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The Empire District Electric Company
(EDEC)

Case No. ER-2016-0023

Prepared Direct Testimony of

Donald Johnstone

On behalf of

Midwest Energy Users' Association
(MEUA)

April, 2016



Before the
Missouri Public Service Commission

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

Case No. ER-2016-0023

**Table of Contents
For the
Direct Testimony of Donald Johnstone**

| | |
|---|---|
| Summary | 2 |
| Class Cost-of-Service Study Background..... | 3 |
| General Power and Large Power Rates..... | 9 |

Before the
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(EDEC)

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Prepared Direct 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 ON WHOSE BEHALF ARE YOU APPEARING?

5 A I am appearing on behalf of intervenor Midwest Energy Users' Association (MEUA). The
6 customers of EDEC represented by MEUA in this proceeding are Enbridge Pipelines
7 (Ozark) L.L.C. and Explorer Pipeline.

8 Q PLEASE STATE YOUR QUALIFICATIONS AND EXPERIENCE.

9 A I have been working in the utility business since 1973. I started as an engineer for the
10 Union Electric Company, where I had assignments in power operations and corporate
11 planning. Since 1981 I have worked as a consultant in the field of utility regulation.
12 My work has taken me to many states and I have addressed various matters including
13 rate design, the cost of service, fuel costs, forecasting, resource planning, and

Competitive Energy
DYNAMICS

1 industry restructuring. My experience has included electric, gas, water, sewer, and
2 steam utility services. A more complete description is set forth in Appendix A.

3 **SUMMARY**

4 Q WHAT ARE YOUR RECOMMENDATIONS?

5 A I address matters of rate design and I support cost-based rates. Of course matters of
6 simplicity, ease of understanding, and customer impact are also appropriately
7 considered, depending on the situation.

- 8 • I recommend reliance on the class cost-of-service as a primary determinant in
9 setting the level of rates for each customer class.
- 10 • I recommend a policy of ongoing revenue neutral adjustments to move all rates
11 to a cost-of-service level over a reasonable time span.
- 12 • I recommend the approach ordered by the Commission in ER-2014-0351 for the
13 spread of the increase among customer classes, that is, revenue neutral
14 adjustments of approximately the same magnitude to reduce the larger
15 variations from the class cost-of-service, with no class receiving a decrease.
- 16 • I encourage consideration of the EDEC proposal as a starting point for the
17 spread of the increase in this docket, with adjustments to the extent supported
18 by the record adduced in this proceeding (judgment is specifically reserved
19 regarding any additional class cost-of-service evidence that may be introduced
20 and also regarding the Special Contract - Praxair proposal, both pending a
21 review of the evolving record).

- 1 • I also encourage consideration of the EDEC proposal to increase the fixed
2 charges (customer and demand charges) to recover the additional revenues
3 under the General Power and Large Power rates.

4 The common thread in my recommendations is an adjustment of rates to better
5 reflect the cost of the services being provided. My intent is to promote a result
6 that is both fair and reasonable between, and among, customers and EDEC.

7 **CLASS COST-OF-SERVICE STUDY BACKGROUND**

8 Q WERE CLASS COST-OF-SERVICE STUDIES SUBMITTED IN THE LAST RATE CASE?

9 A Yes. EDEC, Staff, MEEG, and OPC submitted class cost-of-service studies in the last
10 rate case, ER-2014-0351. The Commission found favor with the Staff's study and
11 relied on the Staff study in its Report and Order.

12 The testimonies of the several class cost-of-service witnesses identified a
13 multitude of benefits associated with cost-based rates. While there was no complete
14 agreement as to the methods, suffice to say that many parties apparently agree that a
15 proper cost basis for rates is important to consider in striving for a fair and reasonable
16 result. Fundamentally customers should pay the costs they impose on the system and
17 the debate largely centers on a proper definition of costs. This is not to diminish the
18 importance of considerations such as customer impact, ease of administration,
19 understandability, and conservation. All are appropriate and the discussions of these
20 considerations are often framed in the context of costs, and the extent to which
21 variations may be appropriate in various circumstances.

