Exhibit No.:	________________
Issue(s)	FAC Imprudence
Witness/Type of Exhibit:	Mantle/Direct
Sponsoring Party:	Public Counsel
Case No.:	EO-2020-0262

DIRECT TESTIMONY

OF

LENA M. MANTLE

Submitted on Behalf of the Office of the Public Counsel

EVERGY METRO, INC. D/B/A EVERGY MISSOURI METRO AND EVERGY WEST, INC D/B/A EVERGY MISSOURI WEST

CASE NO. EO-2020-0262
(CONSOLIDATED WITH CASE NO EO-2020-0263)

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Denotes Highly Confidential and Confidential Information that has been Redacted

October 29, 2020

PUBLIC

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 direct testimony in the above-captioned case.

2. My answer to each question in the attached direct testimony 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

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DIRECT TESTIMONY

OF

LENA M. MANTLE, P.E.

EVERGY METRO, INC. d/b/a EVERGY MISSOURI METRO
and
EVERGY WEST, INC. d/b/a EVERGY MISSOURI WEST

CASE NO. EO-2020-0262 (Consolidated with Case No. EO-2020-0263)

Introduction

Q. What is your name and business address?

A. My name is Lena M. Mantle and my business address is P.O. Box 2230, Jefferson City, Missouri 65102.

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

A. I am employed by the Missouri Office of the Public Counsel ("OPC") as a Senior Analyst.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the OPC.

Q. What are your experience, education and other qualifications, particularly on the topics to which you are testifying?

A. I began my employment with the OPC as Senior Analyst in August 2014. In this position, I have provided expert testimony in electric, gas, and water cases before the Commission on behalf of the OPC. I am a Registered Professional Engineer in the State of Missouri.

Prior to my employment by the OPC, I worked for the Staff of the Missouri Public Service Commission ("Staff") from August 1983 until I retired as Manager of the Energy Unit in December 2012. During my employment at the Missouri Public Service Commission ("Commission"), I worked as an Economist, Engineer, Engineering Supervisor, and Manager of the Energy Unit. After the Missouri Legislature passed Section 366.266, RSMo. in 2005, enabling the electric utilities to request a fuel adjustment clause ("FAC"), I was instrumental in the development and application of the Commission's FAC rules and the FAC's of the electric utilities in Missouri.

In my time on the Commission Staff, I was a member of the Staff team that determined there was a need for electric utility resource planning rules in Missouri. After reviewing the resource planning processes of the regulated investor-owned electric utilities, we developed the Commission's initial Electric Utility Resource Planning Chapter 22 in the early 1990s. In addition, the revision of Chapter 22 in 2010 and 2011 was conducted under my supervision as the Manager of the Energy Department.

Attached as Schedule LMM-D-1 is a brief summary of my experience with OPC and Staff and a list of the Commission cases in which I filed testimony, Commission rulemakings in which I participated, and Commission reports in rate cases to which I contributed as Staff. Attached as Schedule LMM-D-2 is the *Electric Utility Fuel Adjustment Clause in Missouri: History and Application Whitepaper* that I wrote to provide background and a description on various aspects of the FAC in Missouri.

Q. What is the purpose of your direct testimony?

A. The purpose of this testimony is to describe for the Commission the various ways that Evergy Metro, Inc. ("Evergy Metro") and Evergy Missouri West, Inc. ("Evergy West") acted imprudently during the time periods of the prudence audits[1] that are the subject of this case.

In particular, Evergy Metro acted imprudently when it:

[1] The prudence review periods in this case were June 2018 through November 2019 for Evergy West and July 2018 through December 2019 for Evergy Metro.

1. Included costs associated with the retirement of the Montrose plant as FAC costs;
2. Included unrealistic assumptions in its resource planning process that resulted in a modeled net present value revenue requirement than was not achievable; and
3. Did not implement its demand response programs resulting in customers having to pay more for energy and Southwest Power Pool ("SPP") Schedule 11 fees.

