

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

In the Matter of Evergy Kansas Central, Inc.’s )  
and Evergy Kansas Metro, Inc.’s Request for )  
Authority to Implement Forward Natural Gas ) Docket No. 23-EKCE-846-TAR  
and Power Hedging Policy and to Permit All )  
Costs and Benefits to Flow Through Retail )  
Energy Adjustment Tariff )

**NOTICE OF FILING OF STAFF’S REPORT AND RECOMMENDATION (PUBLIC)**

COMES NOW, the Staff of the State Corporation Commission of the State of Kansas (Staff and Commission, respectively), and files its Report and Recommendation regarding the Application of Evergy Kansas Central, Inc. (“EKC”) and Evergy Kansas Metro, Inc. (“EKM”) for approval of a Forward Natural Gas and Power Hedging Policy.

Staff recommends approval of this Hedge Policy with two conditions: 1) Evergy shall update its Retail Energy Cost Adjustment and Energy Cost Adjustment tariffs to explicitly recognize the inclusion of hedge costs/benefits flowing through the tariffs; and 2) Evergy shall implement a Communications Plan that calls for an email communication with the Utilities Division Director, or his/her designee, upon placement of each hedge, as well as a semi-annual meeting between Staff, Evergy, and CURB to discuss the performance of the Hedge Program, and any potential revisions or improvements. Staff recommends this Communications Plan should be revisited after three years.

Certain portions of this Report and Recommendation which include confidential commercial information have been redacted in accordance with K.S.A 66-1220a.

WHEREFORE, Staff submits its Report and Recommendation for Commission review and consideration and for such other relief as the Commission deems just and reasonable.

Respectfully submitted,

*/s/ Carly R. Masenthin*

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Andrew J. French, Chairperson  
Dwight D. Keen, Commissioner  
Annie Kuether, Commissioner

Laura Kelly, Governor

**REDACTED REPORT AND RECOMMENDATION  
UTILITIES DIVISION**

**\*\* [REDACTED] \*\* Denotes Confidential Information**

**TO:** Andrew J. French, Chairperson  
Dwight D. Keen, Commissioner  
Annie Kuether, Commissioner

**FROM:** Justin Grady, Chief of Revenue Requirements, Cost of Service and Finance  
Jeff McClanahan, Director of Utilities

**DATE:** November 3, 2023

**SUBJECT:** Docket No. 23-EKCE-846-TAR – In the Matter of Evergy Kansas Central, Inc.’s and Evergy Kansas Metro, Inc.’s Request for Authority to Implement Forward Natural Gas and Power Hedging Policy and to Permit All Costs and Benefits to Flow Through Retail Energy Adjustment Tariff.

**EXECUTIVE SUMMARY:**

On May 26, 2023, Evergy Kansas Central, Inc. (EKC) and Evergy Kansas Metro, Inc. (EKM) (collectively as Evergy) filed an Application requesting Commission approval for a Forward Natural Gas and Power Hedging Policy (the Hedge Program). The purpose of the Hedge Program is to limit the fuel cost volatility that retail customers could experience during times of significant commodity cost volatility, such as experienced during much of 2021 and 2022. Evergy’s Application requests approval of the Hedge Program, as well as approval to flow the costs and benefits accruing from these hedges through the Retail Energy Cost Calculation (RECA) for EKC and the Energy Cost Adjustment (ECA) tariff for EKM.

Evergy’s Hedge Program is designed with several conservative safeguards in place, including the fact that it is designed to increase net fuel and purchased power costs by no more than 5%, and the fact that the Hedge Program is designed to cover \* [REDACTED] \*\*. Additionally, Evergy’s Hedge Program is only designed to mitigate the volatility experienced when Evergy is forecasted to be \*\* [REDACTED] \*\* short power to the Southwest Power Pool (SPP) Integrated Marketplace (IM), thereby avoiding unnecessary hedge costs when customers are not expected to experience significant exposure to SPP IM load costs, or selling power into future markets which introduces the risk that a generating unit might be on an unexpected outage and therefore incapable of meeting its obligation at that future time.

Staff, the Citizens Utility Ratepayer Board (CURB), and Evergy have engaged in significant collaboration and discussion pertaining to the implementation of a Hedge Policy for Evergy’s retail

customers. These meetings began in May of 2022, and continued through May of 2023. Staff is convinced that this Hedge Program is designed to benefit Evergy's retail customers by reducing the volatility that can come with significant exposure to short term natural gas or SPP IM load costs.

Staff recommends approval of this Hedge Policy with two conditions: 1) Evergy shall update its RECA and ECA tariffs to explicitly recognize the inclusion of hedge costs/benefits flowing through the tariffs; and 2) Evergy shall implement a Communications Plan that calls for an email communication with the Utilities Division Director, or his/her designee, upon placement of each hedge, as well as a semi-annual meeting between Staff, Evergy and CURB to discuss the performance of the Hedge Program, and any potential revisions or improvements. This Communications Plan should be revisited after three years, with modifications allowed upon unanimous consent of the parties, or as approved by the Commission.

