

Exhibit No.:  
Issue: Fuel Adjustment  
Witness: W. Scott Keith  
Type of Exhibit: Direct Testimony  
Sponsoring Party: Empire District Electric  
Case No.  
Date Testimony Prepared: October 2009

**Before the Public Service Commission  
of the State of Missouri**

**Direct Testimony**

**of**

**W. Scott Keith**

**October 2009**

**\*\*Denotes Highly Confidential**

DIRECT TESTIMONY  
OF  
W. SCOTT KEITH  
THE EMPIRE DISTRICT ELECTRIC COMPANY  
BEFORE THE  
PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI  
CASE NO.

1 **INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is W. Scott Keith and my business address is 602 S. Joplin Avenue,  
4 Joplin, Missouri.

5 **Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR JOB TITLE**  
6 **AND WHAT ARE YOUR JOB RESPONSIBILITIES?**

7 A. I am presently employed by The Empire District Electric Co. ("Empire" or "the  
8 Company") as the Director of Planning and Regulatory. I have held this position  
9 since August 1, 2005. Prior to joining Empire I was Director of Electric  
10 Regulatory Matters in Kansas and Colorado for Aquila, Inc. from 1995 to July  
11 2005.

12 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND FOR THE**  
13 **COMMISSION.**

14 A. In August 1973, I received a Bachelor of Business Administration degree with a  
15 major in Accounting at Washburn University, Topeka, Kansas.

16 **Q. WHAT EXPERIENCE HAVE YOU HAD IN THE FIELD OF PUBLIC**  
17 **UTILITIES?**

18 A. In 1973, I accepted a position in the firm of Troupe Kehoe Whiteaker & Kent as a

1 staff accountant. I assisted in or was responsible for fieldwork and preparation of  
2 exhibits for rate filings presented to various regulatory commissions and audits  
3 leading to opinions on financial statements of various types of companies including  
4 utility companies.

5 In September 1976, I accepted a position with the staff of the Kansas Corporation  
6 Commission ("KCC"). My responsibilities at the KCC included the investigation  
7 of utility rate applications and the preparation of exhibits and presentation of  
8 testimony in connection with applications that were under the jurisdiction of the  
9 KCC. The scope of the investigations I performed on behalf of the KCC included  
10 the areas of accounting, cost of service and rate design.

11 In March of 1978, I joined the firm of Drees Dunn & Company and continued to  
12 perform services for various utility clients with that firm until it dissolved in March  
13 of 1991.

14 From March of 1991 until June of 1994, I was self-employed as a utility consultant  
15 and continued to provide clients with analyses of revenue requirements, cost of  
16 service studies and rate design. In connection with those engagements I also  
17 provided expert testimony and exhibits to be presented before regulatory  
18 commissions.

19 As I mentioned earlier, I was employed by Aquila, Inc. as the Director of  
20 Regulatory for its electric operations in Kansas and Colorado from 1995 to July  
21 2005.

22 **Q. HAVE YOU PREVIOUSLY PARTICIPATED IN ANY REGULATORY**  
23 **PROCEEDINGS?**

1 A. Yes, I have. I have testified before regulatory commissions in the states of Kansas,  
2 Colorado, Indiana, Missouri, Oklahoma and West Virginia. I have also testified  
3 before the Federal Energy Regulatory Commission (“FERC”).

4 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

5 A. My testimony will support the Fuel Adjustment Clause (“FAC”) rate schedules that  
6 have been filed by Empire to reflect the actual energy costs that Empire has  
7 incurred during the six-month period March 2009 through August 2009. This six-  
8 month period is an Accumulation Period specified in Empire’s FAC tariff that was  
9 approved by the Missouri Public Service Commission (“Commission”) in its  
10 Report and Order issued in Case No. ER-2008-0093.

11 **EXECUTIVE SUMMARY**

12 **Q. PLEASE PROVIDE AN OVERVIEW OF YOUR TESTIMONY IN**  
13 **SUPPORT OF THE FAC RATE SCHEDULES FILED BY EMPIRE.**

14 A. The Commission’s rule governing fuel and purchased power cost recovery  
15 mechanisms for electric utilities – specifically 4 CSR 240-20.090(4) – requires  
16 Empire to make periodic FAC filings that are designed to enable Commission  
17 review of the actual fuel costs, purchased power costs and off-system sales margins  
18 the Company has incurred during an Accumulation Period. In addition, these  
19 periodic filings are designed to adjust the FAC rates up or down, to reflect the  
20 actual energy costs incurred during the Accumulation Period. Empire’s FAC tariff  
21 calls for two annual filings: a filing covering the six-month Accumulation Period  
22 running from September through February and a second filing covering the  
23 Accumulation Period running from March through August. Any increases or

1 decreases in rates that are approved by the Commission, or that take effect by  
2 operation of law, are then collected from or refunded to customers over two six-  
3 month Recovery Periods: June through November and December through May.

