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Witness: W. Scott Keith  
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Sponsoring Party: Empire District Gas  
Case No. GR-2009-0434  
Date Testimony Prepared: December 2009

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

**Rebuttal Testimony**

**of**

**W. Scott Keith**

**December 2009**

REBUTTAL TESTIMONY  
OF  
W. SCOTT KEITH  
THE EMPIRE DISTRICT GAS COMPANY  
BEFORE THE  
PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI  
CASE NO. GR-2009-0434

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 Company as the Director  
8 of Planning and Regulatory. I have held this position since August 1, 2005. Prior  
9 to joining Empire I was Director of Electric Regulatory Matters in Kansas and  
10 Colorado for Aquila, Inc. from 1995 to July 2005.

11 **Q. ON WHOSE BEHALF ARE YOU APPEARING?**

12 A. I am appearing on behalf of The Empire District Gas Company (“EDG” or  
13 “Empire”). EDG is a wholly owned subsidiary of The Empire District Electric Co.  
14 that was formed to hold the Missouri Gas assets acquired from Aquila, Inc. on June  
15 1, 2006.

16 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND FOR THE**  
17 **COMMISSION.**

18 A. In August 1973, I received a Bachelor of Business Administration degree with a

1 major in Accounting at Washburn University, Topeka, Kansas.

2 **Q. WHAT EXPERIENCE HAVE YOU HAD IN THE FIELD OF PUBLIC**  
3 **UTILITIES?**

4 A. In 1973, I accepted a position in the firm of Troupe Kehoe Whiteaker & Kent as a  
5 staff accountant. I assisted in or was responsible for fieldwork and preparation of  
6 exhibits for rate filings presented to various regulatory commissions and audits  
7 leading to opinions on financial statements of various types of companies including  
8 utility companies.

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

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

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

23 As I mentioned earlier, I was employed by Aquila, Inc. as the Director of

1 Regulatory for its electric operations in Kansas and Colorado from 1995 to July  
2 2005.

3 **Q. HAVE YOU PREVIOUSLY PARTICIPATED IN ANY REGULATORY**  
4 **PROCEEDINGS?**

5 A. Yes, I have. I have testified before regulatory commissions in the states of Kansas,  
6 Colorado, Indiana, Missouri, Oklahoma and West Virginia. I have also testified  
7 before the Federal Energy Regulatory Commission ("FERC").

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

9 A. My testimony will respond to the direct testimony of Constellation NewEnergy  
10 ("Constellation") witness Richard Haubensak in several areas concerning our  
11 transportation tariff proposal and respond to several transportation service  
12 recommendations made by the Missouri Public Service Commission Staff ("Staff")  
13 in its rate case report.

14 **EXECUTIVE SUMMARY**

15 **Q. PLEASE PROVIDE AN OVERVIEW OF YOUR TESTIMONY.**

16 A. My testimony will address the following points raised by Constellation witness  
17 Haubensak on Empire's gas transportation tariff proposals:

- 18 1. The lack of a version of the proposed transportation tariff that highlighted or  
19 "redlined" the changes (Haubensak pg 2);
- 20 2. Mandatory telemetry for small volume transportation customers (Haubensak pg 3);
- 21 3. Proposed increase in balancing service fee for small volume transportation  
22 (Haubensak pg 5); and,
- 23 4. Proposed Daily Balancing Fee for transportation customers with telemetry  
24 (Haubensak pg 8);

1 Additional rebuttal to witness Haubensak will be provided by Empire witness  
2 Overcast.

3 Finally, I will outline Empire's general acceptance of several of the Staff's  
4 transportation tariff recommendations that were included in the Staff's report in  
5 this case.

**REVISED TRANSPORTATION TARIFF SHEETS**

6 **Q. DID THE EMPIRE DISTRICT GAS COMPANY ("EMPIRE") IN THE**  
7 **PROCESS OF CREATING THE PROPOSED TRANSPORTATION TARIFF**  
8 **CREATE WHAT WITNESS HAUBENSAK HAS DESCRIBED AS A**  
9 **"REDLINE" VERSION OF THE PROPOSED TARIFF?**

10 A. No. Due to the extensive movement of the various sections of the tariff and the  
11 addition of many definitions, we did not start with an electronic version of the  
12 existing tariff sheet. Thus, no "redline" version of the proposed tariff is available.

13 **Q. DID EMPIRE INFORM CONSTELLATION OF THIS SITUATION?**

14 A. Yes. We informed Constellation last summer in response to Constellation data  
15 request 1 that due to the magnitude of the proposed changes a redline version of the  
16 tariff was not produced.