Evergy West acted imprudently when it:

1. Included costs associated with the retirement of the Montrose plant in its FAC; and
2. Did not implement its demand response programs resulting in customers having to pay more for energy and SPP Schedule 11 fees.

I did not do a comprehensive review of all of the actions and decisions of Every Metro and Evergy West (combined as "Evergy") regarding FAC costs and revenues during the prudence periods of this case. The absence of a mention of an action or decision does not signify that I found the action or decision to be prudent.

Q. What recommendations are you making in this testimony?

A. With respect to Evergy Metro, I recommend the Commission find Evergy Metro acted imprudently by:

1. Including certain Montrose retirement costs as FAC costs;
2. Including unrealistic assumptions in it resource planning process by modeling short-term capacity contracts; and

3. Not calling on its Commission-approved Demand Response Programs.

With respect to Evergy West, I recommend the Commission find Evergy West acted imprudently by:

1. Including certain Montrose retirement costs as FAC costs; and
2. Not calling on its Commission-approved Demand Response Programs.

The table below contains the amounts associated with these findings of imprudence:

Imprudence Amounts

	Evergy Metro	Evergy West
Montrose Retirement	$ 332,603	
Sibley Retirement		$ 1,039,646
Capacity Sales	$ 5,220,000	
Energy Sales	$ 45,589	$ 90,095
Schedule 11 Fees	$ 167,560	$ 280,968
Total	$ 5,765,752	$ 1,410,709

Q. Is this the prudence adjustment amounts that would be included on line 10 of Evergy's FAC rate calculation tariff sheets?[2]

A. No. It is my understanding that these costs are total costs. At this level they are the costs that would have been included in the calculation of Actual Net Energy

[2] Evergy Missouri West, Inc. d/b/a Evergy Missouri West, tariff sheet P.S.C. MO. No. 1, 3rd Revised Sheet No. 127.23; and Evergy Metro, Inc. d/b/a Evergy Missouri Metro, tariff sheet P.S.C. MO. No. 7, 4th Revised Sheet No. 50.31.

Costs ("ANEC") shown on line 1 of the tariff sheets.[3] The prudence adjustment amounts to be included on line 10 of the tariff sheets would need to be calculated.

Q. How should the prudence adjustment amounts be calculated?

A. This line on the tariff sheets comes after several adjustments. Therefore, the imprudence costs need to be adjusted to determine the prudence adjustment amounts so that only what the customers paid through Evergy's FACs is returned. The appropriate jurisdictional allocation factors should be applied.[4] This amount needs to be multiplied by 0.95 since only 95% of the costs were recovered from the customers. In addition, for the Schedule 11 costs, the transmission percentage should be applied to the amount above. Finally, interest, as required by § 386.266.5 RSMo. should be added from the time that the costs were incurred through the month that the adjustment will begin to be returned back to the customers.

Q. Can the prudence adjustment amounts be calculated at this time?

A. No. The total interest amounts cannot be determined until the FAC rate change case that includes the prudence adjustments. However, my estimation of the appropriate prudence adjustment amount, at this time without interest, is in the table below.

[3] Only a percentage of the Schedule 11 fees are included in the ANEC since Evergy's FACs contain only a percentage of the Schedule 11 fees as a transmission cost.
[4] Jurisdictional factors are applied at the monthly level so costs need to be adjusted at a monthly level. Some costs were only in one month. Some in several months. Therefore, the impact of jurisdictional factors is different for each imprudence amount.

Prudence Adjustment Amounts
(without interest)

	Evergy Metro	Evergy West
Montrose Retirement	$ 183,612	
Sibley Retirement		$ 1,034,864
Capacity Sales	$ 1,979,572	
Energy Sales	$ 43,310	$ 85,590
Schedule 11 Fees	$ 42,024	$ 125,986
Total	$ 2,248,517	$ 1,246,440

A description of the calculation of each prudence adjustment amount is in the testimony provided below.