1 Q PLEASE SUMMARIZE THE STAFF CLASS COST-OF-SERVICE STUDY THAT WAS RELIED
2 UPON BY THE COMMISSION.

3 A The results of the study are summarized in the following Table 1 that is transcribed
4 from the Rebuttal Testimony of Robin Kliethermes Docket No. ER-2014-0351. (Exhibit
5 No. 210)

6 Table 1
7 Results of Staff's Class Cost-of-Service Study
8 Empire District Electric Company

| Customer Class | Revenue Deficiency | CCOS % Increase |
|--|--------------------|-----------------|
| Residential | \$24,014,612 | 10.70% |
| Commercial Building | \$118,105 | 0.27% |
| Commercial Space Heating | \$13,103 | 0.12% |
| General Power | \$(4,484,350) | -5.26% |
| General Transmission Service Contract: Praxair | \$199,813 | 5.32% |
| Total Electric Building | \$(1,548,885) | -4.07% |
| Feed Mill and Grain Elevator | \$(40,577) | -35.43% |
| Large Power | \$(3,381,708) | -5.71% |
| Lighting and Miscellaneous (Street, Private, Special, Miscellaneous) | \$(1,295,350) | -16.52% |
| Total (Rounding) | \$(11,594,763) | 2.64% |

9
10 It is my understanding that this is a summary of the results of the study with
11 which the Commission found favor. While this is a summary of the class cost-of-
12 service study from the Staff in ER-2016-0351, I understand that Staff will be submitting
13 a class cost-of-service study in this docket so there will be additional information to
14 consider.

1 Q IN ER-2014-0351, WERE THERE REVENUE NEUTRAL ADJUSTMENTS TO THE SPREAD
2 OF THE INCREASE ORDERED BY COMMISSION?

3 A Yes. The Commission ordered a reduction of approximately 25% in the variation from
4 cost of service for the Residential class, with LP, TEB, GP, CB, and SH rate classes
5 receiving proportional decreases after the Feed Mill and Grain Elevator and Lighting
6 classes received no increase. There was no cost-of-service adjustment for Special
7 Contract - Praxair. (See ER-2014-0351, ORDER CLARIFYING REPORT AND ORDER, July 1,
8 2015)

9 Q IS IT REASONABLE TO MAKE ADDITIONAL CLASS COST OF SERVICE ADJUSTMENTS IN
10 THIS PROCEEDING?

11 A Yes. Inasmuch as only roughly 25% of the variations from cost were removed for the
12 larger customer classes, approximately 75% of the variations remain in the present
13 rates. Another adjustment at this time provides timely additional progress towards
14 cost-based rates for all rate classes.

15 Q IF ANY PARTY PROVIDES A MORE CURRENT CLASS COST-OF-SERVICE STUDY, SHOULD
16 THAT STUDY BE CONSIDERED BY THE COMMISSION?

17 A I cannot offer a legal opinion since I am not an attorney, but it certainly is important
18 as a policy matter to consider relevant evidence. As noted above, it is my
19 understanding that such a study will be submitted by Staff. Of course, any new study
20 submitted will be subject to review under the legal processes of the Commission. It is
21 my understanding that the admissibility and weight of any such evidence is matter for
22 the Commission to determine. No doubt, the extent to which the methods followed in

1 any such class cost-of-service study comport with those used by Staff in ER-2014-0351
2 could be considered by the Commission.

3 Q DOES THE SPREAD OF THE RATE INCREASE AMONG RATE CLASSES THAT IS
4 PROPOSED BY EDEC COMPORT WITH THE COMMISSION ORDERS IN ER-2014-0351?

5 A Yes, but not entirely so. It comports roughly for all classes except Special Contract -
6 Praxair and the Residential Class. While there was no revenue neutral adjustment
7 applied to the Special Contract - Praxair in ER-2014-0351, in this case EDEC proposes a
8 negative adjustment equal to 6.4% of current rate revenue with funds coming from the
9 residential class.

