**BEFORE THE STATE CORPORATION
COMMISSION OF THE STATE OF KANSAS**

In the Matter of the Application of Kansas Gas and Electric Company for Approval of an Energy Supply Agreement between Kansas Gas and Electric Company and Spirit AeroSystems, Inc.	)))))	Docket No. 20-KG&E-112-CON

PUBLIC
NOTICE OF FILING OF STAFF'S REPORT AND RECOMMENDATION

COMES NOW, the Staff of the State Corporation Commission of the State of Kansas ("Staff" and "Commission," respectively) and respectfully files its Report and Recommendation regarding an Energy Supply Agreement (ESA) entered into between Kansas Gas and Electric Company and Spirit AeroSystems, Inc.[1] Among other things, Staff recommends the Commission approve the ESA. Staff's evaluation of the application, special contract filing requirements, and proposed regulatory asset is more fully discussed in the Report and Recommendation.

WHEREFORE, Staff respectively submits its Report and Recommendation in this docket, recommends the Commission approve the ESA discussed therein, and any other relief the Commission deems just and reasonable.

Respectfully submitted,

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[1] Previously, Westar Energy, Inc. and Kansas Gas & Electric Company requested authority to change their names contained in their tariffs and Commission records to Evergy Kansas Central, Inc. and Evergy Kansas South, Inc., respectively, d/b/a collectively as "Evergy Kansas Central." The Commission has approved this request. *See* Order Approving Name Change, Docket No. 20-WSEE-123-CCN (Oct 8, 2019).

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REPORT AND RECOMMENDATION
UTILITIES DIVISION
CONFIDENTIAL/PUBLIC VERSION
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TO: Chair Susan K. Duffy
Commissioner Shari Feist Albrecht
Commissioner Dwight D. Keen

FROM: Douglas Hall, Research Economist
Justin Prentiss, Senior Research Economist
Lana Ellis, Deputy Chief of Economics and Rates
Robert Glass, Chief of Economics and Rates
Jeff McClanahan, Director of Utilities

DATE:

SUBJECT: Docket No. 20-KG&E-112-CON: In the Matter of the Application of Kansas Gas and Electric Company for Approval of an Energy Supply Agreement between Kansas Gas and Electric Company and Spirit AeroSystems, Inc.

EXECUTIVE SUMMARY

On September 6, 2019, Kansas Gas and Electric, d/b/a Evergy Central (Evergy) and Spirit AeroSystems, Inc. (Spirit) submitted a Joint Application for an order approving the Energy Supply Agreement between Evergy and Spirit (ESA).[1] The ESA is a ten-year agreement with terms aimed at addressing Spirit's threat to relocate portions of its Wichita operations to areas outside of Kansas.

The ESA includes an all-energy rate with four-tiered pricing blocks with a declining block rate structure. It also includes a monthly minimum bill for Spirit and subjects Spirit to all riders and surcharges the company would otherwise pay, except for the replacement of the Retail Energy Cost Adjustment (RECA) rider with the cost of a wind generation purchase power agreement (PPA).

The ESA gives Evergy the ability to update rates to reflect the pro rata share of any future change in rates allocated to the ILP class. The ESA also includes requirements for Spirit to make efforts to maintain or increase operations at its Wichita facilities and to maintain a certain level of capital investment at those facilities.

[1] Application for Evergy Energy, Inc., Docket No. 20-KG&E-112-CON, September 6, 2019 (Application).

The ESA's replacement of the RECA with the PPA cost is similar to Evergy's Direct Renewable Participation Service (DRPS) tariff. The replacement of the RECA by the PPA allows Spirit to take energy produced from the Flat Ridge III Wind Farm (Flat Ridge III) at [redacted] per kWh as a substitute for the RECA. The purchase power agreement (PPA) Evergy signed to provide this wind generation service to Spirit is an 11-year agreement. At the end of the ESA's ten-year term, the energy from the Flat Ridge III will be used to benefit and serve all of Evergy's retail customers with the related cost recovered through the RECA.

In the event that Evergy has a customer or customers who would like to purchase the remaining generation from the wind farm after the ESA terminates, Evergy will consult with Commission Staff to determine whether such an agreement is acceptable or whether Staff would recommend that the wind generation be used to serve all retail customers for the remaining term of the PPA.

In addition, Evergy requests approval of a regulatory asset to defer, for future recovery, the difference between the base rate revenue it will receive from Spirit under the proposed ESA and the base rate revenue it would have received from Spirit had Spirit continued to take service under the ILP tariff. Execution of the ESA is conditioned on Commission approval of Evergy's request for deferral.

The Commission has set out two basic criteria for approval of an electric special contract. First, the Commission has specified a list of filing requirements. Second, the Commission requires that the remaining core customers benefit from the special contract.

First, Staff reviewed multiple documents supplied by the Joint Applicants in which Evergy and Sprit provided information to satisfy the filing requirements. Through this review, Staff has concluded the Joint Applicants have met all of the filing requirements for special contracts.

Second, Staff analyzed the necessity of the ESA and its effect on remaining core customers. Based on its analysis, Staff concluded the ESA is necessary because Spirit's threat to leave the Evergy System is credible, the size of the ESA discount seems reasonable, and the ESA is beneficial to the core customers. The reasoning for this conclusion follows:

1) The ESA provides two discounts to Spirit that are each substantial—the base rate discount and the substitution of the wind farm PPA for the RECA. Without the discounts, Spirit threatens to leave the Evergy System, which would raise rates for all other customers. Of the two alternative power supply options presented by Spirit to back up its threat to leave the Evergy System, Staff finds the option of moving some production to Oklahoma a credible threat because of the substantially lower all-in per kWh rate offered there.

2) The size of the discount seems reasonable to Staff. It does not fully close the gap between Evergy's all-in per kWh rate and Oklahoma's highest all-in per kWh rate, but Staff does not think it needs to for two reasons—it would be expensive for Spirit to move to Oklahoma and electricity is a relatively small part of Spirit's operating budget.

3) The core remaining customers benefit from Spirit not leaving the Evergy System because the ESA ensures that Spirit pays for more than 15% of the fixed cost it is allocated, and the wind farm PPA lowers the RECA for all other customers whether Spirit uses all of the wind farm energy or not.

Third, because the Commission has found that revenue imputation is not appropriate with electric special contract rates, Staff concludes Evergy's request to defer the difference between the base rate revenue it will receive from Spirit under the proposed ESA and the base rate revenue it would have received from Spirit under the ILP tariff should be granted.

Because the Joint Applicants have met the filing requirements and the ESA would benefit Evergy's core customers, Staff has determined the Agreement would result in just and reasonable rates. Therefore, Staff recommends the Commission approve the ESA. In addition, Staff recommends Evergy's request for a regulatory asset be granted.

BACKGROUND

Evergy and Spirit entered into the ESA on August 12, 2019.[2] On September 6, 2019, Evergy and Spirit filed a Joint Application requesting approval of the ESA. The Application was supported by the Direct Testimony of Mr. Jeff Martin on behalf of Evergy and Mr. Adam Pogue on behalf of Spirit. The Commission issued a Suspension Order on September 17, 2019, in which the Commission deemed it necessary and proper to conduct a full investigation of the proposed tariff revision and set the deadline for a Final Order as May 4, 2020. On October 29, 2019, Evergy filed Supplemental Direct Testimony of Jeff Martin explaining the details of the PPA that was secured as part of the ESA.[3] He provided confidential updated testimony on February 3, 2020 to make public the name of the wind farm that Evergy plans to utilize.

The Commission received several letters in support of the contract shortly after the Application was filed. On September 13, 2019, Ty Masterson, Senator representing the 16th District of Kansas, filed a letter in support of the contract. On September 18, 2019, Susan Wagle, Kansas Senate President, filed a letter in support of the contract. On September 19, 2019, Daniel R. Hawkins, Kansas House Majority Leader, and Joe Seiwert, Kansas Representative of the 101st District, filed letters in support of the contract. On September 27, 2019, Laura Kelly, Kansas Governor, filed a letter stating her support for the contract. On October 7, 2019, Tom Sawyer, Kansas House Democratic Leader, filed a letter in support of the contract.

Spirit's Wichita facility makes the fuselage and other components for Boeing planes, including the Boeing 737 Max family of models. It is relevant to give a brief background on the issues that Boeing has faced since the introduction of its 737 Max model because those issues had an impact on Staff's analysis of the contract.

The Boeing 737 Max was approved by the Federal Aviation Administration in 2017.[4] It offered improved fuel efficiency by using a new type of engine.[5] These engines were further forward and higher up on the wings, which could cause the nose of the plane to pitch upward in some situations.[6] Boeing designed an automated software system called the Maneuvering Control

[2] Confidential Application attachment.

[3] Part of the requirement in the Agreement was a wind farm Purchase Power Agreement (PPA). The supplemental testimony accounts for the specific PPA Evergy obtained.

[4] David Slotnick, *Boeing 737 timeline: From the early days to the grounding of the 737 Max after 2 fatal crashes that killed 346 people 5 months apart*, BUSINESS INSIDER (Jan. 8, 2020), https://www.businessinsider.com/boeing-737-history-photos-airlines-2019-9. Hereinafter "Slotnick Jan. 8 Article."

[5] *Id*.

[6] *Id*.

Augmentation System (MCAS) to compensate for the upward pitch.[7] The software was designed to automatically activate to stabilize and bring the aircraft's nose back down.[8]

In October 2018, a Boeing 737 Max flying out of Indonesia crashed 12 minutes after takeoff.[9] Its crash was initially suggested to have resulted from an improper activation of the MCAS.[10] Boeing began working on a software fix and issued several advisories.[11] At this time, the model continued to fly for airlines across the world.[12] Then, on March 10, 2019, another 737 Max crashed six minutes after takeoff from Ethiopia.[13] This crash was also partially attributed to improper activation of the MCAS.[14] The Federal Aviation Administration then grounded the 737 Max worldwide and initiated multiple investigations.[15] At this point in time, Boeing anticipated that the software fix would be ready by September of 2019 and production of the 737 Max would resume in late 2019 or early 2020.[16]

Spirit's Wichita facility focuses on production of fuselages and other parts for Boeing planes. Spirit is a global aerospace manufacturer and engineering operator with facilities in the U.K., Malaysia, France, and North Carolina in addition to its Wichita facility.[17] Revenue from 737 aircraft components represents more than 50 percent of Spirit's annual revenue.[18] As a production hub for Boeing plane fuselages and other parts, Spirit's Wichita facility has been impacted by the issues at Boeing.

