

Exhibit No.:  
Issue: FAC, FAC Base  
Witness: Todd W. Tarter  
Type of Exhibit: Surrebuttal Testimony  
Sponsoring Party: Empire District Electric  
Case No. ER-2014-0351  
Date Testimony Prepared: March 2015

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

**Surrebuttal Testimony**

**of**

**Todd W. Tarter**

**March 2015**



SURREBUTTAL TESTIMONY OF  
TODD W. TARTER  
ON BEHALF OF  
THE EMPIRE DISTRICT ELECTRIC COMPANY  
BEFORE THE  
MISSOURI PUBLIC SERVICE COMMISSION  
CASE NO. ER-2014-0351

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

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

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

4 A. The Empire District Electric Company (“Empire”, “EDE” or “Company”). My title is  
5 Manager of Strategic Planning.

6 **Q. ARE YOU THE SAME TODD W. TARTER THAT FILED DIRECT AND**  
7 **REBUTTAL TESTIMONY IN THIS RATE CASE BEFORE THE MISSOURI**  
8 **PUBLIC SERVICE COMMISSION (“COMMISSION”) ON BEHALF OF EMPIRE?**

9 A. Yes.

10 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

11 A. In my Surrebuttal Testimony, I will respond to the Rebuttal Testimony of Commission  
12 Staff (“Staff”) witness David C. Roos on the issue of the fuel and purchased power (“FPP”)  
13 expense level for setting the base FPP cost for Empire’s fuel adjustment clause (“FAC”).

14 **Q. DID STAFF UPDATE ITS FAC BASE FACTOR FOR THIS CASE?**

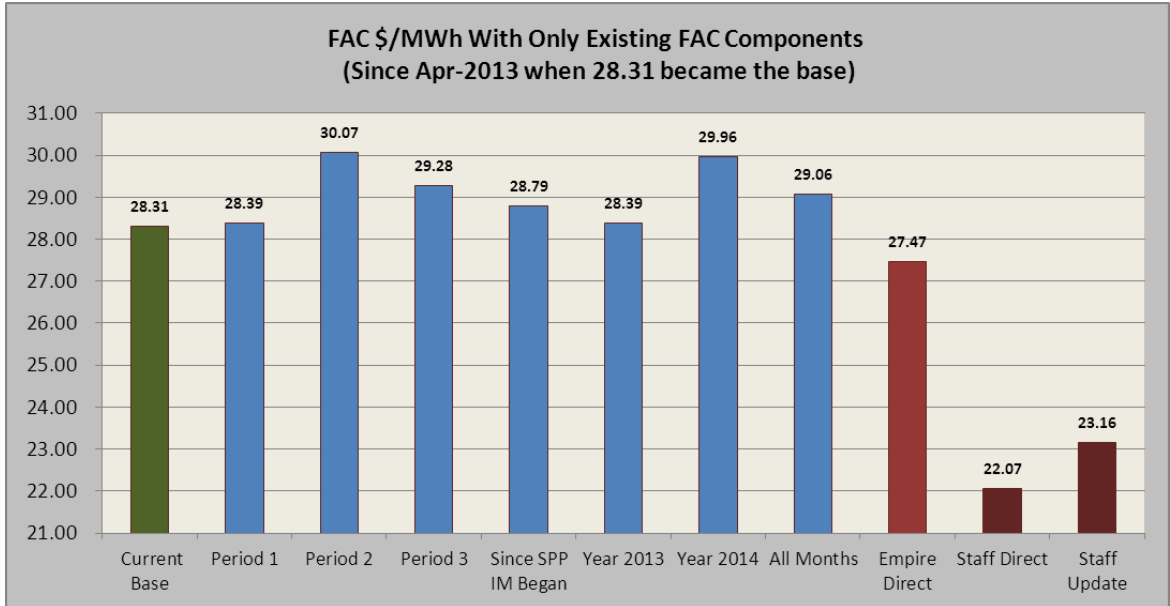
15 A. Yes. Staff updated the FAC base factor from a direct filed position of \$23.93/MWh to a  
16 rebuttal position of \$24.43/MWh.

17 **Q. ON PAGE 17 OF YOUR REBUTTAL TESTIMONY, YOU STATE THAT STAFF’S**  
18 **DIRECT FILED FAC BASE FACTOR APPEARS TO BE LOW. HOW DO YOU**  
19 **RESPOND TO THE STAFF’S UPDATED FAC BASE FACTOR?**

1 A. Staff's updated FAC base appears to still be lower than what can be reasonably expected,  
2 and it is not indicative of Empire's ongoing energy costs.