17 **Q. WAS ADDITIONAL INFORMATION SURROUNDING THE PROPOSED**  
18 **TRANSPORTATION TARIFF CHANGES PROVIDED TO**  
19 **CONSTELLATION AS PART OF THE DISCOVERY PROCESS IN THIS**  
20 **CASE?**

21 A. Yes. In response to Constellation and Missouri Public Service Commission staff  
22 ("Staff") data requests, Empire has provided detailed descriptions of the major  
23 transportation tariff changes to Constellation. For example, in response to

1 Constellation data request 5 dated August 11th, Empire provided a description and  
2 explanation of the major changes being proposed to the transportation tariff.  
3 Constellation has also been provided copies of several of Empire's responses to  
4 Staff's data requests concerning the transportation tariff to include Empire's  
5 responses to Staff data requests 130 and 166, which dealt with the major changes  
6 Empire was proposing in the transportation tariff. I have attached copies of the  
7 information attached to each of these data requests as Schedule WSK-1. As  
8 indicated, much of the information has been classified as Highly Confidential since  
9 it included customer specific information.

10 **Q. DOES EMPIRE ROUTINELY PRODUCE "REDLINE" VERSIONS OF**  
11 **PROPOSED TARIFF CHANGES?**

12 A. Yes. However, in this particular case, this process would not have produced a  
13 useful document due to the major restructuring of the tariff.

14 **Q. WHY?**

15 A. The changes were much too extensive and many involved moving complete  
16 sections of the existing tariff from one tariff sheet to another. This type of text  
17 movement even if it does not involve the change of a single word would show up  
18 as a complete striking of the text, Thus, it would appear in a "redline" version as a  
19 change when in fact it just involved moving the text from one sheet to another.  
20 Based upon my past experience with word processing and the extent of the changes  
21 involved, I believe that the "redline" version of the existing tariff would have  
22 resulted in a complete striking of the existing transportation tariff language and the  
23 insertion of the proposed transportation tariff language as a change. Given the

1 headers and footers involved with the tariff sheets, I believe this would have  
2 created in more confusion concerning the proposed changes, rather than less as  
3 witness Haubensak has contended in his direct testimony.

4 **Q. IS EMPIRE PROPOSING THAT TELEMETRY BE REQUIRED FOR ALL**  
5 **OF THE TRANSPORTATION CUSTOMERS?**

6 A. Yes. As Constellation witness Haubensak has pointed out in his direct testimony at  
7 page 3, Empire is requesting that all transportation customers, except for the  
8 schools exempted by Missouri statute, be required to pay for the installation of  
9 telemetry. Under the current transportation tariff, which contains a very low level  
10 of consumption to qualify for transportation, (500 Mcf per year), no telemetry is  
11 required until a customer's annual consumption exceeds 4,000 Mcf.

12 **Q. WHY IS EMPIRE PROPOSING THIS CHANGE?**

13 A. Our telemetry proposal is designed to help Empire operate the system and track the  
14 use of Empire's pipeline transportation and storage arrangements by transportation  
15 customers and provide a reasonable and accurate allocation of costs when Empire's  
16 storage and transportation arrangements are used by transportation customers.

17 **Q. DO YOU AGREE WITH CONSTELLATION WITNESS HAUBENSAK'S**  
18 **STATEMENT AT PAGE 4 OF HIS DIRECT TESTIMONY THAT SMALL**  
19 **VOLUME TRANSPORTATION CUSTOMER USAGE IS VERY**  
20 **PREDICTABLE AND THAT TELEMETRY EQUIPMENT IS NOT**  
21 **NECESSARY?**

22 A. No. Based upon the past billing history I have reviewed, the load (usage) of small  
23 volume transportation customers has not been predicted accurately, especially in

1 the winter, and the gas nominations made for this customer group does not match  
2 the group or pools consumption. This can result in significant monthly cash out  
3 volumes for small transportation customer pools and marketers.

