Exhibit No. 2

Evergy West – Exhibit 2
Kayla Messamore Testimony
Direct
File No. EO-2023-0276

Exhibit No.: _____
Issue(s): PPA Disallowances
Witness: Kayla Messamore
Type of Exhibit: Direct Testimony
Sponsoring Party: Evergy Missouri Metro and Evergy Missouri West
Case No.: EO-2023-0276/0277
Date Testimony Prepared: November 14, 2023

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

DIRECT TESTIMONY

OF

KAYLA MESSAMORE

ON BEHALF OF

**EVERGY MISSOURI METRO AND
EVERGY MISSOURI WEST**

CONTENTS

DIRECT TESTIMONY

OF

KAYLA MESSAMORE

CASE NOS. EO-2023-0276/0277

I. INTRODUCTION

Q: Please state your name and business address.

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

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

A: I am employed by Evergy Metro, Inc. and serve as Vice President of Strategy and Long Term Planning for Evergy Metro, Inc. d/b/a Evergy Kansas Metro ("Evergy Kansas Metro"), Evergy Kansas Central, Inc. and Evergy South, Inc., collectively d/b/a as Evergy Kansas Central ("Evergy Kansas Central"), Evergy Metro, Inc. d/b/a as Evergy Missouri Metro ("Evergy Missouri Metro"), and Evergy Missouri West, Inc. d/b/a Evergy Missouri West ("Evergy Missouri West"). They are the operating utilities of Evergy, Inc. ("Evergy").

Q: On whose behalf are you testifying in this proceeding?

A: I am testifying on behalf of Evergy Missouri Metro, Inc. d/b/a Evergy Missouri Metro ("EMM") and Evergy Missouri West, Inc. d/b/a Evergy Missouri West ("EMW") (collectively, the "Company" or "Evergy").

Q: What are your responsibilities?

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

Q: Please briefly describe your education, professional 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 ("Commission" or "PSC") or before any other utility regulatory agency?

A: Yes.

Q: What is the purpose of your direct testimony in this proceeding?

A: The purpose of my direct testimony is to address portions of the Staff Reports filed on August 30, 2023 in File Nos. EO-2023-0276 and EO-2023-0277. More specifically, I will address Staff and Office of the Public Counsel's ("OPC") proposed disallowances related to the Power Purchase Agreements ("PPA") related to the Cimarron 2 and Spearville 3 (EMM) and Gray County and Ensign (EMW) wind farms. I will also respond to OPC's proposed disallowance related to alleged imprudent resource planning for EMW.

II. <u>RESPONSE TO STAFF</u>

Q: What is Staff's position regarding the wind PPAs?

A: In the Staff Reports, Staff claims that EMM and EMW have acted imprudently by not finding a better solution for long term wind PPAs. Staff also claims while Cimarron 2 and

Spearville 3 (EMM) and Gray County and Ensign (EMW) PPA's are more than halfway through their contract terms that any loss associated with the assets should be disallowed from the Fuel Adjustment Clause ("FAC"). For the FAC review periods in these dockets Staff has recommended disallowances of $12,401,229 for EMM and $13,989,508 for EMW. Staff claims that their judgment is not premised in hindsight, but in direct testimony says, "Staff now has enough data to make this recommendation"[1]. As Company Witness Reed describes in more detail, Staff's allegation of imprudence does not meet the prudence standard.

Q: Does Staff support its claim of not basing their disallowance on hindsight?

A: No. While Staff clearly states that it attempts to review whether a reasonable person making the same decision would find both the information the decision-maker relied on and the process the decision-maker employed to be reasonable based on the circumstances and information known at the time the was made, *i.e., without the benefit of hindsight,* Staff goes on to state: "Staff now has enough data to make this recommendation." Clearly, much of Staff's argument is based on their evaluation of historic market results and their opinion of what a reasonable decision-maker should have done given those historic results (i.e., an evaluation based on hindsight).

Q: How is Staff attempting to justify its proposed disallowance?

