Exhibit No.:	
Issue:	Renewable Energy Certificates and Power Purchase Agreements
Witness:	Kayla Messamore
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Evergy Missouri Metro and Evergy Missouri West
Case Nos.:	EO-2022-0064/0065
Date Testimony Prepared:	May 6, 2022

MISSOURI PUBLIC SERVICE COMMISSION

CASE NOS.: EO-2022-0064/0065

DIRECT TESTIMONY

OF

KAYLA MESSAMORE

ON BEHALF OF

EVERGY MISSOURI METRO
and EVERGY MISSOURI WEST

Kansas City, Missouri
May 2022

DIRECT 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 Senior Director of Long-Term Planning for Evergy Metro, Inc. d/b/a as Evergy Missouri Metro ("EMM") and Evergy Missouri West, Inc. d/b/a Evergy Missouri West ("EMW").

Q: Who are you testifying for?

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

Q: What are your responsibilities?

A: My responsibilities include leadership of Evergy's long-term planning activities, which include Energy Resource Management ("ERM"), Transmission Planning, Distribution Planning, Operations Compliance, Operations Strategy, and Operations Technology. Specifically related to this testimony, the activities of ERM include integrated resource planning, wholesale energy purchase and sales evaluations, renewable energy standards compliance and maintenance of Renewable Energy Certificate ("REC") inventories, and capital project evaluations.

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

A: I hold a Bachelor of Business Administration from the University of Texas at Austin. I worked as a strategy consultant in the power and utilities industry beginning in 2014 and have worked in strategy and planning at Evergy since 2018.

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

A: Yes.

Q: What is the purpose of your testimony?

A: I will address the proposed adjustments contained in the Fuel Adjustment Clause Prudence Review Staff Reports[1] concerning Staff's allegation that EMM and EMW were imprudent for not selling Renewable Energy Credits ("RECs") during the Prudence Review audit period. I will also provide background concerning the wind facility power purchase agreements ("PPAs") discussed in the Staff Reports.

I. REC Issue

Q: What are RECs and how do they relate to the Missouri Renewable Energy Standard ("RES")?

A: In 2008, the RES was enacted as sections 393.1020 to 393.1030 RSMo., requiring electric utilities to provide a certain portion of the electricity they sell to Missouri consumers from renewable energy resources. For the time period that is the subject of this case (January 1, 2020 through June 30, 2021 for Missouri Metro and December 1, 2019 through May 31, 2021 for Missouri West), each company was

[1] See, Staff Report [EMM], File No. EO-2022-0064, dated February 28, 2022, pp. 28-36; and Staff Report [EMW], File No. EO-2022-0065, dated February 28, 2022, pp. 27-34.

required under the RES to provide no less than 10% (for the period December 1, 2019 through December 31, 2020) and no less than 15% (for the period January 1, 2021 through June 30, 2021) of its electricity sales from renewable energy resources, with at least 2% of each portfolio requirement derived from solar energy. Compliance can be attained, in whole or in part, with purchased RECs. A REC constitutes evidence that a unit of energy has been generated by a renewable resource, can be used ("retired") only once to comply with the RES and, if unused, a REC "expires" after three years from its creation and is no longer eligible for use to meet RES requirements. A REC is a financial instrument that can be purchased or sold within markets established for the trade of RECs. Each REC corresponds to a MWh of renewable generation which has been produced by a specific renewable energy resource at a specific time and has a unique certificate number. RECs vary by vintage (i.e., the year or half-year in which it was created), by type (e.g., solar REC, wind REC, landfill gas REC), and by certification eligibility.

Q: Has the Commission previously decided any similar issues regarding the sale of RECs?

A: Yes, in Docket No. EO-2019-0068, later consolidated into Case No. EO-2019-0067[2].

Q: Please briefly summarize the docket as it pertains to REC sales.

A: In EO-2019-0068, Staff initiated its second prudence review of Kansas City Power & Light Company ("KCP&L")[3] to review costs and revenues related to KCP&L's

[2] *In the Matter of the Second Prudence Review of Costs Subject to the Commission-Approved Fuel Adjustment Clause of Kansas City Power and Light Company*.