4 Since the conclusion of Empire's last rate case, the variable costs of fuel and  
5 purchased power used to meet the demand for electricity by the Company's  
6 Missouri customers has varied from the base cost established in the last general rate  
7 case. For the Accumulation Period March 2009 through August 2009, Empire's  
8 actual variable fuel and purchased power costs less off-system sales margins, have  
9 declined from the base energy costs included in the Company's Missouri rates in  
10 Case No. ER-2008-0093 by approximately \$.8 million. In accordance with the  
11 FAC tariff, Empire has absorbed 5% of the overall decrease in Missouri variable  
12 fuel and purchased power costs during the six-month period March 2009 through  
13 August 2009. Therefore, in accordance with the Commission's FAC rule and  
14 Empire's approved FAC tariff, the Company has filed FAC rate schedules that are  
15 designed to refund energy cost decreases of approximately \$.8 million from its  
16 Missouri jurisdictional customers. As reflected in the rate schedules filed by the  
17 Company, Empire has developed two Cost Adjustment Factors ("CAF") of  
18 \$(0.00039) for primary service and a CAF of \$(0.00040) for secondary service.  
19 These CAFs will enable Empire to refund the difference between base costs of fuel  
20 and purchased power built into its rates in the last general rate and the fuel and  
21 purchased power costs that were actually incurred during the Accumulation Period  
22 over a Recovery Period running from December 2009 through May 2010.

23 **Q. DOES THE EMPIRE FAC TARIFF INCLUDE PROVISIONS THAT ARE**

1       **DESIGNED TO LIMIT EMPIRE’S FAC RECOVERYS TO THE ACTUAL**  
2       **COST OF ENERGY?**

3       A.     Yes. The Empire FAC and the Commission’s rule governing FACs include two  
4       safeguards that limit FAC recovery to the actual, prudently-incurred fuel and  
5       purchased power costs. The first safeguard is a true-up process that ensures that  
6       the FAC collections during the Recovery Period do not exceed actual fuel and  
7       purchased power costs incurred during the Accumulation Period. The second  
8       safeguard involves a requirement that Empire’s energy costs be subjected to  
9       periodic Prudence Reviews, which will ensure that only prudently-incurred energy  
10      are passed through to customers using the FAC. The staff of the Commission has  
11      recently opened a formal Prudence Review of Empire’s past energy costs during its  
12      operation of the FAC. This case has been designated EO-2010-0084.

13      **THE PROPOSED FAC RATE ADJUSTMENT**

14      **Q.     WHY HAS EMPIRE FILED FAC-RELATED RATE SCHEDULES AT THIS**  
15      **TIME?**

16      A.     The Commission’s rules – specifically 4 CSR 240-20.090(4) – and Empire’s FAC  
17      tariff require the Company to make periodic FAC filings that enable the  
18      Commission to review Empire’s actual fuel and purchased power costs and off-  
19      system sales margins so that Empire’s FAC rates can be adjusted to reflect the  
20      actual energy costs the Company incurs to provide electric service to its Missouri  
21      customers. Empire’s Missouri FAC tariff calls for two FAC adjustment filings per  
22      year: a filing covering the six-month Accumulation Period running from  
23      September through February and a second filing covering the Accumulation Period

1 running from March through August. The Missouri FAC rate schedules related to  
2 my testimony are Empire's second filing under the FAC that was approved by the  
3 Commission in ER-2008-0093. Empire is seeking a decrease in its FAC rates to  
4 reflect 95% of the difference between the base energy costs built into its base  
5 Missouri rates and Empire's actual Missouri energy costs for the Accumulation  
6 Period. This decrease in FAC rates will be reflected on the Missouri customers'  
7 bills over the six-month Recovery Period running from December 2009 through  
8 May 2010.

