

Exhibit No.:
Issue: Transmission Reclassification
Witness: W. Scott Keith
Type of Exhibit: Direct Testimony
Sponsoring Party: Empire District Electric
Case No. EO-2009-0233
Date Testimony Prepared: April 2009

Before the Missouri Public Service Commission

Direct Testimony

of

W. Scott Keith

April 2009

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OF
W. SCOTT KEITH
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION

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DIRECT TESTIMONY
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1 **INTRODUCTION**

2 **Q. STATE YOUR NAME AND ADDRESS PLEASE.**

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 IN WHAT CAPACITY?**

6 A. I am presently employed by The Empire District Electric Co. ("Empire" or "the
7 Company") as the Director of Planning and Regulatory. I have held this position
8 since August 1, 2005. Prior to joining Empire, I was Director of Electric
9 Regulatory Matters in Kansas and Colorado for Aquila, Inc. from 1995 to July
10 2005.

11 **BACKGROUND**

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, Oklahoma and West Virginia. I have also testified
3 before the Federal Energy Regulatory Commission ("FERC").

4 **PURPOSE**

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

6 A. My testimony will explain why Empire filed this application requesting Missouri
7 Public Service Commission ("Commission") approval of its transmission
8 accounting methodology. In addition, I will sponsor page 13 of Schedule WSK-1,
9 which displays the estimated changes in jurisdictional revenue requirements that
10 would take place if Empire were to retroactively implement the Southwest Power
11 Pool's ("SPP") definition of transmission investment. Empire has requested that it
12 be authorized to implement the SPP's transmission definition with distribution and
13 transmission plant additions taking place on and after January 1, 2008, rather than
14 reclassifying the investment that Empire has made in those types of facilities prior
15 to that date.

16 **REASON FOR FILING**

17 **Q. WHY IS EMPIRE MAKING THIS FILING AT THE COMMISSION?**

18 A. The SPP exercises functional control over all of Empire's transmission assets. The
19 SPP transmission tariff, which has been approved by the Federal Energy
20 Regulatory Commission ("FERC"), includes a definition of transmission facilities
21 (Attachment AI) that differs from the historical definition that Empire has used to
22 classify its investment in transmission and distribution facilities. SPP's
23 transmission tariff also directed all of the transmission owners within SPP to file

1 with the appropriate regulatory authorities for a determination of their transmission
2 and distribution investments within three (3) years of the FERC's acceptance of
3 SPP's definition of transmission facilities (October 1, 2005).

4 **Q. IS THE COMMISSION AN APPROPRIATE REGULATORY**
5 **AUTHORITY?**

6 A. In Order No. 888, the FERC indicated that it would give deference to the
7 determinations made by the state public utility commissions regarding the
8 distinction between local distribution and transmission. Therefore, Empire believes
9 that the state regulatory commissions in the states in which it serves customers are
10 the appropriate regulatory authorities to seek this determination.

11 **Q. HAS EMPIRE FILED SIMILAR APPLICATIONS ELSEWHERE?**

12 A. Empire has filed for similar determinations in each of the four states that it has
13 electric operations -- Oklahoma, Missouri, Kansas and Arkansas. It is important to
14 note that Empire will need determinations from each of the four (4) jurisdictional
15 states that are compatible. Once Empire obtains orders from its states, it will make
16 a filing to the FERC for acceptance of the states' determinations. Consistency
17 between the determinations made by each of our four states will enhance our
18 request for FERC deference to the state regulatory agencies.

19 **Q. DID EMPIRE FILE ITS STATE APPLICATIONS WITHIN THREE YEARS**
20 **OF FERC'S ACCEPTANCE OF SPP'S DEFINITION OF TRANSMISSION**
21 **FACILITIES (OCTOBER 1, 2005)?**

22 A. No.

23 **Q. WHY NOT?**

1 A. In FERC Docket No. ER05-1285-000, Empire was granted an extension of time to
2 and including December 1, 2008, to comply with the implementation schedule.

