

Exhibit No.:  
Issue: Customer Savings Plan  
Witness: Greg R. Meyer  
Type of Exhibit: Affidavit in Support of  
Non-Unanimous Stipulation  
and Agreement  
Sponsoring Party: MEGG  
Case No.: EO-2018-0092  
Date Testimony Prepared: April 24, 2018

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

FILED  
May 17, 2018  
Data Center  
Missouri Public  
Service Commission

\_\_\_\_\_  
In the Matter of the Application )  
of The Empire District Electric )  
Company for Approval of its )  
Customer Savings Plan. )  
\_\_\_\_\_ )

**Case No. EO-2018-0092**

Supporting Affidavit of

**Greg R. Meyer**

On behalf of

**Midwest Energy Consumers Group**

April 24, 2018

MEGG Exhibit No. 351  
Date 5-04-18 Reporter VF  
File No. EO-2018-0092



Project 10522



**BEFORE THE PUBLIC SERVICE COMMISSION  
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Case No. EO-2018-0092

**SUPPORTING AFFIDAVIT OF GREG R. MEYER**

1           1.       I am the same Greg R. Meyer that previously submitted Rebuttal Testimony in  
2 this docket on behalf of the Midwest Energy Consumers Group ("MECG").

3           2.       This docket was initiated by Empire District Electric Company ("Empire" or  
4 "Company") on October 31, 2017. In its application, Empire sought Commission approval to  
5 retire its Asbury generating unit and to add, through the use of tax equity financing, 800 MWs  
6 of wind generation. In addition, Empire sought certain ratemaking assurances surrounding  
7 the future recovery of any undepreciated amounts associated with the retirement of Asbury.

8           3.       In my rebuttal testimony, I provided certain concerns regarding the economics  
9 surrounding the addition of the wind generation as well as the retirement of Asbury.  
10 Furthermore, I provided recommendations surrounding the quantification of the regulatory  
11 asset associated with the retirement of Asbury. Ultimately, I recommended, on behalf of  
12 MECG, that the Commission reject Empire's application.

13          4.       Over the last two weeks, several parties have engaged in extensive  
14 negotiation surrounding the issues in this case. Concurrent with the filing of this affidavit,  
15 certain parties, including MECG, are filing a Non-Unanimous Stipulation and Agreement.  
16 That Stipulation differs from the scope of the initial Empire application. At the most basic

1 level, that Stipulation differs from the Empire application in that it provides for the addition of  
2 600 MWs of wind generation, but contemplates the continued operation of the Asbury  
3 generating station. Given the continued operation of Asbury, my concerns regarding the  
4 quantification of the Asbury regulatory asset and its recovery in future rate cases are no  
5 longer relevant.

6 5. The purpose of this Affidavit is to provide a discussion of the various terms of  
7 the Non-Unanimous Stipulation focusing primarily on those customer protections and  
8 provisions that were critical to MEEG agreeing to the Stipulation.

9 6. While Empire has agreed to the terms of the Stipulation and, if approved by  
10 the Commission, will no longer be seeking Commission approval of its initial application;  
11 MEEG nonetheless understands that there may be an objecting party that seeks an  
12 increased amount of wind generation or the retirement of the Asbury unit as described in the  
13 initial Empire application. Given this, I will also briefly describe those portions of my rebuttal  
14 testimony that would still be relevant under those circumstances.

#### 15 **SCOPE OF THE NON-UNANIMOUS STIPULATION**

16 7. Following the filing of surrebuttal testimony, several of the parties to this  
17 proceeding engaged in extensive settlement discussions. These discussions lasted  
18 approximately two weeks and involved detailed analysis of the scope of a revised plan for  
19 Empire as well as the implementation of certain customer protections. In addition, given the  
20 recent implementation of the Tax Cuts and Jobs Act of 2017, which reduced the federal  
21 corporate income tax rate from 35% to 21%, there was an effort to resolve the issues  
22 currently pending in Case No. ER-2018-0228. Some of the key provisions of the  
23 Non-Unanimous Stipulation are as follows:

- 1 a) In contrast to its initial request to add 800 MWs of wind capacity, the Signatories have  
2 agreed that Empire's addition of 600 MWs of wind capacity is reasonable.
- 3 b) The Signatories have agreed that, despite the upcoming need for capital  
4 expenditures associated with the Coal Combustion Residual ("CCR") rule, the Asbury  
5 generating unit should remain operable pending future integrated resource planning  
6 analysis. Given this, issues surrounding the quantification and recovery of a  
7 regulatory asset resulting from the retirement of Asbury is no longer of concern.
- 8 c) The Signatories have agreed to the implementation of certain customer protections  
9 including, but not limited to: (1) a market price protection agreement; (2) certain  
10 provisions related to the timing of rate cases focused on the inclusion of wind project  
11 capital costs in Empire rates as well as provisions designed to ensure no customer  
12 detriments resulting from a change in Empire's regulatory capitalization or a  
13 downgrade in Empire credit rating / increase in Empire debt cost; (3) a rate reduction  
14 associated with recent enactment of the Tax Cuts and Jobs Act of 2017; (4) the  
15 implementation of a rate moratorium; (5) the future proposal of a program designed to  
16 provide for non-residential access to renewable energy including renewable energy  
17 credits; and (6) a most favored nation provision that protects Missouri ratepayers in  
18 the event that either Kansas, Oklahoma or Arkansas provide for an enhanced level of  
19 customer protections.

20 **CUSTOMER PROTECTIONS**

21 8. Market Price Protection Provision: As with integrated resource planning  
22 analysis, the parties to this case relied extensively on modeling to determine the impact on  
23 customer rates associated with changes in various factors. Foremost among the factors  
24 considered in this case were changes in wholesale market prices as well as production

1 assumptions for any wind capacity additions. For market prices, base, high and low price  
2 scenarios were modeled. To address production variances, several probability factors were  
3 utilized. For example, a P95 scenario would predict a level of wind production that would be  
4 reached or exceeded 95% of the time while a P50 scenario would equate to the normal level  
5 of wind production.

6 9. While the modeling shows reduced customer rates for the agreed upon plan  
7 relative to Empire's current preferred plan, those savings may disappear if a situation  
8 develops in which both the low market price scenario and the low wind production scenario  
9 occur simultaneously. In order to protect customers against this possibility, the parties  
10 developed a mechanism that I call a market price protection provision. In general, that  
11 mechanism compares the revenues derived from selling the wind energy into the SPP  
12 Integrated Marketplace to the revenue requirement associated with 600 MW of wind  
13 additions agreed to in the stipulation. In addition, the mechanism also allows for recognizing  
14 the benefit of the expiration of two wind purchase power agreements ("PPA") that Empire  
15 currently pays, but will expire in 2025 and 2028. To the extent that revenues and the  
16 benefits from the expiring PPAs exceed the wind revenue requirement, then customers are  
17 realizing benefits. To the extent that the revenues and the expiring PPAs fall short of the  
18 wind revenue requirement, then customers are suffering a detriment. Under the modeling  
19 conducted, if the low market price scenario and the low wind production scenario occur  
20 simultaneously, then customers may lose as much as \$22 million over the initial 10-year  
21 period.

22 10. The market price protection mechanism calls for the possibility of Empire  
23 paying Missouri customers, through the form of reduced revenue requirements in a rate  
24 case, as much as \$35 million over the first ten years of the Customer Savings Plan. The

1 \$35 million cap provides customer protections above the worst case modeled by Empire for  
2 the addition of 600 MWs of wind.

3 11. I believe that the market price protection mechanism provides protections to  
4 customers associated with the possibility of the wind revenue requirement exceeding the  
5 amount of revenues received from the SPP IM over the relevant period. As such, my  
6 previously stated concerns regarding market prices and the increasing prevalence of  
7 negative market prices are largely alleviated.

8 12. Rate Case Provisions: The settlement contains provisions that will affect the  
9 rate case in which the wind investment is included in rates. Specifically, to protect customers  
10 from the possibility that Empire's regulatory capital structure becomes either highly leveraged  
11 or equity-rich in order to finance the wind investment, there is a provision that requires the  
12 equity in the regulatory capital structure to fall within a band of 47%-53%. Furthermore, in  
13 order to provide adequate time for parties to determine that the wind projects are in-service,  
14 Empire has agreed to time the case such that the true-up date will be no later than five  
15 months prior to the effective date of rates. This provision has previously been included in  
16 regulatory plans in which large capital projects have been included in rates.

17 13. Tax Reform Rate Reduction: Earlier this year, the federal government enacted  
18 a reduction in the federal corporate tax rate from 35% to 21%. Such a reduction has a large  
19 impact on the rates of public utilities. Immediately following the passage of the tax reduction,  
20 state utility commissions began to open dockets to ensure that the benefits of the corporate  
21 income tax reduction were passed on to customers in the form of reduced rates.

1           14.     Earlier this year, the Missouri Commission opened a generic docket designed  
2     to look at the impact on Missouri utilities (Case No. AW-2018-0174) as well as utility-specific  
3     dockets. For Empire, this is Case No. ER-2018-0228. In addition to the Commission  
4     dockets, the General Assembly has also introduced legislation that would ensure that all  
5     benefits of the reduced corporate tax rate are flowed back to customers.

