, there are SPP Schedule 11 expenses that could have been avoided had the Company fully implemented the demand response programs developed in its MEEIA. A percentage of these Schedule 11 costs flow through the FAC and should thus also be removed from the FAC if the Company is found to be imprudent in the MEEIA case.

23. Second, there are the avoidable LMP costs (*i.e.* what Evergy paid for energy that it could have avoided if it had called on its demand response programs) that were also flown through the FAC and which also should be removed in the event these MEEIA costs were found to be imprudently incurred.

24. Again, these issues of imprudence are or should be addressed in the current Evergy MEEIA prudence review case and are being raised here only so to ensure these otherwise imprudent costs are not passed through the FAC.

<u>Request for an Evidentiary Hearing</u>

25. The OPC believes that an evidentiary hearing will be required to resolve the issues related to its second and third points raised in this pleading and therefore requests such an evidentiary hearing in compliance with 20 CSR 4240-20.090(11)(B).

WHEREFORE, the Office of the Public Counsel respectfully requests the Commission accept this *Response to Staff's Ninth Prudence Review Report for Evergy Missouri West and Third Prudence Review Report for Evergy Missouri Metro and Request for an Evidentiary Hearing*, order an evidentiary hearing to be held in this case, and take all such other actions as it deems reasonable.

Respectfully submitted,

By: /s/ John Clizer
John Clizer (#69043)
Senior Counsel
Missouri Office of the Public Counsel
P.O. Box 2230
Jefferson City, MO 65102
Telephone: (573) 751-5324
Facsimile: (573) 751-5562
E-mail: john.clizer@opc.mo.gov

CERTIFICATE OF SERVICE

I hereby certify that copies of the forgoing have been mailed, emailed, or hand-delivered to all counsel of record this eighth day of September, 2020.

/s/ John Clizer

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Ninth 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-2020-0262

VERIFICATION OF LENA M. MANTLE

Lena M. Mantle, under penalty of perjury, states:

1. Attached hereto and made a part hereof for all purposes is my memorandum in the above-captioned case.

2. The information in the attached memorandum is true and correct to the best of my knowledge, information, and belief.

Lena M. Mantle

Lena M. Mantle
Senior Analyst
Office of the Public Counsel

MEMORANDUM

To: Missouri Public Service Commission Official Case Files,
Case File Nos. EO-2020-0262 and EO-2020-0263

From: Lena M. Mantle, PE
Senior Analyst
Office of the Public Counsel

Subject: Continuation of Significant Losses Passed to Evergy Customers Through Its Fuel Adjustment Clauses Due To Evergy Management's Decisions to Enter Into Purchased Power Agreements

Date: September 8, 2020

In its *Report and Order* in the fuel adjustment clause ("FAC") review case, EO-2019-0067, the Commission found that the performance of long-term purchased power agreements ("PPAs") should be viewed on a long-term basis and not just from data gathered during a prudence review period of 18 months. This memo provides information regarding the costs and revenues of each of the ten PPAs for wind energy that were included in Evergy's FACs for the prudence time-period reviewed in these cases.

<u>Costs and Revenues for Prudence Period</u>

There are two costs to the wind PPAs. The energy cost is the megawatt-hours ("MWh") generated by the project multiplied by the cost of each MWh as provided in the contract between Evergy and the wind project. The curtailment cost is the cost incurred when the Southwest Power Pool ("SPP") curtails the wind project generation. Evergy receives revenue from SPP for the energy generated based on the hourly market price for energy for each wind project. These market prices are specific to each wind project. The PPA is economically beneficial to Evergy's customers when the revenues received from SPP are greater than the costs paid.

The tables below give the costs and revenues received for the prudence periods for Evergy Missouri West and Evergy Missouri Metro.

Evergy Missouri West
Market Margin for June 2018 through November 2019

	Energy Cost	Curtailment Cost	Total Cost	Revenues	**Margin**
Ensign	$17,435,261	$202,476	$17,637,736	($7,318,804)	**($10,318,932)**
Gray County	$7,332,895	$2,822,048	$10,154,942	($4,687,343)	**($5,467,599)**
Osborn	$12,809,916	$66,995	$12,876,911	($8,317,880)	**($4,559,031)**
Rock Creek	$19,131,281	$19,263	$19,150,544	($12,216,938)	**($6,933,606)**
Pratt Wind	$8,086,412	$41,050	$8,127,462	($5,922,305)	**($2,205,157)**
Prairie Queen	$2,031,134	$38,400	$2,069,534	($2,406,278)	**$336,744**
Total	$66,826,898	$3,190,231	$70,017,129	($40,869,548)	**($29,147,581)**

