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Fuel and Purchased Power Costs, Resource
Planning
Witness: Todd W. Tarter
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Sponsoring Party: The Empire District
Electric Company
Case No.: ER-2021-0312
Date Testimony Prepared: January 2022

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

Surrebuttal Testimony

of

Todd W. Tarter

on behalf of

The Empire District Electric Company

January 2022



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THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
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1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. Todd W. Tarter. My business address is 602 S. Joplin Avenue, Joplin, Missouri.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am employed by Liberty Utilities Service Corp. (“LUSC”) as Senior Manager,
6 Strategic Planning for the Liberty Central Region which includes The Empire District
7 Electric Company (“Empire” or “Company”).

8 **Q. Are you the same Todd W. Tarter that earlier prepared and filed direct testimony**
9 **in this rate case before the Missouri Public Service Commission (“Commission”)**
10 **on behalf of Empire?**

11 A. Yes.

12 **Q. What is the purpose of your surrebuttal testimony?**

13 A. In my surrebuttal testimony, I respond to the rebuttal testimony of the Commission
14 Staff’s (“Staff”) witness Charles T. Poston who discussed the Staff’s examination of
15 natural gas prices. I also introduce the Company’s updated fuel adjustment clause
16 (“FAC”) base factor proposal that utilizes the same natural gas price as Staff’s direct
17 and rebuttal proposal. I conclude by responding to the rebuttal testimony of Office of
18 the Public Counsel (“OPC”) witness Lena M. Mantle regarding Empire’s resource
19 planning process.

1 **II. RESPONSE TO STAFF WITNESS CHARLES T. POSTON**

2 **Q. On page 3, starting at line 3, of his rebuttal testimony, Staff witness Poston**
3 **discusses why the Empire and Staff direct filed natural gas prices are different in**
4 **this case. Does the Company agree with this account?**

5 A. Yes. As Mr. Poston reported, Empire's natural gas prices were derived prior to the filing
6 of Empire's direct testimony in May 2021, while Staff's natural gas prices were derived
7 during the middle of October 2021. Therefore, Staff developed their natural gas prices
8 about four and a half months after Empire filed its direct case. As Mr. Poston testified,
9 Staff used Empire-specific natural gas price data through June 30, 2021, the end of the
10 ordered update period. I agree with Mr. Poston that since July 2020, the spot price of
11 natural gas has been generally trending upwards.

12 As a result, Empire filed with an annualized natural gas price of \$2.09/MMBtu
13 and Staff used \$2.42/MMBtu in their direct filing. Additionally, as the Staff witness
14 mentioned, using the Staff method, if updated through September 30, 2021, Staff's
15 natural gas price would become \$2.85/MMBtu.

16 **Q. In rebuttal testimony, on pages 2 through 6, Staff witness Poston provides an**
17 **assessment of the recent natural gas price market that impacts the natural gas and**
18 **market prices used for this case. How do you respond?**

19 A. Staff's assessment is accurate. In general, natural gas prices have been volatile and
20 have generally increased since the time Empire filed this case. I also agree that the
21 natural gas price is a very important input for calculating the FAC base factor, and that
22 the period of time selected for developing this important assumption will influence the
23 natural gas price used in modeling. This volatility just reinforces the importance of the
24 FAC mechanism.

1 **Q. What is Empire’s current recommendation regarding the natural gas price to be**
2 **used in production cost modeling for the calculation of the FAC base factor for**
3 **this case?**

4 A. Empire acknowledges that the \$2.09/MMBtu natural gas price that it used in its Direct
5 Filing—while a reasonable assumption at the time—seems to be too low for
6 establishing an accurate FAC base factor based on the current natural gas market. The
7 \$2.42/MMBtu used by Staff and even the \$2.85/MMBtu Staff calculated with more
8 recent information seem to be more reasonable levels. While it is uncertain exactly
9 what the natural gas price will be in the future, it is Empire’s surrebuttal position to
10 update its natural gas price assumption for the purpose of establishing the FAC base
11 factor for this case to \$2.42/MMBtu. This matches the Staff position on this issue. As
12 reported by Staff witness Poston in rebuttal testimony on page 6, starting at line 16, “At
13 this time, Staff continues to recommend that the calculated natural gas price of
14 \$2.42/MMBtu from its COS report be used to determine Empire’s variable fuel and
15 purchased power expense.”

16 **Q. Has the Company updated its production cost model with the \$2.42/MMBtu**
17 **natural gas assumption?**

18 A. Yes. Empire was able to utilize the EnCompass production cost model that was
19 described in direct testimony with a dataset that used an average natural gas price of
20 \$2.42/MMBtu and corresponding market prices. Please refer to Surrebuttal Schedule
21 TWT-1 for the updated results.

22 **Q. Please summarize the history of the FAC base factor positions in this case on a**
23 **\$/MWh basis?**

1 A. The Company's direct filed position recommended an FAC base factor of \$10.11/MWh
2 while the Staff position has remained at \$9.53/MWh. The updated Company position
3 is \$11.66/MWh after updating to the \$2.42/MMBtu natural gas price. Again, please
4 refer to Surrebuttal Schedule TWT-1.

5 **Q. Why does the Company support a higher updated FAC Base Factor compared to**
6 **Staff, if the Staff and Company models are now using the same average natural**
7 **gas price?**

8 A. The costs and the revenues from the Company and Staff production cost models are now
9 relatively close, but they are not exactly the same. Also, the FAC base factor includes
10 other cost and revenue components that are provided outside the models. The primary
11 category driving the difference is the assumptions used for the amount of net
12 transmission allowed to flow through the FAC. The Company position is supported in
13 the testimony of Company witness Aaron J. Doll. The Company is proposing a level
14 of \$13,568,075, while the Staff is recommending a level of only \$4,162,206.

15 The following table, based on the Staff model run and the Company's updated
16 \$2.42/MMBtu natural gas price run, is a high-level comparison of the Company's and
17 Staff's current positions if you consider only the net fuel and purchased power costs
18 ("F&PP \$") from the respective models. Given the fact that these results rely on
19 different models and the number of different detailed inputs (which includes multiple
20 sets of 8,760 hourly market prices for different locational marginal price nodes), the
21 net costs between the two models are reasonably close.

**Model Annual Cost and Revenues for FAC Base Factor Calculation
With Both Models Using \$2.42 Natural Gas and Corresponding Market Prices**

	<u>Staff</u>	<u>Empire Update</u>	<u>Difference</u>	<u>% Different</u>
F&PP \$	\$ 122,025,748	\$ 121,717,648	\$ (308,099)	-0.25%
Native Load \$	\$ 130,383,768	\$ 130,763,475	\$ 379,707	0.29%
Market Revenue \$	\$ (208,475,609)	\$ (206,227,618)	\$ 2,247,991	-1.09%
Net	\$ 43,933,907	\$ 46,253,505	\$ 2,319,599	5.01%
MWh	5,077,207	5,181,471	104,264	2.01%
\$/MWh	8.65	8.93	0.27	3.06%

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2 **III. RESPONSE TO OPC WITNESS LENA M. MANTLE**

3 **Q. On page 15 of her rebuttal testimony, OPC witness Mantle states that much of the**
 4 **extraordinary costs of Strom Uri were the consequence of long-term Empire**
 5 **decisions with respect to its generation resources, insinuating that the Company’s**
 6 **resource planning is guided by profits and not for customer reliability. How do**
 7 **you respond?**

8 **A.** The Company strenuously opposes this assertion. As Ms. Mantle points out on pages
 9 28-29 of her rebuttal testimony, the Company has met the SPP resource adequacy
 10 requirements. While not the only consideration, a major part of the Company’s
 11 resource planning process is a detailed analysis to ensure resource adequacy is satisfied
 12 (i.e., that the Company can meet its projected peak demand plus a reserve margin
 13 prescribed by SPP). During the time that I have been involved with the Company’s
 14 integrated resource planning (“IRP”) efforts, Empire has worked with stakeholders and
 15 filed plans with the Commission as guided by the Missouri Electric Utility Resource
 16 Planning Rule (“Rule”). The Company has strived to meet the objectives of this Rule.
 17 As the Rule states:

1 *The fundamental objective of the resource planning process at electric*
2 *utilities shall be to provide the public with energy services that are*
3 *safe, reliable, and efficient, at just and reasonable rates, in*
4 *compliance with all legal mandates, and in a manner that serves the*
5 *public interest and is consistent with state energy and environmental*
6 *policies.*

7 Further, the Rule has the utility consider and analyze demand-side resources,
8 renewable energy, and traditional supply-side resources on an equivalent basis; use the
9 minimization of the present worth of long-run utility costs as the primary selection
10 criterion when selecting the preferred resource plan (e.g. a low cost plan); consider rate
11 increases; and subject the competing plans to a risk analysis phase. The Company is
12 now preparing its 2022 triennial IRP filing. During stakeholder meetings, the Company
13 has presented a scorecard approach for assessing the tradeoffs and for striking the
14 appropriate balance between all the considerations in selecting the preferred resource
15 plan and developing the resource acquisition strategy. In short, this includes customer
16 affordability, risk mitigation, reliability, environmental sustainability and compliance
17 and safety. All these factors are important to the Company in the resource planning
18 process. OPC witness Mantle implies that the Company's resource planning is focused
19 more on profits than on the customer as seen in a section heading within her rebuttal
20 testimony on page 15, line 1. This sentiment is purely an invention of the OPC witness
21 and does not reflect the position of the Company.

22 **Q. Does this conclude your Surrebuttal Testimony?**

23 **A. Yes.**

VERIFICATION

I, Todd W. Tarter, under penalty of perjury, on this 20th day of January, 2022, declare that the foregoing is true and correct to the best of my knowledge and belief.

/s/ Todd W. Tarter