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Special Contracts
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MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

REBUTTAL TESTIMONY

OF

SARAH L. KLIETHERMES

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2014-0351

*Jefferson City, Missouri
March 2015*

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of The Empire District)
Electric Company for Authority to File)
Tariffs Increasing Rates for Electric)
Service Provided to Customers in the)
Company's Missouri Service Area.)

Case No. ER-2014-0351

AFFIDAVIT OF SARAH L. KLIETHERMES

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Sarah L. Kliethermes, of lawful age, on her oath states: that she has participated in the preparation of the following Rebuttal Testimony in question and answer form, consisting of 16 pages of Rebuttal Testimony to be presented in the above case, that the answers in the following Rebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true to the best of her knowledge and belief.



Sarah L. Kliethermes

Subscribed and sworn to before me this 9th day of March, 2015.

SUSAN L. SUNDERMEYER Notary Public - Notary Seal State of Missouri Commissioned for Callaway County My Commission Expires: October 28, 2018 Commission Number: 14942086
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Notary Public

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EXECUTIVE SUMMARY

Q. Are you the same Sarah L. Kliethermes who contributed to Staff's Cost of Service Direct Report and Staff's Class Cost-of-Service and Rate Design Direct Report?

A. Yes.

Q. What is the purpose of this testimony?

A. I will generally respond to the Class Cost-of-Service (CCOS) studies presented by other parties to this case. Also, after discussion with the other parties to this case, Staff has revised its normalized annualized calculation of billing units as well as its estimate of fuel and purchased power costs. I will provide an update to Staff's production allocators for these updates to Staff's direct-filed case. Finally, I will respond to Empire's current position on treatment of credits offered to Praxair under the "Special Transmission Service Contract: Praxair, Schedule SC-P" tariff sheets.

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CLASS COST OF SERVICE PRODUCTION ALLOCATION

Q. Do the CCOS studies presented in this case explicitly account for Empire's market activity or the impact of renewable energy and changes in environmental laws and on Empire's investment in generation capital cost or operating expense?

A. No. All of these studies rely on the assumption that Empire created its fleet as constituted to serve load as it exists in the test year, over the course of the test year. This

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1 assumption ignores the reality that Empire's most recent production-capacity investment was
2 made for environmental compliance, and not to increase production capacity.

3 These studies also assume that Empire generally runs its fleet to economically serve its
4 native load as constituted during the test year, and ignores the reality that Empire operates its
5 fleet for other reasons, relating to

- 6 1. Maximization of market opportunities,
- 7 2. Meeting environmental requirements, and
- 8 3. Integration of wind into its supply portfolio pursuant to a long-term contract.

9 Q. Are any of these studies inherently unreasonable because of these
10 assumptions?

11 A. No. These assumptions underlie virtually all cost of service methodologies.
12 As energy markets develop and environmental regulations have a growing impact on
13 generation fleet investment, Staff is attempting to incorporate some of these elements into its
14 studies. However, recognizing the disconnect between cost of service as allocated in a fully-
15 allocated CCOS study, and what it may or may not cost Empire to provide a particular amount
16 of energy to a particular customer at a particular time is necessary to better weight the
17 relevance of cost-of-service study results to rate design requests and recommendations. While
18 the Commission is not bound to order rates that strictly adhere to any party's CCOS results, it
19 is important that the Commission not allow any class to contribute less in revenues than what
20 it costs Empire to provide service to that class on the basis of cost that Empire would not
21 incur but-for provision of that service.

22 Q. Have you incorporated Staff's updates to billing determinants, revenues, cost
23 of service, and fuel modeling into your calculation of production-related allocators?

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A. Yes.

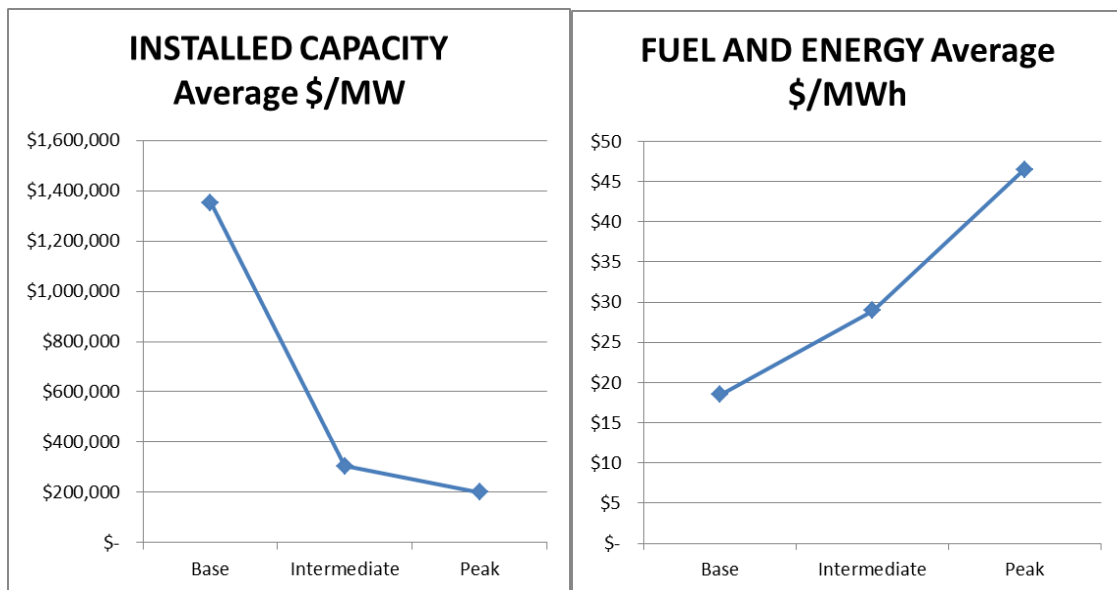
Q. What are Empire’s load characteristics resulting from Staff’s updated billing determinants?