Evergy Metro
Total Company
Market Margin for July 2018 through December 2019

	Energy Cost	Curtailment Cost	Total Cost	Revenues	**Margin**
Cimarron	$24,546,501	$32,534	$24,579,035	($9,196,435)	**($15,382,601)**
Osborn	$19,582,511	$804,030	$20,386,541	($12,229,199)	**($8,157,341)**
Rock Creek	$28,995,553	$501,429	$29,496,983	($17,815,631)	**($11,681,351)**
Slate Creek	$20,674,395	$2,898,306	$23,572,701	($9,539,440)	**($14,033,261)**
Spearville 3	$17,212,484	$26,281	$17,238,765	($12,862,707)	**($4,376,058)**
Waverly	$28,742,229	$3,367,289	$32,109,518	($17,234,305)	**($14,875,213)**
Pratt Wind	$7,194,860	$33,518	$7,228,378	($5,130,877)	**($2,097,501)**
Prairie Queen	$2,120,637	$15,400	$2,136,037	($2,340,094)	**$204,057**
Total Co	$149,069,170	$7,678,788	$156,747,958	($86,348,688)	**($70,399,270)**

These tables show that Evergy paid almost $100 million more than the revenues it received for these PPAs in the prudence period. Of that $100 million, over $69 million flowed through the FAC to Missouri ratepayers. In other words, Missouri ratepayers paid $69 million for contracts that Evergy entered into because it believed the contracts were "economic."

Sum of PPA Life Costs and Revenues

The tables below show the market margins for each PPA either from the beginning of the SPP integrated market or from when Evergy began receiving energy from the PPA through December 2019.

Evergy Missouri West
Market Margin through December 2019

	Energy Cost	Curtailment Cost	Total Cost	Revenues	**Margin**
Ensign	$ 67,745,730	$ 3,047,290	$ 70,793,020	($27,453,170)	**($43,339,850)**
Gray County	$ 20,836,623	$ 8,811,590	$ 29,648,214	($12,895,835)	**($16,752,379)**
Osborn	$ 27,538,749	$ 669,864	$ 28,208,613	($16,246,043)	**($11,962,571)**
Rock Creek	$ 30,333,689	$ 334,553	$ 30,668,242	($18,087,097)	**($12,581,145)**
Pratt Wind	$ 8,790,839	$ 42,558	$ 8,833,397	($6,375,312)	**($2,458,085)**
Prairie Queen	$ 2,589,156	$ 45,200	$ 2,634,356	($3,059,085)	**$424,729**
Total	$157,834,786	$12,951,056	$170,785,842	($84,116,541)	**($86,669,301)**

Evergy Metro
Total Company
Market Margin through December 2019

	Energy Cost	Curtailment Cost	Total Cost	Revenues	**Margin**
Cimarron	$99,950,824	$2,591,418	$102,542,242	($34,851,068)	**($67,691,173)**
Osborn	$41,300,658	$1,087,168	$42,387,826	($24,160,789)	**($18,227,037)**
Rock Creek	$45,488,330	$583,249	$46,071,579	($26,836,029)	**($19,235,549)**
Slate Creek	$60,916,813	$4,872,624	$65,789,437	($39,095,935)	**($26,693,502)**
Spearville 3	$69,778,005	$1,361,975	$71,139,981	($50,587,640)	**($20,552,340)**
Waverly	$82,914,642	$4,839,727	$87,754,369	($51,634,536)	**($36,119,833)**
Pratt Wind	$7,194,860	$33,518	$7,228,378	($5,130,877)	**($2,097,501)**
Prairie Queen	$2,120,637	$15,400	$2,136,037	($2,340,094)	**$204,057**
Total	$409,664,769	$15,385,079	$425,049,848	($234,636,968)	**($190,412,880)**

These tables show that since the beginning of the SPP integrated market, Evergy has paid over $277 million more for these “economic” PPAs than the revenues generated by these

PPAs. The only PPA that has shown itself to be "economic" is the Prairie Queen Wind PPA. Even so, this PPA has a negative margin in the first seven months of 2020.

Costs and Revenues on a Per MWh Basis

Two more tables provided below show the economics of the PPAs on a per MWh basis. The energy cost dollars per MWh in these tables correspond to the contracted amount the wind project owner receives from Evergy for each MWh generated. The revenues per MWh is the average hourly market price Evergy received for that energy from the SPP.

Evergy Missouri West
Market Margin per MWh for June 2018 through November 2019

**

**

Total	$24.76	$1.18	$25.94	($15.14)	($10.80)

Evergy Metro
Total Company
Market Margin per MWh for June 2018 through November 2019

**

**

Total Company	$26.99	$1.39	$28.38	($15.63)	($12.75)

These tables show that, on average, Evergy West paid almost $26/MWh but received only $15.14/MWh and, again on average, Evergy Metro paid over $28/MWh while receiving only $15.63/MWh. The average market price per MWh received across these PPAs varies from $10.23/MWh to $22.02/MWh. For reference, according to the SPP 2019 Annual State of the Market Report, the average day-ahead market price in SPP for the calendar year 2019 was $22.04/MWh.

Conclusion

Evergy's wind PPAs are still uneconomic to the ratepayers even eight years into some of the PPA contracts. Evergy's analysis that these contracts would provide benefits to its customers has been wrong for nine out of the ten wind PPAs that it has entered into costing Missouri ratepayers hundreds of millions of dollars in increased electric utility bills.