On December 20, 2019, Spirit issued a statement explaining Boeing directed it to stop all 737 Max deliveries effective January 1, 2020 due to the temporary suspension of 737 Max production.[19] On January 6, 2020, Spirit stated it was offering voluntary layoffs to employees.[20] On January 10, 2020, Spirit reported it would lay off 2,800 employees—with a potential for more—due to the production halt.[21] Spirit announced on January 30, 2020 that it had come to an agreement with

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[7] *Id*.
[8] *Id*.
[9] Slotnick Jan. 8 Article.
[10] *Id*.
[11] *Id*.
[12] *Id*.
[13] *Id*.
[14] Slotnick Jan. 8 Article.
[15] Lauren Zumbach, *The U.S. grounded all Boeing 737 Max jets. Here's what you need to know*, CHICAGO TRIBUNE (Mar. 13, 2019),https://www.chicagotribune.com/business/ct-biz-cb-boeing-737-max-passengers-avoid-20190312-story.html.
[16] *See* Slotnick Jan. 8 Article.
[17] *A Legacy of Innovation*, SPIRIT AEROSYSTEMS, https://www.spiritaero.com/company/overview/history (last visited Mar. 17, 2020).
[18] Chance Swaim, *Spirit AeroSystems offers voluntary layoffs amid Boeing 737 Max uncertainty*, THE WICHITA EAGLE (Jan. 6, 2020), https://www.kansas.com/news/business/article239009448.html. Hereinafter "Swaim Article."
[19] *Spirit AeroSystems to Suspend Boeing 737 MAX Production in January 2020*, SPIRIT AEROSYSTEMS (Dec. 20, 2019), https://www.spiritaero.com/release/137053/spirit-aerosystems-to-suspend-boeing-737-max-production-in-january-2020 (last visited Mar. 17, 2020).
[20] Swaim Article.
[21] David Slotnick, *A major Boeing supplier in Kansas is laying off 2,800 workers because of the 737 Max production halt*, BUSINESS INSIDER (Jan. 10, 2020), https://markets.businessinsider.com/news/stocks/boeing-737-max-spirit-aerosystems-layoffs-2020-1-1028809736 (Hereinafter Slotnick Jan 10 Article).

Boeing wherein Spirit will start production again slowly, ramping up deliveries throughout the year.[22] Spirit does not expect to achieve its prior monthly production rate until late 2022.[23]

Following the layoffs in early January, Moody's downgraded Spirit's bond rating and said the workforce cuts put the area's local economy at risk.[24] One of the main goals of the proposed ESA agreement was, and remains, to provide a reasonable rate to Spirit so that it continues to employ Kansans at its Wichita facility and, as such, acts as a stabilizer to the local economy.

Staff has remained sensitive to the hardships of Spirit and dedicated to providing a thorough and thoughtful examination of the special contract as issues have arisen since the Application was first filed. Some of the developments since Boeing suspended production have forced Staff to re-analyze certain aspects of the underlying data as it relates to the Commission's standards on special contracts, such as the load characteristic of Spirit and the effect of the contract on the utility's system over the term of the contract; these will be discussed in detail in the Analysis section of this report.

This contract presented some additional complications by incorporating a wind purchase power agreement into the ESA. This is the first time Staff has seen a RECA surcharge discount presented in a special contract. Typically, special contracts are analyzed using the standards set forth in Docket No. 01-GIME-813-GIE. Dedicated wind purchase power agreements are typically filed through Evergy's Direct Renewable Participation Service ("DRPS") Tariff, which is a program where customers with average peak demands exceeding 500 kW can enter into long term contracts for wind energy secured by Evergy through PPAs or Evergy built wind farms. If the customer chooses to file through the DRPS, the DRPS Tariff price is substituted for the RECA surcharge. This contract presented provisions similar to the DRPS tariff that allow Spirit to take energy produced from designated wind farms at a specified rate, but the fact that the purchase is incorporated into the ESA contract led to some discussion of what the appropriate analysis for the agreement would be—the general special contract analysis, the DRPS analysis, or a combination of both.

Additionally, Staff realized as they were completing their analysis that additional information from Evergy was necessary in order for Staff to complete its analysis as to the wind PPA. Staff received the additional information and analysis from the Company on February 18, 2020. Staff had to review it before completing its own independent review of the PPA, which will be discussed in the Analysis section of this report.

As a result of the unique attributes of the ESA, the additional information that was needed from the Company, and the developments surrounding the Boeing 737 Max production discussions, Staff was unable to conduct a thorough analysis in a timeframe that would allow the contract to be approved prior to the end of the calendar year 2019, as requested in the joint Application.

[22] *Spirit AeroSystems Announces 737 MAX Production Agreement with Boeing*, SPIRIT AEROSYSTEMS (Jan. 30, 2020), https://www.spiritaero.com/release/137055/spirit-aerosystems-announces-737-max-production-agreement-with-boeing (last visited Mar. 17, 2020).
[23] *Id*.
[24] Dan Catchpole, Layoffs start rippling through the Boeing 737 Max supply chain, FORTUNE (Feb. 7, 2020), https://fortune.com/2020/02/07/boeing-737-max-supply-chain-layoffs/.

However, despite these difficulties Staff was able to conclude its analysis and is submitting this report to allow an Order to issue well before the May 4, 2020 statutory deadline.

Description of Proposed Energy Supply Agreement

The proposed ESA is for a ten-year period with the following terms:[25]

1) Evergy will serve the total energy requirement of Spirit's plant;

2) Without previous written agreement by Evergy and Spirit, Evergy will not be required to supply more than 120 megawatts (MW) over a 15-minute period;

3) The energy sold by Evergy to Spirit shall be used solely for the purposes of operating Spirit's plant and related facilities whose point of interconnection at Evergy's facilities are located on Spirit's campus between 31st Street and 47th Street South in Wichita, Kansas. All other facilities will be subject to the applicable standard rate schedules;

4) The agreed base energy rates designed, with four declining blocks as follows:

    a. First Block – 7,000,000 kilowatt-hours (kWh) per month: [redacted]
    Second Block – 11,000,000 kWh per month: [redacted]
    Third Block – 22,000,000 kWh per month: [redacted]
    Fourth Block – all additional kWh per month: [redacted]

5) Spirit will be charged all applicable surcharges and riders, as specified in the ESA:

    a. Applicable taxes and/or fees;

    b. If Spirit's Power Factor fall below 0.90, its initial bill will be increased using the following equation:[26]

$$\begin{pmatrix} Adjusted \\ Bill \end{pmatrix} = \begin{pmatrix} Initial \\ Bill \end{pmatrix} \times \left(\frac{0.90}{\begin{matrix} Actual\ Power \\ Factor \end{matrix}} \right) where \begin{pmatrix} Actual \\ Power \\ Factor \end{pmatrix} < \ 0.90$$

    c. The Property Tax Surcharge, Transmission Delivery Charge, and Energy Efficiency riders;

    d. A wind farm purchase power agreement (PPA) rate of [redacted] ¢/kWh will be applied in lieu of the standard Retail Energy Cost Adjustment (RECA) rider;

6) Spirit will be subject to any refund or rate change affecting the ILP class on a pro rata basis—a 5% increase for the ILP creates a 5% increase for the Spirit ESA rates;

[25] See Confidential Application attachment laying out the terms of the ESA and Pogue Direct describing the terms of the ESA.

[26] The Power Factor is defined as Section 1.21 of Evergy's General Terms and Conditions. Adjustments based on power factor will occur only when the power factor is less than 0.90 at the point of delivery.

7) Spirit is obligated to pay a minimum monthly bill of $1,000,000 before taxes;

8) Spirit will make good faith efforts to maintain or increase operations and workforce at its Wichita facilities; and Spirit will invest in substantial capital improvements each year at its Wichita facilities to support ongoing operations, in an amount specified in the ESA.[27]

ANALYSIS

Jurisdiction

The Commission is given full power, authority, and jurisdiction to supervise and control the electric public utilities doing business in Kansas, and is empowered to do all things necessary and convenient for the exercise of such power, authority and jurisdiction.[28] As applied to regulation of electric public utilities, all grants of power, authority and jurisdiction made to the Commission, shall be liberally construed, and all incidental powers necessary to carry into effect the powers granted by the Kansas Legislature are expressly granted to and conferred upon the Commission.[29]

Every electric public utility doing business in Kansas over which the Commission has control shall furnish the Commission copies of all contracts between electric public utilities pertaining to any and all jurisdictional services to be rendered by such electric public utilities. The Commission shall have power to prescribe reasonable rules and regulations regarding the form and filing of all schedules of rates and all rules and regulations of such electric public utilities, including such protection of confidentiality as requested by the electric public utility, and the utility's suppliers and customers, for contracts entered into by them, and as the Commission determines reasonable and appropriate.[30]

The Commission may suspend the operation of such schedule and defer the effective date of such change in rate, joint rate, toll, charge, or classification or schedule of charges by delivering a statement in writing of its reasons for such suspension.[31]

Standards for Approval

Legislative Standards

Any tariff filing or special contract filing must be made in compliance with K.S.A. 66-101c and K.S.A. 66-117. In addition, K.S.A. 66-101b requires every electric public utility to have reasonably efficient and sufficient service with just and reasonable rates, classifications, and regulations. The terms "just" and "reasonable" imply flexibility and are not intended to bind regulatory discretion to an absolute or mathematical formula. Just and reasonable can be interpreted as striking a balance between the interests of the utility and its customers.

Commission Standards

Commission Staff evaluates any proposed new tariff or tariff revisions made by electric public utilities to determine their justness and reasonableness. In addition, Staff reviews previous

[27] Pogue Direct, p. 3.
[28] *See* K.S.A. 66-101.
[29] *See* K.S.A. 66-101g.
[30] K.S.A. 66-101c.
[31] K.S.A. 66-117(b).

Commission Orders that contain Commission Policy statements about the issues involved in the analysis of proposed new tariffs or tariff revisions.

To ensure contract rates are just and reasonable, the Commission has identified certain criteria for reviewing contract rates. Any electric special contract filing must comply with the Commission's October 3, 2001, Order Regarding the Filing Requirements and Procedures for the Review and Treatment of Special Contracts in Docket No. 01-GIME-813-GIE (01-813 Docket, 01-813 Order). Most importantly, the 01-813 Order specifies that "In order to be approved, the utility must show that the special contract provides a cost benefit to the remaining core customers."[32] The 01-813 Order also requires the utility to provide certain information when filing a special contract.[33]

Staff's Analysis

As discussed below, Staff examined documentation provided to assess if the Joint Applicants met the filing requirements, and conducted an analysis to determine whether the ESA benefits Evergy's core customers. In addition, Staff evaluated Evergy's request for a regulatory asset.