3 **Q. PLEASE AMEND THE FAC BASE COMPARISON GRAPH FROM PAGE 10 OF**  
4 **YOUR REBUTTAL TESTIMONY TO INCLUDE STAFF'S UPDATED FAC BASE**  
5 **FACTOR.**

6 A. The graph on page 10 of my Rebuttal Testimony compared FAC \$/MWh values since the  
7 current FAC base of \$28.31/MWh was authorized in April 2013, with proposals in this  
8 case. The values from this case need to be adjusted to provide a comparison of the same  
9 cost components. The graph below shows Staff's and Empire's direct filed positions and  
10 Staff's updated position, with only existing FAC cost components for comparison  
11 purposes. This approach allows an equivalent comparison with the existing FAC base and  
12 the actual costs since the current FAC base factor became effective. Empire's direct filed  
13 comparison value, for this purpose, would be \$27.47/MWh. Staff's direct filed comparison  
14 value would be \$22.07/MWh, and Staff's rebuttal comparison value would be  
15 \$23.16/MWh, when only existing FAC components are considered. Staff's initial and  
16 updated FAC base factors are significantly lower than the current FAC base, as shown in  
17 the graph below.



1 **Q. IN YOUR REBUTTAL TESTIMONY YOU STATED THAT YOU HAD SEVERAL**  
2 **CONCERNS WITH STAFF’S FAC BASE FACTOR CALCULATION. DID STAFF**  
3 **ADDRESS THOSE CONCERNS WITH ITS UPDATED FAC BASE FACTOR**  
4 **CALCULATION?**

5 A. Staff did address some of those concerns with its updated FAC base factor calculation.  
6 Specifically, Staff addressed the following issues in the revision to their proposed FAC  
7 base: Asbury start oil, fuel related cost, and Plum Point purchased power operation and  
8 maintenance costs that were all previously omitted; Ozark Beach hydro generation level;  
9 Iatan Unit 2 heat rate; and, to some extent, the State Line Combined Cycle heat rate. The  
10 list of items *not* addressed in Staff’s update revised FAC base include the following issues:  
11 Southwest Power Pool integrated marketplace (“SPP IM”) modeling approach; generation  
12 mix; market prices for electric energy; air quality control system consumables level;  
13 renewable energy credit offset level; and off-system sales level.

1 **Q. SINCE STAFF DID CHANGE THE OFF-SYSTEM SALES LEVEL IN ITS**  
2 **UPDATED FAC BASE CALCULATION, WHY IS THERE STILL A CONCERN?**

3 A. Schedule DCR-R1, which is attached to Staff witness Roos' Rebuttal Testimony,  
4 represents that Staff updated the value labeled "LESS: Off-System Sales Revenue" from  
5 \$19,264,289 to \$21,700,980. This is an offset to total energy costs. While Staff changed  
6 the label and value, my concerns, as set forth on page 8, lines 14-23, and page 9, lines 1-6,  
7 of my Rebuttal Testimony, still apply. Specifically, the types of off-system sales made  
8 prior to the SPP IM are, for the most part, no longer taking place. If Staff includes the  
9 revenue offset in its calculation, then it must include the costs associated with making those  
10 sales. Moreover, if this Staff value represents Staff's SPP next day market revenue, then it  
11 may be affecting Staff's FAC base calculation accuracy, since Staff's modeling approach  
12 did not accurately portray the SPP IM. Finally, the SPP next day market revenue must be  
13 aligned with the SPP IM model run. Additionally, as Empire witness Aaron J. Doll points  
14 out at page 2, lines 14-19, of his Rebuttal Testimony:

15 "in the Staff's fuel base calculation, \$16,707,084 is removed from the 555  
16 accounts to reflect the elimination of the cost associated with off-system sales  
17 ("OSS") due to the implementation of the Southwest Power Pool Integrated  
18 Marketplace ("SPP IM"). However, the corresponding 447 revenue accounts,  
19 which reflect OSS revenue, do not appear to be removed from the Staff's base  
20 factor, thereby artificially lowering the base fuel rate by \$6,214,261."

21 **Q. DO YOU STILL HAVE CONCERNS WITH THE STATE LINE COMBINED**  
22 **CYCLE ("SLCC") HEAT RATE IN STAFF'S MODELING?**

1 A. Yes. Based on a review of Staff’s workpapers, it appears that Staff may have made  
2 changes to the SLCC heat rate, but it is still unreasonably low as compared to the unit’s  
3 historical heat rates, as shown in the table below.