A. Empire’s load has the following normalized demand (in MW) and energy (in MWh) requirements:

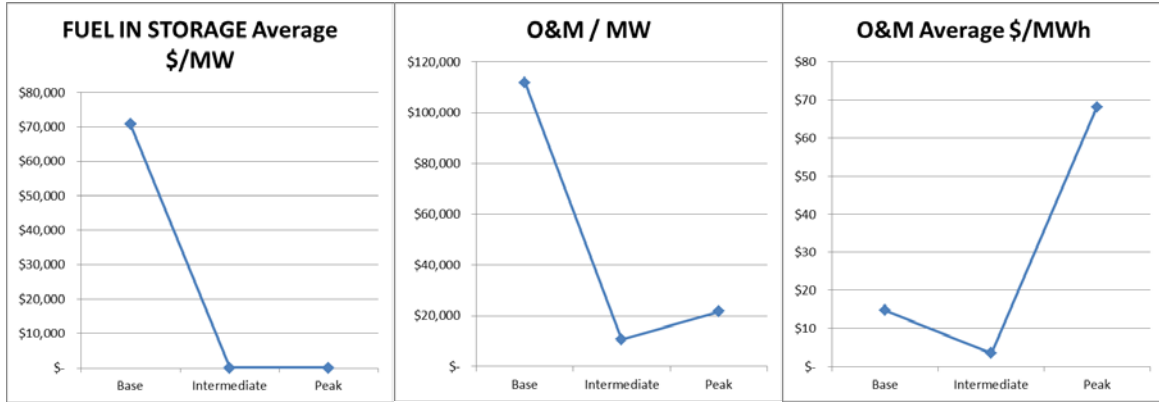
	Component Demands and Energy IN MW/MWH									
	RG	CB	SH	TEB	GP	LP	PRAXAIR	PFM	Lighting	
Base Demand:	205	38	11	45	102	87	7	0	4	
Incremental Intermediate Demand:	178	16	7	26	23	-		-		
Incremental Peak Demand:	115	8	5	14	9	-		-	-	
Base Energy:	1,518,769	300,963	82,009	342,747	802,891	666,928	56,661	319	16,518	
Intermediate Energy:	434,043	95,717	15,130	48,288	138,727	9,994	2,545	49	22,095	
Peak Energy:	18,984	14,688	744	1,146	12,472	-	-	-	-	

Q. What are Empire’s generation characteristics resulting from applying the update production modeling information to Empire’s load characteristics and cost of service as updated by Staff?

A. This information is summarized in the graphs that follow:



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2 Q. What production-related allocators result from applying the updated demand
3 and energy characteristics to the updated generation characteristics?

4 A. This information is summarized in the charts that follow:

BIP Installed Capacity Allocator										
	Total	RG	CB	SH	TEB	GP	LP	PRAXAIR	PFM	Lighting
Base Capacity	\$ 675,652,111	\$ 277,089,832	\$ 51,943,693	\$ 15,042,383	\$ 60,918,810	\$ 138,091,832	\$ 117,248,624	\$ 9,860,997	\$ 106,847	\$ 5,349,094
Incremental Intermediate Capacity	\$ 75,733,856	\$ 54,162,294	\$ 4,830,080	\$ 2,060,397	\$ 7,749,583	\$ 6,931,502	\$ -	\$ -	\$ -	\$ -
Incremental Peak Capacity	\$ 30,057,837	\$ 22,994,226	\$ 1,608,298	\$ 922,365	\$ 2,803,039	\$ 1,729,909	\$ -	\$ -	\$ -	\$ -
Totals:	\$ 781,443,804	\$354,246,352	\$58,382,071	\$18,025,144	\$71,471,432	\$146,753,243	\$117,248,624	\$9,860,997	\$106,847	\$5,349,094
BIP Installed Capacity Allocator:		45.33%	7.47%	2.31%	9.15%	18.78%	15.00%	1.26%	0.01%	0.68%

