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The Empire District Electric Company  
(EDEC)

Case No. ER-2016-0023

Prepared Rebuttal Testimony of

**Donald Johnstone**

On behalf of

Midwest Energy Users' Association  
(MEUA)

May, 2016



Before the  
Missouri Public Service Commission

**The Empire District Electric Company  
(EDEC)**

**Case No. ER-2016-0023**

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Prepared Rebuttal Testimony of Donald Johnstone

1 Q PLEASE STATE YOUR NAME AND ADDRESS.

2 A My name is Donald Johnstone and my address is 384 Black Hawk Drive, Lake Ozark,  
3 Missouri, 65049. I am employed by Competitive Energy Dynamics, L. L. C.

4 Q ARE YOU THE SAME DONALD JOHNSTONE THAT SUBMITTED PREFILED DIRECT  
5 TESTIMONY IN THIS PROCEEDING?

6 A Yes. My qualifications and experience are summarized in Appendix A to my direct  
7 testimony.

8

1 **SUMMARY OF ISSUES ADDRESSED AND RECOMMENDATIONS**

2 Q WHAT ISSUES WILL YOU ADDRESS IN THIS REBUTTAL TESTIMONY?

3 A I address matters of class cost allocation, spread of the increase, design of the Large  
4 Power rate. At a summary level, I continue to support rates that are primarily based  
5 on the cost of services provided. At a more detailed level, I respond to the direct  
6 testimonies of Staff and MECG. Staff submitted a class cost-of-service study, but  
7 changed its method from the last case and also proposes a dead zone in regard to cost-  
8 based rates. I will respond. MECG recommends a substantial reduction in the tail  
9 block of the large power rate based in part on a sharp change in SPP locational  
10 marginal costs. While I support the direction, I caution against reliance on  
11 demonstrably volatile SPP marginal cost as the basis for the large power rate  
12 application.

13 Q WHAT RECOMMENDATIONS DO YOU HAVE IN THIS REBUTTAL TESTIMONY?

14 A My recommendations follow:

- 15 • I continue to recommend use of an appropriate class cost-of-service study as a  
16 primary determinant in setting the revenue responsibility for each class and  
17 also as a primary determinant in the design of the rates within each customer  
18 class.
- 19 • While Staff alone submitted a class cost-of-service study in direct testimony,  
20 Staff made changes in the methodology it used for distribution costs. The  
21 change detracts from the usefulness of Staff's study 1) because it brings the  
22 Commission an inconsistent approach, 2) because the changes move away from

1 the principle of cost causation and 3) because the changed methodology  
2 diverges from normal practice.

- 3 • Rate Design Staff in this case did not base its class cost-of-service study on the  
4 revenue requirement even with the direct case of the accounting Staff. Rate  
5 Design Staff's revenue requirement includes an estimate of the costs of the  
6 Riverton conversion, and there are questions regarding the costs used.
- 7 • Staff recommends a plus or minus 5% dead zone in which there would be no  
8 revenue neutral adjustments to class revenues. There is no substantial basis  
9 for the 5% dead zone, and class rates and revenues should be moved  
10 consistently towards a proper cost basis.
- 11 • I disagree with the MEEG proposal to reduce the tail block of the large power  
12 rate based on a rationale of reduced locational marginal costs in the Southwest  
13 Power Pool (SPP). While marginal costs can be a relevant consideration in  
14 appropriate circumstances, they have been unstable. It is at least inconsistent  
15 and may be unduly discriminatory to adopt a marginal cost approach for a  
16 single rate element for a single class of service.
- 17 • I continue to encourage consideration of the EDEC proposal to increase the  
18 fixed charges (customer and demand charges) to recover the additional  
19 revenues under the General Power and Large Power rates.