A: Staff claims that these PPAs have losses resulting from the fact that average energy market prices are lower than the PPA contract price. Staff is of the opinion that most decision-makers would invest their money elsewhere and cut their losses.[2] In its Staff Report, Staff says, "…it is Staff's opinion that it is imprudent for Evergy's decision-makers to not do

[1] EO-2023-0276 Staff Report, p. 33, lines 21-22.
[2] EO-2023-0276 Staff Report p. 33, lines 11-12.

something about these PPA's going forward."[3] Staff has concluded that customers will never see a benefit from these PPAs, therefore they "should not have to suffer any more harm moving forward."[4]

Q: Is Staff's position that a reasonable decision-maker would have done something about these contracts reasonable?

A: No. In the Staff Report, Staff states that these contracts do not have termination clauses in order to get out of them. Staff also states this fact is "not necessarily imprudent"[5] Even after providing evidence that there is no negotiated termination clause, Staff argues that a reasonable person would have invested their money elsewhere. Staff does not explain how this would be possible, nor does it offer alternatives (i.e., what a reasonable decision-maker would have done to exit the contracts in order to invest elsewhere). In fact, Staff does not offer any remedy for their perceived imprudence yet relies on the argument that it was imprudent of Evergy's decision-makers to "not do something about these PPAs."[6] Staff seems to ignore or not understand that it may be impossible, or at the very least extremely expensive, to get out of these contracts.

Q: Have Evergy decision-makers attempted to "do something about these PPAs"?

A: Yes. Evergy continually evaluates potential options to optimize its assets, including wind PPAs. There are numerous ways that Evergy is actively "doing something" about these contracts. Evergy monetizes the Renewable Energy Credit ("REC") value of these wind PPAs, which diversifies the asset's revenue streams, flows additional revenue back to customers via the FAC, and serves to reduce overall fuel costs. Evergy also employs a

[3] EO-2023-0276 Staff Report p. 33, lines 15-16.
[4] EO-2023-0277 Staff Report p. 35, lines 7-8.
[5] EMM Staff Report, p. 33; EMW Staff Report, p. 34.
[6] EMM Staff Report, p. 33; EMW Staff Report, p. 34.

comprehensive congestion hedging strategy enabled by the firm transmission paths that allow energy from these PPA assets to be deliverable to Evergy customers. Similar to REC monetization, congestion hedging also diversifies the revenue stream associated with these assets and serves to reduce the overall fuel cost through the FAC. Lastly, Evergy periodically approaches PPA owners about the potential to amend contracts in a way that could be favorable to customers. This includes discussing repowering opportunities, which would upgrade technologies, increase production, and potentially qualify for incremental Production Tax Credits ("PTCs") to reduce the contract price. Additionally, Evergy discusses potential contract extensions which can result in lower PPA prices. Finally, Evergy also investigates the possibilities for PPA contract buy-in opportunities, which would allow Evergy to own, operate, and optimize the assets. Numerous opportunities have been explored for the PPA contracts in question. Specifically, Evergy worked with the third-party owners of Gray County in 2019 and Ensign in 2020 to amend the PPA contracts in order to repower the projects. These amendments resulted in a lower price per megawatt hour compared to the original contractual terms. So, while Staff indicates that Evergy decision-makers have "done nothing." the Company has clearly explored and executed amendments to the contracts to bring additional value to customers in the form of lower energy prices.

Company Witness Reed details reasons why contract reformation can be challenging to produce a positive NPV compared to continued performance under the contracts.

Q: Does Staff's disallowance argument take into consideration all revenues associated with the wind PPAs?

A: No. Staff only considers energy sales revenue and ignores REC revenues, congestion hedging revenues, and the value of capacity provided by these PPAs. Evergy does not agree with Staff's arguments and certainly does not agree with Staff's evaluation of the value of these PPA contracts. Staff is narrowly focused on testing whether Locational Marginal Prices ("LMPs") are above the PPA contract cost. This has never been and should never be a standard for Utility investment prudency or an economic resource. Evergy is not an Independent Power Producer ("IPP") chasing margins or solely justifying a generation asset or contract based on arbitrage opportunity in the marketplace. In fact, even an IPP would likely have more revenue streams (from REC sales and capacity sales, for example) than simply market energy revenues. Importantly, the reason Evergy is not operating like an IPP is because it has an entirely different objective. Evergy has an obligation to serve its customers and, as a result, is solving for long-term capacity and energy to meet customer needs, while balancing reliable, affordable, and sustainable service. Staff's short-sighted spot market energy-based valuation is inappropriate for long-life assets and for the operations of a vertically-integrated regulated utility.

