REDACTED VERSION

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 Proposed Forward Natural Gas and Power Hedging Policy and to Permit All Costs and Benefits to Flow Through Retail Energy Cost Adjustment Tariff.	))))))	Docket No. 23-EKCE-846-TAR

RESPONSE OF THE CITIZENS' UTILITY RATEPAYER BOARD TO STAFF'S REPORT AND RECOMMENDATION

COMES NOW, the Citizens' Utility Ratepayer Board ("CURB") and submits its response to the Staff of the Kansas Corporation Commission's ("Staff") Report and Recommendation ("R&R"), filed with the Kansas Corporation Commission ("Commission") in the above-captioned docket on November 3, 2023. In support thereof, CURB states as follows:

Background

1. On May 26, 2023, Evergy Kansas Metro, Inc. ("Evergy Kansas Metro"), Evergy Kansas Central, Inc., and Evergy Kansas South, Inc. (together "Evergy Kansas Central"; collectively, "Evergy" or "the Company") filed an application with the Commission seeking authority to implement its proposed Forward Natural Gas and power Hedging Policy ("Hedging Program") and to permit all associated costs and benefits to flow through the Retail Energy Cost Adjustment tariff ("RECA") for Evergy Kansas Central and the Energy Cost Adjustment tariff ("ECA") for Evergy Kansas Metro.[1]

2. The impetus for this application comes from the volatility in natural gas and power markets, beginning with events surrounding Winter Storm Uri in 2021. In support of this

[1] Confidential Evergy Application (May 26, 2023). ("Application")

application, Evergy submitted the testimony of James Meitner.[2] Evergy's Hedging Program is designed to offer a degree of mitigation against volatile fuel and power prices by capping a portion of costs over a future period of time versus being fully subject to prices at the time of day ahead or real time purchases. The scope of this program will cover forecasted net short positions of equal to or greater than **[redacted]**, as measured no later than **[redacted]** ahead of the operation month being observed.[3] The Hedging Program will address only a portion of these net short positions, **[redacted].**[4] Hedging transactions would occur between **[redacted]** months prior to the operational start month, and multiple months can be combined for transaction purposes. Overall, Evergy expects that the volume of hedging will be low based on its **[redacted]** short position threshold and anticipates that hedging net settlement absolute values will be less than 5% of the jurisdictional actual annual total fuel and purchased power costs.[5]

3. The Hedging Program will be administered by two working groups at Evergy. Power Marketing will manage the program on a daily basis and determine if and when hedging opportunities exist, monitor market prices, determine whether to enter into hedging transactions, and track the performance of the hedges. The Risk Oversight Committee will receive performance reports on a monthly basis and oversee the program's performance and offering guidance on its operations and management of risk.[6] Evergy included its Risk Management Policy in the

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[2] Testimony of James Meitner on Behalf of Evergy Kansas Central, Inc., pg. 2, lns. 16-22 (May 26, 2023). ("Meitner Testimony")
[3] Meitner Testimony at pg. 2, lns. 16-22.
[4] Id. at pg. 3, lns. 1-3.
[5] Id. at pg. 3, lns. 10-11.
[6] Id. at pg. 4, lns. 8-23.

Application.

4. On June 2, 2023, CURB filed a Petition to Intervene[7] and was granted intervention by the Commission on June 8, 2023.[8]

5. On November 3, 2023, Staff filed its R&R regarding Evergy's proposed Hedging Program.[9] As part of its analysis, Staff recounted the discussions between Staff, CURB, and the Company regarding the potential of a hedging program for electric utilities.[10] Staff evaluated the proposal in terms of ability to mitigate exposure to volatile fuel and power prices. Staff has concluded that the Hedging Program contains numerous safeguards against consumer risks due to generation issues. One aspect that appeals to Staff is the removal of the possibility of hedging during times that Evergy is expected to be net long to avoid overcommitting resources that ultimately are unavailable. From Staff's perspective, the Hedging Program is a "well-designed and appropriately-conservative first step towards electric utility hedging in Kansas."[11]

6. Staff recommends approval of the Hedging Program with two modifications. Staff proposes a Communications Plan that involves additional reporting to Staff and CURB and provides for ongoing collaboration in order to determine whether the program will need changes in the face of future market conditions.[12] As part of that Communications Plan, Staff recommends that Evergy provide the Utility Divisions Director and their designees notice when Evergy executes a hedge. Further, Staff asks that Evergy meet with Staff and CURB to discuss the status and performance of the program and possible revisions at least every six months. Staff recommends that the overall Communications Plan be revisited by the Commission after three years or sooner

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[7] CURB Petition to Intervene and Motion for Protective Order, Discovery Order and Order Assessing Cost. (June 3, 2023).
[8] Order Granting CURB's Petition to Intervene; Protective and Discovery Order. (June 8, 2023).
[9] Notice of Filing of Staff's Report and Recommendation. (November 3, 2023). ("Staff's R&R")
[10] Staff's R&R at pg. 3.
[11] Id.
[12] Id.

if agreed to by the parties. Staff also recommends that Evergy revise its RECA and ECA tariffs to explicitly state an authorization for the use of these tariffs to include costs and benefits associated with the Hedging Program.