1 **CLASS COST-OF-SERVICE STUDY ISSUES**

2 Q DO YOU CONTINUE TO SUPPORT COST OF SERVICE AS THE PRIMARY BASIS FOR  
3 SETTING RATES?

4 A Yes. A fully allocated embedded class cost-of-service study, properly done and in  
5 combination with rates that reasonably reflect the costs determined by the study,  
6 leads to a result with numerous positive attributes. First is the matter of equity. In  
7 my experience customers accept rates based on the cost of service as being equitable.  
8 Customers do not expect others to pay costs incurred on their behalf. Of course, they  
9 also always prefer costs that are as low as practicable consistent with safe and reliable  
10 service. Stability in rates and stability in revenues are also promoted with cost-based  
11 rates. For example, to the extent that energy, demand, and customer related charges  
12 are aligned with costs, rates will remain more stable over time for customers. Also,  
13 utility revenues will tend to follow changes in cost. Finally, a proper cost basis is  
14 important to help ensure rates free of undue discrimination.

15 Q IS THERE ROBUST CLASS COST-OF-SERVICE STUDY INFORMATION IN THIS CASE?

16 A So far, only Staff has submitted a class cost-of-service study. While that is good as far  
17 as it goes, some concerns arise. First, and perhaps most obvious, there is only a single  
18 perspective on what constitutes a proper study. In this case that perspective is at  
19 odds with what the Commission relied upon in the most recent EDEC rate case (ER-  
20 2014-0351).

1 Q IN WHAT WAYS IS THE STAFF STUDY AT ODDS WITH THE PROCEDURES AND  
2 METHODS IT FOLLOWED IN THE STUDIES IT SUBMITTED IN ER-2014-0351?

3 A There are several important deviations in the allocation of demand related distribution  
4 costs.

5 Q WHAT ARE THE IMPORTANT STAFF DEVIATIONS IN METHODOLOGY FROM ITS LAST  
6 STUDY?

7 A First, in spite of the fact that the Commission in the last case relied on the study  
8 submitted by Staff, allocation methods were changed in this case. This denies the  
9 Commission a consistent measurement of the class cost-of-service and the progress  
10 towards cost-based rates.

11 Second, one of the important aspects of its Base/Intermediate/Peaking (BIP)  
12 method for production cost allocation used by Staff is the manner in which plants are  
13 dispatched to meet load. Plant dispatch was an issue addressed at the technical  
14 conference. Absent some agreement and an update to the Staff class cost-of-service  
15 study, the issues pertaining to these substantial costs that form an important basis for  
16 the BIP study are unresolved.

17 The second deviation is complicated by the fact that the Staff study is not  
18 based on Staff's direct case for revenue requirements. As I understand it, the reason  
19 is an attempt to better reflect the ultimate result which is expected to include the  
20 increase due to Riverton 12 combined cycle plant operation.

1 Q WERE THE STAFF'S DISTRIBUTION DEMAND ALLOCATION FACTORS IN THE LAST  
2 CASE CRITICIZED IN A MANNER THAT LED TO THE STAFF'S CHANGES IN THIS  
3 DOCKET?

4 A Not that I am aware of. Nor does Staff's Rate Design Report explain what, if anything,  
5 was wrong with the method it used in the last case.

6 Q IS THE ALLOCATION OF DISTRIBUTION COSTS ADDRESSED BY THE 1992 NARUC  
7 ELECTRIC UTILITY COST ALLOCATION MANUAL (THE NARUC MANUAL)?

8 A Yes. And Staff attached excerpts from the NARUC Manual to its Class Cost-Of-Service  
9 Study And Rate Design Report as a part of Appendix 2 of the report. Apparently Staff  
10 accepts the NARUC Manual, at least as a useful reference.

11 Q DOES THE NARUC MANUAL ADDRESS THE TREATMENT OF DISTRIBUTION COSTS IN A  
12 CLASS COST-OF-SERVICE STUDY?

13 A Yes, distribution costs are addressed in Chapter 6. (NARUC Manual, pp. 86-99) Among  
14 the salient topics are the customer component of costs and a proper reflection of  
15 diversity among customer loads.

16 Q PLEASE EXPLAIN MORE SPECIFICALLY YOUR CONCERNS WITH THE CHANGE IN  
17 STAFF'S METHOD.

18 A First is the point that the Commission found favor with the prior study and relied on it  
19 in the Report and Order in ER-2014-0351. In this circumstance I would expect a  
20 careful explanation if Staff wished to go in a different direction with its study. Second  
21 is the point that Staff changed its allocations of demand related distribution costs. In  
22 the instant docket Staff uses coincident peak demands for the allocation factors



1 instead of demands that reflect the higher loads that arise due to the natural absence  
2 of diversity on the distribution system.