Q: Is it reasonable to expect market energy revenues to cover all-in costs for generating assets in the Southwest Power Pool (SPP)?

A: No. The SPP market is not set up to recover all-in costs of generators. Rather, it is constructed to optimize dispatch based on short-run marginal costs in order to reduce the fuel costs needs to serve market-wide load. Collectively, members benefit from this short-run marginal optimization and, over the long run, are better off than they would be if they were solely running their own generation to meet their customer demand.

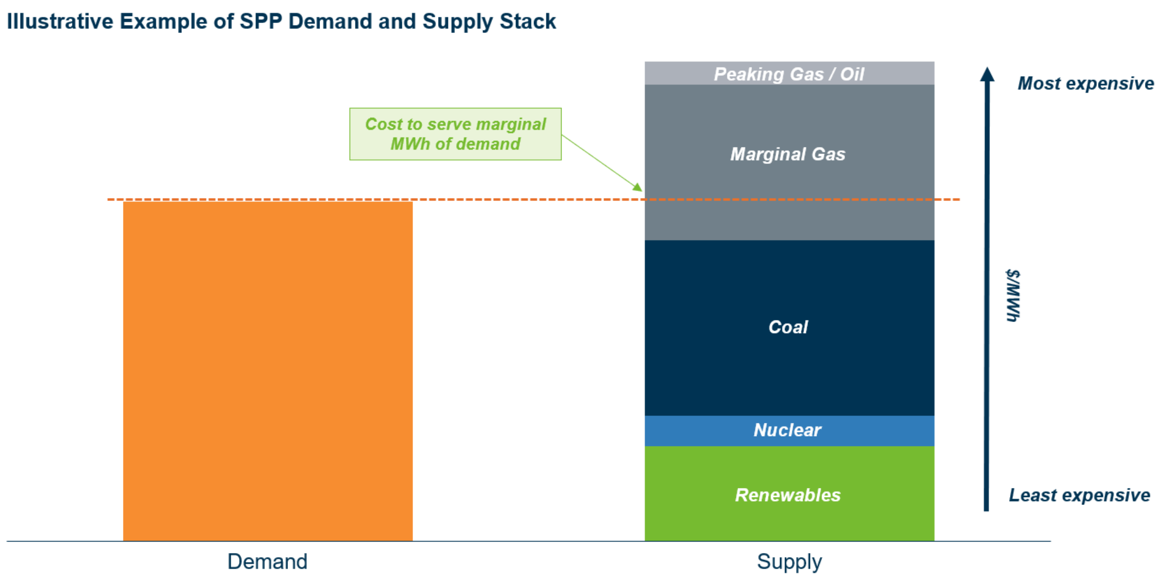
Q: How does pricing of wind PPAs differ from traditional owned generation that are recovered in base rates?

A: All generation resources have a similar cost of service structure, which generally includes depreciation expense, return on capital invested, property taxes, operations and maintenance, and fuel expense (if applicable). There is a wrinkle, however, when comparing wind PPAs and rate based generation in the context of the FAC. Rate based generation utilizes traditional utility ratemaking principles, where base rates cover costs like depreciation, capital return, and property taxes. In the case of wind PPAs, third-party developers have bundled these cost categories and spread them over an expected production volume to recover the cost of service in a price per mega-watt hour produced over the life of the asset. Given wind PPA contract costs are considered in the FAC calculation, whereas the fixed costs associated with rate base investment are not in the FAC, it is inconsistent for Staff to expect market energy revenues to exceed costs for one asset type, wind PPAs, but not for others, traditional rate base resources. More importantly, regardless of whether a resource is rate based or structured as a PPA, it is unreasonable to expect SPP market revenue to always exceed total costs of service. As Company Witness Reed explains in more detail, that is simply not what the energy market is designed to do.

Q: Staff asserts that wind assets are not economically justified in the SPP. Are there other ways that wind assets bring value that Staff is ignoring?

