

*Exhibit No.:*  
*Issues:* *Fuel and Purchased Power,  
Operations & Maintenance  
Expense, O&M Trackers*  
*Witness:* *Keith D. Foster*  
*Sponsoring Party:* *MoPSC Staff*  
*Type of Exhibit:* *Surrebuttal Testimony*  
*Case No:* *ER-2012-0345*  
*Date Testimony Prepared:* *February 4, 2013*

**MISSOURI PUBLIC SERVICE COMMISSION**

**REGULATORY REVIEW DIVISION  
UTILITY SERVICES - AUDITING**

**SURREBUTTAL TESTIMONY**

**OF**

**KEITH D. FOSTER**

**THE EMPIRE DISTRICT ELECTRIC COMPANY**

**CASE NO. ER-2012-0345**

*Jefferson City, Missouri  
February 2013*

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**KEITH D. FOSTER**  
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1 **SURREBUTTAL TESTIMONY OF**

2 **KEITH D. FOSTER**

3 **THE EMPIRE DISTRICT ELECTRIC COMPANY**

4 **CASE NO. ER-2012-0345**

5 Q. Please state your name and business address.

6 A. Keith D. Foster, 200 Madison Street, Suite 440, Jefferson City, MO 65101.

7 Q. Are you the same Keith D. Foster who participated in the preparation of the  
8 Staff's Cost of Service Report, filed November 30, 2012, for this case?

9 A. Yes.

10 Q. What is the purpose of your surrebuttal testimony?

11 A. My surrebuttal testimony addresses the rebuttal testimonies of The Empire  
12 District Electric Company ("Empire" or "Company") witness Todd W. Tarter, regarding  
13 Staff's exclusion of Plum Point Purchased Power Agreement (PPA) Operations &  
14 Maintenance (O&M) expense in its direct filing and the update to the Plum Point demand  
15 charge; Empire witness Blake A. Mertens regarding plant O&M expense; Empire witness  
16 W. Scott Keith regarding the exclusion of certain expenses from the Iatan and Plum Point  
17 O&M trackers; and Mr. Keith's supplemental rebuttal testimony regarding the Iatan O&M  
18 tracker base cost.

19 **EXECUTIVE SUMMARY**

20 Q. What topics are addressed in your testimony?

21 A. I will be addressing the inclusion of Plum Point PPA O&M expense  
22 inadvertently excluded in Staff's direct filing and the change in the Plum Point capacity level  
23 that affects Empire's demand charge for this PPA. I will be rebutting Empire's desire to set its

1 generation O&M expense rates at a 2012 budget level, as this is an inappropriate level of  
2 expense for a cost item that fluctuates year-to-year, and should be normalized based on at  
3 least five or six years of actual expense, depending on a specific plant's maintenance cycle.  
4 I will also be rebutting Empire's concern about the exclusion of specific O&M expenses from  
5 the Plum Point, Iatan 2, and Iatan Common tracker mechanisms that were not included in the  
6 original estimates for these trackers. These expenses may be added to the trackers going  
7 forward. I will also address Empire's concerns about the Iatan Common tracker base. Staff  
8 will be making corrections that should negate these concerns.

## 9 **FUEL AND PURCHASED POWER**

### 10 **Plum Point PPA O&M Costs**

11 Q. Does Staff agree with Mr. Tarter's comment that Staff excluded the Plum Point  
12 PPA O&M costs from the Fuel and Purchased Power expense included in its direct filing?

13 A. Yes, Staff excluded these costs due to Staff's misunderstanding about what  
14 expense accounts to which the costs were booked.

15 Q. Does Staff plan to include these costs in the rate case?

16 A. Yes, Staff will include an appropriate level of expense for these costs after  
17 Staff reviews the Company's calculation of the PPA O&M costs proposed by the Company as  
18 requested by Staff in Data Request Number 0249.

### 19 **Plum Point Demand Charge**

20 Q. Mr. Tarter points out the Plum Point capacity level has changed since the filing  
21 of his direct testimony, and this change affects Empire's demand charge. Is this accurate?

22 A. Yes. Empire provided Staff a copy of the letter from Plum Point Energy  
23 Associates, LLC increasing Empire Electric's Contract Capacity for its 7.5% ownership share

1 from 49.875 MW to 50.25 MW effective November 9, 2012. Since the effective date is  
2 within the true-up period ending December 31, 2012, and Fuel and Purchased Power Expense  
3 is a true-up item, Staff will include this change in its true-up filing.