Evergy Metro Acted Imprudently when It Included Certain Montrose Retirement Costs as FAC Costs

Q. Why do utilities make adjustments to their coal inventory?

A. Coal is a commodity that can be stored. Utilities that use coal generally purchase and store this commodity at a generation site so that the plant will always have fuel available to generate electricity. Commission rule 20 CSR 4240-3.190(3)(D) even requires a utility to file a report if its coal inventory falls below a 30 day supply. This coal inventory is stored at the plant site, many times at the same spot for 50 to 60 years, and is used and renewed as needed throughout the life of the plant.

Optimally, all the burnable coal stored at a plant is burned before the plant is finally shut down and retired. However, this does not necessarily mean that all coal at the plant site will be burned to generate electricity. Over time, coal that has sat at the bottom of the inventory pile becomes grounded into the dirt, clay, and rock upon which the pile is sitting and becomes no longer burnable. This unburnable mix of coal and earth is referred to as basemat. While it is always known that a portion of the coal that is purchased to burn becomes unburnable as a part of the base of the coal pile, the exact amount of coal that is a part of this basemat is not known until the plant shuts down for retirement.

Q. Would you give your understanding of the accounting treatment of coal?

A. According to the Federal Energy Regulatory Commission's ("FERC's") Uniform System of Accounts ("USOA") the cost of coal is recorded in the inventory asset account 151 as it is purchased, and customers pay the utility a return on this coal inventory asset. There is no distinction in this account for how much of the coal purchased is burnable and how much is a part of the basemat. It is just the cost of the coal purchased.

When the coal is burned to create steam that is used to generate electricity, the inventory account is reduced by the estimated number of tons burned, and the cost of the coal that was burned is moved from account 151 to account 501 as the coal is burned.[5] When it is expensed to 501, it becomes a FAC cost.

Q. Why are inventory adjustments made?

A. According to Evergy's response to Staff data request 64.3, the process of measuring the amount of coal burned is not a precise process and therefore physical inventories are performed annually to ensure that the inventory amount recorded on the books and the inventory amount physically on the ground stay in a reasonably close relationship to each other.

Evergy's coal inventory adjustments for its Montrose plant for 2015 through its retirement in December 2018 are in the table below.[6]

[5] The FERC USOA requires account 501 include the cost of fuel **<u>used</u>** in the production of steam for the generation of electricity. The USOA further requires the cost of fuel be charged initially to account 151, Fuel Stock and cleared to this account **<u>on the basis of the fuel used</u>**.

[6] Evergy's response to OPC data request 8002.

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Q. Did Evergy include all of these inventory adjustments as a cost of coal in Evergy's FAC?

A. Yes.

[7] In its response to OPC DR 8002, this was shown as November 2018. According to Evergy's response to Staff DR 64, this adjustment actually occurred in December 2018. In this testimony, I have assumed it is a typographical error and it did actually occur in December 2018.

Q. Evergy's FAC tariff sheets allow coal inventory adjustments to be included in its FAC. Are these the type of coal inventory adjustments that are allowed?

A. The coal inventory adjustments in 2015, 2016, 2017, and January 2018 were coal inventory adjustments that are allowed. However, the December 2018 inventory adjustment is different and is not a cost that is allowed in Evergy's FAC.

Q. Why are the coal inventory adjustments in 2015, 2016, 2017, and January 2018 allowed in the FAC?

A. Evergy's FAC tariff sheets require that only coal costs that can properly be recorded in account 501, *i.e.* the cost of coal that has been burned to produce steam to generate electricity, be included as a FAC cost.[8] The adjustments in 2015, 2016, 2017, and January 2018 were adjustments made to accurately reflect the amount and cost of coal that had been burned to generate electricity.

Q. Would you explain why it was imprudent for Evergy to include the final coal inventory adjustment in its FAC?

A. Evergy acted imprudently when it moved the cost of this unburnable coal into account 501 and booked it as an FAC cost. This inventory adjustment was not a cost for coal used to generate steam, which is the FERC USOA requirement for expensing coal costs in account 501. It is an adjustment resulting from the plant retiring and should therefore be booked as such.

