

BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS

In the Matter of the Capital Plan Compliance )  
Docket for Kansas City Power & Light )  
Company and Westar Energy, Inc. Pursuant to ) Docket No. 19-KCPE-096-CPL  
The Commission's Order in 18-KCPE-095- )  
MER. )

**NOTICE OF FILING OF STAFF'S 2022 IRP ANNUAL UPDATE COMMENTS**

The Staff of the Kansas Corporation Commission (Staff and Commission, respectively) hereby submits the attached comments with respect to the *Evergy KS Central and Metro 2022 Annual Update* (2022 Annual Update) filed by Evergy on June 10, 2022. Staff recommends that, as part of ongoing IRP modeling and reporting, Evergy address Staff's comments and other substantial sources of uncertainty, and how they are captured in the IRP modeling approach and assumptions. Given that no major capital expenditures on new resources from the preferred scenario of the IRP are imminent, Staff concluded that immediate revisions to the 2022 Annual Update were not warranted, and that any stakeholder comments and recommendations should be addressed in the 2023 Annual Update.

WHEREFORE, Staff respectfully submits its comments in this matter.

Respectfully Submitted,

/s/ Michael Neeley

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## MEMORANDUM

To: Dwight D. Keen, Chair  
Susan K. Duffy, Commissioner  
Andrew J. French, Commissioner

From: Nick Puga, Consultant, Bates White  
Collin Cain, Consultant, Bates White  
Lana Ellis, Deputy Chief of Economic Policy and Rates  
Robert Glass, Chief of Economic Policy and Rates  
Leo Haynos, Chief of Energy Operations and Pipeline Safety  
Justin Grady, Chief of Revenue Requirements, Cost of Service, and Finance  
Jeff McClanahan, Director, Utilities Division

Date: August 29, 2022

Re: Docket No. 19-KCPE-096-CPL: Staff Comments on Evergy Kansas Central and Evergy Metro 2022 Integrated Resource Plan Update

### **EXECUTIVE SUMMARY**

On June 10, 2022, Evergy Kansas Central and Evergy Metro (Collectively Evergy) filed its 2022 Integrated Resource Plan update (IRP Update). Staff and its consultant Bates White (Collectively Staff), have participated in Evergy sponsored stakeholder meetings and issued discovery in this docket. Based on Staff's analysis, we recommend the Commission find that Evergy's 2022 IRP Update filing meets the Commission authorized IRP Process Framework. However, Staff does have several recommendations for Evergy's next update.

### **BACKGROUND**

On February 6, 2020, the Commission issued its *Order Adopting Integrated Resource Plan and Capital Plan Framework*. The Commission's Order approved the Capital Plan Reporting and IRP Process Framework jointly proposed by CURB, Evergy, and Staff on September 9, 2019. The Commission's Order noted that the Sierra Club wanted stakeholders to have significant involvement in the *formation* of the IRP plan and for Evergy to be required to actively solicit and incorporate both stakeholder and Commission involvement throughout the IRP development process. In addressing this issue, the Commission specifically stated:

As a regulated public utility, Evergy has a statutory responsibility to provide "efficient and sufficient service," but is also entitled to discretion in the management of its day-to-day operations. Rather than directing Evergy to acquire

specific resources, the Commission prefers an IRP process where it can direct Evergy to adhere to specific standards in formulating an IRP to be submitted for Commission review. Furthermore, the proposed IRP process provides for flexibility based on the rapidly changing environment utilities face today. Finally, all stakeholders and the Commission will have an opportunity to determine the prudence of Evergy's resource planning in any rate case in which the investments are to be included in rates. Involvement by stakeholders and the Commission during the development phase of the resource plan will create uncertainty on the part of Evergy as to whether or not prudence of a resource plan has been established during the resource planning process itself.<sup>1</sup>

In addressing the Sierra Club's petition for reconsideration on several issues, the Commission addressed the rationale for the approved IRP process and specifically stated the following:

As Staff explains, Kansas law does not mandate any specific IRP process. More importantly, the IRP is designed to be flexible based on input sensitivity analysis and contingent scenario analysis. Therefore, the Commission does not want to restrict the necessary flexibility to develop an optimal portfolio. In approving the IRP process, the Commission found it provides for flexibility based on the rapidly changing environment utilities face today.<sup>2</sup>

While the Commission appreciates the Sierra Club's sincere interest in the IRP, and welcomes its participation, the Commission must balance the Sierra Club's involvement against Evergy's ability to manage its own affairs and exercise its business judgment in running its operations. As the Commission explained in its Order Adopting Integrated Resource Plan and Capital Plan Framework, Evergy is entitled to discretion in the management of its day-to-day operations. The Commission reiterates its preference for an IRP process where it can direct Evergy to adhere to specific standards in formulating an IRP to be submitted for Commission review, rather than directing Evergy to acquire specific resources.<sup>3</sup>

Finally, Staff notes that the stated purpose of the Capital Plan Reporting and IRP Process Framework approved by the Commission is:

#### **Filing Schedule and Requirements**

*PURPOSE: This filing process section specifies the requirements for Evergy to demonstrate compliance with the provisions of the Capital Plan Reporting and IRP Process Framework established above. The purpose of the compliance review required by this filing process is not Commission approval of the substantive findings, determinations, or analyses contained in the filing. The purpose of the compliance review required by this filing process is to determine whether Evergy's Capital Plan Reporting and IRP Process Framework complies with the stated structure and expectations outlined in this document.*<sup>4</sup>

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<sup>1</sup> Commission Order Adopting Integrated resource Plan and Capital Plan Framework, February 6, 2020, par. 16.

<sup>2</sup> Commission Order Denying Sierra Club's Petition for Reconsideration, March 19, 2020, par. 16.

<sup>3</sup> Commission Order Denying Sierra Club's Petition for Reconsideration, March 19, 2020, par. 16.

<sup>4</sup> Commission Order Adopting Integrated resource Plan and Capital Plan Framework, February 6, 2020, Attachment A, p. 4.

Between Evergy's triennial IRP compliance filings, Evergy is required to file an annual update to its IRP three months after its Missouri IRP update.<sup>5</sup> Stakeholders may file comments with the Commission concerning Evergy's annual update within 30-days for the utility's filing.

## **ANALYSIS**

### **IRP Modeling Approach, Methodology and Assumptions**

In its June 10, 2022, IRP Update filing and in response to data requests in the associated docket, Evergy has provided narrative descriptions of the assumptions and modeling that supports the IRP Update. Evergy applies a two-step methodology in which PROMOD is used to generate forecasts of market energy prices for the Southwest Power Pool ("SPP") integrated market,<sup>6</sup> and then the resulting price forecasts are incorporated as inputs to modeling of capacity expansion alternatives using PLEXOS. The use of the capacity expansion optimization capabilities of PLEXOS conforms to our recommendation in comments regarding Evergy's 2021 Triennial IRP, submitted on June 3, 2021. We find Evergy's two-step modeling approach in the IRP Update to be a reasonable methodology that levers off, and anchors to, SPP market model cases, while exploring resource options specific to Evergy.

In addition to methodological enhancements, the IRP Update incorporates revised forecasts of load, natural gas prices, new generation supply costs, and updated O&M and capital costs for existing resources. Considering the current high level of uncertainty in a range of important factors – including pandemic-related economic effects, geopolitical influences on the cost of fossil fuels, and policies affecting the energy transition (especially the 2022 Inflation Reduction Act) – we recognize that there will likely be further significant changes reflected in Evergy's 2023 Annual IRP Update. Consequently, in these comments we focus on two broad questions relevant to evaluating Evergy's methodology and assumptions:

1. Does the modeling appropriately cover the landscape of potential futures?
2. Does the modeling introduce any significant biases in the inputs and/or results?

We discuss these in turn below.