CURB's Response

7. CURB appreciates the opportunity to engage in these discussions with Staff and Evergy regarding the potential of hedging by electric utilities. Winter Storm Uri and the various conditions that have resulted in volatile natural gas and energy prices represent serious financial risks for utilities and ratepayers alike. Therefore, collaborative efforts by stakeholders, regulators, and utilities are critical in developing appropriate responses to these new market dynamics. Through these discussions, CURB has gained an appreciation of Evergy's goals in developing hedges to the potential adverse impact of volatile natural gas and energy prices upon its rates, including the amount of analytics that go into implementing its hedging program. In essence, Evergy seeks to reduce the shock of price spikes associated with spot market purchasing of fuel or power, especially during emergency situations, by securing physical supplies or financial agreements on prices ahead of time. Hedging transactions typically include an agreed price for the commodity, with a modifier to reflect potential market conditions. Simply stated, the modifier is akin to an insurance premium for protection against volatile prices. CURB supports reasonable and cost-effective efforts by both natural gas and electric utilities to mitigate the risk of exposure to volatile market prices in light of the fact that these costs are passed directly onto ratepayers with no additional earnings by the utility.

8. CURB has evaluated the application, Discovery Request responses, and Staff's R&R from the perspective of residential and small commercial ratepayers. CURB has been involved with the natural gas utilities' hedging planning processes for several years and has

evaluated the costs and benefits for ratepayers associated with long-term hedging programs. As stated above, hedging acts as insurance against volatile market prices. Ratepayers pay the additional cost to lock in supply at certain prices and quantities. The aspirational goal is that these hedged fuel or power supplies will mitigate the effects of any price spikes and smooth the cost of gas over time. While sophisticated forecasting technology can assist in recognizing the need for hedging and maximizing the value of such transactions, it is unreasonable to assume that such results are 100% accurate and that hedging benefits will outweigh the cost year over year. Another way to value the success of a hedging program is through a review of a longer period of time when price spikes are experienced in the market. Although ratepayers may pay more in some years without significant market price volatility, they will also see benefits of that hedging during extreme conditions, the costs of which could overshadow previous years' outcomes. Regardless, a primary benefit of hedging for customers is the peace of mind and predictability associated with stable energy costs. While CURB recognizes the benefits of a hedging program, CURB also acknowledges that the additional costs associated with hedging impact customers' bills and budgets differently. To that end, CURB agrees with Staff that the Hedging Program is a good first step to introduce electric utility hedging in Kansas.

9. CURB agrees with the findings and recommendations of Staff's R&R and supports the same, but with some observations and recommendations for the Commission's consideration. As part of its concerns regarding price increases for customers, CURB reviewed the Hedging Program for impact on ratepayers. Evergy indicated that due to the low volume of hedging it anticipates implementing, net fuel and purchased power costs would increase by no more than 5%.[13] While no rate increase is particularly welcomed, the potential benefits from mitigating

[13] Staff's R&R at pg. 1; Meitner Testimony at pg. 3, lns. 10-11.

exposure to high spot market prices could certainly support that price point. Evergy has indicated that it does not intend for this program to completely mitigate exposure to high prices, but rather to "diversify or distribute that price exposure across more periods of time."[14] That intent is reflected in the parameters that is established for triggering a hedging opportunity. Forecasting for hedging is performed **[redacted]** in advance and leaves the Company ample time to study market conditions and risk to determine whether to commit to a hedging transaction. Hedging would only take place if there is a projected net short position of at least **[redacted]**. According to the response to CURB DR-9, if Evergy decides to pursue hedging transactions and a net short position becomes net long afterwards, Evergy can choose to exit the transaction at then current market prices.[15] The flexible and limited application of hedging appears to be a balanced approach for hedging that does not expose ratepayers to unreasonable amounts of hedging costs while providing an appreciable level of risk mitigation from volatile prices. CURB agrees with Staff that the Hedging Program is a well-designed first step towards electric utility hedging in Kansas.

10. CURB also supports Staff's additional recommendations for a Communications Plan and additions to the ECA and RECA language. Staff's view of the program as a "first step" begs the question of where hedging should go from this docket for Evergy. Because flexibility is an important aspect of any hedging program, CURB does not believe that a hedging program should be monolithic from its inception, especially considering the number of changes coming to Kansas in the near future. In light of several significant changes coming into Kansas regarding energy use, such as energy efficiency programs, large economic development activity, and changing Southwest Power Pool requirements, CURB anticipates monitoring the frequency of hedging opportunities and increased costs for ratepayers in order to keep up with these factors.

[14] Meitner Testimony at pg. 5, lns. 5-6.
[15] See CURB DR-9 attached to this response.