3 **Q. WHAT IS EMPIRE REQUESTING THE COMMISSON TO AUTHORIZE**
4 **IN ITS APPLICATION?**

5 A. Empire requests that the Commission issue an order: 1) granting Empire authority
6 to make no changes to the current classification of investment in transmission and
7 distribution facilities recorded on its books and records prior to January 1, 2008; 2)
8 accepting, as reasonable, the methodology Empire used to determine which of its
9 transmission and distribution facilities placed in service prior to January 1, 2008,
10 are transmission facilities; 3) authorizing Empire's use of SPP's transmission
11 criteria and definition to classify its transmission and distribution assets placed in
12 service on and after January 1, 2008; and 4) granting such further relief as the
13 Commission shall find to be reasonable and just.

14 **POTENTIAL REVENUE REQUIREMENT IMPACT**

15 **Q. PLEASE DESCRIBE THE ESTIMATED CHANGES TO THE VARIOUS**
16 **JURISDICTIONAL REVENUE REQUIREMENTS DUE TO A**
17 **RETROACTIVE IMPLEMENTATION OF THE SPP'S TRANSMISSION**
18 **DEFINITION.**

19 A. The overall revenue requirement changes that would materialize as a result of
20 retroactive application of the current SPP transmission definition are very small. In
21 all cases, the overall change is less than \$100,000 per year, per jurisdiction, and
22 less than one-half of one percent of total jurisdictional revenue. More specifically,
23 the estimated impact in the Missouri jurisdiction is a decline in overall annual

1 revenue requirement of approximately \$87,000, or 0.03 percent, of total Missouri
2 revenue.

3 **Q. WHAT IS THE IMPACT OF THIS ON A RESIDENTIAL CUSTOMER?**

4 A. In terms of average cost per kilowatt-hour (“kWh”) sold, this level of reduction
5 equals a decline of 0.00002 per kWh, and a residential customer using 750 kWh in
6 a month could expect to see a decline in his or her electric bill of \$0.02. All of
7 Empire’s jurisdictions have similar very small changes in revenue requirement,
8 some slightly negative and some slightly positive. All of these estimated changes
9 are displayed on page 13 of Schedule WSK-1, by jurisdiction.

10 **Q. HOW DID YOU ESTIMATE THE OVERALL IMPACT ON THE VARIOUS**
11 **JURISDICTIONAL REVENUE REQUIREMENTS?**

12 A. The first step in the process involved a very detailed analysis of all of Empire’s
13 investment in distribution and transmission facilities at December 31, 2007, to
14 determine if the investment would be classified as transmission or distribution
15 under the new SPP definition. This analysis was performed by Empire’s
16 engineering staff with assistance from an outside consultant, Glenn Blake. The
17 overall results of this analysis are displayed in Schedule WSK-1 and are further
18 described in the direct testimony of Empire witness Glenn Blake. The location of
19 these assets also plays a key roll in the overall impact on the jurisdictional revenue
20 requirements. For example, investment located in Missouri that had historically
21 been classified as transmission, but did not meet SPP’s definition of transmission
22 would become distribution property in Missouri and would not be allocated to the
23 other state jurisdictions. On the other hand, investment in Missouri that had been

1 recorded as distribution, but meets SPP's definition of transmission would now be
2 subject to allocation to the other state jurisdictions. The estimated impact of each
3 of these changes had to be quantified and allocated to the various jurisdictions.

4 **Q. AFTER THE INITIAL ANALYSIS OF INVESTMENT WAS COMPLETED,**
5 **HOW DID YOU QUANTIFY THE IMPACT ON THE VARIOUS**
6 **JURISDICTIONAL REVENUE REQUIREMENTS?**

7 A. After the analysis of transmission and distribution investment was completed, I
8 allocated the investment between jurisdictions using the same allocation factors
9 that Empire has historically used when filing general rate cases. I then compared
10 this allocation of investment to the allocation of investment that would have taken
11 place had there been no reclassification of transmission investment using the SPP
12 definition. There were no changes in the jurisdictional allocation factors, only
13 changes in transmission and distribution investment subject to allocation. After the
14 net change in jurisdictional investment was determined, I applied the most recent
15 rate of return authorized in Missouri to develop the overall change in revenue
16 requirement by each of the jurisdictions. In addition, I took into account changes in
17 annual depreciation expense that would track the changes in allocated investment.
18 Finally, I divided each of the revenue requirement changes by the jurisdictional
19 kWh to determine the average change per kWh. This in turn enabled me to
20 estimate the impact on a customer using 750 kWh per month.

