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The Empire District Electric Company
(EDEC)

Case No. ER-2016-0023

Prepared Surrebuttal Testimony of
Donald Johnstone

On behalf of

Midwest Energy Users' Association
(MEUA)

May, 2016



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Before the
Missouri Public Service Commission

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

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Before the
Missouri Public Service Commission

The Empire District Electric Company
(EDEC)

Case No. ER-2016-0023

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.

SUMMARY OF ISSUES ADDRESSED AND RECOMMENDATIONS

1 Q WHAT ISSUES WILL YOU ADDRESS IN THIS SURREBUTTAL TESTIMONY?

2 A I address the spread of the increase and two matters of class cost allocation,
3 production cost allocation and distribution cost allocation. Also, I continue to support
4 rates that are primarily based on the cost of services provided.

5 At a more detailed level, I respond to the rebuttal testimonies of EDEC, Staff
6 and MECG. EDEC raised issues with the Staff's fuel cost model that effect the relative
7 costs of base, intermediate and peaking generation. These costs are important to
8 Staff's use of the Base, Intermediate, Peaking (BIP) method of production cost
9 allocation in the class cost-of-service study.

10 MECG submitted a class cost-of-service study that began with Staff's model and
11 then made adjustments. As such, the MECG class cost-of-service study suffers from
12 the same deficiencies as Staff's regarding the deviation from a normal cost allocation
13 method for demand related distribution costs.

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

15 A My recommendations follow:

- 16 • I continue to recommend use of an appropriate class cost-of-service
17 study as a primary determinant in setting the revenue responsibility for
18 each class and also as a primary determinant in the design of the rates
19 within each customer class. Unfortunately, however, there are
20 problems in the studies presented.

- 1 • The Staff BIP study relies on a production costing model that does not
2 appear to produce accurate results at the granular level needed to
3 support the BIP allocation method.
- 4 • Staff and MECC studies use an inappropriate demand allocation factor
5 for distribution costs.
- 6 • The results of the current class cost-of-service studies, while they have
7 the noted deficiencies and limitations, all have consistency in several
8 conclusions. The relative cost responsibility for the residential class
9 should increase, and the relative cost responsibility should decrease for
10 the General Power, Feed Mill and Lighting classes. These several
11 conclusions are also consistent with the class cost-of-service study
12 relied upon by the Commission in ER-2014-0351.
- 13 • Once the surrebuttal testimonies of the parties are submitted and
14 considered, and based on the record adduced in this proceeding, MEUA
15 will finalize its recommendation. Based on what is known to date,
16 MEUA makes the following recommendations at this time.
- 17 ○ MEUA joins in the proposals of EDEC, Staff, and MECC to hold the Feed
18 Mill and Lighting rates at the present level - no increase. This will
19 result in an appropriate downward adjustment in the relative cost
20 responsibility for the purposes of this case.
- 21 ○ MEUA joins in the proposals of EDEC, Staff, and MECC to increase in the
22 relative cost responsibility for the Residential class. The proposals are
23 in a range that is reasonable.

- 1 o MEUA joins in the proposals of EDEC, Staff, and MEGC to decrease the
2 relative cost responsibility of the General Power rate. Again, the
3 proposals are in a range that is reasonable.
- 4 o MEUA recommends the consideration of adjustments to the relative cost
5 responsibilities of the remaining classes to the extent that a proper
6 class cost-of-service study emerges in the surrebuttal round of
7 testimony.
- 8 o In due course MEUA will provide final rate recommendations based on
9 the record adduced in this proceeding.

PRODUCTION COST ALLOCATION

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

12 A Yes. A fully allocated embedded class cost-of-service study, properly done and in
13 combination with rates that reasonably reflect the costs determined by the study,
14 leads to a result with numerous positive attributes, as addressed in my earlier
15 testimonies in this docket.

16 Q IS THERE ANY CONSENSUS IN REGARD TO A PRODUCTION COST ALLOCATION
17 METHOD?

18 A No. Staff has submitted studies that reflect either BIP method or an Average and Peak
19 method. MEGC has submitted a study that adopts an Average and Excess method.

1 Q ARE THERE ANY PROBLEMS WITH STAFF'S BIP METHOD IN THIS CASE?

2 A Yes. In rebuttal testimony EDEC witness Tarter raised issues with the Staff's
3 production cost model that was used to estimate net production cost. The issues
4 raised by Mr. Tarter in turn raise questions as to whether the BIP cost of service
5 results, in consideration of problems in its inputs, can produce the intended cost-
6 based result. More specifically, it appears that Staff's production cost model did not
7 capture important aspects of the operation of generation facilities such as the extent
8 of the output of the peaking facilities. In turn, Staff's BIP model can do no more than
9 reflect the inputs. Staff's BIP class cost-of-service study necessarily suffers due to
10 infirmities in the production inputs to the model.