[3] Effective October 7, 2019, Evergy Metro Inc. d/b/a Evergy Missouri Metro adopted the service territory and tariffs of KCP&L.

FAC for the period January 1, 2017 to June 30, 2018. In its report filed February 28, 2019, Staff asserted that KCP&L was imprudent in failing to take any action to generate revenues from 722,628 RECs, which it did not need to satisfy its Renewable Energy Standard ("RES") requirement, and in simply allowing those RECs to expire to the detriment of its customers. Staff recommended the Commission order a prudence adjustment of $350,351.[4]

Q: What did the Commission decide?

A: The Commission concluded KCP&L was not imprudent and did not violate its FAC tariff in allowing 722,628 Renewable Energy Credits to expire during the review period and denied Staff's request for a prudence adjustment of $357,308 and OPC's request for a prudence adjustment of $325,969.[5] The Commission's Order found that KCP&L's REC sale revenue opportunity was limited and was outweighed by KCP&L's customers' desire to receive energy bundled with the corresponding RECs and thereby reduce their carbon footprint.[6]

Q: What has changed since the Commission's decision in EO-2019-0067?

A: The reasoning behind the Commission's decision is still sound and should be carried over to this case. However, as I will explain below, both the market for RECs and the Company's REC sales policy and procedures have evolved over time. The Company takes active steps to ensure that the REC market is monitored and sales of RECs occur when the value of selling the RECs outweighs the value of holding them.

[4] See, EO-2019-0068 *Staff Report*, p. 25.
[5] Id., p. 27, Ordering ¶2.
[6] See, Report and Order, EO-2019-0067. p. 12.

Q: How can RECs have a value for simply holding them?

A: When a REC is sold to a third-party, the Company can no longer claim to have generated that MWh of renewable energy because the third-party is now claiming that renewable attribute. This means that, when the Company does not sell RECs, it is able to ensure that all of the renewable energy its facilities generate is delivered to its customers with the environmental attribute attached. This is important for our customers who have specific sustainability goals and impacts the Company's marketing and reporting around its carbon intensity and the delivery of renewable energy to retail customers.

Q: Do you agree with Staff's assertion that the sale of RECs does not create double counting?

A: Partially. If appropriate changes are made to reporting metrics and marketing language, it's true that double counting can be avoided. However, the sale of RECs – particularly the sale of significant numbers of RECs – can have measurable impacts on its reported carbon intensity (increase) and delivered renewable energy to the Company's retail customers (reduction). These metrics are utilized by customers to assess how "green" their electricity is. If the Company chooses to sell RECs and also avoid double-counting the renewable attributes of its resources, it can have a negative impact on its sustainability metrics which are, ultimately, important to many customers. As I will discuss below – and as is highlighted in the Commission's order from EO-2019-0067 – this certainly doesn't mean that the Company is unwilling to ever sell RECs, it simply means that the value provided to customers through retaining the renewable attributes associated with the

Company's generating facilities needs to be balanced with the potential revenue opportunities from selling those RECs.

Q: How has the market for RECs changed in recent years?

A: At the time of the prudence review and Report and Order mentioned above, the price of RECs was estimated at roughly a nominal $0.48-0.84per REC[7]. During 2021, the price of RECs increased to current levels around $4.00-4.50. The majority of this price increase happened specifically beginning in the spring of 2021, with the price not reaching current levels near $4.00-4.50 until the summer and second half of the year, which is largely outside of the review period for this prudence audit. More critically, as I will explain more below, this quoted price applies to *current year* vintage RECs, not to all RECs and, specifically, not to the RECs that are included in Staff's proposed disallowance in this prudence audit..

Q: What determines the potential value of RECs if they are marketed for sale?

A: A primary determinant of REC value is its vintage (i.e., the year it was created). Generally, the "older" a REC, the less value it has. In addition, there is some variation in REC prices by type (wind versus solar, for example), but in discussing pricing and value in this testimony, I will focus on wind RECs given wind RECs make up the overwhelming majority of the Company's REC inventory.