4 **Q. DO MARKETERS ON BEHALF OF SMALL VOLUME**  
5 **TRANSPORTATION CUSTOMERS ROUTINELY ADJUST THE LEVEL**  
6 **OF NATURAL GAS FLOWING INTO EMPIRE'S SYSTEM DURING A**  
7 **MONTH DUE TO CHANGES IN WEATHER CONDITIONS?**

8 A. No. Based upon my review of Empire's small volume marketer pool billing  
9 records, marketers do not routinely adjust the levels of gas flowing into our system  
10 on behalf of small volume customers due to changes in weather conditions during a  
11 month. I have attached an analysis of a small volume transportation pool's  
12 nominations for the month of January 2009 as Schedule WSK-2. As indicated, the  
13 daily nominations submitted by the marketer in this instance remained constant for  
14 two-thirds of the month despite the fact that the weather, in terms of Heating  
15 Degree Days (HDD) changed significantly. This led to a monthly imbalance of  
16 10.7 percent by the end of the month. Also, there were undoubtedly large daily  
17 imbalances created during the month as the small customers actual usage changed  
18 with the changes in temperature. Telemetry would have enabled the marketer to  
19 avoid this situation by tracking the daily consumption of the pool and adjusting its  
20 gas nominations to match customer usage. Ironically, the increase in the gas  
21 delivered into the system that took place during the last 10 days of the month only  
22 contributed to increasing the imbalance in this particular instance.

**BALANCING FEE**

1   **Q.    ARE THE BALANCING FEES EMPIRE IS PROPOSING TO IMPLEMENT**  
2       **OR INCREASE IN THIS RATE CASE RETAINED BY EMPIRE?**

3   A.    No.  As Mr. Haubensak points out a page 5 of his direct testimony, the fees  
4       collected by Empire for balancing flow back to Empire's sales customers in the  
5       form of lower Purchase Gas Adjustment ("PGA") charges.

6   **Q.    HAS THE MONEY COLLECTED FROM THESE FEES ALWAYS**  
7       **FLOWED THROUGH THE PGA TO THE SALES CUSTOMERS?**

8   A.    The fees have flowed back since Empire has operated the system, and I believe that  
9       has probably been the case since the advent of the PGA and the implementation of  
10      transportation balancing fees on the system.

11  **Q.    WHY ARE THE TRANSPORTATION BALANCING FEES PASSED**  
12       **THROUGH EMPIRE'S PGA AS A REDUCTION IN GAS COST TO**  
13       **EMPIRE'S SALES SERVICE CUSTOMERS?**

14  A.    The balancing fees charged to the transportation customers are used to reduce the  
15       sales service PGA charges because the pipeline storage and transportation costs  
16       used to balance the system are properly included in the PGA and recovered from  
17       the sales service customers.

18  **Q.    DOES EMPIRE RETAIN ANY OF THE REVENUE ASSOCIATED WITH**  
19       **THE IMPLEMENTATION OF NEW BALANCING FEES OR AN**  
20       **INCREASE IN THE EXISTING BALANCING FEES ON**  
21       **TRANSPORTATION CUSTOMERS?**

22  A.    No.  All transportation balancing revenue will flow through to the sales service

1 customers as a reduction in PGA charges.

2 **Q. DOES EMPIRE CURRENTLY PROVIDE BALANCING SERVICE TO THE**  
3 **POOL OF SMALL VOLUME TRANSPORTATION CUSTOMERS IN**  
4 **YOUR PREVIOUS EXAMPLE UNDER THE EXISTING**  
5 **TRANSPORTATION TARIFF?**

6 A. Yes. The small volume transportation customers are required to pay Empire for  
7 balancing service. The existing fee is \$.0075 per 100 cubic feet (“Ccf”). Empire  
8 has proposed to increase the fee for this service to \$0.025 per Ccf, and limit its  
9 availability to schools taking transportation service without telemetry.

10 **Q. DO YOU AGREE WITH CONSTELLATION WITNESS HAUBENSAK’S**  
11 **STATEMENT AT PAGE 5 OF HIS DIRECT TESTIMONY, THAT THE**  
12 **EXISTING BALANCING FEE IS DESIGNED TO COMPENSATE EMPIRE**  
13 **FOR THE SMALL VOLUME CUSTOMERS USE OF STORAGE?**

14 A. For the most part I agree with Mr. Haubensak’s characterization of this fee, but I  
15 think a better characterization of this fee is that it represents a fee for no notice  
16 service to compensate Empire’s firm customers. This type of service involves a  
17 combination of storage and gas flowing on the system. In the example attached to  
18 my testimony as Schedule WSK-2, the small volume customer pool continued to  
19 input gas into the system at a steady rate despite the fact that the weather had  
20 changed throughout the month. The extra gas delivered by the marketer essentially  
21 contributed to storage injections during relatively warm weather and storage  
22 withdrawals during periods of colder weather.

