

Exhibit No.: _____
Issue: Policy Issues Related to Southwest Power Pool
Witness: Michael E. Palmer
Type of Exhibit: Direct Testimony
Sponsoring Party: The Empire District Electric Company
Case No. _____
Date Prepared: September 28, 2005

DIRECT TESTIMONY

OF

Michael E. Palmer

ON BEHALF OF

THE EMPIRE DISTRICT ELECTRIC COMPANY

SEPTEMBER 28, 2005

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

2 A. Michael E. Palmer, 602 Joplin Street, Joplin, Missouri 64801.

3 **Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?**

4 A. The Empire District Electric Company (Empire or Company) is my employer. I
5 currently hold the position of Vice President – Commercial Operations.

6 **Q. WHAT ARE YOUR RESPONSIBILITIES?**

7 A. I direct Empire's power delivery, transmission policy, and reliability compliance
8 functions. Power delivery encompasses electric transmission and distribution
9 throughout Empire's four-state service territory, and involves transmission and
10 distribution engineering, planning, distribution operations, construction and
11 maintenance, and customer service.

12 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
13 **PROFESSIONAL EXPERIENCE.**

14 A. I hold a Bachelor of Science Degree in Construction Management Technology
15 from Pittsburg State University in Pittsburg, Kansas. I joined the staff at Empire
16 in June 1986 as a Customer Service Consultant. I later served as District
17 Manager in Aurora and Director of Operations in Branson until 2001, at which
18 time I was promoted to my current position. My employment with Empire has
19 been continuous since 1986.

20 **Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE THIS OR ANY**
21 **OTHER REGULATORY BODY?**

1 A. Yes, I have testified before the Missouri Public Service Commission and the
2 Kansas Corporation Commission.

3 **Q. PLEASE DESCRIBE YOUR INVOLVEMENT WITH THE SOUTHWEST POWER**
4 **POOL.**

5 A. I am an investor-owned utility representative member of the 18-member
6 Members Committee that interfaces with the independent SPP Board of Directors
7 at that group's quarterly meetings. I was elected to this committee in March
8 2004. I am also an active member of the SPP's Human Resources Committee
9 and Strategic Planning Committee. As my schedule allows, I also attend and
10 participate in the SPP Regional State Committee (RSC) meetings.

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

12 A. I am testifying on behalf of Empire in support of Empire's Application filed with
13 the Missouri Public Service Commission (Commission or MOPSC) to transfer
14 functional control of certain Empire transmission facilities to the Southwest Power
15 Pool, Inc. (SPP), as well as in support of Empire's continued participation and
16 membership in the SPP (Transaction).

17 **Q. WHAT WILL BE THE EFFECT OF THE TRANSFER OF FUNCTIONAL**
18 **CONTROL OF EMPIRE'S TRANSMISSION FACILITIES TO SPP AND**
19 **EMPIRE'S CONTINUED PARTICIPATION IN SPP?**

20 A. Empire does not believe that the transfer of functional control of its transmission
21 facilities will have any noticeable affect on the reliability of electric service to its
22 customers. By virtue of having functional control of Empire's transmission
23 facilities, SPP will schedule transactions over our transmission facilities and

1 administer transmission service under its Open Access Transmission Tariff
2 (OATT). However, Empire will continue to own, operate and be responsible to
3 maintain our transmission facilities.

4 **Q. PLEASE DESCRIBE EMPIRE'S TRANSMISSION OPERATIONS.**

5 A. From its system control center in Joplin, Missouri, Empire manages over 1,200
6 miles of transmission lines in the states of Missouri, Oklahoma, Arkansas, and
7 Kansas that serve over 157,000 retail customers and 4 wholesale customers
8 throughout the aforementioned four state area. Within Missouri, Empire serves
9 over 137,000 retail customers in the southwest Missouri area as well as provides
10 wholesale service for the Cities of Lockwood, Mt. Vernon, and Monett. Empire is
11 one of the founding members of the SPP which came into existence in 1941. In
12 1998, Empire placed its transmission facilities under the SPP OATT. Empire
13 became a network integrated transmission service (NITS) customer of SPP in
14 2002.

15 **Q. WHAT FACILITIES WOULD BE SUBJECT TO EMPIRE'S PROPOSED**
16 **TRANSFER OF FUNCTIONAL CONTROL?**

17 A. Empire is proposing the transfer of functional control of its Missouri related
18 transmission facilities that are considered transmission per the SPP OATT. A list
19 of Empire's 100 kv and greater facilities is marked **Appendix C**, attached to
20 Empire's Application. The list of facilities is incorporated by reference into my
21 testimony.