4 **OPERATIONS & MAINTENANCE EXPENSE**

5 Q. Mr. Merten's rebuttal testimony refers to his direct testimony in which  
6 he states the use of Staff's method of adjusting O&M costs using the five-year average of  
7 Empire Electric's actual expenses to normalize O&M costs is unreasonable. How would you  
8 respond?

9 A. Staff has used an averaging technique to set rates for generation O&M  
10 normalization purposes for many years in many different rate cases, and will likely continue  
11 to in the future.

12 Q. Why does Staff typically analyze five years of data for O&M expense?

13 A. Five years of data provides Staff with enough historical analysis to smooth any  
14 significant fluctuations in O&M expense that may have occurred from year-to-year during  
15 those five years. In addition, for most of Empire's plants, the major turbine/boiler  
16 inspections, or overhauls, are scheduled on a five-year cycle. The two Iatan plants are on a  
17 six-year major inspection cycle, so Staff normalizes Iatan O&M expenses based on six years  
18 of actual expenditures.

19 Q. How do these major inspections impact O&M expenses?

20 A. Typically, these are the more expensive inspections which significantly  
21 increase the O&M expense in the years that the major inspections occur. If rates were to be  
22 set based upon a year that a plant's major inspection occurred, the ongoing level of O&M

1 expense would be overstated; if rates were to be set based upon a year that a plant's major  
2 inspection did not occur, the ongoing level of O&M expense would be understated.

3 Q. How does that impact the normalization of O&M expenses?

4 A. This variability in the level of expense is a major reason for averaging the  
5 expense over the length of the cycle. If, for example, a major inspection of a plant that is  
6 scheduled once every five years occurs during the test year, and that test year is not adjusted  
7 based on five-year normalization, the ratepayers would be paying for the expense of a major  
8 inspection every year. Thus, the Company would be over-recovering in the four years that  
9 there was not a major inspection. On the other hand, if the major inspection of a plant  
10 occurred outside of the test year, then, without the five-year averaging, the expense associated  
11 with that inspection would not be included in Staff's O&M adjustment calculation, and the  
12 Company would under-recover O&M expense. So it only makes sense to normalize the  
13 actual and measureable generation O&M expenses incurred over the five years ending with  
14 the test year to "smooth" the effects of O&M costs subject to considerable fluctuation from  
15 year to year.

16 Q. What level of generation O&M costs has Mr. Mertens proposed to be included  
17 in rates?

18 A. Empire's budgeted amounts for 2012.

19 Q. Are these appropriate amounts for setting rates?

20 A. No, the 2012 budget amounts are for costs expected to occur in 2012, which,  
21 for some generating units, includes the cost of activities that do not occur every year.  
22 For example, the 2012 budget includes expense for a major inspection of the CT 2-1 natural  
23 gas combustion turbine at the State Line Combined Cycle (SLCC) plant in the Fall of 2012.

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1 This is a major inspection that occurs after 48,000 Equivalent Base Hours (EBH). According  
2 to a discussion with Mr. Mertens, the current average annual EBH at the SLCC plant is 5,000  
3 to 6,000. If the higher annual rate of 6,000 EBH remained steady, such an inspection would  
4 occur again in approximately eight (8) years.

5 Q. But since such an inspection would occur only once approximately every  
6 eight years and the test year ends March 31, 2012, is Staff excluding the cost of a major  
7 48,000 EBH inspection for the SLCC in its five-year average of actual O&M costs for SLCC?

8 A. No, because the same type of inspection occurred in 2011 for the CT 2-2  
9 natural gas combustion engine, the cost of which is included in Staff's normalization of O&M  
10 costs.

11 Q. Are there any other reasons for not using the Company's 2012 budget amounts  
12 in establishing rates for this case?

13 A. Yes. Portions of the 2012 budgeted amounts are not within the test year or  
14 update period for this rate case. And, in the example previously mentioned, if the Company's  
15 2012 budgeted amounts for the SLCC plant were used to base rates, the ratepayers would be  
16 contributing as if a major 48,000 EBH inspection occurred every year instead of once every  
17 eight years.

18 Q. Mr. Mertens implies in his testimony that changes in the Consumer Price Index  
19 (CPI) and Producer Price Index (PPI) from March 2007 to March 2012 should be used by  
20 Staff in determining its O&M adjustment. How do you respond?

21 A. It is not appropriate to adjust actual expenses based on overall economic  
22 indexes that are not Company-specific.

1 Q. Has the Commission previously included language in a Report and Order on  
2 the appropriateness of using economic indexes in adjusting O&M expense in that case?