A: In addition to the REC, congestion hedging, and capacity value that Staff is ignoring, they also fail to consider the benefit of low-cost energy for market-wide demand, including that of EMW customers. Figure 1 simplifies SPP's market engine process, which stacks all available generation assets from cheapest to most expensive and then solves to serve load with the most economic assets. Specially, the energy component of the locational marginal price ultimately settles at the short-run margin cost of the last generator needed to serve the marginal MWh of demand.

Figure 1

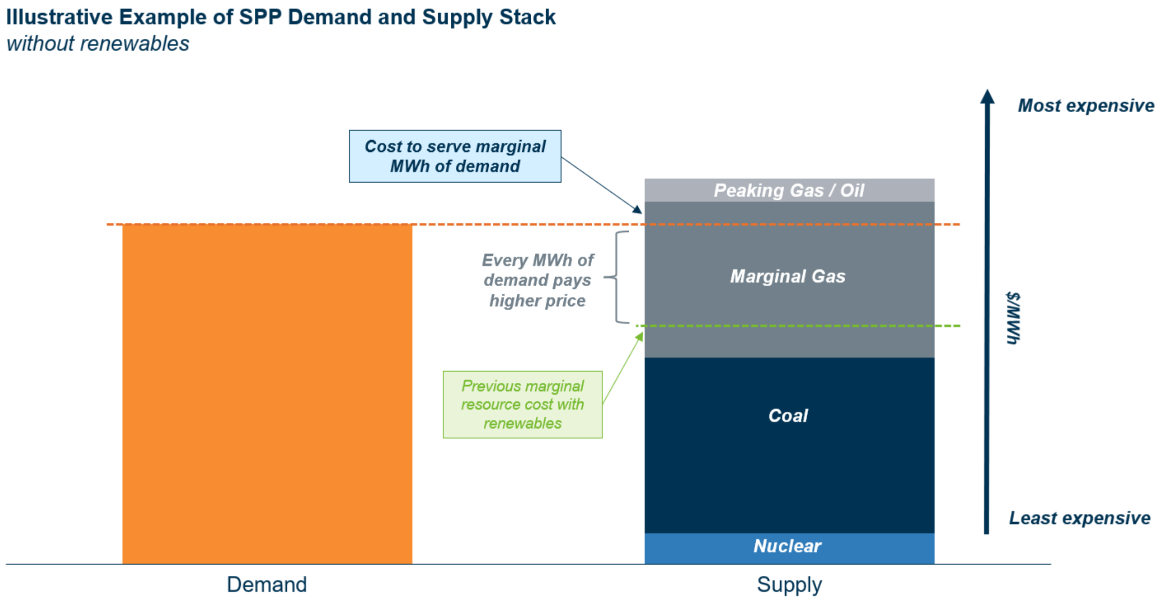


According to SPP's 2022 Annual State of the Market Report[7], the day-ahead market price for 2022 averaged $48/MWh. Due to the way that the SPP market engine solves, the stability and low cost of wind generally reduces the cost to serve SPP's marginal MWh of demand. In other words, if wind was not part of SPP's supply stack, it would have likely relied on natural gas generators more often and the 2022 average market price would have been above $48/MWh. Figure 2 illustrates the pricing impact of removing renewables from the supply stack. In essence, SPP would have to move up the supply stack to more expensive generators in order to serve the marginal MWh of demand, and in turn settle the

[7] https://www.spp.org/documents/69330/2022%20annual%20state%20of%20the%20market%20report.pdf.