9 **Q. HAVE EMPIRE'S AVERAGE ENERGY COSTS INCREASED OVER THE**  
10 **COST INCLUDED IN BASE RATES DURING THE SECOND**  
11 **ACCUMULATION PERIOD?**

12 A. No. Empire's average energy costs per kilowatt-hour ("kWh") have decreased over  
13 the level built into its base electric rates, which is why the FAC rate schedules filed  
14 by the Company seek a decrease in the rates charged to the Missouri customers.  
15 More specifically, Empire's Missouri base rates included an average cost of energy  
16 per kWh of net system production of \$0.02887 during the Accumulation Period of  
17 March 2009 through August 2009. Empire actually incurred average energy costs  
18 of \$0.02846 per kWh during the Accumulation Period. This represents an overall  
19 decrease in average energy costs of \$0.00041 per kWh during the Accumulation  
20 Period, or about 1.4 percent lower than the average cost built into base rates.  
21 Pursuant to Empire's FAC tariff, Empire is requesting to refund to its Missouri  
22 customers 95 percent of this cost decrease or \$0.00037 per kWh sold during the  
23 Recovery Period.

1   **Q.   PLEASE BRIEFLY DESCRIBE THE REASONS FOR THE DECREASE IN**  
2       **THE AVERAGE COST OF ENERGY DURING THE ACCUMULATION**  
3       **PERIOD?**

4   A.   A number of factors caused the average fuel and energy cost to decrease during the  
5       Accumulation Period. For example, the weather during July and August 2009 was  
6       abnormally cool, which limited the level peaking generation needed to meet the  
7       demands of our customers. This peaking generation is fired using natural gas,  
8       which is generally a higher priced fuel than coal, for example. In addition to using  
9       less natural gas than normal, the spot prices for natural gas that was used were very  
10      low during the Accumulation Period as was the spot price of power purchased on  
11      the open market. These lower spot prices for power also reduced the level of off-  
12      systems sales margins that flow through the FAC.

13   **Q.   WHAT IS THE MONTHLY FAC DECREASE FOR A TYPICAL**  
14       **RESIDENTIAL CUSTOMER?**

15   A.   For Missouri residential customers using 1,000 kWh per month, the electric bill  
16       will decrease by approximately \$1.27 per month over the six-month period  
17       December 2009 through May 2010, when the current FAC credit is applied to their  
18       bill and the previous positive FAC factor of \$0.00087 is eliminated from their bill.

19   **Q.   WAS THE AVERAGE ENERGY COST IN LINE WITH EXPECTATIONS?**

20   A.   Yes. Our budget anticipated an average fuel and purchased power energy costs  
21       during the current Accumulation Period of \$29.75 per megawatt-hour of net system  
22       production. The actual results were very close to and slightly below the budget  
23       coming in at \$28.46 per megawatt-hour.



1   **Q.   DO YOU EXPECT THE AVERAGE COST OF FUEL AND PURCHASED**  
2       **POWER TO INCREASE DURING THE NEXT ACCUMULATION PERIOD**  
3       **FROM SEPTEMBER 2009 THROUGH FEBRUARY 2010?**

4   A.   That's hard to predict. Our updated budget anticipates average energy costs of  
5       \*\*\_\_\_\_\_\*\* per megawatt-hour during the next Accumulation Period. Empire's  
6       Missouri fuel adjustment clause includes a seasonal base cost factor that takes the  
7       lower winter energy costs into account. If the current trend of lower natural gas  
8       and spot power prices continues during the upcoming Accumulation Period, the  
9       average energy cost could be below the energy cost built into our updated budget.

10   **Q.   DO YOU BELIEVE EMPIRE'S FUEL ADJUSTMENT CLAUSE IS**  
11       **REASONABLE AND APPROPRIATE?**

12   A.   Yes. The design of the Commission's rule governing the FAC was the subject of  
13       much discussion and debate prior to being approved by the Commission. In  
14       addition, there was much discussion and debate concerning Empire's FAC tariff in  
15       Case No. ER-2008-0093. This was the case in which the Commission ultimately  
16       approved Empire's FAC tariff. Empire's FAC filing is being made in accordance  
17       with the Commission's rules governing the FAC and in accordance with the FAC  
18       tariff approved for Empire.

19   **Q.   PLEASE DESCRIBE HOW EMPIRE IS PROPOSING TO REFUND THE**  
20       **ENERGY COST DECREASES EXPERIENCED DURING THE MARCH**  
21       **2009-AUGUST 2009 ACCUMULATION PERIOD?**

22   A.   The FAC rate schedule filed by Empire will refund the energy cost decrease  
23       actually incurred during the Accumulation Period by applying two Cost

1 Adjustment Factors or CAFs of \$(0.00039) for primary service and \$(0.00040) for  
2 secondary service to the actual Missouri kWh sales that take place from the  
3 December 1, 2009 to May 31, 2010 Recovery Period. The proposed CAFs were  
4 calculated in accordance with Empire's authorized FAC tariff. I have attached to  
5 my testimony as Schedule WSK-1 a copy of one of Empire's approved FAC tariff  
6 sheets. In addition to the tariff sheet, I have included as page 2 of Schedule WSK-1  
7 a monthly analysis of the energy costs and energy cost recovery that has taken  
8 place during the Accumulation Period. Schedule WSK-1 contains the basic  
9 information and FAC formula that Empire used to calculate the CAFs that have  
10 been included in the proposed revised FAC rate schedule sheet 17c. The Empire  
11 FAC tariff and the formula included therein were approved by the Commission in  
12 Case No. ER-2008-0093.