Evergy's Montrose plant shut down for retirement in December 2018 after using all of the burnable coal to generate electricity. Yet, as previously explained, there was still coal inventory on the ground at the plant in the form of the unburnable basemat. Evergy acknowledged this fact in its response to OPC data request 8006, where it stated that there was, at that time, coal that had been compressed into the ground and deteriorated to the point that it was no longer useable as fuel. Evergy made this last inventory adjustment to move the cost of this unburnable coal out of account 151.

Evergy's FAC tariff sheets do not allow for the cost of basemat coal that is unburnable in its FAC. Therefore, I recommend the Commission find Evergy imprudently included in its FAC any cost that is associated with the retirement of Montrose and order these costs to be returned to Evergy Metro's customers.

Q. How much of a prudence adjustment amount should the Commission order?

A. At this time, the only Montrose retirement cost that I am aware of that has been included in Evergy Metro's FAC is this coal inventory adjustment. As provided above, the December 2018 inventory adjustment for Montrose that was included in the calculation of Evergy Metro's FAC was $332,603. To determine the prudence adjustment amount, two adjustments should be made to the imprudence amount 1) the Missouri retail jurisdictional factor for December 2018 needs to be applied to obtain the Missouri retail amount, and, 2) because the customers only paid 95% of the cost, the imprudence amount should be multiplied by 0.95. These are the adjustments I made to determine the prudence adjustment amount of $183,612 shown in the prudence adjustment amount table above. However, interest would need to be added for each month to determine the final prudence adjustment amount.

This number may change if it is discovered that Evergy has included additional Montrose retirement costs in its FAC.

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[8] For Evergy Metro, tariff sheets P.S.C. MO. No. 7, Second Revised Sheet No. 50.12 and Original Sheet No. 50.22; for Evergy West, tariff sheets P.S.C. MO. No. 1, 3rd Revised Sheet No. 127.2.

<u>Evergy West Acted Imprudently when It Included Certain Sibley Costs as a FAC Cost</u>

Q. Did Evergy West include retirement costs of its Sibley plant in its FAC?

A. Yes. Staff in its report in this case, found that Evergy West included $1,039,646 of costs associated with the retirement of the Sibley generation plant in its FAC. This included write-downs of:

- $531,693 for coal;
- $29,992 for basemat;
- $162,016 for urea (a chemical used to treat the coal before it is burned);
- $315,642 for SO_2 allowances; and
- $303 for fuel residuals.[9]

Q. Was it prudent for Evergy to include these costs in its FAC?

A. No. Just as with the December 2018 coal inventory cost identified with regard to Montrose, these are costs incurred because the Sibley plant was retired. These are not costs incurred to generate electricity, and therefore should not be allowed to flow through Evergy's FAC.

Q. Staff states in its report that Evergy has agreed to remove these costs.[10] Does the fact that Evergy <u>now</u> has agreed that these costs should not be recovered through its FAC make this a prudent decision?

A. No. Evergy made a decision to include these costs in its FAC in its December 2018 FAC rate change case ER-2019-0198. Staff and OPC brought the matter up in the next FAC rate change case, ER-2019-0413.[11] Evergy chose, in that FAC rate change case, to not include a correction for these retirement costs that were

[9] Staff Report, Evergy Missouri West, page 29.
[10] *Id.*, pg 2.

included in its FAC. Since that case, Evergy has filed another FAC rate change case without a correction for the inclusion of these costs. Absent the prudence review by Staff, it is unlikely that Evergy would have returned the money it collected from its customers as a result of its imprudent decision to include these retirement costs in its FAC.