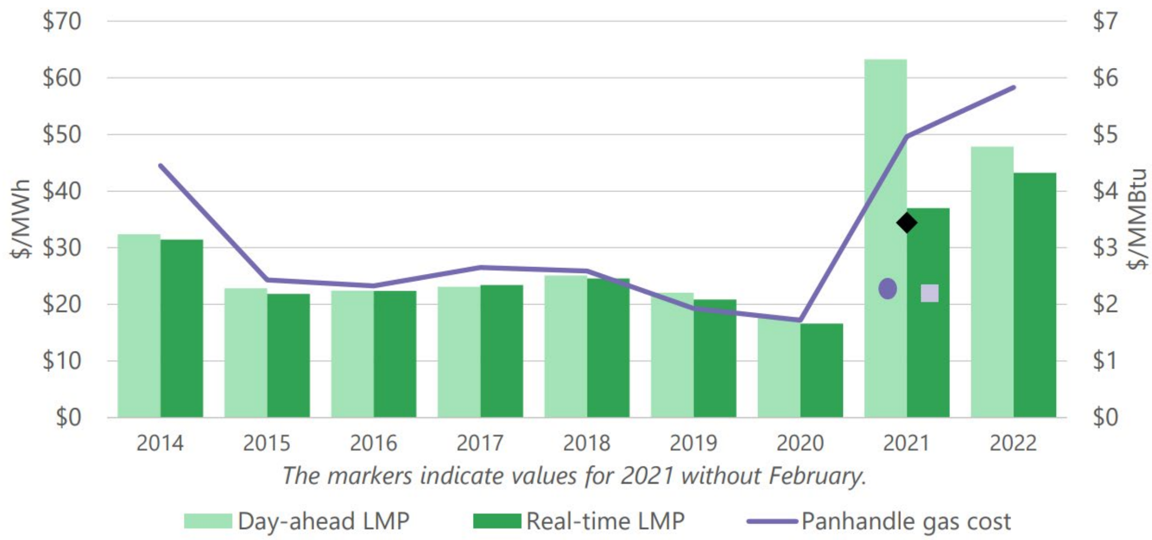
market price at that more expensive resource's short-run marginal cost. This would impact every single MWh of demand throughout time and would have a multiplying effect on SPP's overall cost to serve market-wide customer demand. While this would result in higher revenues for generators and may give more margin for some generators to offset their fixed costs, what is more important is that the cost to serve load is increased (i.e., while generators may be better off in that scenario, load as a whole is not).

Figure 2



There is also an element of cost hedging against volatile natural gas prices that is lost in Staff's evaluation. As experienced over the last couple years, movements in natural gas prices can significantly impact market prices and in turn drive up and down the cost to serve customer load. Figure 3 is an exhibit from SPP's 2022 Annual State of the Market Report that shows the energy price correlation with natural gas prices from 2014 through 2022. When considering the affordability of serving customer load there are considerations around overall price as well as the certainty of that price. Long-term wind PPA contracts lock in a cost for customers over a twenty year or longer period and provide increased cost certainty, even in times of volatile commodity markets.

Figure 3



Staff also ignores the hedge against carbon restrictions that wind PPA contracts deliver. Over time, Evergy's planning processes have considered carbon restrictions to varying levels. As the probability of carbon restrictions ramp up, so does the value of wind PPAs. Carbon restriction consideration in resource planning has been a long-standing practice. It seems likely that utility companies in this country will have to comply with carbon restrictions in the future, which will have a material impact on the long-term value of resources. In April 2023, the United States Environmental Protection Agency ("EPA") announced a proposal for more stringent standards to reduce greenhouse gas emissions. If this proposed rule is adopted, carbon-free wind energy will be crucial to meeting customer demand while complying with emissions standards. In other words, had carbon restrictions been put into place prior to the FAC prudence review period, EMM and EMW would have received even more value for the carbon-free energy from these PPAs. And if the EPA's proposed greenhouse gas rule is put into effect EMM and EMW customers will be in a better position to comply given Evergy's work to diversify its generation portfolio by adding wind PPA contracts over time.

Q: What is the appropriate way to assess the value of assets like these PPAs?

A: These PPAs should be, and have been, assessed in the context of long-term integrated analysis. Integrated analyses compare the value of resources in a large variety of potential future scenarios and compare resources to available alternatives in order to assess the most cost-effective way to meet a given set of long-term customer needs. In recent history, these types of analyses have been performed in the context of an Integrated Resource Plan (IRP). When these PPAs were originally assessed, it was using the same analytical approach, albeit not through a formal IRP given the status of IRP rules and filings at the time of these contracts. That, combined with the evaluation of bids through a competitive request for proposal process, is the decision-making process that was used when these contracts were signed ten or more years ago. That is the process by which a resource is determined to be "economic" (i.e., part of the lowest risk-adjusted cost portfolio which meets forecasted customer needs). Staff alleges no imprudence in that actual decision-making process. Instead, Staff invents a new definition of an "economic" resource based on an overly narrow view of the benefits that these resources provide Evergy's customers.