6           15.     Initially, many of the utilities, including Empire, opposed any attempts by the  
7     Commission to reduce rates to reflect the lower corporate tax rate. Through the settlement,  
8     however, Empire has agreed to a rate reduction, effective October 1, 2018, to reflect the  
9     lower federal corporate tax rate. In addition, Empire has agreed to book a regulatory liability  
10    for the revenue requirement effects associated with the deferred income tax effects resulting  
11    from the lower federal tax rate. Clearly then, since the agreement provides assurances that  
12    the benefits of the corporate tax reduction are passed through to customers, regardless of  
13    whether current state legislation is enacted, there are definite customer benefits.

14          16.     Rate Moratorium: Prior to the scheduled hearing in this case, Empire had  
15    executed a settlement with the parties in the Oklahoma docket. As part of that settlement,  
16    the parties agreed to a rate moratorium. In the context of the current rate case, the parties  
17    agreed to a rate moratorium. Under the moratorium, Empire is precluded from filing tariffs to  
18    implement a rate increase until April 1, 2019. Given the typical 11-month rate case timeline  
19    in Missouri, rates will not change until approximately March of 2020. Given that Empire's last  
20    rate case was completed in September of 2016, Empire's rates will have remained the same,  
21    except for the reduction for corporate taxes, for a period of 3½ years.

22          17.     Future Proposal for Non-Residential Access to Renewable Energy: In recent  
23    years, many corporations have emphasized sustainability efforts including efforts to acquire



1 renewable energy. In order to demonstrate compliance with the sustainability commitments,  
2 corporations must receive the renewable energy credits. Currently, Ameren and KCPL both  
3 have pending cases designed to consider programs so that non-residential customers can  
4 access renewable energy. As part of this agreement, Empire has agreed, as part of its next  
5 rate case, to propose tariffs to implement a program whereby non-residential customers can  
6 access renewable energy including the renewable energy credits.

7 18. Most Favored Nation Provision: Empire has electric operations in four states:  
8 Missouri, Oklahoma, Arkansas and Kansas. As part of this case, Empire is seeking approval  
9 from the state utility commissions of each state. In the executed agreement, Empire has  
10 agreed to extend any condition from the other states (except for provisions related to tax rate  
11 reductions; the location of the wind facilities; the rate moratorium; and the market price  
12 protection cap) to Missouri customers.

### 13 RATE IMPACTS

14 19. The 600 MWs of wind generation is projected to be in service by the end of  
15 2020. Therefore, the first full year of rate impacts from the wind would be 2021. The rate  
16 impact in 2021 from the addition of 600 MWs of wind and continuing to operate Asbury would  
17 increase current rates (pre-tax reform) by 12%. The 12% increase in current rates compares  
18 current revenues from pre-tax reform to the revenues with the 600 MWs of wind and rates  
19 reflecting tax reform. Comparing the rate impacts with the effects from tax reform, results in  
20 a 17% increase in current rates.

21 20. The rate impact from the addition of 600 MWs of wind and continuing to  
22 operate Asbury can be compared to Empire's current IRP Plan. This comparison will show  
23 the revenue requirement impact from the addition of the wind and Asbury compared to the

1 revenue requirements under the current IRP Plan. I have prepared a table that shows the  
2 annual revenue requirements from the IRP Plan and the addition of wind.

<b>Annual Revenue Requirements Current IRP/600 MW Wind/Asbury</b>		
<b><u>Year</u></b>	<b><u>Current IRP</u></b>	<b><u>600 MW Wind/Asbury</u></b>
2021	\$618	\$637
2022	\$643	\$644
2023	\$659	\$663
2024	\$677	\$676
2025	\$694	\$693
2026	\$709	\$707
2027	\$721	\$714
2028	\$738	\$725
2029	\$744	\$737
2030	\$800	\$743

3 As can be seen from the above table, the revenue requirement under the settlement  
4 is initially higher as the capital investment in wind is placed in rates. Shortly thereafter the  
5 revenue requirement from the settlement is less than under the current IRP plan. In fact, by  
6 2030, the revenue requirement from the settlement is \$57 million less than under the IRP.

7 **MECG POSITION ON STIPULATION**

8 21. While MECG opposed Empire's initial application, it now supports the  
9 Non-Unanimous Stipulation. The scaled down nature of the wind addition, the continued  
10 operation of Asbury; and the implementation of the described customer protections result in a  
11 resource plan that MECG now supports. As such, MECG asks that the Commission find that  
12 the Stipulation is reasonable.