22 **Q. IS THIS AN EXHAUSTIVE LIST OF THE FACILITIES OVER WHICH THE SPP**
23 **RTO WILL HAVE FUNCTIONAL CONTROL?**

1 A. No. This list of facilities includes Empire's current transmission facilities of 100
2 kv and above. However, it will change as existing facilities are retired, modified,
3 and new facilities are constructed. It also may change if the specific definition of
4 transmission facilities is modified by future orders issued by the Federal Energy
5 Regulatory Commission (FERC).

6 **Q. WILL THE TRANSFER OF FUNCTIONAL CONTROL AND CONTINUED**
7 **MEMBERSHIP IN THE SPP BE DETRIMENTAL TO THE INTERESTS OF**
8 **MISSOURI ELECTRIC CUSTOMERS?**

9 A. No. In fact, I believe that customers may benefit by Empire's continued
10 membership in the SPP through participation in SPP's transmission expansion
11 and proposed energy markets. The recently completed Cost Benefit Study
12 (CBS) that was independently performed by Charles Rivers International (CRA)
13 indicated a general benefit of approximately \$42 million for Missouri customers
14 and specifically, approximately \$48 million over the study period for Empire's
15 customers in its four state service territory. I believe the Commission should
16 authorize Empire to transfer functional control of Empire's transmission facilities
17 to SPP and allow Empire to continue its participation in the SPP Regional
18 Transmission Organization (RTO).

19 **Q. WHAT ARE THE FACTORS YOU CONSIDERED IN COMING TO YOUR**
20 **CONCLUSION?**

21 A. Empire believes that the factors listed below, which are further discussed in
22 some detail later in my testimony, support the Application:

- 23 • The effect of the transaction on customers.

- Whether the transaction will be beneficial to state and local economies and to communities served by the resulting public utility operations in the state.
- Whether the transaction will preserve the jurisdiction of the MOPSC and the capacity of the MOPSC to effectively regulate and audit public utility operations in the state.
- Whether the transaction maximizes the use of Missouri energy resources.
- Whether the transaction will reduce the possibility of economic waste.
- What impact, if any, the transaction has on public safety.
- Results of the CRA Cost Benefit Study.

Q. HAS THE SPP MADE ANY EFFORT TO ADDRESS THE BENEFITS OF THE TRANSFER OF FUNCTIONAL CONTROL AND CONTINUED MEMBERSHIP IN THE SPP?

A. Yes. SPP's Regional State Committee (RSC) engaged CRA to conduct a CBS analyzing the impacts of SPP becoming an RTO. SPP plans to sponsor testimony in this case to explain CRA's CBS. The CBS is also relevant to the analysis of the transfer of control of transmission assets from MOPSC-jurisdictional utilities to SPP, as well as Empire's continued participation in the SPP RTO.

Q. WHAT WAS EMPIRE'S INVOLVEMENT IN THE CBS?

1 A. Empire was not a voting member of the RSC Cost Benefit Task Force (CBTF).
2 However, at my direction, Empire was actively involved in the many meetings
3 and teleconferences to support the CBTF, RSC and CRA processes – which
4 included staff of this Commission.

5 **Q. DOES THE CBS ADDRESS ANY OF THE ABOVE FACTORS?**

6 A. I believe that it does. CRA found that the transfer of control of transmission
7 facilities and continued membership in SPP should result in lower costs of
8 electricity for Missouri customers in general and Empire customers in particular
9 as compared to Empire discontinuing its membership in the SPP. CRA also
10 found that the proposed SPP energy imbalance market should result in
11 reductions in both NO_x and SO_x emissions for the region.

12 **Q. WHAT IS YOUR OPINION OF CRA'S CBS CONCLUSIONS?**

13 A. Empire is generally supportive of the modeling assumptions, analytical structure
14 and results of the CBS from a SPP regional and state of Missouri perspective.
15 The results suggest that over the next several years, Empire's transfer of
16 functional control of its transmission facilities and continued participation in the
17 SPP RTO should not be detrimental and may provide benefits.

18 **Q. IS EMPIRE REQUIRED TO JOIN THE SPP RTO?**

19 A. No. Participation in the SPP RTO is voluntary for Empire. However, by previous
20 execution of the SPP Membership Agreement, Empire is already a member of
21 the SPP.