10 Q IN YOUR SUMMARY YOU RECOMMEND USE OF THE ER-2014-0351 COMMISSION
11 ORDERED METHOD "WITH ADJUSTMENTS TO THE EXTENT SUPPORTED BY THE
12 RECORD ADDUCED IN THIS PROCEEDING." WHAT DO YOU RECOMMEND REGARDING
13 THE PROPOSAL TO ADJUST THE SPREAD FOR THE BENEFIT OF THE SPECIAL
14 CONTRACT-PRAXAIR?

15 A EDEC merely observes that the service provided to Special Contract - Praxair is non
16 firm. While true, that in itself does not translate to support for specific proposed
17 benefit in this case. To the extent additional support is offered, it should be
18 considered in due course.

1 **Q WHAT INCREASE DOES EDEC PROPOSE FOR EACH RATE CLASS?**

2 A EDEC proposes the following, including both the proposed overall increase and the
3 proposed revenue neutral cost of service shift. (See Ex. ___ Keith direct, p8).

| Rate Class | Current Rate Revenue | EDEC Proposed Increase | Proposed Percent Increase |
|---------------------|----------------------|------------------------|---------------------------|
| | (000) | (000) | |
| Residential | \$211,579 | \$20,240 | 9.57% |
| Commerical Small | 43,271 | 2,883 | 6.66% |
| Small Heating | 10,301 | 680 | 6.60% |
| General Power | 86,384 | 4,397 | 5.09% |
| Special Contract | 3,719 | 31 | 0.83% |
| Total Electric Bldg | 37,334 | 2,004 | 5.37% |
| Large Power | 55,035 | 2,612 | 4.75% |
| Feed Mill | 113 | 0 | 0.00% |
| Traffic Signals | 13 | 0 | 0.00% |
| Municipal Lighting | 2,271 | 0 | 0.00% |
| Private Lighting | 4,298 | 0 | 0.00% |
| Special Lighting | 123 | 0 | 0.00% |
| Total (rounding) | \$454,441 | \$32,847 | 7.23% |

4

1 **Q WHAT IS THE REVENUE NEUTRAL SHIFT THAT EDEC PROPOSES FOR EACH**
2 **RATE CLASS?**

3 A EDEC proposes the following.

| Rate Class | 7.23% Increase | Revenue Neutral \$ Shift | Percent Shift |
|---------------------|-------------------|--------------------------------|------------------|
| | (000) | (000) | |
| Residential | \$15,293 | \$4,947 | 2.34% |
| Commerical Small | 3,128 | -\$245 | -0.57% |
| Small Heating | 745 | -\$65 | -0.63% |
| General Power | 6,244 | -\$1,847 | -2.14% |
| Special Contract | 269 | -\$238 | -6.40% |
| Total Electric Bldg | 2,699 | -\$695 | -1.86% |
| Large Power | 3,978 | -\$1,366 | -2.48% |
| Feed Mill | 8 | -\$8 | -7.23% |
| Traffic Signals | 1 | -\$1 | -7.23% |
| Municipal Lighting | 164 | -\$164 | -7.23% |
| Private Lighting | 311 | -\$311 | -7.23% |
| Special Lighting | 9 | -\$9 | -7.23% |
| Total (rounding) | \$32,847 | -\$2 | |

4
5 **Q ARE THERE ANY SIGNIFICANT VARIATIONS IN THE PROCESS AS COMPARED**
6 **TO THAT ORDERED BY THE COMMISSION IN ER-2014-0351?**

7 A Yes. As noted above, EDEC proposed a revenue neutral shift of revenues away from
8 the Special Contract-Praxair and to the Residential class. This amounts to a 6.4%
9 benefit for the special contract and an additional 0.1% increase for the Residential
10 Class as compared to the process ordered in ER-2014-0351.