Q: Please summarize this portion of your testimony.

A: Staff's proposed disallowance is built on a vague allegation that the Company was imprudent not to "do something" about four wind PPAs which have been in its portfolio for ten or more years (and numerous FAC prudence reviews[8]). Their allegation seems to

[8] See File Nos. EO-2014-0242 [June 1, 2012 through November 30, 2013]; EO-2016-0053 [December 1, 2013 through May 31, 2015); EO-2017-0231/0232 [June 1, 2015 through November 30, 2016]; EO-2019-0067/0068 [December 1. 2016 through May 31, 2018]; EO-2020-0262/0263 [June 1, 2018 through November 30, 2019]; EO-2022-0064/0065 December 1, 2019 through May 31, 2021.

be built entirely on hindsight information, they outline no reasonable alternative path that a "prudent decisionmaker" would have taken, and their calculation of recommended disallowance is based on a standard of value-vs.-cost (SPP energy revenues versus all-in costs) which no generator would be expected to meet on a consistent basis and which misses several key sources of value that these resources provide. Staff's recommendation should be rejected on the basis that these contracts were prudent when they were entered into, on the basis of long-term value, and the Company has sought to optimize them on an ongoing basis as the market allowed.

III. <u>RESPONSE TO OPC</u>

Q: OPC also filed for cost disallowance during this FAC prudence review. What other arguments have they made in addition to agreeing with Staff's assertions?

A: OPC agreed with Staff, but believes they overlooked additional issues of imprudence. While Staff claimed to have not had hindsight bias, yet still exercised it, OPC does not even attempt to deny using hindsight. They also introduce a hypothetical situation to quantify their recommended disallowance. OPC's claim has nothing to do with actual decisions made during this FAC review, but rather theoretic energy savings and capital investment costs due to their belief that EMW has imprudently neglected to ensure adequate generating resources to meet energy requirements imposed by its customers.

Q: Please explain OPC's calculation of their recommended disallowance.

A: Simplistically, OPC calculates an average $/kWh of variable costs (based on the sum of actual net energy costs across EMW and Evergy Missouri Metro divided by the sum of net system input or "NSI" across both jurisdictions) and an average $/kWh of fixed costs (based on the sum of generation plant revenue requirement across both jurisdictions divided by the sum of NSI across both jurisdictions). Those $/kWh are then multiplied by EMW's NSI and compared to EMW's actual net energy costs to calculate a net "imprudence adjustment" by subtracting the increase in fixed costs from the reduction in variable costs. Because the EMW $/kWh for variable costs is higher (based on this review period) than Metro and Metro's $/kWh for fixed costs is higher than EMW, that means that, if an average $/kWh is used, EMW variable costs go down while Metro's costs go up and EMW's fixed costs go up while Metro's go down. In essence, OPC's hypothetical disallowance logic is based on zero-sum game theory, whereas any benefit EMW customers would have received would be offset set by an equal amount of detriment to Metro customers. Notably OPC's recommended disallowance does not include the corresponding, inverse impact on Evergy Missouri Metro which would result from their logic.

Q: How do you respond to this calculation?

A: I think it is one-sided and not founded in any actual assessment of prudent resource planning. Pretending that EMW could benefit from a hypothetical "average" calculation while doing nothing to reflect the inverse impact that would have on Evergy Metro is simply that: pretending. OPC does nothing to outline what EMW *should* have done if they were planning prudently and states that EMW "imprudently neglected to ensure adequate generating resources to meet the energy requirements imposed by its customers."[9] As Company Witness Reed explains in more detail, they ignore that the prudence standard is built around the prudence of *decisions* (i.e., actions that were taken or not taken) and not of costs. OPC does not point to any decisions in its allegation of imprudence other than in

[9] EO-2023-0277, OPC Report, p. 2

saying that EMW has not planned to meet its customers energy requirements – which is simply false. In addition, as stated above they ignore the fact that, if the company truly was operating on a combined basis, Evergy Metro's variable costs would have been higher than they were, to say nothing of the impacts on fixed costs shifting which would need to be worked through in a true jurisdictional consolidation to reset base rates for all-in cost of service and combined customer class allocations.