#### **1. Representation of potential futures**

We find that the nine modeled cases are too restrictive, and should be widened to encompass more extreme cases. The cases Evergy has examined are plausible extensions of the 2021 world, but they do not capture more substantial potential shifts. One specific recommendation is that: either prices in the high natural gas price case be increased, or a new, higher, natural gas price case be added. While current natural gas futures prices imply a reversion to lower price levels beyond 2023, futures prices have been highly variable over the course of 2022 to-date. Even if a "high high" case for natural gas prices is considered to have a low probability, such a case would still provide useful information regarding opportunities and risks associated with retirement schedules for existing assets, and the relative value of new technologies.

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<sup>5</sup> Commission Order Adopting Integrated resource Plan and Capital Plan Framework, February 6, 2020, Attachment A, IRP Process, par. 10.

<sup>6</sup> PROMOD is an electric transmission and generation market simulation system.

## 2. Potential source of bias

Regarding the second question, we find one potential source of model bias in Evergy's assumption that new resource additions, with the exception of capacity-only contracts, would be utility-owned. While Evergy has justified this assumption in discovery responses on the basis of consistent comparison, there is potentially a substantial distinction in costs to ratepayers from renewable generation acquired via a third-party PPA compared to the same capacity rate-based by the utility. Evergy states that a wider range of alternatives would be explored via anticipated future resource RFPs. However, the initial IRP assessment of alternatives that guides the development of such RFPs could be affected by the utility ownership assumption adopted in the IRP modeling. We recommend that Evergy include explicit evaluation of renewable PPAs in the 2023 Annual Update, and subsequent IRP studies.

### Addressing substantial sources of uncertainty

Several significant sources of uncertainty affecting other Evergy applications before the Commission, as well as the economy, technology and fuel markets have evolved since Evergy's modeling for the 2022 Annual Update was concluded in spring 2022. Among these factors are the following:

- Demand-Side Management Forecast – Evergy filed an application in Docket No. 22-EKME-254-TAR requesting \$180 million in demand-side management expenditures in Evergy Kansas Central and \$55 million in Evergy Metro for the years 2023-2026.
- Higher inflation may lead to higher capex – recognizing that not all generation costs have inflated evenly.
- Higher natural gas prices resulting from the impact of war in Europe have not fully manifested in oil and gas markets yet.
- Biden Administration's apparent commitment to incent decarbonization rather than implement a carbon tax.
- Continued delivery chain disruption – ocean freight costs may be lower going forward than initially thought.
- Chinese import circumvention complaint impact has not yet been fully felt.
- The most recent factor with the most significant potential long-term impact is passage of the Inflation Reduction Act (IRA). This is a substantial and complicated piece of legislation that will take some time to assess. Considering the significance of the IRA to the evolution of the electric supply and demand, and availability and price of renewable costs, we recommend that Evergy perform an evaluation of the expected effects and outline the effects on its IRP modeling in its next IRP Update filing.

## **RECOMMENDATION**

Staff recommends that, as part of ongoing IRP modeling and reporting, Evergy address these and other substantial sources of uncertainty, and how they are captured in the IRP modeling approach and assumptions.

Given that no major capital expenditures on new resources from the preferred scenario of the IRP are imminent, we conclude that immediate revisions to the 2022 Annual Update are not warranted, and that any stakeholder comments and recommendations should be addressed in the 2023 Annual Update.

## **CERTIFICATE OF SERVICE**

19-KCPE-096-CPL

I, the undersigned, certify that a true and correct copy of the above and foregoing Notice of Filing of Staff's 2022 IRP Annual Update Comments was served via electronic service this 29th day of August, 2022, to the following:

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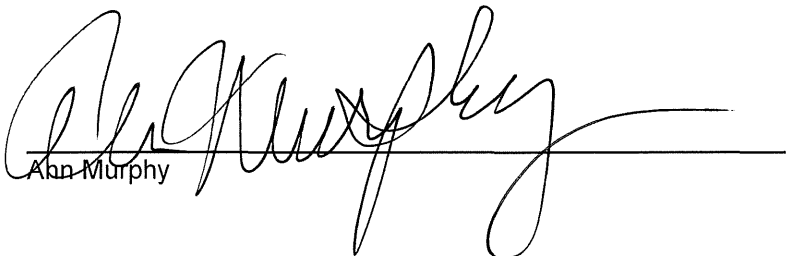
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