Filing Requirements and Other Factors that May be Part of the Contract Review

Under 66-101c, every electric public utility doing business in Kansas over which the commission has control is required to publish and file with the commission copies of all schedules of rates and shall furnish the commission copies of all rules and regulations and contracts between electric public utilities pertaining to any and all jurisdictional services to be rendered by such electric public utilities.

Under 66-117, no common carrier or public utility over which the commission has control shall make effective any changed rate, joint rate, toll, charge or classification or schedule of charges, or any rule or regulation or practice pertaining to the service or rates of such public utility or common carrier except by filing the same with the commission at least 30 days prior to the proposed effective date unless the state corporation commission otherwise orders.[34]

By filing this Application and the attached Agreement with the Commission for review and approval, the Joint Applicants have complied with the requirements of K.S.A 66-101c and 66-117. As stated above, the 01-813 Order also established filing requirements for special contracts. Specifically, the 01-813 Order requires the utility to provide the following information when filing a special contract:[35]

A. A narrative explaining why the special contract is necessary and why the price and other terms are just and reasonable;

B. Specific information on the customer's operations and needs;

C. Information on the effect of the contract on the utility's system over the term of the contract;

[32] 01-813 Order, p. 2, ¶ 6.
[33] 01-813 Order, p. 3, ¶¶ 7-8.
[34] K.S.A. 66-117(a).
[35] 01-813 Order p. 3.

D. A detailed cost analysis of the proposed special contract;

E. A statement of the benefits from the special contract to the utility and its other customers;

F. Costs to provide the contracted services separated at a minimum into generation, transmission, and distribution components.

In addition, the 01-813 Order provides a non-exclusive list of other factors that may be part of the contract review:[36]

A. The load characteristics of the customer;

B. The presence of an ECA or other risk management tool;

C. The nature of the discount—what component(s) of the services are being discounted;

D. Benefits such as curtailment provisions, or use of system at non-peak times;

E. The length of the special contract;

F. Information regarding the pricing terms of the contract;

G. The existing capacity of the utility.

Below, Staff details the information Evergy and Spirit provided to fulfill these filing requirements in the Joint Application, Direct Testimony, and responses during discovery.

Narrative Explaining Why the Special Contract is Necessary and Why the Price and Other Terms are Just and Reasonable

In his direct testimony, Jeff Martin explained the special contract is necessary because Spirit has indicated a risk of relocating operations if Evergy did not negotiate an ESA to make the rates Spirit pays in Kansas more competitive with the rates Spirit pays in other locations:

> Over the last year or so, Evergy has received indication from Spirit that Spirit's Wichita location is at a price disadvantage compared to its other locations outside of Kansas. Based on conversations with Spirit representatives and information they provided, Evergy determined that there was a viable risk that Spirit would relocate significant portions of its operations to areas outside of Kansas if Evergy did not move forward to negotiate an ESA that would make the rates Spirit is paying more competitive with the rates it pays in other locations.[37]

[36] 01-813 Order p. 3.
[37] Martin Direct, p. 3.

Jeff Martin further explained the special contract is necessary because it addresses the cost disadvantage Spirit indicated its Wichita plant is experiencing and provides incentives to keep Spirit from relocating significant portions of its operations outside of Kansas:

> The contract is necessary because it provides the incentives needed to keep Spirit as a large, viable customer on our electric system and as a viable business in Kansas. The proposed contract will continue to help address the electric cost disadvantages that Spirit has indicated its Wichita facilities are experiencing as compared to other Spirit plant locations.[38]

In KCC-1, Evergy explains the decision to pursue the agreement was based on conversations with Spirit, in which Spirit shared details of its competitive needs and, given Spirit's economic role in the state, Evergy committed to finding a solution:

> Decisions to pursue the agreement with Spirit were based entirely on conversations between the Company and the Customer. The Customer shared details of their competitive need and the Company, recognizing the critical economic role of Spirit, committed to find a solution. No work papers, studies, or analyses, supported the Company's decision to pursue the Agreement.[39]

Evergy also explained the terms of the agreement were taken from existing Commission approved special contracts or created to address Spirit's unique requirements.[40] Pricing was based on a rate design spreadsheet that was attached to DR KCC-1:

> The primary work paper used to support the terms of the Agreement was a rate design spreadsheet to establish the rates (attached). Other terms within the agreement were taken from language in existing Commission approved, special contracts or created specifically to address items related to Spirit's unique requirements.[41]

In his direct testimony, Adam Pogue discussed the price disadvantage Spirit's Wichita site faces compared to other Spirit sites in Oklahoma and North Carolina and the importance of the agreement in helping to maintain Spirit as a vibrant and growing contributor to the Kansas economy:

> Spirit and Evergy are requesting approval of this Agreement to address the price disadvantage for electric service Spirit is experiencing at its Wichita operations compared to its operations – and its competitors' operations – in other areas outside

[38] Martin Direct, p. 10.
[39] KCC-1.
[40] KCC-1.
[41] KCC-1.

> of Kansas. The Agreement is important because it helps maintain Spirit as a vibrant and growing contributor to the Kansas economy.[42]

Further, Mr. Pogue stated the price of electricity is a material component that affects the economics of Spirit's level of operations and competitiveness for expansion opportunities:

> The industry of aerospace manufacturing is highly competitive, and successful bidding for new projects is extremely dependent on a number of cost inputs. One of those cost inputs is the price of electricity, and it is a very material component affecting the economics of Spirit's current level of operations and competitiveness for future expansion opportunities. Spirit's current electricity rates are far higher than those in our Oklahoma and North Carolina facilities and the surrounding region generally.[43]

According to Mr. Pogue, the price disadvantage is especially relevant because Spirit has manufacturing operations in Oklahoma and North Carolina, where the "all-in" price per kilowatt hour of electricity is less than it is in Kansas:

> Maybe more importantly, Spirit's Wichita operations compete internally with its operations in other states for new projects and investment. As I explained above, Spirit has substantial manufacturing operations in Oklahoma and North Carolina, in addition to its Wichita operations. Looking at the "all-in" price per kilowatt hour, Spirit's Kansas electricity rate is 33.9 percent higher than our Oklahoma rate, based on a recent three-year average. These price differentials are substantial when considering the magnitude of Spirit's total electricity usage and the highly competitive nature of the aerospace manufacturing industry.[44]

In addition, Mr. Pogue pointed out that Sprit's price disadvantage is even greater considering Spirit's Wichita site takes "transmission level" service, while its other locations do not:

> In addition, Spirit's price disadvantage is even more disparate than it first appears because Spirit's Wichita operations take "transmission level" service, while the other locations do not. This means Spirit incurs the substantial costs of owning and operating its substation and distribution facilities in Wichita but does not incur those costs in other locations. This also means Wichita's operations are, in theory, less costly to serve than its facilities in other states.[45]

Mr. Pogue further explains that Spirit plans to expand operations in Tulsa, increasing employment at that site by about 20 percent. Spirit is also in the process of an acquisition that would further

[42] Pogue Direct, p. 4.
[43] Pogue Direct, p. 4-7.
[44] Pogue Direct, p. 4-7.
[45] Pogue Direct, p. 4-7.

increase its manufacturing capacity in Oklahoma, making other sites a more viable option for future expansion of operations:

> While Spirit is committed to growing operations in Kansas, we also announced plans to expand operations at our Tulsa facility that will result in about a 20 percent increase in that site's employment over the next few years. And Spirit is in the middle of a previously-announced acquisition that – once closed, will result in a third Spirit Oklahoma site that has significant capacity for expanded operations.[46]

In addition, Mr. Pogue noted Spirit has found ways to expand operations and increase employment in Kansas despite the higher cost of electricity in Kansas:

> Spirit is fortunate to have found ways to compensate for current Kansas electricity rates and forge a path forward that includes economic expansion and jobs for the State. But we have done this despite higher electricity rates, not because they were competitive within our region. Every time Spirit considers where to expand operations or place new work, the cost of electricity in Kansas always goes in the negative column for Wichita.[47]

Mr. Pogue further explained Kansas utility costs have cost Spirit bids and production opportunities. Absent the Agreement, lower-cost sites outside of Kansas will continue to be considered for existing operations and expansion opportunities:

> As I noted in my testimony before the Kansas Legislature last session, there are certainly times where Kansas utility costs have been a major contributing factor in uncompetitive bids and lost production opportunities at Spirit. As we pursue future long-term projects, the cost of Kansas electricity will affect our project bidding strategies and will unavoidably be a major detracting factor in the business case for the Wichita location. Therefore, absent this Agreement, lower-cost sites outside of Kansas will continue to be considered for existing operations and expansion opportunities.[48]

Mr. Pogue went on to argue, if the Agreement is not approved, Spirit will be forced to consider other electricity options for its Wichita operations—most notably self-generation—to reduce or eliminate its reliance on Evergy:

> If the Agreement is not approved, Spirit will also be forced to consider other utility options for its Wichita operations – most notably self-generation – to reduce or eliminate its reliance on Evergy. In recent years, natural gas self-generation has become a viable alternative for large industrial customers when compared with

46 Pogue Direct, p. 4-7.
47 Pogue Direct, p. 4-7.
48 Pogue Direct, p. 4-7.

> current retail electricity prices in Kansas. Even when all capital and operating costs are considered, publicly-available data indicates the levelized cost of new natural gas self-generation is materially lower than Evergy's industrial rates.[1] Ultimately, Spirit wishes to remain a retail customer of Evergy at this time, but Spirit will be forced to consider all available options if the ESA is not approved.[49]

Mr. Pogue admits it is unlikely the Agreement will reduce Spirit's rates to the levels experienced in other states, placing Wichita operations at a competitive advantage. However, this Agreement ensures Spirit's utility rates are not a barrier to maintaining and expanding its operations in a highly competitive industry. This reduction in rates, along with the existing infrastructure and strong labor force at the Wichita site, should allow those operations to remain viable, and potentially expand:

> In the future, we hope Spirit's utility rates can become a competitive advantage that we place in the positive column when bidding for new projects. It is unlikely this Agreement will reduce our rates to the levels we experience in other states and place our Wichita operations at a competitive advantage. However, in my opinion, this Agreement does ensure our utility rates are not a prohibitive barrier to maintaining and expanding our operations in Kansas. This relief, along with the existing infrastructure and strong labor force at the Wichita site, should allow those operations to remain viable, and potentially expand in a highly competitive industry.[50]

Mr. Pogue urged that maintaining Spirit as a vibrant, growing business is vital to the Kansas economy. Spirit is the largest employer in Kansas, employing about 13,000 people, and doing business with over 500 Kansas suppliers. Spirit and its employees have donated more than $35 million to charitable organization in Kansas over the past ten years. Hence, any reduction in production at its Wichita site would have a negative effect on the greater Wichita region and Kansas at large:

> Maintaining Spirit as a vibrant and growing business is vital to the Kansas economy. This Agreement is an important component because it supports the economics of Spirit's existing Wichita operations and enhances Spirit's ability to compete for new projects and expansions of its Wichita operations.[51]
>
> According to the Kansas Department of Commerce, Spirit is the largest employer in Kansas. As I noted above, Spirit currently employees about 13,000 Kansans. With previously-announced expansions, this figure is expected to grow in the future. Besides direct employment of Kansas residents, Spirit does business with more than 500 Kansas suppliers, ranging from machine shops that produce aircraft

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[49] Pogue Direct, p. 4-7.
[50] Pogue Direct, p. 4-8.
[51] Pogue Direct, p. 7-8.

parts to facilities maintenance teams to transportation and logistics operations. These 500 supplier businesses are concentrated in South-central Kansas but are also located across the State. Over the past decade, Spirit and its employees have donated more than $35 million to charitable organizations in the State. Spirit's employees have consistently volunteered about 10,000 hours per year supporting a wide range of community projects in the greater Wichita region. When Spirit is able to maintain and expand its operations, there is a positive economic ripple effect throughout the region. Conversely, if Spirit cannot compete and must reduce its operations, that ripple effect will have a negative impact on the region. The competitiveness and economic well-being of Spirit and the State of Kansas are closely tied.[52]

Table 1 shows Spirit's analysis of the alternative power supply options should Spirit move production to a Tulsa site or pursue self-generation.[53]

****Table 1: Spirit's Alternative Power Supply Options****

		[redacted]
[redacted]		[redacted]
[redacted]		
[redacted]	[redacted]	
[redacted]		
[redacted]	[redacted]	
	[redacted]	[redacted]
[redacted]	[redacted]	
	[redacted]	[redacted]
[redacted]	[redacted]	
	[redacted]	[redacted]
[redacted]		

[52] Pogue Direct, p. 7-8.
[53] KCC-5.

KCC-11 includes the approximate price Spirit claimed to need for Wichita to be competitive with Tulsa is [redacted]

The analysis Evergy performed to reach the average rate Spirit claimed it needs was provided in CURB 7:

> The rates for the Spirit AeroSystems contract were developed to achieve a target average rate needed to support the customer. The Company chose to begin with rates used in a similar special contract and adjust them as needed to fit the Spirit situation. The attached spreadsheet details that work.[55]

In KCC-16, Evergy explained the agreement price is just and reasonable because Spirit will continue to produce an amount greater than the incremental variable cost (marginal cost) to serve and the renewable power from Flat Ridge III would benefit both Spirit and the rest of Evergy's customers.[56] Further, the other terms of the ESA are just and reasonable because Evergy used the Occidental ESA that was approved in Docket 18-KG&E-303-CON as the starting point for the Spirit ESA:

> Ultimately the KCC will determine if the price and the other terms of the ESA are just and reasonable. In support of the price and as stated in the Direct Testimony of Darrin Prince, at pp. 9-11, Docket No. 18-KG&E-303-CON; "The Commission also determines whether the amount the special contract customer will pay under the ESA will produce an amount greater than the incremental variable cost (marginal cost) to serve the customer, resulting in a contribution to fixed costs". To that point and as described in Jeff Martin's direct testimony, pg. 9 lines 1-16, we used Staff's variable cost methodology from Docket No. 18-KG&E4 303-CON to show that Spirit will continue to produce an amount greater than the incremental variable cost (marginal cost) to serve. This was also supported in several data requests that we answered in this proceeding, so we believe that the price, as presented, is just and reasonable.[57]
>
> Another component of the price is our ability to supply Spirit with 100% renewable power from Flat Ridge III which we recently publicly announced and updated Jeff Martin's supplemental direct to reflect. This renewable fuel source will replace the RECA under this special contract filing which is beneficial to Spirit as well as the rest of our customers. We structured this component of the price like the

[54] KCC-11.
[55] CURB-7.
[56] KCC-16.
[57] KCC-16.

> Commission approved DRPS tariff and therefore believe that this is also just and reasonable.[58]
>
> In response to the other terms of the ESA, we used the Occidental ESA that the Commission approved in Docket 18-KG&E-303-CON as the starting template for the Spirit ESA. We believe that given this point and the information provided in the direct testimony of Jeff Martin, pg. 7 lines 3-15, it supports a just and reasonable ruling for the terms of the ESA.[59]

Specific Information on the Customer's Operation and Needs

In his direct testimony, Jeff Martin describes Spirit as Evergy's second largest customer.[60] Spirit takes service at transmission voltage level and its usage levels have consistently increased over the last several years:

> Spirit is the second largest customer on Evergy's system and takes service at transmission voltage level. Their usage levels have consistently been growing over the last several years.[61]

Spirit currently takes service from Evergy under the filed base rates for the ILP customer class. In addition to these base rates, Spirit pays various surcharges and rider charges applicable to the ILP customer class:

> Spirit currently takes service from Evergy under the filed base rates for the Industrial & Large Power (ILP) customer class. In addition to these base rates, Spirit pays various surcharge and rider charges applicable to the ILP customer class.[62]

Currently a $7 billion global company, with more than 13,000 employees in Kansas, Spirit is the largest employer in Wichita and one of the largest in Kansas.[63] Spirit has added over 1,000 jobs in Wichita in the last year and is committed to $1 billion in capital investment in the Wichita facility over the next five years:

> With more than 13,000 employees in Wichita, Spirit is the largest employer in Wichita and one of the largest employers in the State of Kansas, has added over 1,000 jobs in the past year, and is committed to $1 billion in capital investment in

[58] KCC-16.
[59] KCC-16.
[60] Martin Direct, p.2.
[61] Martin Direct, p. 2.
[62] Pogue Direct, p. 3.
[63] Martin Direct, p.2.

> the Wichita facility over the next 5 years. Spirit is a $7 billion global company, with more than 17,000 employees worldwide, including two sites in Oklahoma.[64]

In his direct testimony, Adam Pogue describes Spirit's operations, with more than 12 million square feet of Spirit's 15 million total square feet of manufacturing space located at its headquarters in Wichita.[65] Globally, Spirit has more than 17,000 employees designing and building complex aerostructures for both commercial and defense customers.[66] Spirit's core products include fuselages, pylons, nacelles, and wing components for airplanes:

> Spirit employs more than 17,000 people worldwide designing and building complex aerostructures for both commercial and defense customers. More than 13,000 of those employees are located at our headquarters in Wichita. Additionally, we have U.S. manufacturing sites in Oklahoma and North Carolina, with global operations in the United Kingdom, France, and Malaysia. The company's core products include fuselages, pylons, nacelles, and wing components for the world's most recognizable airplanes. As I mentioned above, more than 12 million square feet of Spirit's 15 million total square feet of manufacturing space is located in Wichita.[67]

Table 2 shows the number of full-time employees at Spirit's Wichita facility over the past four years.[68]

[64] Martin Direct, p. 2.
[65] Pogue Direct, p. 2.
[66] Pogue Direct, p. 2.
[67] Pogue Direct, p. 2.
[68] KCC-2 and KCC-3.

Table 2: Number of Full Time Employees

	[redacted]
[redacted]	
[redacted]	
[redacted]	

Table 3 shows the annual payroll at Spirit's Wichita facility for the past four years.[69]

Table 3: Annual Payroll at Spirit's Wichita Campus

	[redacted]
[redacted]	[redacted]
[redacted]	

Table 4 shows Spirit's capital investment in its Wichita site for the last 12 years (excluding 2019) averages about $182M annually.[70]

[69] KCC-2 and KCC-3.
[70] CURB-10.

****Table 4: Annual Spirit Capital Expenditures for Wichita****

[redacted]

Tables 5 and 6 shows Spirit's Wichita site electricity and operating expenses over the last four years.[71]

[71] KCC-4.

****Table 5: Spirit's Wichita Campus – Total Electricity Spend****

	[redacted]			
[redacted]				

****Table 6: Wichita Campus Operating Expenses Includes Labor & Non-Labor Expenses****

	[redacted]
[redacted]	

Table 7 shows five historical years of the billing determinants necessary for determining Spirit's ILP base rate revenue.[72] The energy use and the actual demand are necessary for calculating the energy charge and the demand charge. A power factor less than 0.90 causes and adjustment to the revenue collection.

[72] KCC-10.

****Table 7: Factors Affecting Spirit's ILP Base Rate Revenue****

[redacted]

In response to KCC-12, Spirit identified the causal factors determining Spirit's electric load, including average temperature, square footage, units produced, and number of employees.[73] According to Spirit, Spirit's electric load has remained consistent since 2013 despite operational changes that have occurred. Weather has been the greatest contributor to changes in power consumption during the period of 2013-2019. Secondary to weather, square footage is a causal factor, although square footage has not been closely correlated with changes in electricity consumption since 2013. This is attributable, in part, to investments in energy efficiency during the period.[74]

Production levels have not been correlated with consumption of electricity at the Wichita Manufacturing plant since 2013.[75] During this period 2013-2019, production levels increased roughly [redacted] with no material change in electricity usage.[76] Spirit explained through its response to KCC-19 [redacted]

[73] KCC-12 and KCC-13.
[74] KCC-12 and KCC-13.
[75] KCC-12 and KCC-13.
[76] KCC-12 and KCC-13.
[redacted]
[78] KCC-12 and KCC-13.

- [redacted]

[redacted]

- [redacted]

[redacted]

- [redacted]

[redacted]

- [redacted]

In KCC-13, Spirit provided a quantitative analysis comparing total power consumption from 2013-2019 to units produced, square footage, average temperature, and year-end employee headcount during that same time period. According to Spirit, the analysis shows production changes have a very minimal effect on total power consumption. The quantitative data used in that analysis are shown in Table 8.

****Table 8: Energy Usage and the Factors that Determine Usage****

[redacted]

Information on the Effect of the Special Contract on the Utility's System over the Term of the Special Contract

In KCC-17, Evergy states that the special contract is not expected to have any significant effect on its system over the term of the special contract because sufficient capacity already exists:

> Evergy does not expect the provisions of the special contract to have any significant effect on our utility system over the term of the special contract. Sufficient substation capacity already exists.[79]

KCC-15 includes an analysis of the effect of the wind PPA on the dispatch of Evergy's other higher-cost generation resources, and the effect of any unsubscribed generation.[80] [redacted]

Detailed Cost Analysis of the Proposed Special Contract

In KCC-1, Evergy calculated the base revenue with existing tariffs would be [redacted] As shown in Table 9, this is a decrease of [redacted]

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[79] KCC-17.
[80] KCC-15.
[81] KCC-1.