The result of these changes may include refined thresholds that qualify hedging events, adjusted percentages of on- and off-peak positions that are hedged, and re-evaluating acceptable risk tolerance levels. CURB, too, is interested in receiving notice of when Evergy hedges throughout the year outside of organized meetings at the time when the Utilities Division Director is contacted. The forecasting procedures that Evergy will implement for this program can also provide valuable information for other types of responses to net short positions. Depending upon the factors that contribute to a net short position, advanced notice to Staff and CURB may prompt the need for more frequent discussions and changes to the program. While the Company is focused on spreading the costs of market volatility over time, CURB wants to ensure that the program delivers results that balance cost burdens with level of relief from high spot market prices. CURB anticipates that it will work with Staff and Evergy on the details of the status meetings and potential metrics to be recorded and discussed. Such work will most likely include a review of hedging costs and a comparison with actual costs during the relevant operating months.

11. CURB supports all aspects of the Communications Plan, including revisiting the requirement after three years, and expects there to be open and frequent dialog regarding Evergy's methodology and performance. As stated above, recognizing the "success" of a hedging program can take examination of over several years, particularly given the erratic frequency of price spike events. Ratepayers want to know that they are receiving a benefit with their money and they want to know exactly how much benefit. Regular collaboration and monitoring by regulators and stakeholders enable the public an avenue to view this information and to recognize that they are being represented in this process. While maintaining records and engaging in consistent communication can be a large undertaking, CURB believes that long-term communication efforts will only serve to facilitate the goal of adequately mitigating risk.

Conclusion

12. Evergy's application provides for a reasonable first step for introducing electric utility hedging. CURB lends its support for the Application and Staff's R&R in the hopes that hedging becomes a useful tool for Evergy to reduce the impact of fuel and power price spikes, especially during critical and emergency situations. The parameters proposed by Evergy are designed to complement efforts to mitigate risk, rather than to solve it completely. Such a limited approach is agreeable here to minimize the bill impact for ratepayers given an unknown future. CURB agrees with Staff's inclusion of a Communications Plan in order to stay up to date on changing circumstances and to provide a way to collaborate on solutions to new challenges in a timely fashion.

WHEREFORE, CURB respectfully asks the Commission to approve Evergy's Hedging Program Application along with the recommendations contained in Staff's R&R and in this response and to take any and all other actions that the Commission deems appropriate and reasonable.

Respectfully submitted,

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VERIFICATION

STATE OF KANSAS)
) ss:
COUNTY OF SHAWNEE)

I, Joseph R. Astrab, of lawful age and being first duly sworn upon my oath, state that I am an attorney for the Citizens' Utility Ratepayer Board; that I have read and am familiar with the above and foregoing document and attest that the statements therein are true and correct to the best of my knowledge, information, and belief.

Joseph R. Astrab

SUBSCRIBED AND SWORN to before me this 9th day of November, 2023.

Notary Public

My Commission expires: 01-26-2025.

DELLA J. SMITH
Notary Public - State of Kansas
My Appt. Expires January 26, 2025

evergy

ATTACHMENT CURB-9

Evergy Kansas Central
Case Name: 2023 Evergy KS Central - Natural Gas and Power Hedging Policy - Retail Energy Cost Agreement Tariff
Case Number: 23-EKCE-846-TAR

Requestor Astrab Joseph -
Response Provided October 25, 2023

Question:CURB-9
In regards to entering into transactions in response to a forecasted hedging opportunity, does the program allow for Evergy to re-evaluate hedging opportunities prior to entering into these transactions? How would Evergy mitigate the impacts of unfavorable hedging transactions in the event of changed circumstances prior to the planned hedging month?

RESPONSE: (do not edit or delete this line or anything above this)

Confidentiality: PUBLIC
Statement: This response is Public. No Confidential Statement is needed.

Response: Yes, the policy allows for continual evaluation of hedging opportunities. If a hedge becomes unfavorable and/or if a net position shifts from short to long, Evergy could, but is not obligated, to exit the hedge transaction at then current market prices. The goal of the hedging policy is to reduce floating market volatility exposure and not necessarily to have a profitable hedging portfolio by making decisions based on market prices. Based on the structure of the hedging policy, natural gas and/or power prices moving lower after establishing the hedging transaction would be more beneficial to the customer overall than natural gas and/or power prices moving higher.

Information provided by: JP Meitner, Market Operations

Attachment(s):

Verification:
I have read the Information Request and answer thereto and find answer to be true, accurate, full and complete, and contain no material misrepresentations or omissions to the best of my knowledge and belief; and I will disclose to the Commission Staff any matter subsequently discovered which affects the accuracy or completeness of the answer(s) to this Information Request(s).

Signature /s/ *Brad Lutz*
Director Regulatory Affairs

CERTIFICATE OF SERVICE

23-EKCE-846-TAR

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing document was served by electronic service on this 9th day of November, 2023, to the following:

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