Q: Has Evergy Missouri West always met its resource adequacy obligation?

A: Yes. EMW has always been compliant with SPP's resource adequacy requirements and EMW's IRP has always been deemed to have met the rules requirements set forth by the State of Missouri. Specifically, that means that EMW has and does plan to meet the energy requirements of its customers. EMW has a need for additional capacity and energy going forward, as well as a need for additional hedges against energy prices, as described in the recently-filed application for a Certificate for Convenience and Necessity[10], but that does not mean that EMW did not have sufficient resources to meet customer needs during the review period or that it does not plan to meet its customers' needs. It is also worth noting that, if the wind PPAs were not in place which OPC and Staff allege are now imprudent, EMW would need even *more* energy and capacity to meet its customers' needs than it does today. While focused on resource planning, OPC quickly shifts to quantifying the hypothetical cost savings benefit had EMW operated as a combined entity with Evergy Metro. As I described above, this is an unfathomable approach to auditing EMW's FAC. Evergy Missouri West and Evergy Metro are separate legal entities with separate jurisdictional rates. In fact, Evergy Metro's assets are jointly owned by customers in both

[10] *See* Case No. EA-2023-0291.

Missouri and Kansas, which further complicates OPC's suggestion. It would require jurisdictional consolidation to operate as a combined entity, and even that would only allow Evergy Missouri Metro and Evergy Missouri West to operate as OPC has suggested going forward. It is absurd to claim imprudent historical fuel and purchased power costs given that Evergy operated these two utilities consistent with how the Missouri Public Service Commission regulates the separate jurisdictions.

Q: Does Evergy attempt to optimize the generation fleets of both Evergy Missouri West and Evergy Metro?

A: Yes. Over the years, Evergy has attempted to construct win-win transactions that benefit both Evergy Metro and Evergy Missouri West customers. These transactions have locked in contracts to optimize Evergy Metro's capacity-long position at a competitive market price, while contributing to EMW's portfolio to meet load obligations. These transactions are enabled by Evergy Metro and EMW's joint Network Integration Transmission Service ("NITS") with SPP. This arrangement for transmission service enables all of Metro's network resources to be considered fully deliverable to EMW's load in the same way they are to Metro's load (and vice versa), but changes nothing about the way EMW resources and load are treated by the SPP market (i.e., they are viewed separately from Metro's resources and load). This is as close to "operating as combined entities" as Evergy can accomplish given the jurisdictional structures. Evergy would welcome the opportunity to engage with OPC and other stakeholders to explore the prospects of consolidating Evergy Missouri Metro and Evergy Missouri West rate jurisdictions in the future, but that is simply not the world EMW operates in today or operated in during the prudence review period.

Q: Please summarize your testimony.

A: Staff is clearly relying on hindsight for their arguments and recommendations in this FAC audit review. Additionally, Staff and OPC have taken short-sighted and overly-narrow views when evaluating Evergy's wind PPA contracts for this FAC audit review period. They are only looking at energy revenue benefits and fail to consider the many other benefits afforded by economic, clean wind. These PPAs were entered into more than ten years ago on the basis of a long-term analysis which factored in a broader assessment of these sources of value as is appropriate for long-term resource decisions. Lastly, OPC relies upon illogical arguments and hypothetical fuel and purchase power cost savings to support their perceived imprudence of past resource planning without providing any support for what actual decisions they allege were imprudent. For these reasons, the Commission should reject Staff and OPC's recommendation for FAC disallowances.

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 Fifth 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-2023-0276
In the Matter of the Eleventh 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-2023-0277

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. as Vice President of Strategy and Long Term Planning.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Evergy Missouri Metro and Evergy Missouri West consisting of eighteen (18) 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.

Kayla Messamore

Kayla Messamore

Subscribed and sworn before me this 14th day of November 2023.

Anthony R Westenkirchner

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