****Table 9: Evergy Base Rate Revenue Loss from Discount****

[redacted]

Statement of the Benefits from the Special Contract to the Utility and Other Customers

In his Direct testimony, Jeff Martin explains the benefit other customers receive from the ESA.[82] The ESA prevents Spirit from leaving the system or reducing usage and encourages increased usage through a tiered pricing structure instead:

> Spirit could substantially reduce its usage if the proposed ESA is not approved in addition to locating expansion opportunities outside of Kansas and the rates for all other customers would increase as a result. The ESA prevents Spirit from leaving the system or reducing usage and instead encourages increased usage through a tiered pricing structure. If Spirit left the system, customers would also be indirectly impacted through reduction in employment levels and other investments in the local economy.[83]

[82] Martin Direct, p. 8.
[83] Martin Direct, p. 8.

By imposing minimum bill requirements of one million dollars per month throughout the ten-year agreement, the ESA results in a ten-year commitment by Spirit to Kansas.[84] The special contract also requires Spirit to make efforts to maintain stable or growing operations and workforce at its Wichita facilities and to continue to make capital investments at the Wichita facility to help maintain the long-term viability of those facilities:

> The ESA results in a ten-year commitment by Spirit to Kansas by imposing minimum bill requirements of $1 million per month throughout the ten-year agreement. Additionally, the special contract requires Spirit to make efforts to maintain stable or growing operations and workforce at its Wichita facilities and to continue to make a certain level of capital investment at the Wichita facility, in an amount specified in the ESA, to help maintain the long-term viability of those facilities.[85]

To determine whether core customers are better off with the proposed special contract versus Spirit leaving Evergy's system, Evergy used Staff's Variable Cost Analysis from Docket No. 18-KG&E-303-CON, which analyzed Total Operating Expenses in the ILP group in Evergy's class cost of service filed in the 18-328 Docket.[86] The calculated average rate per kWh with the proposed contract rates exceeds the variable cost by more than 15%, which could be applied to cover some of Evergy's fixed costs:

> In order to determine whether remaining Evergy customers are better off with or without Spirit as a Evergy customer on a cost basis, we used Staff's Variable Cost Analysis from Docket No. 18-KG&E-303-CON which analyzed Total Operating Expenses in the Industrial Large Power (ILP) group in Evergy's class cost of service filed in the 18-328 Docket. For Spirit's total usage data in the ILP class, which accounts for over 90% of Spirit's usage for the six existing accounts to which the ESA will apply, we used July 2016 through June 2017, the test year for the 18-328 Docket. The average rate per kWh using the proposed contract rates exceeds the variable cost floor by more than 15%. Using this method, there will clearly be a fixed costs contribution under the contract. Therefore, Evergy customers are better off with the proposed special contract versus Spirit leaving the Evergy system. This contribution is in addition to the other benefits of maintaining and growing Spirit's Kansas operations that I discussed earlier.[87]

Table 10 shows the benefits from the special contract on Evergy's generation costs. The customers share the benefit from reduced generation costs which are reflected in the RECA.[88]

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[84] Martin Direct, p. 8.
[85] Martin Direct, p. 8.
[86] Martin Direct, p. 9.
[87] Martin Direct, p. 9.
[88] KCC-15.

****Table 10: NPV of Savings to Spirit and Other RECA customers Because of the Wind PPA****

[redacted]

In his direct testimony, Adam Pogue explains that, by using a declining block structure, the ESA pricing terms encourage Spirit to increase electricity usage at its Wichita site thus reducing the overall average rate for other customers:

> There are several pricing terms of the ESA specifically designed to encourage Spirit to more fully utilize its Wichita facilities and potentially expand its operations (and electricity usage). Most importantly, the ESA institutes a steeply declining block structure. If Spirit's electricity usage increases, we will be able to take increasing advantage of the lower-priced energy blocks. This would have the impact of significantly reducing our average "all-in" rate. As I understand it, this increased usage should also benefit Evergy's other customers by providing incremental revenue to help offset Evergy's fixed costs of service.[89]

Further, he explains, the monthly one million dollar minimum bill provision would encourage Spirit to maintain and expand its Wichita operations:

> Spirit is also incentivized to fully utilize its Wichita operations because the Agreement requires Spirit to pay a substantial monthly minimum bill regardless of usage. Because Spirit is committed to make this large payment regardless of its usage, it is in Spirit's interest to maintain a significant level of operations. However,

[89] Pogue Direct p. 8.

as noted above, the ESA actually encourages Spirit to find ways to expand its electricity usage, as opposed to simply maintaining its current operations.[90]

Table 11 shows Spirit's expected load growth due to the planned expansion.[91]

****Table 11: Expected Load Growth Due to Spirit's Planned Expansion****

[redacted]

[redacted]

[90] Pogue Direct p. 8.
[91] KCC-1.
[92] KCC-14.

Costs to Provide the Contracted Service Separated into Generation, Transmission, and Distribution

KCC-6 and KCC-6S identify the Special Class variable cost using Evergy's CCOS model from the last rate case, modified to isolate Spirit as shown in Table 12.[93] [redacted]

****Table 12: Separating Spirit from the IPL Group for the Class Cost of Service****

[redacted]

Load Characteristics of the Customer

In his direct testimony, Jeff Martin states Spirit is a customer with a high load factor. Over the past twelve months, Spirit's monthly average demand averaged 70,759 MW, with a 75% load factor. Spirit's peak demand over the last twelve months was 78,698 MW.[95]

[93] KCC-6 and KCC-6S.
[94] KCC-6 and KCC-6S.
[95] Martin Direct p. 6.

Table 13 shows billing information for Spirit, including energy, demand, power factor, load factor, etc.[96]

****Table 13: Spirit's Load Profile****

[redacted]

Length of the Special Contract

In his direct testimony, Adam Pogue discusses the importance of having a ten year agreement. Because Spirit must project its costs over a long planning horizon when pursuing new projects, the cost-stability provided by the ten-year term is extremely important for Spirit's strategic planning and competitive bidding processes. Therefore, as long as there is uncertainty about the approval of the new ESA, Spirit must take that cost differential into account in its planning and investment decisions:

> In negotiating this Agreement, it was very important for Spirit to have a measure of long-term cost certainty. When Spirit pursues new projects, it must project its costs over a long planning horizon. Therefore, the cost-stability of the ten-year term is extremely important for our strategic planning and competitive bidding processes.[97]
>
> As explained above, Spirit's Wichita operations are currently at a distinct electricity pricing disadvantage compared to its facilities in other locations. Spirit has shared publicly our desire to grow the Fabrication and Defense portions of our business significantly. As long as there is uncertainty about the approval of this new ESA,

[96] KCC-10.
[97] Pogue Direct, p. 8-9.

> Spirit must take that cost differential into account in its planning and investment decisions.[98]

Presence of Risk Management Tool

In his direct testimony, Jeff Martin describes the risk management tools present in the contract.[99] In addition to the minimum payment requirements, the ESA also allows Evergy to update Spirit's rates to reflect a pro rata share of changes in rates applicable to other customers.[100] Similarly, as riders and surcharges are adjusted for other customers, the rate to Spirit will be adjusted on a pro rata basis:

> ECA and other risk management tools in the contract is relevant to the question of whether the contract provides benefits to other customers. The ESA is for a ten-year term and includes minimum payment requirements for the entire term. It also allows Evergy to update the rates charged to Spirit when rates for other customers are changed in order to reflect a pro rata share of the change in rates applicable to other customers. Additionally, with the exception of the RECA, all Riders and Surcharges applicable to other customers will remain applicable to Spirit. As the Riders and Surcharges are adjusted, the rate to Spirit is adjusted on a pro rata basis as well. In regard to the RECA, the dedicated wind supply is structured similarly to Evergy's DRPS tariff recently approved by this Commission.[101]

Nature of the Discount

In his direct testimony, Jeff Martin describes the nature of the discount in that Spirit's rates will be based completely on energy usage with declining block pricing designed to provide an incentive for Spirit to increase usage at its Wichita facility:

> Instead of a fixed, year-round, monthly demand and energy charge, Spirit's rates will be completely based on energy usage. The rate is structured with four usage blocks, with declining prices per block. The declining block pricing was designed not only with Spirit's historical usage in mind but also to provide incentive for Spirit's expansion of its facilities – and increased usage at its facilities – in Kansas.[102]

The ESA also contains provisions similar to Evergy's Direct Renewable Participation Service (DRPS) tariff that allow Spirit to substitute energy produced from a designated wind farm at a specified rate for the RECA.[103]

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[98] Pogue Direct, p. 9.
[99] Martin Direct p. 7.
[100] Martin Direct p. 7.
[101] Martin Direct p. 7.
[102] Martin Direct p. 7-8.
[103] Martin Direct p. 7-8.

In CURB-12, Evergy explains the minimum monthly bill charge would apply if Spirit's total bill before taxes and franchise fees is less than the minimum monthly bill requirement:

> The minimum monthly bill will be based on billing cycle. If the total bill, prior to taxes and franchise fees, is less than the minimum monthly bill requirement, the minimum monthly bill be charged during that billing cycle.[104]

In CURB-11, Evergy explains how it considered Spirit's average monthly bill, Occidental's minimum bill requirements, and the economics of the aircraft industry in determining the minimum monthly bill requirement for Spirit:

> Evergy considered Spirit's average monthly bill, along with the minimum bill provisions of the Occidental special contract, as well as the potential for brief, future downturns in the aircraft industry in determining the minimum bill requirement.[105]

In CURB 14, Evergy discusses how the required level of capital investment in Spirit's Wichita facility was determined with the goal of ensuring Spirit continues investing in its Wichita facilities:

> The required level of capital investment was determined through discussions with Spirit leadership, with the goal of ensuring the Spirit continues to substantially invest in their Wichita facilities, in lieu of shipping production to facilities elsewhere.[106]

Information Regarding the Pricing Terms of the Contract

KCC-1 and CURB-7 show Evergy's calculation of the average all in rate of [redacted] that Spirit would be charged under the ESA:

> The rates for the Spirit AeroSystems contract were developed to achieve a target average rate needed to support the customer. The Company chose to begin with rates used in a similar special contract and adjust them as needed to fit the Spirit situation. The attached spreadsheet details that work.[107]

In addition, Spirit told Evergy that the price that Evergy needed to at least meet was an all-in rate of [redacted] per kWh.[108]

Table 14 on the next page summarizes the calculations in data requests KCC-1 and CURB-7 and shows how the cost of electricity to Spirit as a result of the ESA is calculated. The columns labeled Energy Charge in the left-hand side of Table 14 and the same as Table 9 and show the calculation of the total energy charge of [redacted]. The right-hand side of Table 14 calculates the

[104] CURB-12.
[105] CURB-11.
[106] CURB-14.
[107] CURB-7.
[108] KCC-11.

revenue from the energy efficiency rider, the property tax surcharge, the transmission delivery charge, and the cost of the wind farm energy substituted for the RECA.