1 **GENERAL POWER AND LARGE POWER RATES**

2 Q HOW DOES EDEC PROPOSED TO COLLECT THE PROPOSED INCREASE UNDER THE
3 GENERAL POWER AND LARGE POWER RATES?

4 A EDEC proposes to increase the customer charges, the demand charges, and the
5 facilities charges. No changes are proposed for the energy charges. This approach is
6 not unreasonable and is acceptable to MEUA.

7 Q DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?

8 A Yes it does.

Appendix A
Qualifications of Donald E. Johnstone

1 Q PLEASE STATE YOUR NAME AND ADDRESS.

2 A Donald E. Johnstone. My business address is 384 Black Hawk Drive, Lake Ozark, MO
3 65049.

4 Q PLEASE STATE YOUR OCCUPATION.

5 A I am President of Competitive Energy Dynamics, L. L. C. and a consultant in the field
6 of public utility regulation.

7 Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

8 A In 1968, I received a Bachelor of Science Degree in Electrical Engineering from the
9 University of Missouri at Rolla. After graduation, I worked in the customer engineering
10 division of a computer manufacturer. From 1969 to 1973, I was an officer in the Air
11 Force, where most of my work was related to the Aircraft Structural Integrity Program
12 in the areas of data processing, data base design and economic cost analysis. Also in
13 1973, I received a Master of Business Administration Degree from Oklahoma City
14 University.

15 From 1973 through 1981, I was employed by a large Midwestern utility and
16 worked in the Power Operations and Corporate Planning Functions. While in the
17 Power Operations Function, I had assignments relating to the peak demand and net
18 output forecasts and load behavior studies which included such factors as weather,
19 conservation and seasonality. I also analyzed the cost of replacement energy
20 associated with forced outages of generation facilities. In the Corporate Planning

1 Function, my assignments included developmental work on a generation expansion
2 planning program and work on the peak demand and sales forecasts. From 1977
3 through 1981, I was Supervisor of the Load Forecasting Group where my
4 responsibilities included the Company's sales and peak demand forecasts and the
5 weather normalization of sales.

6 In 1981, I began consulting, and in 2000, I created the firm Competitive Energy
7 Dynamics, L.L.C. As a part of my thirty-five years of consulting practice, I have
8 participated in the analysis of various electric, gas, water, and sewer utility matters,
9 including the analysis and preparation of cost-of-service studies and rate analyses. In
10 addition to general rate cases, I have participated in electric fuel and gas cost reviews
11 and planning proceedings, policy proceedings, market price surveys, generation
12 capacity evaluations, and assorted matters related to the restructuring of the electric
13 and gas industries. I have also assisted companies in the negotiation of power
14 contracts representing over \$1 billion of electricity.

15 I have testified before the state regulatory commissions of Delaware, Hawaii,
16 Illinois, Iowa, Kansas, Massachusetts, Missouri, Montana, New Hampshire, Ohio,
17 Pennsylvania, Tennessee, Virginia and West Virginia, and the Rate Commission of the
18 Metropolitan St. Louis Sewer District.

**BEFORE THE
PUBLIC SERVICE COMMISSION OF MISSOURI**

In the Matter of The Empire District)
Electric Company's Request for)
Authority to Implement a General)
Rate Increase for Electric Service)


ER-2016-0023

Affidavit of Donald E. Johnstone

State of Missouri)
) SS
County of Camden)

Donald E. Johnstone, being first duly sworn, on his oath states:

1. My name is Donald E. Johnstone. I am a consultant and President of Competitive Energy Dynamics, L. L. C. I work at 384 Black Hawk Drive, Lake Ozark, MO 65049. I have been retained by Stuart W. Conrad on behalf of the Midwest Energy Users' Association.
2. Attached hereto and made a part hereof for all purposes is my testimony in written form for introduction into evidence in the above captioned proceeding.
3. I hereby swear and affirm that my testimony is true and correct and show the matters and things they purport to show.


Donald E. Johnstone

Subscribed and sworn to this 8th day of April, 2016.


Notary Public