Q. What is your recommendation to the Commission?

A. I recommend the Commission find Evergy West imprudent for passing Sibley retirement costs through its FAC and order an imprudence amount of $1,039,646. To calculate the amounts that have passed through Evergy West's FAC and charged to customers, a Missouri retail amount should be determined using the Missouri retail jurisdictional factor from December 2018, and then, multiplying this amount by 0.95 to account for the sharing mechanism. I estimate the prudence adjustment amount, without the inclusion of interest as required by statute, to be $1,034,864. Again, this amount does not include interest as required by statute because the amount of interest is unknown at this time.

Evergy Metro Acted Imprudently by Not Entering Into Short-Term Capacity Contracts

Q. Did Evergy Metro have excess capacity that was available for sale during the prudence review period for this case?

A. Yes. According to the SPP 2017 Resource Adequacy Report published on June 19, 2017, Energy Metro (called Kansas City Power & Light in the report), had excess capacity of 708 MW in 2018 and 351 MW in 2019. This report only shows firm power sales. However, Evergy Metro's 2017 Resource Plan update filed in EO-2017-0229, shows that Evergy assumed, in its resource planning

[11] This is the issue Staff was referring to in paragraph 8 of its Staff Recommendation, filed on September 30, 2019 in Case No. ER-2019-0413.

process that it would enter into contracts to sell, to a yet to be determined purchaser, ***____*** MW of capacity.

Q. Did Evergy Metro enter into any new short-term capacity contracts to sell this excess capacity during the prudence period?

A. No. Despite modeling additional capacity contracts, Evergy Metro did not enter into any new capacity sales contracts – short or long-term - for the sale of capacity in this prudence period.[12]

Q. Did Evergy Metro explain why it did not enter into any new short-term capacity contracts to sell this excess capacity?

A. I asked Evergy, in data request 8008, to provide a detailed description of Evergy Metro's attempts to sell capacity through short-term contracts for the summers of 2018 and 2019. Evergy's entire "detailed" description of its efforts to find short-term capacity contract sales is provided below.[13]

> Capacity purchases and sales made in the SPP market are bilateral in nature, meaning they are contracted between two counterparties outside of the SPP marketplace. It is incumbent upon market participants to canvass the market and find a counterparty interested in buying or selling capacity as needed.
>
> Through its marketing efforts, Evergy did not have any parties that expressed interest in short-term capacity for the summers of 2018 or 2019. Due to the difficulty of obtaining firm transmission service in SPP, parties frequently prefer to obtain multiple years of transmission service rather than risk complications on a year-to-year basis.

[12] Evergy response to Staff DR 19 in EO-2020-0263.
[13] Evergy did provide a copy of three different offers that it made to sell a total of 22 MW in through long-term (five year) contracts.

Q. Are you aware of any factors that would have made finding a party to enter into a short-term contract unlikely?

A. Yes. Evergy is a member of SPP. It was common knowledge that the SPP had enormous excess capacity in 2017 and that SPP would maintain that excess capacity position for at least the next five years. The previously mentioned SPP 2017 Resource Adequacy Report, attached as Schedule LMM-D-4, shows that for the six-year timeframe of 2017 through 2022, SPP expected to have a reserve margin from 25.9% to over 30%. This equated to between 7,100 MW to 9,200 MW of capacity above what it estimated was needed. Of the 58 load responsible entities in SPP listed in the report, only seven were going to be short in 2018 through 2019. One of these seven was Evergy West and Evergy Metro has already covered its shortage. This means that there were only six entities in SPP that needed capacity and that total capacity need was 380 MW. This also means that the other 51 entities had about 10,000 MW of excess capacity. From just this report alone, it should have been obvious to Evergy that it was very unlikely to enter into any capacity contract sales.

Q. Could Evergy have found an entity to enter into a contract with from outside of the SPP?

A. Yes, but it is even more unlikely than finding a buyer in the SPP because a buyer outside of the SPP would have to pay transmission fees in addition to the cost of the capacity.

Q. Were there other indications that Evergy would not be able to enter into short-term capacity contracts that should have informed its resource planning assumptions?