There are two columns for the wind farm energy—the first column titled “Wind Farm” has the total value of the expected wind farm energy and the second column title “Wind Farm Not Used” is the expected wind farm energy beyond the needs of Spirit that flows back through the RECA for the rest of the Evergy customers and lowers their rates. Part of the reason for the significant amount excess energy, beyond what Spirit can use from the Flat Ridge III wind farm, is because of the optimistic forecast of Flat Ridge III wind farm production. But even if the wind farm produces at 90% of what it is forecasted to produce, there will still be enough wind energy for Spirit.

The last column in Table 14 shows titled “Total Bill before Taxes” shows the sum of the total energy charge and all of the riders and the wind farm charge. The total bill, [redacted], is then divided by the total expected energy usage by Spirit, [redacted] kWh, to give the all-in price of the ESA—[redacted] cents per kWh which is below Spirit’s asking price.

The estimated energy usage by Spirit requires a caveat. During the period June 2018 through May 2019 that was used to estimate the total Spirit bill, the actual energy usage was [redacted] The additional [redacted] is the result of two expected expansion in the facilities in Wichita that have been announced. The additional assumed energy increases both the estimated total energy charge and the revenue from the riders and the wind farm and slightly reduces the all-in per kWh rate.

Table 14: Cost of Electricity to Spirit as a Result of the ESA

[redacted]

In KCC-8, Evergy explains that energy produced at Flat Ridge III will be billed at [redacted] cents per kWh as a substitute for the RECA, beginning at the time the wind farm is placed into service.[109] If Flat Ridge III produces more energy than Spirit uses during a calendar year, the excess generation will be credited to Spirit at 80% of the [redacted] per kWh rate. However, if Spirit's usage exceeds the amount of energy produced by Flat Ridge III at the end of a calendar year, usage exceeding the output produced will be subject to the then current RECA:

> Company has secured wind generation from Flat Ridge III Wind Farm, approximate nameplate capacity of 128 MW. Beginning at the time that Flat Ridge III Wind Farm is placed in service (estimated Q4 2021), Customer will take entire output produced for a term consistent with the remaining Term of the special contract.[110]
>
> Energy produced at Flat Ridge III Wind Farm will be billed at [redacted] cents per kWh as a substitute for RECA. Customer usage exceeding the amount of energy produced by Flat Ridge III Wind Farm at the end of a calendar year will be subject to the then current RECA surcharge. If the output of energy from Flat Ridge III produces more than Customer uses during a calendar year, any excess generation will be credited to Customer's bill at 80% of the [redacted] cents per kWh rate.[111]

In KCC-9, Spirit explains that it will save [redacted] cents for each kWh under the wind farm PPA price ([redacted] cents per kWh) versus the average RECA price (2.14 cents per kWh):

> The wind farm PPA is priced at [redacted] cents per kWh. Over the past seven years, RECA has averaged 2.14 cents per kWh. Using the average RECA, Spirit will save [redacted] cents for each kWh produced by the wind farm.[112]

Staff's Conclusion Concerning the Required Filing of Documents

As discussed above, Staff reviewed multiple documents supplied by the Joint Applicants in which Evergy and Sprit provided information to fulfill the filing requirements. Through this review, Staff has concluded the Joint Applicants have met all of the filing requirements for special contracts.

<u>Economic Benefit to Remaining Core Customers Analysis</u>

Proposed Energy Supply Agreement (ESA)

This section begins by describing the major economic points of the proposed ESA—the ESA is confidential, it is part of the Confidential Application submitted by Evergy and Spirit, and it is 18 pages long. Next, is a discussion regarding the size of the discount contained in the ESA and how it is estimated including both the reduction of base rates and the substitution of the wind farm purchase power agreement (PPA) for Evergy's retail energy cost adjustment (RECA). Finally,

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[109] KCC-8.
[110] KCC-8.
[111] KCC-8.
[112] KCC-9.

two important questions about the discount will be discussed. (1) Whether the discount is necessary to maintain or increase the current level of Spirit's Wichita production. (2) Whether the discount needs to be the size negotiated by Evergy and Spirit.

The Proposed ESA

The direct economic effects on Spirit's electric bills are the discounted base rates and substitution of the wind farm PPA for the RECA. Spirit must still pay assessed taxes and the remaining riders. And Spirit must also maintain a Power Factor of at least 0.90 or face a penalty on its electric bill. If Spirit's electric usage declines, it still must pay a minimum bill of $1,000,000 per month. Spirit is subject, on a pro rata basis, to all ILP group rate changes.

In addition, the ESA is ten years in length with Evergy providing all the energy for Spirit's major Wichita campus, self-generation by Spirit is ruled out. Also, Spirit cannot use the energy sent to the major Spirit campus to power any of its other facilities—the other facilities must pay their current tariffed rates.

Size of the Discount Provided by the ESA

As noted above, there are two parts to the discount Spirit receives through the ESA: the base rate discount and the substitution of the wind farm PPA for the RECA. Table 15 below shows the calculation of what the discount would have been based on Spirit's electric usage over the period June 2018 through May 2019. Column (a) shows what Spirit paid during that period while they were on the ILP rate, and Column (b) shows what Spirit would have paid if the ESA were in effect. Row (1) shows the revenue from the base rates—for existing rates, the revenue is based on the ILP rates and for the proposed rates, the revenue is based on the four blocks of rates in the ESA. Row (2) shows the revenue from the ad valorem rider, energy efficiency rider, and transmission delivery charge rider which are the same for the existing rates and the ESA. Row (3) shows the RECA for the existing rates and the substitute wind farm PPA for the ESA. Row (4) shows the total revenue collected. Row (5) is the base rate discount—[redacted]. Row (6) is the discount based on the substitution of the wind farm PPA for the RECA—[redacted]. And Row (7) is the total discount—[redacted], which is a [redacted] discount from the total revenue with current rates.

****Table 15: Calulation of Spirit Discount****

[redacted]

Summary

The ESA is for ten-years with Evergy providing all the energy for Spirit's Wichita Campus, which rules out Spirit self-generation. Also, Spirit's other facilities must pay their current tariffed rates. The Spirit discount comes in two parts: the base rate discount of [redacted] and the wind farm PPA substitution for the RECA discount of [redacted]. The total discount is [redacted] which is a 23.9% decline from the current Evergy ILP rates.

Is the Discount Necessary to Keep Spirit in the Evergy System?

Both Evergy and Spirit argue that the discount is necessary to keep Evergy's electric price competitive with alternative sources available to Spirit. Spirit argues that the Wichita Campus needs the discount because of the competition the Wichita Campus faces from other airplane manufactures and the competition the Wichita Campus faces from other Spirit plants for new projects and investments. Because Spirit believes the Wichita Campus is at a competitive disadvantage, Spirit is threatening to leave Evergy's System by either self-generating or moving some of its production to Oklahoma, where electricity is cheaper.

In response to Staff's request, Spirit provided an alternative power supply analysis that evaluated two options: (1) Spirit self-generation with a combined cycle natural gas unit and (2) the tariffed rates for the Public Service Company of Oklahoma's (PSC) Large Power and Light Service.[113]

[113] Spirit's response to Staff Data Request No. 5. The analysis was done by Brubaker & Associates.

Staff evaluated the credibility of Spirit's threat to leave the Evergy System by analyzing the Spirit self-generating option and the option of Spirit moving some of its production to Oklahoma.

Spirit's Threat to Self-Generate Its Own Supply of Electricity

According to Spirit's analysis of its alternative power supply options, Spirit's option to self-generating its own power is theoretically the cheapest option at about [redacted] per kWh. Additionally, one advantage for the Wichita Economy is that, if Spirit self-generates, then despite self-generating, Spirit would remain in Wichita, thus eliminating the potential damage to the Wichita Economy of Spirit moving production out of Wichita. However, there are reasons to think that combined cycle self-generation is probably not a viable option for Spirit.

First, one of the assumptions in the combined cycle analysis is the assumed annual capacity factor of [redacted], which seems extraordinarily high to assume for more than a few years. Second, there would be significant work involved in keeping the unit efficiently functioning because this is not Spirit's expertise. Third, Spirit could hire an outside firm to run the plant but that would increase the cost. Fourth, adding a combined cycle to the Wichita Site would increase the capital investment in Wichita, and would make it more expensive to move from Wichita, thus reducing Spirit's future relocation options. Fifth, the [redacted] per kWh cost of the combined cycle is only slightly better than the 3.7 cents per kWh estimated costs of PSC's Large Power and Light Service at the transmission level.

The optimistic combined cycle capacity factor, the learning curve for Spirit if it operates the combined cycle, and the increased expense of having an outside firm run the combined cycle all point to the [redacted] per kWh being optimistic. The optimistic assessments of the combined cycle option, joined with the possibility of an estimated 3.7 cents per kWh estimated costs if production is moved to Oklahoma, make the combined cycle option seem much less credible.[114]

Spirit's Threat to Move Some of Its Production to Oklahoma

Spirit's second option from its alternative power supply analysis is moving some of its production to Oklahoma. The two Oklahoma alternatives Spirit analyzed are both with PSC's Large Power and Light Service. In one case, electric service would take place at the primary level with a per kWh cost of [redacted] cents, and in the other case electric service would take place at the transmission level with a per kWh cost of [redacted] cents. Spirit's analysis also calculated its per kWh rate under the Evergy ILP tariff and found it to be [redacted] cents per kWh, which is similar to the weighted average of the last five years of electric use and revenue data for Spirit from Evergy—[redacted] cents per kWh. Even if Spirit were unable to take electric service off the transmission system in Oklahoma, the cost of electricity in Oklahoma would still have a significant price advantage over Evergy's price.

Table 16 below shows the different rates for Evergy's ILP group, and for PSC's Large Power and Light Service at both the primary and transmission service level. In particular, note the difference between Evergy's ILP energy rate verses PSC's two different energy rates. The ILP energy rate

[114] One of the authors of this Report and Recommendation remembers back in the late 1970s when Boeing floated the idea of self-generation as a response to the sky-rocketing costs of Wolf Creek. Then in the mid-1980s Boeing again floated the idea of self-generation when the old Kansas Gas & Electric was trying to put Wolf Creek into rate base. In both cases the threat evaporated when Boeing got a better energy deal.

at Transmission Service is 1.3734 cents per kWh while the two PSC energy rates are 0.3054 cents per kWh at Primary Service, and 0.1692 cents per kWh at Transmission Service.

