

1 (3) Third, the annual over and under amounts are summed and, if the Annual
2 Sharing

3 Value is more than \$2 million negative in total, a refund, if necessary will be
4 returned to customers in Empire's rate case cases during the ten year period. If
5 the Annual Sharing Value is positive, no customer refund is necessary.
6

7 (4) Fourth, during the ten year period, the maximum amount to be paid by Empire
8 shareholders would be capped to a specified amount (Empire proposes \$25
9 million as the Missouri jurisdictional amount).
10

11 (5) Fifth, during the ten years, Empire can "make up" any losses (prior customer
12 refunds) if the aggregate sum of the Annual Wind Value is higher than it was
13 during the prior rate case refunds. For example, if the Annual Wind Values
14 totaled negative \$30 million, the Wind Projects must earn back the \$5 million
15 negative increment before it can recoup any of the \$25 million negative Annual
16 Wind Value.
17

18 **Q. CAN YOU PROVIDE AN EXAMPLE OF HOW THIS WORKS?**

19
20 A. Yes. **Schedule DH-S-2** provides examples of this calculation – one in a High market case,
21 one in Base market case, and one in a Low market case. The intent of these three
22 calculations are to show the extent to which the market protection mechanism protects
23 customers under different market prices scenarios. Finally, a fourth scenario is also
24 reflected which captures a low market case and a low wind production scenario.

25 **Q. WHY DID YOU ADD IN A CAPACITY VALUE TO THE ANNUAL WIND**
26 **VALUE ASSOCIATED WITH THE WIND PROJECTS?**

27 A. Wind projects in SPP qualify for capacity benefits to help serve load. These Wind
28 Projects will receive SPP accredited capacity which will help to offset future Empire
29 capacity needs. This is a tangible benefit which should be included in the value that is
30 created by the Wind Projects.

31 **Q. HOW DID YOU DETERMINE THE VALUE OF THE CAPACITY?**

32 A. Based on Empire's experience and from the performance of other wind farms, Empire
33 conservatively estimates that 15% of the nameplate capacity will qualify for capacity

1 with SPP. The value of the capacity to Empire is shown in Schedule DH-S-4 in Exhibit C
2 and is based on calculations performed by Charles River Associates as part of the 2019
3 IRP and is an average between the avoided cost of Empire's current units and the ABB
4 forecasted capacity value in SPP.

5 **Q. WHAT WILL HAPPEN IF THE ACTUAL CAPACITY IS LESS THAN**
6 **ESTIMATED IN SCHEDULE DH-S-2?**

7 A. The capacity value achieved by the Wind Projects will be entered into the Market
8 Protection Provision such that only the actual capacity created will be given credit.

9 **Q. YOU STATE ABOVE THAT EMPIRE IS PROPOSING A \$25 MILLION**
10 **MISSOURI JURISDICTIONAL CAP. WHY ISN'T EMPIRE PROPOSING THE**
11 **\$35 MILLION CAP AS IT DID IN CASE NO. EO-2018-0092?**

12 A. Since the time of the Non-Unanimous Stipulation and Agreement, there is more certainty
13 about the economics of the Wind Projects. As Mr. Mooney described in his Direct
14 Testimony, the Levelized Cost of Energy for the three Wind Projects *came in lower* than
15 the costs that were projected in Case No. EO-2018-0092. In addition, during the course of
16 the past year, Empire has collected more wind data that further confirms that wind projects
17 in Southwest Missouri are not only viable, but will be important contributors to the
18 economics of Empire's fleet. Also, the \$35 million covered the maximum foreseeable
19 exposure based on a low wind and low market condition. With the updates to the Market
20 Protection Provision, the cap can be reduced to \$25 million and still provide protection in
21 the low wind low market scenario. This can be seen in the low market case and low wind
22 example in Exhibit D of Schedule DH-S-4 where the total regulatory liability remains
23 lower than the cap. As a result, Empire believes that \$25 million is more than ample

1 protection for Empire's customers against any fluctuations in SPP market prices during the
2 first ten years of the Wind Projects.

3 **Q. WOULD YOU EXPLAIN FROM A PROBABILITY STANDPOINT THE**
4 **PROTECTION PROVIDED TO CUSTOMERS BY EMPIRE'S PROPOSED CAP?**

5 A. The proposed \$25 million cap will limit the Company's sharing of risk in scenarios with
6 less than the P95 level of wind together with Low market prices. The P95 wind level is the
7 amount of wind which will be exceeded 95% of the time. The Low market prices are ABB's
8 view of the prices that have a 10% probability of occurrence. Therefore, the probability of
9 the cap being exceeded is only 0.5% over the 10 year period.

10 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

11 A. Yes, it does.