3 It is well established and accepted that as one moves from the generation and  
4 transmission level to the furthest reaches of the distribution system, it is not possible  
5 to maintain reliable service if capacity is installed in amounts equal to only the  
6 coincident peak demands. The point is this. At the furthest reaches of the  
7 distribution system, capacity in most cases must be sufficient to handle the simple  
8 sum of individual customer maximum loads on a circuit. There is little or no diversity  
9 benefit at the ends of the lines.

10 Empire simply cannot design its system based on the kind of diversity that is  
11 implied by Staff's changed method - that relies on coincident peaks for the allocation  
12 of demand related distribution costs. The consequence would be overloaded  
13 equipment and unreliable service.

14 The NARUC Manual explains that distribution facilities are designed and  
15 operated "primarily to meet localized area loads." (NARUC Manual, p. 96) The NARUC  
16 Manual goes on to state

17 "Local area loads are the major factors in sizing distribution  
18 equipment. Consequently, customer-class noncoincident demands  
19 (NCPs) and individual customer maximum demands are the load  
20 characteristics that are normally used to allocate the demand  
21 component of distribution facilities." (NARUC Manual, p. 97)

22 In summary the Staff made changes in its allocations of distribution costs move  
23 away from normal practice and away from the principal of cost causation that should  
24 underpin all aspects of a class cost-of-service study. Therefore, the study is not a

1 accurate indicator of the cost of service in this case and not an indicator of changes in  
2 cost since the last case.

3 **STAFF'S PROPOSAL FOR A 5% DEAD ZONE AROUND COST OF SERVICE**

4 Q PLEASE EXPLAIN STAFF'S PROPOSAL FOR A 5% DEAD ZONE.

5 A Under Staff's proposal, adjustments would only be made if class revenues vary more  
6 than 5% from the cost of service. Said another way, Staff proposes a dead zone in  
7 which the results of the class cost-of-service study would be ignored with respect to  
8 class revenue responsibility. Staff's dead zone is a range of plus or minus 5% from cost  
9 for each class.

10 Q DO YOU SUPPORT STAFF'S PROPOSED DEAD ZONE OF INACTION?

11 A No. The approach is essentially arbitrary and without quantitative support. A better  
12 approach is to continue to move towards the cost of service for all classes in  
13 reasonable steps. The Commission's Report and Order in ER-2014-0351 is such an  
14 approach.

15 Q ABSENT STAFF'S DEAD ZONE, IS THERE ANY DANGER OF MOVING THE RATES OF ANY  
16 CLASS UP OR DOWN IN THIS CASE, AND THEN IN THE OPPOSITE DIRECTION WITH A  
17 SUBSEQUENT COST BASED ADJUSTMENT IN THE NEXT CASE?

18 A While it is possible that the direction in a particular situation could change from one  
19 case to the next, this has not been a problem in my experience. Of course, 1) when  
20 costs change, 2) loads change, or 3) there is a change in the cost of service  
21 methodology, the direction could change. But then such changes of direction would

1           be appropriate because of the changed circumstances. The possibility of such changes  
2           is no reason to ignore the equities and benefits of rates based on the cost of service.

3    **MEUA'S RECOMMENDED SPREAD OF THE RATE INCREASE**

4    Q     **IN CONSIDERATION OF STAFF'S CLASS COST-OF-SERVICE STUDY, DO YOU HAVE A**  
5           **CHANGE IN YOUR RECOMMENDATION FOR THE SPREAD OF THE INCREASE?**

6    A     Not at this time. MEUA continues to recommend the approach taken by the  
7           Commission in EDEC's last case, elimination of a significant amount of the variations  
8           from costs with no class receiving a decrease. I continue to encourage consideration  
9           of the EDEC proposal as a starting point for consideration. MEUA will monitor the  
10          development of the record and reserves the right to make adjustments at another  
11          appropriate time in the proceeding.

12   Q     **DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?**

13   A     Yes it does.