11 Q WHAT ARE THE SPECIFIC PRODUCTION COST CONCERNS RAISED BY MR. TARTER?

12 A His concerns are raised in response to a question that addresses Fuel and Purchased
13 Power (FPP) costs in the context of the base factor for the Fuel Adjustment Clause
14 (FAC). The question and his answer follow:

15 Q. DO YOU HAVE ANY CONCERNS ABOUT THE MODELING AND
16 ASSUMPTIONS THAT STAFF USED TO DEVELOP ITS
17 PROPOSED FAC BASE FACTOR?

18 A. Yes. Aside from the Riverton Unit 12 issue discussed above, I found four
19 primary areas of concern with Staff's initial FPP analysis. I will refer to
20 these as: (1) the Staff model approach; (2) the generation mix resulting from
21 Staff's dispatch model; (3) the State Line Combined Cycle ("SLCC") heat
22 rate in Staff's model; and (4) the values of renewable energy credits
23 ("RECs") and air quality control system ("AQCS") consumables that Staff
24 used to calculate its initial FAC base factor. (Ex. ____, Tarter Surrebuttal, p.3)

25 Q WHAT OPINION DOES MR. TARTER OFFER IN REGARD TO STAFF'S DISPATCH MODEL?

26 A After some explanation (See Ex. ____ Tarter Surrebuttal, pp.3-5) he states:

27 I am not sure if Staff has considered the market correlations in its modeling
28 that I mentioned earlier, and given the generation levels yielded by Staff's

1 dispatch model for Empire's resources (which cannot determine the revenues
2 that individual resources receive), it does not appear that Staff's model has
3 been refined enough to produce reasonable results.

4 This is a matter of concern. As with any model the quality of the results of Staff's BIP
5 model necessarily depends on the quality of the inputs. Consequently, if the
6 production model does not accurately reflect EDEC generation, costs, and revenues,
7 then neither does the BIP model. In fact, even if Staff and EDEC were to agree on a
8 bottom line number for FPP expense, the concerns with the generation mix would
9 remain for the purposes of the BIP class cost-of-service study.

10 Q DOES MECG PROPOSE A DIFFERENT PRODUCTION ALLOCATION METHOD?

11 A Yes, MECG presents a study in which it substituted an average and excess method for
12 production cost allocation. This method in large part constitutes a peak responsibility
13 method that shares the benefits of the diversity in peak loads among the classes.
14 However, the study is based on adjustments to the Staff's class cost-of-service study
15 model and thereby incorporates the same distribution demand allocations based on
16 coincident peaks - not a normal approach.

DISTRIBUTION COST ALLOCATION

17 Q DID YOU PREVIOUSLY ADDRESS THE DEFICIENCY IN STAFF'S ALLOCATION OF
18 DEMAND RELATED DISTRIBUTION COSTS?

19 A Yes. The matter is addressed in my rebuttal testimony (Ex. ___) beginning at page 8.
20 MECG's class cost-of-service study, in relying on the bulk of Staff's model as its
21 starting point, suffers from any deficiencies not addressed in its adaption of the
22 model. A particular deficiency arises from the use of coincident peaks in distribution

1 demand allocation factors. The deficient approach assumes a level of diversity that
2 does not exist in the distribution system, as explain in my rebuttal testimony.

MEUA'S RECOMMENDED SPREAD OF THE RATE INCREASE

3 Q IN CONSIDERATION OF THE STAFF AND MECG CLASS COST-OF-SERVICE STUDIES, DO
4 YOU HAVE A CHANGE IN YOUR RECOMMENDATION FOR THE SPREAD OF THE
5 INCREASE?

6 A Yes. MEUA continues to recommend the approach taken by the Commission in EDEC's
7 last case, elimination of a significant amount of the variations from costs with no class
8 receiving a decrease. However, the Staff and MECG class cost-of-service studies have
9 flaws. Nevertheless, as the record continues to develop, some preliminary conclusions
10 are possible. Based on what is known to date, MEUA makes the following
11 recommendations.

- 12 • MEUA joins in the proposals of EDEC, Staff, and MECG to hold the Feed Mill and
13 Lighting rates at the present level - no increase. This will result in an
14 appropriate downward adjustment in their relative cost responsibility for this
15 case.
- 16 • MEUA joins in the proposals of EDEC, Staff, and MECG to increase the relative
17 cost responsibility for the Residential class. The proposals are in a range that
18 is reasonable.
- 19 • MEUA joins in the proposals of EDEC, Staff, and MECG to decrease the relative
20 cost responsibility of the General Power rate. Again, the proposals are in a
21 range that is reasonable.

1 • MEUA recommends the consideration of adjustments to the relative cost
2 responsibilities of the remaining classes to the extent that a proper class cost-
3 of-service study emerges in the whole record.

4 In due course MEUA will provide final rate recommendations based on the record
5 adduced in this proceeding

6 Q DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?

7 A Yes it does.