The next determinant of a RECs value is its certification. RECs can be eligible for "Green-e certification®" through the Center for Resource Solutions ("CRS"). Per CRS: "Green-e® Energy is a consumer protection program designed to provide purchasers of renewable energy good product information, assurance of product

[7] $0.48483 was quoted as average price in Staff Report in EO-2019-0068. $0.84 is quoted as price at the time of EO-2019-0067 Report and Order in Staff Reports in these cases (EO-2022-0064/0065).

quality and verification of product ownership." For a REC to be Green-e certified®, the facility it was generated by must have been built in the last 15 years and have an approved tracking attestation on file with CRS. In addition, the certifier is subject to audit and documentation requirements from CRS to ensure renewable attributes are not double-counted. Finally, only RECs generated in the calendar year in which they are sold (plus the prior six months and the following three months, a 21-month period) can be sold as a Green-e certified® product. A full list of requirements can be found on the CRS website[8]. As an interim step to Green-e certification®, a facility may be "CRS Listed". This step simply means that a facility has an approved tracking attestation on file with CRS and has paid a registration fee and thus RECs generated by that facility *could* be subsequently Green-e certified® if it meets other qualifications (certification is not guaranteed on the basis of being CRS Listed). In the REC market, many buyers require that resources from which RECs are sourced be CRS Listed. The potential for future Green-e certification® provides significant value to counterparties and results in a premium, particularly for new-vintage (current year) CRS Listed RECs.

Finally, while not a determinant of the value of a *particular* REC or resource, the value of all RECs is influenced by overall market liquidity, supply, and demand. The REC market is made up of bilateral transactions facilitated by brokers and is relatively illiquid. This dynamic can create fluctuations in the value realized through REC sales.

[8] https://www.green-e.org/docs/energy/framework/Green-e%20Framework%20for%20Renewable%20Energy%20Certification.pdf

Q: How has the Company responded to the changes in the REC market given these considerations?

A: 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. In the summer of 2021, the increasing trend in REC sale prices resulted in a determination that a new REC sale policy should be developed which would govern the sale of *any* excess RECs not expected to be needed for RES compliance or existing tariffs (as opposed to simply soon-to-expire RECs). This new policy includes the process of identifying the excess REC inventory for each year and the accounting of transactions which are made, subject to the Company's existing risk management and accounting processes. The Company notified MPSC Staff and the Office of Public Counsel of this change in policy and began selling excess RECs of all vintages in February 2022.

Q: Why has the Company chosen to start selling RECs?

A: Given the roughly four-fold increase in REC prices, the Company determined that the revenues which could be generated by selling the RECs and passed to customers through the FAC outweighed the loss of renewable attributes and the costs of administering the program.

Q: What is your understanding of the basis of the disallowance recommended by Staff?

A: Regarding Missouri Metro, Staff claims that Evergy Missouri Metro was imprudent:

> …when Evergy Missouri Metro failed to take any action that would have allowed it to generate revenue from the sale of 1,153,813 renewable energy credits ("RECs") that were not needed to satisfy its RES compliance and simply allowed them to expire during the Review Period. Staff recommends the Commission order an Ordered Adjustment ("OA") in the amount of $3,922,964.

Regarding Missouri West, Staff claims that Evergy Missouri West was imprudent:

> …when Evergy Missouri West failed to take any action that would have allowed it to generate revenue from the sale of 79,994 renewable energy credits ("RECs") that were not needed to satisfy its RES compliance and simply allowed them to expire during the Review Period. Staff recommends the Commission order an Ordered Adjustment ("OA") in the amount of $271,980.

Based on this, it is my understanding that Staff believes it was unreasonable for Evergy Missouri Metro not to have sold 1,153,813 RECs and for Evergy Missouri West not to have sold 79,994 RECs during the period December 1, 2019 through June 30, 2021 and that customers have been harmed by the absence of related revenues totaling $3,922,964 for Missouri Metro and $271,980 for Missouri West. Consequently, Staff recommends that the Commission order disallowances of these amounts. As the calculation methodology and logic utilized by Staff for both Missouri Metro and Missouri West is identical, I will discuss both disallowance recommendations collectively below.