13 **Q. HOW WERE THE VARIOUS VALUES USED TO DETERMINE THE**  
14 **PROPOSED CAFS THAT ARE SHOWN ON SCHEDULE WSK-1**  
15 **DEVELOPED?**

16 A. The data upon which Empire based the values for each of the variables in the  
17 approved CAF formula are included on the schedule, and came from Empire's  
18 books and records. Schedule WSK-1 contains all of the basic information that is  
19 required to calculate the proposed change in the CAF. In addition, I have filed the  
20 detailed information required by 4 CSR 240-3.161(7)(A) with this testimony as a  
21 separate set of supporting workpapers. In addition, as required by 4 CSR 240-  
22 3.161(7)(B), I have separately provided to all parties of record in Case No. ER-  
23 2008-0093 with a set of these work-papers.

1   **Q.    IS EMPIRE IN COMPLIANCE WITH THE PROVISIONS OF THE**  
2       **COMMISSION’S FAC RULE CONCERNING PERIODIC REPORTING**  
3       **AND SURVEILANCE?**

4    A.   Yes. Empire has complied with all of the Commission’s rules, 4 CSR 240-3.161(5)  
5       and (6), governing periodic reports and surveillance using the Commission’s  
6       electronic filing system and provided all of the parties to ER-2008-0093 with  
7       copies of the periodic compliance reports and copies of surveillance reports at the  
8       same time they were filed with the Commission.

9   **Q.    IF REVISED FAC SHEET 17C IS APPROVED BY THE COMMISSION,**  
10       **WHAT SAFEGUARDS EXIST TO ENSURE THAT THE FAC REVENUE**  
11       **RECOVERED BY EMPIRE DOES NOT EXCEED THE ACTUAL ENERGY**  
12       **COST INCURRED BY EMPIRE DURING THE ACCUMULATION**  
13       **PERIOD?**

14   A.   As I mentioned earlier, Empire’s FAC and the Commission’s rules provide two  
15       mechanisms designed to limit the FAC amounts recovered from customers to  
16       Empire’s actual, prudently-incurred energy costs. First, at the end of each  
17       Recovery Period the Company is required to true-up the amounts recovered from  
18       customers through the CAF with the energy costs that were actually incurred  
19       during the Accumulation Period to which the CAF applies. In addition, Empire’s  
20       energy costs will be subjected to periodic Prudence Reviews to ensure that only  
21       prudently-incurred energy costs are collected from customers through the FAC.  
22       These two mechanisms serve as checks that ensure that Empire’s Missouri  
23       customers pay only the prudently-incurred, actual cost of energy used to provide

1 electric service in Missouri (less the 5% Empire is absorbing) – no more and no  
2 less.

3 **Q. WHAT ACTION IS EMPIRE REQUESTING FROM THE COMMISSION**  
4 **WITH RESPECT TO THE FAC RATE SCHEDULE THAT THE**  
5 **COMPANY HAS FILED?**

6 A. As provided by 4 CSR 240-20.090(4), Staff has thirty (30) days from the date the  
7 FAC rate schedule is filed to conduct a review and to make a recommendation to  
8 the Commission as to whether the rate schedule complies with the Commission's  
9 FAC rules, the requirements of Section 386.266, RSMo, and Empire's approved  
10 FAC. The Commission has sixty (60) day from the date of Empire's filing to either  
11 approve the rate schedule or to allow it to take effect by operation of law. Empire  
12 believes its FAC filing satisfies all of the requirements of applicable statutes, the  
13 Commission's rules, and Empire's approved FAC, Empire requests that, following  
14 Staff's review, the Commission approve FAC sheet 2<sup>nd</sup> revised sheet 17c to be  
15 effective as of December 1, 2009, which is the first day of the Recovery Period  
16 prescribed in Empire's FAC tariff.

17 **Q. IS EMPIRE REQUESTING ANY OTHER CHANGES TO THE FAC**  
18 **TARIFF AT THIS TIME?**

19 A. No other changes to the FAC tariff sheets are being requested at this time.

20 **Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?**

21 A. Yes, it does.