23 **Q. IS THE INCREASE IN THE BALANCING FEE FROM \$0.0075 TO \$0.025**

1       **PER CCF FOR THE SMALL VOLUME TRANSPORTATION**  
2       **CUSTOMERS AND MENTIONED BY MR. HAUBENSAK AT PAGE 5 OF**  
3       **HIS DIRECT TESTIMONY REASONABLE AND SUPPORTED BY AN**  
4       **ANALYSIS OF THE UNDERLYING COSTS?**

5     A.    Yes it is. It is my understanding that the existing fee (\$0.0075 per Ccf) has not  
6        been changed since Aquila, Inc. first implemented it in 2001, so it is over eight  
7        years old and needs to be updated. I have analyzed the underlying costs on  
8        Empire's South system, the largest of the three systems Empire operates, and  
9        determined that the average cost of no notice service is \$0.027 per Ccf versus the  
10       \$0.025 Ccf requested in Empire's filing. My analysis is based upon the costs  
11       (storage and transportation) that were included in Empire's most recent Actual Cost  
12       Adjustment filing on October 30, 2009. I have attached this analysis to my  
13       testimony as Schedule WSK-3.

14    **DAILY BALANCING**

15    **Q.    HAS EMPIRE PROVIDED CONSTELLATION WITH INFORMATION**  
16       **THAT SUPPORTED THE \$1.25 PER MCF DAILY BALANCING FEE**  
17       **FOR LARGE VOLUME TRANSPORTATION CUSTOMERS<sup>1</sup>?**

18    A.    Yes. This information was provided to Constellation in response to Constellation  
19        data request number 6. In addition, I have updated the cost support for this  
20        proposed charge and attached it to my testimony as Schedule WSK-4.

21    **Q.    PLEASE DESCRIBE SCHEDULE WSK-4.**

22    A.    Schedule WSK-4 is an analysis of the storage and transportation costs in Empire's

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<sup>1</sup> Haubensak direct at page 8, lines 20 and 21.

1 most recent PGA filing made on October 30, 2009. As indicated, the weighted  
2 average cost of no notice service on the Empire systems is \$1.33 as compared to  
3 our proposal of \$1.25 per Mcf.

4 **Q. CAN THE LARGE TRANSPORTATION CUSTOMERS AND LARGE**  
5 **CUSTOMER TRANSPORTATION POOLS AVOID THIS CHARGE BY**  
6 **MATCHING DAILY NOMINATIONS TO ACTUAL USAGE?**

7 A. Yes. If the customers match nominations and usage within ten (10) percent, the fee  
8 does not apply.

9 **Q. DO THE LARGE VOLUME TRANSPORTATION CUSTOMERS ON THE**  
10 **EMPIRE SYSTEM PAY A BALANCING FEE IN THE EXISTING**  
11 **TRANSPORTATION TARIFF?**

12 A. No. Unlike the small volume transportation customers who pay a fee of \$.0075 per  
13 Ccf, the tariff used to serve the large volume transportation customers does not  
14 contain a charge from Empire for balancing.

15 **Q. DOES EMPIRE PROVIDE DAILY BALANCING SERVICE TO THE**  
16 **LARGE TRANSPORTATION CUSTOMERS?**

17 A. Yes. Although the large volume transportation customers have telemetry in place  
18 and the ability to better match gas nominations with usage, their consumption  
19 rarely exactly matches their nominations on a daily basis. These over/under  
20 deliveries of gas are balanced by Empire using its storage and transportation  
21 arrangements. At the present time the tariff includes no fees for this daily  
22 balancing service.

1   **Q.   DO THE LARGE VOLUME TRANSPORTATION CUSTOMERS**  
2       **CURRENTLY HAVE TELEMETY INSTALLED THAT MEASURES**  
3       **DAILY GAS CONSUMPTION?**

4   A.   Yes. Mandatory telemetry has been in place for this customer group for years.

5   **Q.   DO ALL LARGE VOLUME TRANSPORTATION CUSTOMERS OR**  
6       **POOLS OF LARGE VOLUME POOL CUSTOMERS OPERATE IN AN**  
7       **IDENTICAL MANNER IN TERMS OF THEIR DAILY IMBALANCE?**

8   A.   No. Some of the customers and marketers are able to match gas nominations and  
9       gas usage closer than others.

10   **Q.   CAN YOU PROVIDE AN EXAMPLE OF A LARGE VOLUME**  
11       **TRANSPORTATION CUSTOMER POOL OR CUSTOMER THAT DOES**  
12       **NOT CLOSELY MATCH NOMINATIONS TO USAGE ON A DAILY**  
13       **BASIS?**

14   A.   Yes. I have attached an example of a large volume customer pool that does not  
15       appear to use the daily telemetry readings to adjust its daily gas nominations as  
16       Schedule WSK-5.

17   **Q.   PLEASE DESCRIBE SCHEDULE WSK-5.**

18   A.   Schedule WSK-5 is an analysis of daily nominations and usage for a large volume  
19       transportation pool on Empire's South system during May of 2009. As indicated,  
20       the marketer in charge of this pool of customers did not change the daily  
21       nomination for this pool from 1,371 MMBtus for the first 26 days of the month.  
22       During the last 5 days of the month, the marketer abruptly dropped the daily  
23       nomination to 1 MMBtu. This probably occurred when it became clear to the

1 marketer that the pool would be significantly over delivered at the end of the month  
2 and face substantial monthly balancing charges. It is also clear from this schedule  
3 that the marketer in charge of this particular pool of customers did not take into  
4 account weekend drops in usage or the Memorial Day Holiday, which also had a  
5 substantial reduction in usage in the pool. It is apparent that without a daily  
6 balancing fee, there is little incentive for the large volume transportation customer  
7 to match nominations and usage on a daily basis under the current tariff.

8 **Q. PLEASE CONTINUE WITH AN EXPLANATION OF THE PROPOSED**  
9 **DAILY BALANCING FEE AND HOW IT WOULD HAVE AFFECTED**  
10 **THIS CUSTOMER POOL IF IT HAD BEEN IN PLACE IN MAY OF 2009.**

11 A. The last three columns of Schedule WSK-5 display the impact of the proposed  
12 daily balancing fee on this account had it been in place in May of 2009. As  
13 indicated, the proposed fee of \$1.25 Mcf is applied to the daily imbalance after  
14 reducing it for the ten percent tolerance allowance that is built into the proposed  
15 tariff. Specifically, the application of the proposed daily balancing fee to this  
16 particular pool of customers would have resulted in a daily balancing fee of over  
17 \$13,000. As I indicated earlier, this revenue would ultimately pass through the  
18 PGA as a reduction in PGA costs for Empire's sales service customers.

19 **Q. IS THE LARGE VOLUME TRANSPORTATION CUSTOMERS USE OF**  
20 **EMPIRE'S STORAGE ARRANGEMENTS SIMILAR TO THAT OF THE**  
21 **SMALL VOLUME TRANSPORTATION CUSTOMERS?**

22 A. Yes. The extent of this customer group's use of Empire's storage arrangements is  
23 directly related to how close they match their nominations to their gas usage. In the

1 example I have attached to my testimony as Schedule WSK-5, the use of Empire's  
2 storage and no notice service arrangements is substantial and very much like that of  
3 a small volume transportation customer. In some respects, the impact of the  
4 mismatch in large volume receipts and deliveries can have a much more significant  
5 impact on Empire's gas operation due to the sheer size of the deliveries, especially  
6 in the summer months when Empire's sales service usage is very low.

7 **Q. PLEASE DESCRIBE THE STAFF'S RECOMMENDATIONS**  
8 **CONCERNING THE PROPOSED TRANSPORTATION TARIFFS.**

9 A. I would characterize the Staff's recommendations on the proposed transportation  
10 tariff as more of a clarification of some of the terms and conditions included in  
11 Empire's proposed tariff. I have included a list of the Staff's recommendations in  
12 this area below:

- 13 1. Include language in the proposed tariff that the ownership and maintenance of  
14 the telemetry equipment remains with Empire and will be treated as customer  
15 contributed property.
- 16 2. New transportation customers that had not previously received sales or  
17 transportation service from the Empire will be excluded from any PGA charges.
- 18 3. All provisions referencing a requirement for certification as an energy seller are  
19 to be removed from the proposed tariff.
- 20 4. Given the mandatory telemetry requirement that Empire has in its proposed  
21 transportation tariff that it allow a period of transition for existing customers  
22 and that the customer be granted the ability to subscribe to Balancing service  
23 until the telemetry can be installed.

1           5. Add language to the Security Performance section of the proposed  
2           transportation tariff as follows:

3                 *a. “satisfactory to cover a reasonable assessment of risk of each*  
4                 *particular situation” and*

5                 *b. “Proceeds from insurance payments or bonds payable in the event of a*  
6                 *default shall flow through the Company’s PGA t the degree necessary to*  
7                 *safeguard sales customers from negative repercussion of a contract*  
8                 *customer’s default.*

9   **Q.    DOES EMPIRE ACCEPT THE STAFF’S RECOMMENDATIONS IN THIS**  
10 **AREA OF THE TRANSPORTATION TARIFF?**

11   **A.    Yes.**

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

13 **A.    Yes, it does.**