1 **Q. WHY DOES EMPIRE BELIEVE THE TRANSACTION WILL BE BENEFICIAL**
2 **TO STATE AND LOCAL ECONOMIES AND TO COMMUNITIES SERVED BY**
3 **MISSOURI UTILITIES?**

4 A. The SPP has recently received FERC approval of an RSC developed
5 transmission expansion cost allocation plan. SPP, its members, and the RSC
6 are focused on continuing to provide adequate and increased electric
7 transmission infrastructure for the SPP region, including Missouri, which will be
8 important for the future financial health of Missouri retail and wholesale
9 customers and the overall Missouri economy. The SPP and RSC's focus on
10 transmission expansion and energy markets should further promote timely
11 construction of appropriate transmission facilities and upgrades with appropriate
12 cost sharing among users. The transfer of functional control of transmission
13 facilities to SPP and operation of the SPP as an RTO should also promote more
14 efficient operation of generation and transmission facilities.

15 **Q. WILL THE TRANSACTION CHANGE THE CURRENT JURISDICTION OF THE**
16 **MOPSC AND THE CAPACITY OF THE MOPSC TO EFFECTIVELY**
17 **REGULATE AND AUDIT PUBLIC UTILITY OPERATIONS IN THE STATE?**

18 A. No. To my knowledge, the existing jurisdictional responsibilities between the
19 MOPSC and FERC will not be affected by the Transaction. The SPP's
20 processes, as well as the continued development of the SPP RSC, should
21 enhance the MOPSC's ability to be appropriately involved in decision-making
22 concerning issues related to the transmission facilities and cost allocation. The
23 Commission's existing right to participate in FERC proceedings that may affect

1 the terms, rates, and conditions related to SPP policy development and filings
2 should remain the same.

3 **Q. WHAT IMPACT, IF ANY, WILL THE TRANSACTION HAVE ON PUBLIC**
4 **SAFETY?**

5 A. As Empire's Regional Reliability Coordinator, the SPP RTO strictly adheres to,
6 encourages, educates, and assists its members with the compliance of the North
7 American Electric Reliability Council (NERC) planning and operating standards.
8 Empire does not anticipate the Transaction to negatively affect Empire's
9 compliance efforts to meet requirements for delivering energy reliably and safely
10 to the public. Empire will continue to own and maintain its transmission facilities.
11 Empire will continue to direct day-to-day transmission and distribution operations
12 under the regional oversight of SPP. Coordinated regional transmission
13 operations should promote reliability of transmission services and operations and
14 thereby enhance public safety.

15 **Q. DO YOU HAVE A COMMENT REGARDING THE TIMING OF THE**
16 **COMMISSION'S APPROVAL OF THIS APPLICATION?**

17 A. Yes. The SPP and its membership are actively developing, investing in, and
18 finalizing design and business practices related to the SPP RTO's Energy
19 Imbalance Service (EIS) market, currently scheduled for May 1, 2006. As part of
20 the readiness for participating in this market, Empire is moving forward with
21 internal system and infrastructure implementation. A timely authorization from
22 this Commission will allow Empire and the other market participants to move

1 forward in an orderly and timely fashion to implement EIS requirements or non-
2 SPP membership alternatives.

3 **Q. DOES EMPIRE HAVE ANY UNIQUE ISSUES REGARDING ITS REQUEST**
4 **FOR AUTHORIZATION IN THIS APPLICATION?**

5 A. Yes. First, Empire is a multi-state jurisdictional utility that centrally operates its
6 resources and manages its transmission system for its four state service area.
7 As such, it is necessary for Empire to obtain acceptable authorizations, as
8 required, from all of its state jurisdictions, and is therefore, requesting that
9 authorization from this Commission be conditioned upon Empire receiving
10 acceptable and similar conditional authorizations from its other commissions in
11 Arkansas, Kansas, and Oklahoma – as required. Empire has made a similar
12 application with testimony to the Kansas Corporation Commission in Docket No.
13 06-WSEE-203-MIS and has become a party to the SPP's Certificate of
14 Convenience and Necessity Application by Order of the Arkansas Public Service
15 Commission in Docket No. 04-137-U. Therefore, Empire requests that approval
16 of this Transaction be conditioned upon Empire receiving similar authorizations,
17 that are deemed acceptable to Empire, from the states of Kansas and Arkansas
18 and Oklahoma (if Oklahoma's approval is later determined to be required).