In order to put these low energy rates in perspective, the Evergy Residential energy rate for the first 900 kWh per month for both winter and summer is 7.3512 cents per kWh, which is more than 5 times the Evergy's ILP rate, more than 24 times the PSC's rate at Primary Service, and more than 43 times PSC's rate at Transmission Service.

Table 16: Comparison of Evergy & PSC of Oklahoma Rates

Evergy Central Industrial Large Power			
Description		**Charges/Credits**	**Units**
Charges			
Service Fee	$	320.00	$/bill
Energy Charge	$	0.013734	$/kWh
Demand Charge	$	11.538250	$/kW
Riders & Surcharges			
Retail Energy Cost Adjustment*	$	0.022753	$/kWh
Property Tax Surcharge	$	0.001209	$/kWh
Transmission Delivery Charge	$	5.426313	$/kW
Energy Efficiency Rider	$	0.000237	$/kWh
Per Unit Cost		[redacted]	$/MWh

Public Service Company of Oklahoma Large Power and Light, Primary Service			
Charges			
Service Fee	$	280.00	$/bill
Energy Charge	$	0.003054	$/kWh
Peak Demand Charge			
Summer (Jun-Sep)	$	7.17	$/kW
Winter (Oct-May)	$	7.17	$/kW
Max Demand Charge	$	1.26	$/kW
Riders & Surcharges			
Fuel Cost Adjustment	$	0.025409	$/kWh
Regulatory Assessment	$	0.22	$/bill
SPP Transmission Cost	$	1.14	$/kW
Demand Side Management	$	0.005568	$/kWh
Excess Tax Reserve	$	(0.05234)	$
Per Unit Cost		[redacted]	$/MWh

Public Service Company of Oklahoma Large Power and Light, Transmission Service			
Charges			
Service Fee	$	280.00	$/bill
Energy Charge	$	0.001692	$/kWh
Peak Demand Charge			
Summer (Jun-Sep)	$	3.92	$/kW
Winter (Oct-May)	$	3.92	$/kW
Max Demand Charge	$	0.38	$/kW
Riders & Surcharges			
Fuel Cost Adjustment	$	0.022206	$/kWh
Regulatory Assessment	$	0.22	$/bill
SPP Transmission Cost	$	0.54	$/kW
Demand Side Management	$	0.005568	$/kWh
Excess Tax Reserve	$	(0.05234)	$
Per Unit Cost		[redacted]	$/MWh

Is Spirit's Threat to Move Some Production from Wichita to Oklahoma Credible?

On the face of it, the threat to move production from Wichita to Oklahoma looks credible. Even assuming that Spirit is unable to get transmission level service in Oklahoma, the difference from [redacted] cents per kWh to [redacted] cent per kWh is a [redacted]% drop in the per kWh rate. However, there are two further factors that need to be analyzed: the movement from Wichita to Oklahoma would not be cost free, and the importance of electricity in Spirit's production process.

Moving production to Oklahoma would require further investment in the facilities in Oklahoma. Estimating the cost of such a move would be difficult because it would depend upon, among other things, the ability of Spirit to recoup some or all of the value of its plant in Wichita that would no longer be needed.

The importance of electricity to the Spirit production process is easier to estimate. The $8 million plus discount to Spirit would be less than 1% of its payroll [redacted]. And the same discount would be less than 0.2% of Spirit's total operating expenses at the Wichita Campus [redacted]. [redacted] seems substantial until it is matched up against [redacted] plus of total operating expenses.

However, even given the two caveats about the cost of moving and the relative importance of electricity in the production process, the [redacted]% reduction in the all-in per kWh rate and the fact that Spirit already has facilities in Oklahoma and is planning on building more suggests that the threat to move from Wichita to Oklahoma is a credible threat.

Should the Discount Be Smaller?

Trying to determine the smallest discount necessary to keep Spirit's production in Wichita is a difficult task. Spirit gave Evergy an all-in per kWh price that needed to be met—[redacted] cents per kWh.[115] With the ESA, Evergy has met that goal well enough that Spirit has agreed to the rates in the ESA. Is the ESA the best deal that Evergy could have negotiated?

Without being able to read the minds of the Spirit negotiators, this question cannot be answered with certainty. However, Staff thinks it is possible to determine if the negotiated agreement is reasonable. The gap between Spirit's current all-in ILP rate and the highest PSC all-in rate is about [redacted] cents, and the gap between that same PSC rate and the [redacted] that Spirit says it needs is [redacted] cents. Put another way, the negotiated agreement closes about 80% of the gap between the all-in ILP rate and the all-in highest PSC rate. Or when comparing ILP all-in rate to the lowest PSC all-in rate, the negotiated agreement closes slightly less than 50% of the gap.

The ESA all-in rate seems reasonable from the point of view of Evergy's other customers. Even given the two caveats above: the expense to move to Oklahoma and the minimal importance of electricity in the Spirit production process, Staff doubts the negotiated discount could have been much smaller. Again, without the ability to read Spirit's negotiators minds, we can never know if ESA was the best possible deal Evergy could negotiate. But, to reiterate, the ESA rate seems reasonable.

[115] Evergy response to Staff Data Request No. 11.

Summary

Staff analyzed whether the discount is necessary to keep Spirit in the Evergy System and whether the size of the discount is appropriate. Evergy and Spirit both argue that the discount is necessary for competitive reasons. Evergy is concerned about competition from an out-of-state electric utility and the loss of a large customer. Spirit is concerned about competition from other airplane manufacturers and the Wichita Plant competing with other Spirit plants for projects and investments.

Spirit provided two alternative power supply options—self-generation and movement of some production to Oklahoma. Staff reviewed the credibility of each threat to leave the Evergy System. Staff is skeptical of Spirit's threat to self-generate because it seems to be primarily a rhetorical threat aimed at Evergy, and self-generation eliminates the economic development argument for the discount. With self-generation, the production would remain in Wichita with even more capital investment in Wichita making it more expensive to move from Wichita in the future.

Staff views Spirit's threat to move some of its production from Wichita to Oklahoma more seriously than the self-generation threat because the per kWh Oklahoma rate is significantly less than the Evergy per kWh rate that Spirit currently pays. However, there are two caveats that mitigate the threat to move to Oklahoma: (1) the move to Oklahoma would be expensive and require considerable additional investment in Oklahoma and (2) electricity is a small part of the Wichita operational budget. But despite the two caveats, the over 25% lower per kWh rate available in Oklahoma makes the threat credible in Staff's eyes.

Finally, Staff concludes that the size of the discount is reasonable because the discount moves Spirit's Wichita per kWh rate within about 80% of the Oklahoma rate, and given the two caveats, tends to suggest that the discount is appropriately sized.

Does the ESA Provide an Economic Benefit to the Remaining Core Customers?

The primary requirement of any special contract is that it must provide a benefit to the remaining core customers. The question breaks into two parts—do customers benefit from the base rate discount and do customers benefit from the substitution of the wind farm PPA for the RECA? Whether these two parts of the ESA generate benefits for the remaining core customers must be analyzed separately because a different methodology is needed to analyze each part. The economic benefit to customers of the base rate discount is the contribution Spirit makes to fixed cost, while the economic benefit to customers of the substitution of the wind farm PPA for the RECA is the reduction in the RECA other customers pay as a result of the substitution.

Base Rate Discount's Economic Benefit to the Remaining Core Customers

The basic argument used to justify a company benefiting from a special contract is that the special contract keeps the company within the utility's System. If the company were to leave the system the fixed costs that would be paid by the company would fall on other customers. Thus, if the company stays on the system and pays some of the fixed cost, theoretically, the remaining customers are better off. This answer is based on the short-run shutdown price for a company: price = marginal cost = average variable cost.

As explained in Staff's Report and Recommendation in Docket No. 17-KG&E-352-CON (17-352), Staff evaluates special contracts based on a medium run analysis and uses medium run variable cost to evaluate special contracts.[116] Staff requires that the price charged in the special contract recovers at least 15% of the fixed cost allocated to the company with the special contract in addition to recovering all of the variable cost allocated to the company.

Evergy estimated the medium run variable cost for Spirit at [redacted] per kWh using Staff's methodology from the 17-352 Docket.[117] The estimation process is shown in Table 17 below. The data for the estimation came from Evergy's class cost of service in Docket No. 18-WSEE-328-RTS.

****Table 17: Variable Cost Analysis****

[redacted]

Although the base rate discount is [redacted], Spirit is still contributing more than [redacted] to fixed cost which is more than 15% of its allocated fixed cost. Therefore, the base rate discount benefits the core remaining customers because Spirit still pays more than 15% of its allocated fixed cost. Table 18 below shows the calculation of Spirit's contribution to fixed cost, which is the benefit of the base rate discount to the remaining core customers.

[116] Staff Report and Recommendation, Docket No. 17-KG&E-352-CON, pp. 4-5. For a discussion of the difference between short run, medium run, and long run see David Kreps, A Course in Microeconomic Theory, 1990, pp. 267-279. What Staff has referred to as medium run, Kreps refers to as intermediate run. Short run is where the capacity to produce cannot not be charged with investment in fixed costs. In the long run, all costs are variable. In the medium run, some investment can take place, but not extensive investment such as the building of a new combined cycle natural gas plant.

[117] Evergy response to Staff Data Request No. 6.

****Table 18: Calculation of Spririt’s Contribution to Fixed Cost****

[redacted] [redacted]	
[redacted]	[redacted]
[redacted] [redacted]	
[redacted]	
[redacted]	
[redacted]	
[redacted] [redacted]	
[redacted]	

<u>The Benefit to the Remaining Core Customers of the Wind Farm PPA</u>

In nearly all cases, rate design is a zero-sum game: when one group receives lower rates someone else has their rates increased. For example, Spirit’s base rate discount is paid for by all other customers. Thus, it is appropriate to ask who makes up for the lost RECA revenue due to the substitution of the wind farm PPA for Spirit’s RECA payments. Put another way, would everyone else be paying Spirit’s RECA discount? The answer is no. In fact, as a result of the wind farm PPA, not only does Spirit pay a rate lower than the RECA, but other customers will also have their RECA rate lowered.

Other customers benefit because of the relationship among Evergy’s portfolio of generation assets, Evergy’s customer load, Southwestern Power Pool Integrated Marketplace (Integrated Marketplace), and Evergy’s RECA. Initially, Evergy bids its generation portfolio into the Integrated Marketplace and buys the energy to service its load from the Integrated Marketplace.