Q: Is the use of the number of RECs expired during the review period the correct basis for Staff's calculation?

A: No. Expired RECs are still available for sale and so claiming lost revenues based on the number of expired RECs is illogical. The reason those RECs were expired – as explained above – is because they are more than three years old and thus are no longer eligible for use for RES compliance. The RECs which were expired in 2020 were thus all 2017 vintage RECs. What Staff failed to point out is that they are still available for sale. In fact, those RECs which Staff included in their calculation are being marketed right now. However, because these are older vintage RECs, Evergy has not seen any demand on the market for them to-date. As described above, the newer (later vintage) a REC is, the more valuable it is (all else being equal). The point when these 2017 RECs would have held the most value was long before they were expired (in 2017, when they were generated) which, first, is outside of this prudence review period and, second, would have been subject to the much lower REC prices that were already discussed in EO-2019-0067, when the Commission ruled that the limited revenue opportunity did not outweigh the benefit of retaining environmental attributes for customers.

Q: Is Staff's use of an "average price" of $3.40 per REC appropriate for this calculation?

A: Not at all as the prices used do not apply to these expired RECs. While I can only speak with certainty for the estimate provided by Evergy, the prices Staff is quoting all seem to be for current-year (either 2020 or 2021 RECs, depending on the quote) RECs. In fact, two of the prices are quoted for "Green-e eligible National REC"

which means they *must* be applied to the 21-month period that constitutes the "current year" for Green-e Certification® described previously. The high price of $7 included in the average is a price which the Company has seen sporadically during spikes in the REC market, but the Company doesn't believe that price would have ever been available on any sustained basis even for the current vintage 2021 RECs during 2021. It certainly doesn't reflect any sort of average price for 2020 or 2021 RECs. In fact, while this price is quoted as a 1/1/21 price in Staff's calculation, the public reference to this price available in EE-2022-0074 was made in a filing on September 9, 2021, which is outside of this review period. As a result, applying this average price of $3.40 to 2017 vintage RECs is entirely inappropriate – even if viewed from the time period of this prudence review (i.e., selling 2017 vintage RECs in 2020 / early 2021).

The Company's current estimate of the value of 2017 vintage RECs is only $0.75 per REC, which is even lower than the prices as of the Commission's Report and Order in EO-2019-0067[9]. This is ~20% of the Company's current estimate of the value for RECs from the first half of 2022 ("H1 2022", current year RECs). To calculate a proxy price for selling 2017 RECs during the Review Period (2020, when they expired and were three years old), the corresponding price estimate for 2019 RECs being sold in 2022 is $0.95 per REC (~25% of H1 2022 price). Even leaving the outlier price of $7 in the average calculated by Staff, this results in a proxy price of ~$0.85 for 2017 RECs sold in 2020, which is only ten cents higher than the current estimated price and in line with pricing at the time of the EO-2019-

[9] See, *Staff Report* p. 33, File No. EO-2022-0064.

0067 Report and Order. If the $7 is removed as an outlier (or excluded due to falling outside the Review Period), the average price falls to $2.17 and the proxy price for 2017 RECs sold in 2020 would be $0.54, implying that the current market price is actually higher than the price which could have been realized during the Review Period if the RECs had been sold.

Q: Do you have any other comments on Staff's recommended disallowance?

A: Yes. Staff's recommended disallowance includes only the revenue associated with selling RECs and not the cost of actually performing these transactions. While the Company has determined that the value of selling RECs outweighs these costs given higher prices, transaction related costs are relevant for any calculation of net benefit to customers. For example, there are broker and transaction fees associated with every sale. In addition, there is a fee for CRS Listing each facility annually.

Q: Is Staff's recommendation to disallow approximately $4M for Missouri Metro and $300,000 for Missouri West based on the Company's decision not to generate revenues through the sale of RECs reasonable?