BIP Fuel for Energy Allocator (annual)										
	Total	RG	CB	SH	TEB	GP	LP	PRAXAIR	PFM	Lighting
Base Energy Usage	\$ 70,037,308	\$ 28,082,357	\$ 5,564,862	\$ 1,516,357	\$ 6,337,471	\$ 14,845,626	\$ 12,331,635	\$ 1,047,678	\$ 5,897	\$ 305,424
Incremental Intermediate Usage	\$ 22,169,200	\$ 12,552,228	\$ 2,768,055	\$ 437,548	\$ 1,396,443	\$ 4,011,903	\$ 289,030	\$ 73,611	\$ 1,406	\$ 638,976
Incremental Peak Usage	\$ 2,232,354	\$ 882,266	\$ 682,602	\$ 34,593	\$ 53,272	\$ 579,621	\$ -	\$ -	\$ -	\$ -
Totals:	\$ 94,438,861	\$41,516,852	\$9,015,519	\$1,988,499	\$7,787,186	\$19,437,150	\$12,620,665	\$1,121,288	\$7,303	\$944,400
BIP Fuel for Energy Allocator:		43.96%	9.55%	2.11%	8.25%	20.58%	13.36%	1.19%	0.01%	1.00%

BIP Fuel in Storage Allocator										
	Total	RG	CB	SH	TEB	GP	LP	PRAXAIR	PFM	Lighting
Base Capacity	\$ 35,341,101	\$ 14,493,642	\$ 2,717,001	\$ 786,817	\$ 3,186,459	\$ 7,223,122	\$ 6,132,883	\$ 515,796	\$ 5,589	\$ 279,793
Incremental Intermediate Capacity	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Incremental Peak Capacity	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Totals:	\$ 35,341,101	\$14,493,642	\$2,717,001	\$786,817	\$3,186,459	\$7,223,122	\$6,132,883	\$515,796	\$5,589	\$279,793
BIP Fuel in Storage Allocator (Capacity):		41.01%	7.69%	2.23%	9.02%	20.44%	17.35%	1.46%	0.02%	0.79%

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	BIP O&M Allocator									
	Total	RG	CB	SH	TEB	GP	LP	PRAXAIR	PFM	Lighting
Base Usage	\$ 55,907,641	\$ 22,416,886	\$ 4,442,180	\$ 1,210,440	\$ 5,058,919	\$ 11,850,598	\$ 9,843,791	\$ 836,314	\$ 4,707	\$ 243,807
Incremental Intermediate Usage	\$ 2,642,738	\$ 1,496,322	\$ 329,973	\$ 52,159	\$ 166,467	\$ 478,249	\$ 34,455	\$ 8,775	\$ 168	\$ 76,171
Incremental Peak Usage	\$ 3,272,089	\$ 1,293,188	\$ 1,000,528	\$ 50,705	\$ 78,084	\$ 849,583	\$ -	\$ -	\$ -	\$ -
Totals:	\$ 61,822,468	\$25,206,396	\$5,772,681	\$1,313,304	\$5,303,470	\$13,178,430	\$9,878,245	\$845,089	\$4,875	\$319,977
BIP O&M Allocator (Energy):		40.77%	9.34%	2.12%	8.58%	21.32%	15.98%	1.37%	0.01%	0.52%

SPECIAL TRANSMISSION SERVICE CONTRACT: PRAXAIR, SCHEDULE SC-P

Q. What is a Special Contract for service?

A. A Special Contract is a contract for service between a customer and a regulated utility under terms that vary from the otherwise-applicable tariffed terms of service. To the best of my knowledge, all Special Contracts for Missouri’s regulated utilities are subject to approval or acceptance by the Commission, and service under a Special Contract can only occur if the Commission approves (or allows to become effective) a special tariff sheet applicable to that customer that incorporates the salient terms of the Special Contract into the utility’s lawfully-promulgated tariff.

Q. To the extent that the terms of a Special Contract vary from the otherwise-applicable tariffed terms of service, is it necessary to hold other customers of that utility harmless from any negative revenue impacts associated with providing service to the Special Contract customer?

A. Yes. This Commission has consistently imputed revenues from Special Contracts at a level consistent with what the revenues from that customer would be under the otherwise-applicable tariffed terms of service.

Q. Does Empire have any Special Contract customers?

A. Yes. Empire’s currently-promulgated tariff includes sheets denominated “Special Transmission Service Contract,” which includes language that “This schedule, SC-P,

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1 is available for service to Praxair, Inc. only in the event there is a contract for power service in
2 effect between the Company and Praxair, Inc.”

3 Q. At the time of filing Staff’s Cost of Service Report, was it your understanding
4 that Empire had imputed revenues associated with the Praxair Special Contract in order to
5 hold the other Empire customers harmless from an increase in revenue requirement associated
6 with Empire’s decision to enter into a Special Contract with Praxair?

7 A. Yes. Consistent with treatment of Praxair in prior Empire cases, I understood
8 that Empire was holding its ratepayers harmless by excluding the negative revenue associated
9 with the Praxair interruptible credit from its calculation of revenues.

10 Q. Even if Empire has not held its non-Praxair ratepayers harmless from the
11 Praxair Special Contract in Empire’s calculation of current revenues in this case, should the
12 Commission do so?

13 A. Yes. Staff recommends that the Commission hold Empire’s non-Praxair
14 ratepayers harmless by excluding the negative revenue associated with the Praxair
15 interruptible credit from the calculation of revenues.

16 Q. Does this conclude your rebuttal testimony?

17 A. Yes.