A. Yes. It was public knowledge that the addition of new wind resources were expected at an unprecedented pace in the United States. Just a couple examples of sources of information available to Evergy at that time are the US Department of Energy (2017) 2016 Wind Technologies Market Report[14] that provides an overview of the rapid increase in wind resources in 2016 and SPP's 2016 State of the Market report which was published in August 2017[15] that states that wind generation was likely to continue to increase substantially in the SPP over the next three to four years increasing available capacity.

Q. If your position is that Evergy Metro could most likely have not sold its excess capacity even if it wanted to, then why are you arguing it was imprudent for Evergy Metro not to enter into any new short-term capacity contracts to sell this excess?

A. It all comes down to Evergy's resource plan modeling. Evergy included in its resource plan modeling the sale of a portion of its excess capacity when it should have known that the likelihood of entering into a contract was extremely unlikely. While a resource plan model should be robust across a variety of different assumptions, including an assumption in all models that is known to be extremely unlikely is imprudent.

Selling of excess capacity is always a benefit if a buyer can be found. However, including revenue from the sales of excess capacity in resource plans that will never materialize will result in distorted plans that otherwise would not be cost effective. For example, the addition of resources above what is needed to meet the resource adequacy requirements may not be cost-effective just based on the difference between market prices and the price of the resource. However, if a sale of the capacity of the resource is included in the modeling, it will make the net present value of the revenue requirement ("NPVRR") of that plan lower.

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[14] https://emp.lbl.gov/sites/default/files/2016_wind_technologies_market_report_final_optimized_1.pdf.
[15] https://spp.org/documents/53549/spp_mmu_asom_2016.pdf.

Q. Why is an accurate measure of NPVRR important?

A. NPVRR is the most critical measurement of the resource planning process. The Commission's Electric Utility Resource Planning rule 20 CSR 4240-22.010(2)(B) requires the Missouri electric utilities to use the minimization of the present worth of long-run utility costs, i.e. the lowest NPVRR, as the primary selection criterion in choosing the preferred resource plan. When a utility includes a revenue stream that is unlikely ever to occur, it will distort the modeling results and lead to adding resource(s) that do not result in the lowest NPVRR.

Q. What harm arises to ratepayers in the event that Evergy models its resource plans imprudently?

A. As a regulated monopoly, electric utilities are assured that rates will be set by Commissions so they have an opportunity to recover from their customers, not only the costs of their decisions, but in many cases a return on the investments resulting from their decision. This regulatory scheme results in a lowering of the risk assumed by the utility if it can show through its resource planning process that it implemented a plan with a low NPVRR.

Revenue from short-term capacity contracts are included in the calculation of the NPVRR in resource plan modeling. However, in practice, entering into contracts does little to increase Evergy's earnings since its FAC requires 95% of the revenue from short-term capacity sales to go to customers. This means the implementation of the chosen resource plan will achieve the earnings for Evergy that it estimated in its resource plan modeling process with, or without, capacity contracts. The risk associated with including capacity contracts in the resource planning process lies completely with customers. If Evergy does not enter into contracts then the customers will not see the full benefits of the resource plan chosen for implementation.

Commission oversight is the only mechanism to reduce the risk on the customers. It is the Commission's role to make sure that only the costs of prudent decisions that adequately balance the interests of the customers and the utility be recovered from customers.

When an electric utility includes assumptions that are unrealistic in its resource planning model tilting the balance towards the utility, and the Commission accepts these assumptions as prudent, the costs customers are required to cover increase. That will be the situation for Evergy's customers if the Commission finds prudent Evergy's inclusion of the sales of excess capacity when it is obvious there is no opportunity for such sales. There will be no risk to Evergy in including these sales in its resource plan for it will be assured that its costs will be recovered from the customers. However, Evergy's inability to enter into any short-term capacity contracts has invalidated the underlying assumptions the Company used to support the resource plan that it told the Commission it was implementing and has resulted in higher costs for the customers absent a decision from the Commission that Evergy was imprudent in its resource plan modeling.