**BACKGROUND:**

On May 26, 2023, Evergy filed an Application requesting Commission approval for the Hedge Program. The Application was accompanied by the testimony of James Meitner, Director of Market Operations. Mr. Meitner explained in his testimony that the primary purpose of the Hedge Program was to limit the exposure of Evergy and its retail customers to natural gas and/or SPP IM load costs during times that Evergy is expected to be "net short" to the market. That is, times that Evergy is expected to have to use relatively expensive natural gas peaking units to serve load, or in the alternative, purchase the load from the SPP IM.

Mr. Meitner explains that Evergy's Hedge Program would apply to instances in which Evergy is expected to be \*\* [REDACTED] \*\* short to the SPP IM, in a given operating month from \*\* [REDACTED] \*\* [REDACTED] \*\*. In order to estimate whether Evergy will be short to the SPP IM in a given month, Evergy plans to use an hourly production cost model, \*\* [REDACTED] \*\* that incorporates generating unit operating characteristics, transmission topology and constraints, and economic dispatch modeling simulations. This modeling estimates nodal locational marginal prices (LMPs) and Evergy generating unit volumes on an hourly basis, which is then compared to estimated Evergy retail demand (load) on an hourly basis. The resulting values are then netted to determine whether Evergy is expected to be net short or net long to the SPP IM.<sup>1</sup> This data is then exported as a Net Positions Report, which aggregates all of this hourly data into on-peak, off-peak, and around the clock monthly values.

The Hedging Program would allow Evergy to procure some combination of \* [REDACTED] \*\* to offset approximately \*\* [REDACTED] \*\* of the on-peak short positions, and \*\* [REDACTED] \*\* of the off-peak short positions. The Hedge Program will also consider power market congestion risk and natural gas basis risk when establishing a hedge position, with physical/financial trading locations that limit these risks preferred over other locations. The Hedge Program also describes the process of optimizing between hedging SPP IM load exposure with a forward natural gas purchase and an

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<sup>1</sup> A net short position means that all other things being equal, Evergy would expect to be serving more load from the SPP IM than it is selling to the SPP IM, meaning customers are exposed to prevailing natural gas and or SPP IM prices for that portion of its demanded load during that period. A net long position would make Evergy a net seller into the market.

available Evergy gas-fired generator, or instead establishing the forward purchase of a physical or financial electricity product.

**ANALYSIS:**

Staff, Evergy, and CURB began discussing the possibility of a Hedge Program for Evergy's customers in May of 2022. The catalyst for these discussions was the significantly increased commodity cost volatility experienced by Evergy and its customers during calendar year 2021 and 2022. Because Evergy has never had a Commission-approved Hedge Program, and none of the other regulated electric utilities in Kansas has a Commission-approved Hedge Program, these discussions were wide ranging and explored all facets of how a Hedge Program could be designed for an electric utility, including appropriate safeguards, risk tolerances, and the degree of flexibility that should be afforded to Evergy in executing the Hedge Program.

During these discussions Staff expressed concerns about placing forward hedges for the sale of electricity when Evergy is expected to be net long to the SPP IM. The primary concern expressed by Staff was the potential of enhanced risk to customers if Evergy experienced an unexpected outage from a generating unit that would undermine the ability of Evergy to satisfy its obligations under a forward sale agreement. Another concern was that if some Evergy generation was committed to a forward sale agreement at a fixed price, that generation would not be available to act as a hedge against times of extreme price spikes in natural gas prices or SPP IM load, such as occurred during Winter Storm Uri. Ultimately Evergy agreed to remove the possibility of hedging during times that Evergy was expected to be net long to the SPP IM.

Given the safeguards built into the Hedge Program, Staff contends that it is a well-designed and appropriately-conservative first step towards electric utility hedging in Kansas. However, we do recommend additional reporting and ongoing collaboration (Communications Plan) in order to determine whether the Hedge Program needs to be revised in the future as market conditions continue to change over time. Staff recommends that Evergy provide an email to the Utilities Division Director, or his/her designee, upon execution of a hedge on behalf of retail customers. Thereafter, Staff recommends that Evergy, CURB, and Staff meet at least every six months to discuss the status and performance of the Hedge Program, and to discuss whether the Hedge Program needs to be revised in any fashion. After three years, or sooner as unanimously agreed to by the parties, the Communications Plan can be revisited and revised if needed.

Staff also recommends that Evergy revise EKC's RECA tariff and EKM's ECA tariff to clarify that the costs and benefits of the Hedge Program are authorized to flow through these tariffs.

**RECOMMENDATION:**

Staff recommends the Commission approve Evergy's Hedge Program with two conditions:

- 1.) Evergy agrees to follow the Communications Plan discussed in the Analysis section above; and
- 2.) Evergy agrees to revise its RECA and ECA tariffs to include an authorization for inclusion of costs and benefits of the Hedge Program.

## CERTIFICATE OF SERVICE

23-EKCE-846-TAR

I, the undersigned, certify that a true and correct copy of the above and foregoing Notice of Filing of Staff's Report and Recommendation (Public) was served via electronic service this 3rd day of November, 2023, to the following:

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*/s/ Ann Murphy*

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