21 **Q. DID THE ESTIMATES OF THE REVENUE REQUIREMENT CHANGES**
22 **IN EACH OF THE JURISDICTIONS TAKE INTO ACCOUNT THE**
23 **ADDITIONAL ADMINISTRATIVE COST ASSOCIATED WITH THE**

1 **RECLASSIFICATION OR POTENTIAL CHANGES IN THE**
2 **ALLOCATION OF SPP POINT-TO-POINT REVENUE TO EMPIRE?**

3 A. No.

4 **Q. IF A RECLASSIFICATION OF EMPIRE'S INVESTMENT IN**
5 **TRANSMISSION AND DISTRIBUTION FACILITIES WERE ORDERED**
6 **BY THE COMPANY, HOW WOULD EACH OF THESE FACTORS**
7 **IMPACT THE CHANGES IN JURISDICTIONAL REVENUE**
8 **REQUIREMENT?**

9 A. They would increase the revenue requirement in each of the jurisdictions. For
10 example, Missouri's estimated reduction in revenue requirement of \$87,000 would
11 be reduced by the Missouri share of any additional administrative cost. In addition,
12 to the extent that a retroactive application of the current SPP definition of
13 transmission (re-classification of pre-2008 classified facilities) were implemented
14 along with a modification to Empire's FERC approved transmission revenue
15 requirement identified in SPP's OATT Attachment H, Empire would see a
16 reduction of future SPP point-to-point allocated transmission revenues. In the end,
17 the slight reduction in the Missouri revenue requirement due to a re-classification
18 would become even smaller than 2 cents per month.

19 **Q. WHAT IS THE CURRENT STATUS OF THE RECLASSIFICATION**
20 **APPLICATIONS IN EACH OF THE OTHER STATES?**

21 A. In Oklahoma (Cause No. PUD 200-800383), a hearing was held on Empire's
22 application on April 2, 2009. There was no opposition to Empire's request and our
23 request was supported by the staff of the Oklahoma Corporation Commission

1 (“OCC”) and Attorney General’s office. Empire anticipates that the OCC will
2 issue an order on the application by May 1, 2009. In Kansas (Docket No. 09-
3 EPDE-457-MIS), the Kansas Corporation Commission staff’s memorandum of
4 March 31, 2009 found that Empire’s approach to reclassification was reasonable
5 and consistent with SPP and FERC requirements, and recommended approval of
6 Empire’s application. In Arkansas, the Arkansas Public Service Commission
7 (“APSC”) staff is waiting for final orders in Empire’s other three (3) jurisdictions
8 before taking action. To-date the APSC staff has found nothing unreasonable about
9 Empire’s application.

10 **Q. IS IT HELPFUL FOR THE TRANSMISSION DETERMINATIONS IN**
11 **EACH OF THE STATE JURISDICTIONS TO BE COMPATIBLE?**

12 A. Yes.

13 **Q. WHY?**

14 A. After Empire obtains transmission determination orders from each of the four
15 states, it will file all four of the orders at the FERC and request that the FERC
16 accept the states’ transmission determination. Consistency between the
17 determinations made by each of the four states will enhance Empire’s request at the
18 FERC. Inconsistencies between the four state transmission determinations will
19 leave a conflict in the determinations that the FERC will in all likelihood fill with a
20 transmission determination of its own.

21 **Q. WILL EMPIRE’S MISSOURI CUSTOMERS EXPERIENCE A CHANGE IN**
22 **OVERALL RATES IF THE COMMISSION APPROVES THIS**
23 **APPLICATION?**

1 A. No. Empire's Missouri rates will not change as a result of the Commission
2 approving our request in this application. Empire's base Missouri rates will not
3 change until Empire has another general rate case in Missouri.

4 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

5 A. Yes.

AFFIDAVIT OF W. SCOTT KEITH

STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 8th day of April, 2009, before me appeared W. Scott Keith, to me personally known, who, being by me first duly sworn, states that he is the Director of Planning and Regulatory of The Empire District Electric Company and acknowledges that he has read the above and foregoing document and believes that the statements therein are true and correct to the best of his information, knowledge and belief.

W. Scott Keith
W. Scott Keith

Subscribed and sworn to before me this 8th day of April, 2009.

Kelly A. Emanuel
Notary Public

My commission expires: 5-15-09.