Q. How does this imprudent modeling relate to the FAC?

A. The FAC exacerbates the problem by removing much, if not all, of the risk from Evergy for failing to follow through on what it modeled.

In the absence of its FAC, there would be an incentive for Evergy to enter into short-term capacity contracts between rate cases. The revenues from such contracts would increase earnings since the income was not included in setting the rates resulting in the revenue from the contracts flowing directly to Evergy. Therefore, absent its FAC, Evergy would have a strong incentive to enter into these short-term capacity contracts contemplated in its preferred resources plan.

Because Evergy does have an FAC, however, it is required to flow the revenues generated between rate cases from any short-term capacity contracts it enters into back to its customers through its FAC. This removes 95% of the "reward" and hence the incentive for Evergy to work diligently to sell its excess capacity in short-term contracts as modeled in its resource planning process. Evergy recovers its cost whether it enters into a short-term contract or not. If it does not enter into a contract, its only exposure is the 5% sharing of the revenues it might receive. However, the customers do not receive their 95% share - which is 19 times the amount that Evergy would have received.

With its FAC, therefore, Evergy essentially loses all risk that these excess sales will not occur because the revenues that would have come from theses sales would just have passed through to the customers anyway. The only way for Evergy to bear more risk for not entering into the type of short-term capacity contracts it contemplated in its preferred plan is for the Commission to, in a FAC prudence case, find Evergy was imprudent by not entering into those contracts, and ordering a prudence adjustment amount equal to the lost revenues that result from that decision.

Q. What then is your recommendation regarding this issue?

A. The Commission needs to make a decision. Right now, Evergy is using its resource planning models to predict revenue from excess capacity sales to justify resources – both supply-side and demand-side. The outcome of this prudence review shows that the Company cannot actually generate revenues from the sale of its excess capacity and that this was a certain outcome that was easy to see prior to the inclusion of capacity sales in Evergy's resource planning process that continues to this day.

The Commission should therefore disallow the demand response programs Evergy is seeking to justify based on such sales. However, if the Commission is not going to do that, then the least it can do is hold Evergy to the standard of its own modeling. That would entail a prudence adjustment amount in this case to account for the capacity sales that Evergy predicted it could make knowing that it was very improbable it would make. Therefore, the Commission should order a prudence adjustment amount, using the amount of capacity shown in the 2017 resource plan capacity balance sheet provided in Evergy's 2017 resource plan update[16] attached as Schedule LMM-D-4 HC. This adjustment would make Evergy accountable for the unrealistic assumptions regarding capacity sales that it put in its resource plan model and increase the likelihood that Evergy's customers will see the NPVRR of Evergy's resource plan.

Q. Do you have an estimate of this amount?

A. I recommend the imprudence amount should be $5,220,000. This is eighteen months of the MW capacity amount that was included in the 2017 resource plan update, multiplied by the amount per kW-month Evergy Metro[17] is charging Evergy West in its long-term capacity contract. I estimate the prudence adjustment amount after a jurisdictional adjustment and the 95% sharing but without interest as required by statute, to be $1,979,572.

<u>Evergy Metro and Evergy West Acted Imprudently by Not Calling on Its Demand Response Programs</u>

Q. Why are you concerned with the demand response programs in this FAC prudence case?

A. OPC supports the Staff's position in the MEEIA prudence case that it was imprudent for Evergy not to call on its demand response programs to reduce the cost of energy for its customers. This is a resource that the customers have paid for, and, like the short-term capacity sales, that was modeled in its resource

[16] Case no. EO-2017-0229, Kansas City Power & Light Company Integrated Resource Plan Update, Appendix B, plan KABHA.
[17] This kW-month charge is considerably less than the offers Evergy Metro made for long-term contracts that were not accepted during this time.

planning process used to determine the preferred plan NPVRR. Moreover, because Evergy has a FAC where energy costs are recovered through the FAC, like the situation with short-term capacity sales, there is little risk to Evergy if it does not call demand response events. Likewise, absent its FAC, Evergy would have the risk of not achieving the savings from calling on the demand response programs since, absent its FAC, such savings would be retained by Evergy.