A: No. First of all, the RECs which Staff is basing their disallowance on are all still eligible for sale and being marketed currently, so implying a lost revenue opportunity is illogical. Secondly, the price Staff applied to calculate their disallowance is inappropriate to apply to 2017 vintage RECs at any point of those RECs' lifecycle. This price is inflated by the inclusion of an unrepresentative $7 REC price in a simple average of 4 datapoints. More importantly, the average price could only be appropriately applied to 2020 and 2021 RECs because they are current-year / Green-e certified® prices. During the Review Period, the price for

2017 RECs would have been much lower than these quotes – estimated as $0.54-0.85 depending on whether the $7 outlier price is included. Finally, the recommended disallowance ignores all costs associated with a REC sale process and includes only revenues.

Outside of Staff's calculation methodology, the significant, sustained price increase for RECs did not occur until the spring and summer of 2021, meaning most of the supposed opportunity to capture this increased value occurred outside of the Review Period. Accordingly, as a result of Company review procedures and ongoing market monitoring, once this sustained price increase materialized, the Company implemented a new REC sale process and sold significant numbers of excess RECs beginning in 2022.

II. Purchased Power Agreements

Q: Describe the wind facility PPAs listed in Staff's Report.

A: Staff's report references the following Wind Farm Purchased Power Agreements:

Evergy Missouri Metro

PPA Name	Capacity (MW)	Commercial Operations Date	PPA Term (Years)
Cimarron 2	131	6/1/12	20
Slate Creek	150	12/30/15	20
Osborn	120	12/14/16	20
Spearville 3	101	10/1/12	20
Waverly	200	1/4/16	20
Rock Creek	120	11/8/17	20
Prairie Queen	90	8/10/19	20
Pratt	110	11/16/18	30

Evergy Missouri West

PPA Name	Capacity	In-Service Date	PPA Term
Gray County[10]	110	11/26/01	15
Ensign	99	11/22/12	20
Osborn	80	12/14/16	20
Rock Creek	120	11/8/17	20
Prairie Queen	110	8/10/19	20
Pratt	134	11/16/18	30

Q: Has the Commission previously decided any FAC prudence review issues related to these wind farms?

A: Partially. In EO-2019-0067, the Commission issued an order related specifically to the Rock Creek and Osborn PPAs. However, as Staff acknowledged in their Report through reference to the Commission's order in that docket in their review of each PPA listed above (not just Rock Creek and Osborn), the Commission's determination applies similarly to each of these wind PPAs.

Q: What did the Commission decide?

A: As Staff cites in their report, the Commission stated, "The Commission will not replace the companies' primary supposition at the point of the 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."

[10] Original In-Service data for Gray County was 11/26/01 and at that time Greater Missouri Operations ("GMO", now Missouri West) had a Purchased Power Agreement for 60 MW of the facility. In November 2016, GMO procured the entire facility (110 MW) via a new 15-year PPA.

Q: Why does this determination apply to all of the PPAs mentioned in Staff's report as opposed to just Rock Creek and Osborn?

A: While the specifics of each PPA and the considerations which led to their procurement vary – for example, Rock Creek and Osborn are located in Missouri while other farms are not – the fundamental fact is that, at the point these decisions and investments were made, they were made as long-term, multi-decade investments.

Q: What factors were considered at the point of decision when these PPAs were procured?

A: Several factors were considered in the decision to procure each wind PPA including RES requirements, availability of the Production Tax Credit ("PTC"), expectation or existence of environmental regulations – for example, the Environmental Protection Agency's ("EPA") proposed Clean Power Plan, projected market price increases and long-term revenue requirement reductions, and project-specific factors such as location, capacity factor, and transmission risk.

Q: Did Staff recommend a disallowance related to this issue?

A: They did not.

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 Senior Director of Long Term Planning and Grid Management 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 Direct Testimony on behalf of EMM and EMW consisting of fifteen (15) 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

Subscribed and sworn before me this 6th day of May 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