The substitution of the wind farm PPA can benefit other customers in two ways:

(1) If the wind farm produces more electricity than Spirit can use, then the extra electricity flows through the RECA and reduces the RECA when the price Evergy would pay to serve the load is greater than the PPA price of the wind farm.

(2) The energy from the wind farm indirectly increases the per kWh value of the revenue created by Evergy’s selling its generation portfolio into the Integrated Marketplace. The revenue created by Evergy’s generation flows through the RECA, which reduces the cost of the RECA to other customers.

Below each of these savings channels are discussed in more detail along with equations to illustrate how each channel works.

Other Customers' Savings from Wind Farm Energy not Used by Spirit

The value of the unused wind farm energy will lower the cost of the RECA if the PPA price is less than the Integrated Marketplace price that Evergy pays to service its load. The difference between the PPA price and the hourly Integrated Marketplace price is multiplied by the hourly energy from the unused energy from the wind farm to create the hourly value of the unused energy.

$$(1)\quad \begin{pmatrix} Hourly\ Value \\ of\ Unused \\ Energy \end{pmatrix} = \left[\begin{pmatrix} Hourly\ Price \\ of\ Westar \\ Load \end{pmatrix} - \begin{pmatrix} PPA\ Price \\ of\ Wind \\ Energy \end{pmatrix} \right] \times \begin{pmatrix} Hourly \\ Unused \\ Wind\ Energy \end{pmatrix}$$

Then the value of all the hours for the life of the wind farm (8,760*11+72) are summed and discounted using Evergy's weighted cost of capital to provide the net present value of the wind energy not used by Spirit.

$$(2)\quad \begin{pmatrix} Total\ Net\ Present \\ Value\ to\ Other \\ Customers\ of\ the \\ Unused\ Energy \end{pmatrix} = \sum_{i=1}^{96,408} \frac{\begin{pmatrix} Hourly\ Value \\ of Unused \\ Energy \end{pmatrix}_i}{\left[1 - \begin{pmatrix} Westar\ Cost \\ of\ Capital \end{pmatrix}\right]^i}$$

Where 96,408 is the number of hours between January 1, 2021 and December 31, 2032.

The result is the total net present value to other customers of the wind farm energy not used by Spirit, which lowers the RECA for all customers.

Other Customers' Savings from Spirit's Use of the Wind Farm Energy

Other customers' savings from Spirit's use of the wind farm is a more complex calculation. Again, starting with the Integrated Marketplace, Evergy bids its generation portfolio into the market and it receives revenue from the market for those generation assets that are used. The bids Evergy makes are based on the costs of each generation asset. The difference between the revenue Evergy receives for its generation assets and the costs of those assets is Evergy's Portfolio Margin.[118] The Portfolio Margin flows through the RECA and, because the Portfolio Margin is positive, it reduces the cost of the RECA to other customers.

To estimate Spirit's use of the wind farm energy on the per kWh value of Evergy's Portfolio Margin, first note that Spirit substitutes wind farm energy for RECA energy and reduces RECA load. The calculation of the per kWh benefit of this substitution by Spirit requires subtracting the Portfolio Margin divided by the RECA load from the Portfolio Margin divided by the RECA load minus Spirit's load lost due to the substitution. Equation (3) below shows this calculation.

[118] Staff Data Request KCC-007.

$$(3)\quad \begin{pmatrix} Benefit \\ per\ kWh \end{pmatrix} = \left(\frac{Portfolio\ Margin}{RECA\ Load - Spirit's\ Load}\right) - \left(\frac{Portfolio\ Margin}{RECA\ Load}\right)$$

The result will be positive because the RECA load minus Spirit's load will be smaller than the RECA load with Spirit's load. And since both numbers are in the denominators, the resulting subtraction will result in a positive number. Thus, the result is a positive dollar per kWh value for the benefit of Spirit's energy use from the wind farm. See Equation (4) below.

$$(4)\quad \left(\frac{Portfolio\ Margin}{RECA\ Load - Spirit's\ Load}\right) \geq \left(\frac{Portfolio\ Margin}{RECA\ Load}\right) \xrightarrow{yields} \begin{pmatrix} Benefit \\ per\ kWh \end{pmatrix} \geq 0.$$

To get the total estimated benefit over 9 years, multiply the dollar per kWh benefit by the total 9 year estimated RECA load minus the 9-year wind farm production. This calculation is in Equation (5) below.

$$(5)\quad \begin{pmatrix} Spirit\ Energy's \\ Total\ Value\ for \\ Other\ Customers \end{pmatrix} = \begin{pmatrix} Benefit \\ per\ kWh \end{pmatrix} \times \left[\begin{pmatrix} Total\ 9\ year \\ RECA\ load \end{pmatrix} - \begin{pmatrix} Total\ 9\ year \\ Spirit\ Load \end{pmatrix}\right]$$

Since Evergy Portfolio Margin and Renew Generation ≥ 0, then Equations (3), (4), and (5) imply

$$(6)\quad \begin{pmatrix} Total\ Benefit\ to\ Other\ Customers \\ of\ the\ Subscribed\ Energy \end{pmatrix} \geq 0 \xrightarrow{yields} \begin{pmatrix} Lower\ RECA \\ for\ Other\ Customers \end{pmatrix}.$$

By lowering the RECA for other customers even when all of the wind farm energy goes to Spirit, the wind farm PPA provides a benefit to not just Spirit, but to all other Evergy customers.

Other Customers Total Savings from the Wind Farm

The total savings to other customers is the savings from the wind farm energy not used by Spirit plus the savings from Spirit's use of the wind farm energy. However, if Spirit should shut down its Wichita Plant for some reason and stops needing energy, then the savings from the lower priced wind farm PPA would reduce the RECA rate for other customers. This scenario would give other customers the maximum benefit of the new wind farm, but it would only happen if Spirit shut down its Wichita Plant and stopped using Evergy electricity.

Summary

The ESA benefits the remaining core customers in two basic respects:

1) The ESA ensures that Spirit pays more than 15% of the fixed cost allocated to it. If Spirit did leave Evergy's System, then the remaining core customers would have to make up the fixed cost that Spirit pays for in the ESA. Thus, if the ESA causes Spirit to remain in the system, then the ESA makes the remaining core customers better off than they would be with Spirit off the system.

2) The wind farm PPA that is part of the ESA lowers the RECA for other customers whether Spirit only uses part of the wind farm energy or if it uses all of the wind farm energy.

a) If the wind farm produces more wind energy than Spirit can use, then the excess wind energy, which has a lower price than the RECA, flows through the RECA and lowers it for other customers.

b) The wind farm energy used by Spirit indirectly increases the value of the revenue created by Evergy's selling its generation portfolio into the Integrated Marketplace. This revenue then flows through the RECA increasing the net revenue (revenue minus cost) and reducing the RECA for all other customers.

Therefore, Staff concludes that the ESA is a benefit to the remaining core customers because it reduces the fixed cost all other customers have to pay and because it reduces the RECA all other customers have pay.

Staff's Conclusion Concerning the Economic Benefit to Remaining Core Customers

In this section, Staff analyzed whether the discount is necessary to keep Spirit in the Evergy System, whether the size of the discount is appropriate, and whether the ESA provides benefits to the remaining core customers. Staff concludes that the ESA addresses a credible threat of Spirit leaving the system, the size of the ESA discount seems large enough to keep Spirit in Wichita while not being excessively large, and the ESA provides benefits to the remaining core customers which they would not have if Spirit left the Evergy System for the following reasons:

1) The ESA provides two discounts to Spirit that are each substantial—the base rate discount and the substitution of the wind farm PPA for the RECA. Without the discounts, Spirit threatens to leave the Evergy System which would raise rates for all other customers. Of the two alternative power supply options presented by Spirit to back up its threat to leave the Evergy System, Staff concludes the option of Spirit moving some production to Oklahoma is a credible threat because of the substantially lower all-in per kWh rate offered.

2) Staff concludes the size of the discount seems reasonable. The discount does not fully close the gap between Evergy's all-in per kWh rate and Oklahoma's highest all-in per kWh rate, but Staff does not think it needs to for two reasons—it would be expensive for Spirit to move to Oklahoma and electricity is a small part of Spirit's operating budget.

3) The core remaining customers benefit from Spirit not leaving the Evergy System because the ESA ensures that Spirit pays for more than 15% of the fixed cost it is allocated, and the wind farm PPA lowers the RECA for all other customers whether Spirit uses all of the wind farm energy or not.

<u>Regulatory Asset</u>

Description of Proposal

Evergy is requesting approval to defer the difference between the base rate revenue it will receive from Spirit under the proposed ESA and the base rate revenue it would have received from Spirit under the ILP tariff.[119] Evergy proposes this difference be booked to a regulatory asset account

[119] Martin Direct, p. 11. Specifically, Evergy will calculate the base rate revenue under the applicable tariff assigned to each of the six existing customer accounts that will be billed at the ESA rate prior to the effective date of the ESA. This will be compared to actual base rate revenue billed using the ESA rates.

for recovery over a period of time consistent with the period of time during which the deferral balance is built.[120] Evergy believes it is reasonable and appropriate for Evergy's remaining core customers to be responsible for the lost revenue that results from implementation of the ESA because the proposed ESA meets the Commission's standard for approval and will result in benefits for those remaining core customers.[121]

Staff's Analysis and Conclusion Concerning the Regulatory Asset

As with gas special contracts,[122] the Commission found that revenue imputation (imputation of the difference in Revenue collected under the special contract and the amount of revenue that would have been collected under an applicable tariff) was not appropriate with electric special contract rates.[123] Because imputation is not appropriate, the remaining option is to allow recovery of the lost revenue through the use of a regulatory asset. Therefore, Evergy's request should be granted.

RECOMMENDATION

The Joint Applicants have met all of the special contract filing requirements established by the legislature and the Commission. Staff analysis has determined the discount is necessary to keep Spirit in the Evergy System, the size of the discount is appropriate, and the ESA provides benefits to the remaining core customers. Therefore, Staff recommends the Commission approve the ESA. In addition, Evergy's request for a regulatory asset should be granted.

[120] Martin Direct, p. 11.
[121] Martin Direct, p. 12.
[122] The Commission rejected the revenue imputation argument when it considered natural gas special rate contracts in Docket No. 00-KGSG-420-RTS.
[123] 01-813 Order, ¶9.

CERTIFICATE OF SERVICE

20-KG&E-112-CON

I, the undersigned, certify that a true and correct copy of the above and foregoing Notice of Filing of Staff 's Report and Recommendation was electronically filed this 20th day of March, 2020, to the following:

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