19 **Q. IF ANY OF EMPIRE'S JURISDICTIONAL COMMISSIONS DENY EMPIRE'S**
20 **APPLICATION OR EMPIRE FINDS ANY SUCH AUTHORIZATIONS**
21 **UNACCEPTABLE, WHAT WOULD EMPIRE BE REQUIRED TO DO?**

22 A. If any of Empire's jurisdictional states deny Empire's requested authorizations,
23 Empire would plan to withdraw its membership in the SPP. Such termination

1 would require FERC approval. If FERC approved Empire's exit from the SPP,
2 Empire would be obligated to pay a termination fee of approximately \$2,000,000.
3 Empire currently has on file with the SPP a notice of intent to terminate its
4 membership, in case this becomes necessary. Withdrawal from membership of
5 the SPP would require Empire to make other arrangements with SPP or another
6 regional reliability coordinator for reliability coordination services as well as
7 determine whether membership in the Midwest Independent System Operator
8 (MISO) RTO, or re-establishment of operations as a stand alone transmission
9 provider and NERC approved control area would be possible and/or acceptable
10 to Empire and its stakeholders.

11 **Q. HAS EMPIRE CONSIDERED AN ALTERNATIVE TO THE SPP RTO, SUCH AS**
12 **MISO, OR NOT PARTICIPATING IN AN RTO AT ALL?**

13 A. Yes. Empire has monitored the development and design of the MISO RTO, as
14 well as considered the impacts of withdrawing its membership from the SPP and
15 standing alone. As a net importer of energy and one of the smaller transmission
16 owning members of the SPP that is interconnected with many existing SPP
17 members, it
18 is important for Empire to participate in a wholesale energy market that enables
19 us to import energy when lower cost supplies are available, as well as participate
20 in the expansion of the regional transmission system. At this time, SPP's
21 mission, strategy, and culture compliment the Empire strategy and culture.
22 Therefore, Empire believes it is a good arrangement for our customers,
23 employees, and shareholders. Further, Empire "is not" physically interconnected

1 with any current MISO, or alternative RTO utility systems, and MISO's market
2 design is much broader in scope and complication than the proposed SPP RTO.
3 The CRA CBS results indicated that Empire's withdrawal from the SPP and stand
4 alone operations could increase Empire's costs to its customers by
5 approximately \$26,000,000 over ten (10) years compared to continued
6 membership as a transmission owner of the SPP and active participate in the EIS
7 market. Accordingly, Empire believes the SPP RTO is a logical, and the most
8 effective, regional organization to participate in at this time.

9 **Q. WHAT IS EMPIRE ASKING FOR IN THIS CASE REGARDING COST**
10 **RECOVERY?**

11 A. Empire is asking the Commission to: 1) authorize Empire to take any and all
12 other actions which may be reasonably necessary and incidental to Empire's
13 performance thereunder and to include performance under such subsequent
14 agreements as may be approved by FERC; and, 2) acknowledge that if it
15 authorizes the Application to allow Empire to participate in the SPP RTO, it will
16 allow Empire to include in its Missouri jurisdictional rates, the following costs:

17 (a) all FERC approved costs and fees under the SPP RTO tariff
18 assessed against and paid by Empire; and

19 (b) the prudently incurred costs of participating in the SPP RTO.

20 **Q. IS AN AUTHORIZATION FOR EMPIRE TO TRANSFER FUNCTIONAL**
21 **CONTROL OF ITS TRANSMISSION FACILITIES TO SPP AND EMPIRE'S**
22 **CONTINUED MEMBERSHIP IN THE SPP RTO DETRIMENTAL TO THE**
23 **PUBLIC INTEREST?**

1 A. No. Based on the factors I have discussed, I believe that the authorization of the
2 transfer of functional control of Empire's transmission facilities to SPP and
3 Empire's continued membership in the SPP RTO is not detrimental to the public
4 interest. I, therefore, recommend that the Commission approve this Application.

5 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

6 A. Yes

AFFIDAVIT

STATE OF MISSOURI)
)
COUNTY OF Jasper) ss

I, Michael E. Palmer, state that I am employed by The Empire District Electric Company as Vice President of Commercial Operations; that the Direct Testimony attached hereto has been prepared by me or under my direction and supervision; and, that the answers to the questions posed therein are true to the best of my knowledge, information and belief.

Michael E Palmer

Subscribed and sworn to before me this 27th day of September, 2005.

Patricia A Settle
Notary Public

My Commission Expires:

