

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

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

Direct Testimony

of

W. Scott Keith

April 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 and West Virginia. I have also testified before the
3 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 September 2008 through February 2009. This
8 six-month period is the initial Accumulation Period specified in Empire’s FAC
9 tariff that was approved by the Missouri Public Service Commission
10 (“Commission”) in its 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 increased over the base cost established in the last general
7 rate case. For the Accumulation Period September 2008 through February 2009,
8 Empire's actual variable fuel and purchased power costs less off-system sales
9 margins, have exceeded the base energy costs included in the Company's Missouri
10 rates in Case No. ER-2008-0093 by approximately \$2.4 million. In accordance
11 with the FAC tariff, Empire has absorbed 5% of the overall increase in Missouri
12 variable fuel and purchased power costs during the six-month period September
13 2008 through February 2009. Therefore, in accordance with the Commission's
14 FAC rule and Empire's approved FAC tariff, the Company has filed FAC rate
15 schedules that are designed to recover energy cost increases of approximately \$1.92
16 million from its Missouri jurisdictional customers. As reflected in the rate
17 schedules filed by the Company, Empire has developed two Cost Adjustment
18 Factors ("CAF") of \$0.00085 for primary service and a CAF of \$0.00087 for
19 secondary service. These CAFs will allow Empire to collect the difference
20 between base costs of fuel and purchased power built into its rates in the last
21 general rate and the fuel and purchased power costs that were actually incurred
22 during the Accumulation Period over a Recovery Period running from June 2009
23 through November 2009.

1 **Q. DOES THE EMPIRE FAC TARIFF INCLUDE PROVISIONS THAT ARE**
2 **DESIGNED TO LIMIT EMPIRE’S FAC RECOVERYS TO THE ACTUAL**
3 **COST OF ENERGY?**

4 A. Yes. The Empire FAC and the Commission’s rule governing FACs include two
5 safeguards that limit FAC recovery to the actual, prudently-incurred fuel and
6 purchased power costs. The first safeguard is a true-up process that ensures that
7 the FAC collections during the Recovery Period do not exceed actual fuel and
8 purchased power costs incurred during the Accumulation Period. The second
9 safeguard involves a requirement that Empire’s energy costs be subjected to
10 periodic Prudence Reviews, which will ensure that only prudently-incurred energy
11 are passed through to customers using the FAC.

12 **THE PROPOSED FAC RATE ADJUSTMENT**

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

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

1 my testimony are Empire's initial filing under the FAC that was approved by the
2 Commission in ER-2008-0093. Empire is seeking an increase in its FAC rates to
3 reflect 95% of the difference between the base energy costs built into its base
4 Missouri rates and Empire's actual Missouri energy costs for the Accumulation
5 Period. This increase in FAC rates will be reflected on the Missouri customers'
6 bills over the six-month Recovery Period running from June 2009 through
7 November 2009.

8 **Q. HAVE EMPIRE'S AVERAGE ENERGY COSTS INCREASED SINCE THE**
9 **COMMISSION ISSUED IT REPORT AND ORDER IN CASE NO. ER-2008-**
10 **0093?**

11 A. Yes. Empire's average energy costs per kilowatt-hour ("kWh") have increased
12 over the level built into its base electric rates, which is why the FAC rate schedules
13 filed by the Company seek an increase in the rates charged to the Missouri
14 customers. More specifically, Empire's Missouri base rates included an average
15 cost of energy per kWh of net system production of \$0.02783 during the
16 Accumulation Period of September through February. Empire actually incurred
17 average energy costs of \$0.02871 per kWh during the Accumulation Period of
18 September 2008 through February 2009. This represents an overall increase in
19 average energy costs of \$0.00088 per kWh during the Accumulation Period, or
20 about 3 percent higher than the average cost built into base rates. Pursuant to
21 Empire's FAC tariff, Empire is requesting to pass on to its Missouri customers 95
22 percent of this cost increase or \$0.00081 per kWh sold during the Recovery Period.

23 **Q. PLEASE BRIEFLY DESCRIBE THE REASONS FOR THE INCREASE IN**

1 **THE AVERAGE COST OF ENERGY DURING THE ACCUMULATION**
2 **PERIOD?**

3 A. A number of factors caused the average fuel and energy cost to increase during the
4 Accumulation Period, but some factors offset the cost increases. For example, a
5 reduction in coal plant availability and higher coal and coal transportation costs
6 increased the average cost of energy, while lower spot purchased power prices,
7 lower spot natural gas prices and an increase in the margins Empire earned on off-
8 system sales contributed towards a decrease in the average cost of energy.

9 **Q. WHAT IS THE MONTHLY FAC INCREASE FOR A TYPICAL**
10 **RESIDENTIAL CUSTOMER?**

11 A. For Missouri residential customers using 1,000 kWh per month, the electric bill
12 will increase approximately \$0.87 per month over the six-month period June
13 through November.

14 **Q. WAS THIS INCREASE IN AVERAGE ENERGY COSTS IN LINE WITH**
15 **EXPECTATIONS?**

16 A. Yes. Our budget anticipated an average fuel and purchased power energy costs
17 during the Accumulation Period of \$29.56 per megawatt-hour of net system
18 production. The actual results were very close to and slightly below the budget
19 coming in at \$28.71 per megawatt-hour. Our budget included a scheduled outage
20 for Iatan 1 to tie-in the new pollution control facilities and perform other unit
21 maintenance. The Iatan 1 outage has lasted approximately two months longer than
22 originally planned. This has reduced the planned production from this unit, and the
23 power requirements were replaced with additional purchases or increased

1 generation from Empire's other units. To a degree, the increased costs associated
2 with Iatan 1 replacement power have been off-set with large declines in the price of
3 spot natural gas and corresponding declines in the cost of spot purchased power
4 and an increase in off-system sales margins earned by Empire during the
5 Accumulation Period. After all of these factors are taken into account, Empire's
6 average power costs during the Accumulation Period were slightly lower than had
7 been anticipated in our budget.

8 **Q. DO YOU EXPECT THE AVERAGE COST OF FUEL AND PURCHASED**
9 **POWER TO INCREASE DURING THE NEXT ACCUMULATION PERIOD**
10 **FROM MARCH 2009 THROUGH AUGUST 2009?**

11 A. Yes. Our budget anticipates average energy costs of **_____** per megawatt-
12 hour during the next Accumulation Period. This period includes a good deal of the
13 summer period when our average energy costs have historically been the highest
14 we experience in a typical year. Empire's Missouri fuel adjustment clause includes
15 a seasonal base cost factor that takes the higher summer energy costs into account.
16 If the current trend of lower natural gas and spot power prices continues during the
17 upcoming Accumulation Period, the average energy cost could be below the energy
18 cost built into our budget.

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

21 A. Yes. The design of the Commission's rule governing the FAC was the subject of
22 much discussion and debate prior to being approved by the Commission. In
23 addition, there was much discussion and debate concerning Empire's FAC tariff in

1 Case No. ER-2008-0093. This was the case in which the Commission ultimately
2 approved Empire's FAC tariff. Empire's FAC filing is being made in accordance
3 with the Commission's rules governing the FAC and in accordance with the FAC
4 tariff approved for Empire.

5 **Q. PLEASE DESCRIBE HOW EMPIRE IS PROPOSING TO RECOVER THE**
6 **ENERGY COST INCREASES EXPERIENCED DURING THE**
7 **SEPTEMBER 2008-FEBRUARY 2009 ACCUMULATION PERIOD?**