I have included the demand response programs in this FAC prudence case to give the Commission the opportunity to make an adjustment in this FAC prudence case if it agrees with Evergy's position that this is a matter for a FAC prudence case and not the MEEIA case.

Q. Is it a matter for the MEEIA prudence case or the FAC prudence case?

A. It could be a matter for both. The MEEIA prudence case is the case in which the Commission should determine that Evergy was imprudent by using customer funding to pay for a program that is not meaningfully utilized as a resource. However, because the program effects the cost of energy that has passed through Evergy's FAC, not utilizing this program to reduce energy purchased results in customers paying more for energy that they should have, so it can be a matter for the FAC prudence case also. In effect, captive customers are penalized twice: once by paying for thermostats that are never called and secondly by paying more money for energy during peak periods – of which the avoidance of incurring is used to justify the demand response program.

Q. Is an increased cost of energy the only impact on FAC costs of Evergy not utilizing its demand response programs?

A. No. There is at least one other cost that passes through Evergy's FACs that is impacted by the increased energy. SPP schedule 11 fees are based on the amount of energy purchased by Evergy. The greater the amount of energy used by customers, the more Evergy is charged through this schedule. A percentage of schedule 11 fees are included in Evergy's FACs.

Q. Do you have a recommendation for the Commission with regard to how Evergy implemented its demand-response programs?

A. The Commission should find both Evergy Metro and Evergy West imprudent for not utilizing its demand-response programs to reduce the energy costs charged its customers and its SPP Schedule 11 fees.

Q. What are the imprudence amounts you are recommending the Commission order with respect to Evergy's inactions regarding its demand response programs?

A. I recommend the Commission order for Evergy Metro imprudence amounts of \$45,589 for excess energy costs and \$167,560 for excess Schedule 11 fees. For Evergy West, I recommend the Commission order imprudence amounts of \$90,095 for excess energy costs and \$280,968 for excess Schedule 11 fees. These amounts were calculated using the methodology and workpapers provided by Staff in the Evergy MEEIA prudence case adjusted for the difference between the MEEIA prudence review period and Evergy's FAC prudence review periods.

Q. What is the prudence adjustment amount you are recommending the Commission order due to Evergy not implementing its demand response programs?

A. With the sharing mechanism adjustment of 95%, the energy sales prudence adjustment amount, without the addition of interest, for Evergy Metro should be \$43,310 and for Evergy West \$85,590. An additional adjustment is necessary for the Schedule 11 fees since Evergy's FACs only allow a portion of the Schedule 11 fees to flow through its FACs. Therefore, in addition to a jurisdictional adjustment and the sharing mechanism adjustment, the Schedule 11 fees include an adjustment to make sure that only the costs passed through Evergy's FACs are returned to the customers. The prudence adjustment amounts without the interest for Schedule 11 fees is $42,024 for Evergy Metro and $125,986 for Evergy West.

Conclusion

Q. You have provided several areas of imprudence related to Evergy's FAC. Would you summarize these areas?

A. The first area in which Evergy acted imprudently was passing costs for the retirement of its Montrose and Sibley plants through its FACs.

Secondly, despite including the benefits of capacity contract sales in its resource planning process, Every Metro did not enter into any contracts during the two summers over which its FAC prudence period covers despite modeling such sales in its resource planning process, effectively assuring that the NPVRR that it estimated for Evergy Metro would not be met.

Finally, the failure of Evergy to implement its demand response programs resulted in increased costs to the customers of both Evergy Metro and Evergy West through increased energy and SPP Schedule 11 costs.

These imprudent Evergy decisions all resulted in increased costs that were passed to the customers through its FAC and should be returned to the customers through prudence adjustment amounts, with interest, in the next FAC rate change case.

Q. Does this conclude your direct testimony?

A. Yes, it does.