3 A. Yes it has. In the Commission Report and Order issued in Case No. ER-93-41,  
4 St. Joseph Light & Power (SJLPC), the Commission stated in its opinion relating to  
5 establishing a five (5) year historical maintenance expense:

6 However, the Commission finds no reasonable basis to adjust  
7 the maintenance expense based on the Consumer Price Index.  
8 The Consumer Price Index only reflects certain portions of  
9 national price increases and is not related to company-specific  
10 information. The Commission does not believe maintenance  
11 expense set upon a national Consumer Price Index is  
12 reasonable. Each company is different and expense adjustments  
13 should be set on an individual company's expenses and  
14 not upon statistical extrapolation based on an index which  
15 measures a wide array of unrelated prices. 2 Mo.P.S.C.3d 259  
16 (June 25, 1993).

17 **PLUM POINT, IATAN 2, AND IATAN COMMON O&M TRACKERS**

18 **Plum Point and Iatan O&M Tracker Excluded Expenses**

19 Q. In his rebuttal testimony, Mr. Keith raises concerns regarding Staff's exclusion  
20 of certain actual O&M expenses from the calculations of the O&M tracker mechanisms.  
21 Why did Staff exclude these expenses?

22 A. In the last Empire rate case, Case No. ER-2011-0004, the Company provided  
23 estimated O&M costs for the Iatan 2 and Plum Point plants. These estimates were detailed by  
24 specific expense account numbers. These estimates were then used as the base amounts for  
25 the Plum Point, Iatan 2, and Iatan Common O&M trackers. In the process of conducting the  
26 audit for this rate case, in which Staff compared the Company's actual O&M expenses against  
27 the trackers, Staff found a small number of expense accounts the Company included in its  
28 O&M tracker calculations that it had not included in the base tracker estimates in the previous  
29 rate case. Since these expense accounts were not included in the calculation of the base



1 tracker amounts, as supplied by the Company, Staff excluded these accounts from its tracker  
2 calculations for this rate case.

3 Q. Should these excluded expense accounts and their associated amounts be  
4 included in the O&M tracker mechanisms?

5 A. Not in the current rate case, for the reason stated above. However, Staff  
6 supports adding an appropriate level of expense to the O&M trackers going forward for these  
7 O&M expense accounts.

8 Q. Does Staff have a recommended base amount for the Plum Point, Iatan 2, and  
9 Iatan Common O&M trackers for the purpose of capturing the excluded expenses going  
10 forward?

11 A. Yes. For the Iatan 2 and Iatan Common excluded expense accounts, Staff  
12 recommends adding the amounts accumulated from July 1, 2011 through June 30, 2012, the  
13 update period. For Plum Point, Staff will need to review the Plum Point O&M invoices  
14 requested in Data Request Number 0250, to make an assessment on the appropriate level of  
15 expense to include. Since the O&M trackers are true-up items, all of the aforementioned  
16 changes will be factored into Staff's true-up.

17 **Iatan O&M Tracker Base Cost**

18 Q. In his supplemental rebuttal testimony, Mr. Keith brings up concerns regarding  
19 the appropriateness of the \$2.4 million in Iatan Common base tracker costs proposed in  
20 Staff's direct case. Has Staff identified an error in its case related to this issue?

21 A. Yes. While re-reviewing Staff's calculations of the Iatan Common O&M  
22 tracker in response to Mr. Keith's testimony, Staff discovered several errors in its O&M  
23 tracker calculations that Staff is in the process of correcting. Staff believes these series of

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1 corrections will negate Mr. Keith's concerns. We will provide the Company with these  
2 corrections as soon as they are available.

3 Q. Does this conclude your surrebuttal testimony?

4 A. Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION**

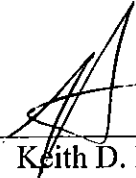
**OF THE STATE OF MISSOURI**

In the Matter of The Empire District Electric )  
Company of Joplin, Missouri Tariffs ) Case No. ER-2012-0345  
Increasing Rates for Electric Service Provided )  
to Customers in the Missouri Service Area of )  
the Company )

**AFFIDAVIT OF KEITH D. FOSTER**

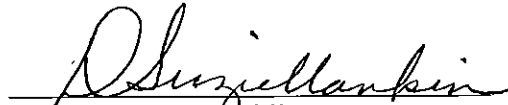
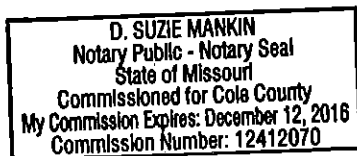
STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

Keith D. Foster, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 8 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.



Keith D. Foster

Subscribed and sworn to before me this 4th day of February, 2013.



Notary Public