8 A. The FAC rate schedule filed by Empire will recover the energy cost increase
9 actually incurred during the Accumulation Period by applying two Cost
10 Adjustment Factors or CAFs of \$0.00085 for primary service and \$0.00087 for
11 secondary service to the actual Missouri kWh sales that take place from the June 1,
12 2009 to November 30, 2009 Recovery Period. The proposed CAFs were calculated
13 in accordance with Empire's authorized FAC tariff. I have attached to my
14 testimony as Schedule WSK-1 a copy of one of Empire's approved FAC tariff
15 sheets. In addition to the tariff sheet, I have included as page 2 of Schedule WSK-1
16 a monthly analysis of the energy costs and energy cost recovery that has taken
17 place during the Accumulation Period. Schedule WSK-1 contains the basic
18 information and FAC formula that Empire used to calculate the CAFs that have
19 been included in the proposed revised FAC rate schedule sheet 17c. The Empire
20 FAC tariff and the formula included therein were approved by the Commission in
21 Case No. ER-2008-0093.

22 **Q. HOW WERE THE VARIOUS VALUES USED TO DETERMINE THE**
23 **PROPOSED CAFS THAT ARE SHOWN ON SCHEDULE WSK-1**

1 **DEVELOPED?**

2 A. The data upon which Empire based the values for each of the variables in the
3 approved CAF formula are included on the schedule, and came from Empire's
4 books and records. Schedule WSK-1 contains all of the basic information that is
5 required to calculate the proposed change in the CAF. In addition, I have filed the
6 detailed information required by 4 CSR 240-3.161(7)(A) with this testimony as a
7 separate set of supporting workpapers. In addition, as required by 4 CSR 240-
8 3.161(7)(B), I have separately provided to all parties of record in Case No. ER-
9 2008-0093 with a set of these work-papers.

10 **Q. IS EMPIRE IN COMPLIANCE WITH THE PROVISIONS OF THE**
11 **COMMISSION'S FAC RULE CONCERNING PERIODIC REPORTING**
12 **AND SURVEILLANCE?**

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

18 **Q. IF REVISED FAC SHEET 17C IS APPROVED BY THE COMMISSION,**
19 **WHAT SAFEGUARDS EXIST TO ENSURE THAT THE FAC REVENUE**
20 **COLLECTED BY EMPIRE DOES NOT EXCEED THE ACTUAL ENERGY**
21 **COST INCURRED BY EMPIRE DURING THE ACCUMULATION**
22 **PERIOD?**

23 A. As I mentioned earlier, Empire's FAC and the Commission's rules provide two

1 mechanisms designed to limit the FAC amounts collected from customers to
2 Empire's actual, prudently-incurred energy costs. First, at the end of each
3 Recovery Period the Company is required to true-up the amounts collected from
4 customers through the CAF with the energy costs that were actually incurred
5 during the Accumulation Period to which the CAF applies. In addition, Empire's
6 energy costs will be subjected to periodic Prudence Reviews to ensure that only
7 prudently-incurred energy costs are collected from customers through the FAC.
8 These two mechanisms serve as checks that ensure that Empire's Missouri
9 customers pay only the prudently-incurred, actual cost of energy used to provide
10 electric service in Missouri (less the 5% Empire is absorbing) – no more and no
11 less.

12 **Q. WHAT ACTION IS EMPIRE REQUESTING FROM THE COMMISSION**
13 **WITH RESPECT TO THE FAC RATE SCHEDULE THAT THE**
14 **COMPANY HAS FILED?**

15 A. As provided by 4 CSR 240-20.090(4), Staff has thirty (30) days from the date the
16 FAC rate schedule is filed to conduct a review and to make a recommendation to
17 the Commission as to whether the rate schedule complies with the Commission's
18 FAC rules, the requirements of Section 386.266, RSMo, and Empire's approved
19 FAC. The Commission has sixty (60) day from the date of Empire's filing to either
20 approve the rate schedule or to allow it to take effect by operation of law. Empire
21 believes its FAC filing satisfies all of the requirements of applicable statutes, the
22 Commission's rules, and Empire's approved FAC, Empire requests that, following
23 Staff's review, the Commission approve FAC sheet 1st revised sheet 17c to be

1 effective as of June 1, 2009, which is the first day of the Recovery Period
2 prescribed in Empire's FAC tariff.

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

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

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

7 A. Yes, it does.