	Heat Rate (Btu/KWH)
	SLCC
2011	7,376
2012	7,257
2013	7,444
2014	7,502
Empire Direct Model	7,484
Staff Direct Model	6,990
Staff Update Model	7,110

4 **Q. ON PAGE 3, LINES 5-21 OF MR. ROOS’ REBUTTAL TESTIMONY, HE**  
5 **RESPONDS TO THE OFFICE OF THE PUBLIC COUNSEL (“OPC”) WITNESS**  
6 **LENA MANTLE CONCERNING JURISDICTIONAL ALLOCATORS THAT ARE**  
7 **APPLIED TO COSTS ELIGIBLE FOR THE FAC. HOW DO YOU RESPOND TO**  
8 **HIS REBUTTAL TESTIMONY ON THIS ISSUE?**

9 A. I generally agree with Mr. Roos’ response to OPC witness Lena Mantle on this issue. At  
10 the end of his response to OPC witness Mantle, Mr. Roos states that Staff is reviewing the  
11 implications of Ms. Mantle’s work. I addressed this issue on page 29, lines 12-23, and  
12 page 30, lines 1-6, of my Rebuttal Testimony. Based on my research into this issue, it is my  
13 understanding that the allocation factor has been applied correctly to the total company  
14 account to be included in the FAC calculation consistent with the FAC tariff. The  
15 differences in amounts cited by Ms. Mantle are related to the allocation factors used to  
16 record these costs in the general ledger system versus the allocation factor that apportions  
17 these costs in the Missouri FAC. The FAC authorizes the use of an energy allocation factor,

1 while the general ledger uses a demand related allocation factor. Empire will attempt to  
2 work with other parties to clear up the confusion on this issue.

3 **Q. ON PAGE 3, LINES 23-25, AND PAGE 4, LINES 1-7, OF HIS REBUTTAL**  
4 **TESTIMONY, MR. ROOS RESPONDS TO EMPIRE’S REQUEST TO INCLUDE**  
5 **NATURAL GAS STORAGE AND DELIVERY COSTS THAT ARE NOT IN**  
6 **EMPIRE’S EXISTING FAC. HOW DO YOU RESPOND TO STAFF’S REBUTTAL**  
7 **POSITION?**

8 A. In my Rebuttal Testimony on page 3, which was filed concurrently with Mr. Roos’  
9 Rebuttal Testimony, I testified that “Empire can agree with the Staff’s position of not  
10 allowing the flow-through of changes in natural gas storage costs or the fixed portion of  
11 natural gas transportation costs through the FAC, and continue to recover the natural gas  
12 storage and natural fixed transportation costs in base rates.”

13 **Q. ON PAGE 4, LINES 8-18, OF HIS REBUTTAL TESTIMONY, MR. ROOS**  
14 **TESTIFIES ABOUT STAFF’S POSITION ON THE APPROPRIATENESS OF**  
15 **RECOVERING SPP SCHEDULE 1-A AND SPP SCHEDULE 12 CHARGES**  
16 **THROUGH THE FAC. HOW DO YOU RESPOND?**

17 A. I do not agree with Staff’s position. Empire supports the inclusion of SPP Schedule 1-A  
18 and SPP Schedule 12 charges in the FAC. As Empire witness Aaron J. Doll explains in his  
19 Rebuttal Testimony on pages 3-5, these charges are unavoidable and difficult to forecast.  
20 Staff contends that these costs should not be included in the FAC because they are “fixed”  
21 (Roos Rebuttal, page 4, line 13). However, “fixed” by definition means that they are  
22 “firmly implanted and not movable.” This is not an accurate representation of these costs.  
23 The rates that make up these charges are subject to change and they may be updated at least

1 annually. Staff noted that these costs have not changed much over a six month period that  
2 they reviewed for this case, and are, therefore, considered as fixed costs by Staff. This is  
3 not the case with these costs. They are subject to change and adjustment at least annually.  
4 The fact that they changed slightly for six months in Staff's review does not reflect how  
5 they have changed historically or expected to change in the future.

6 **Q. DOES STAFF'S UPDATED FAC BASE FACTOR MATCH THE STAFF'S**  
7 **UPDATED ACCOUNTING SCHEDULES (REFERRED TO AS THE STAFF**  
8 **ELECTRONIC EMS RUN)?**

9 A. No. Staff's updated FAC base factor does not appear to match its accounting schedules for  
10 the base energy costs and revenues in Staff's proposed revenue requirement. Not only do  
11 the values not match, the expense and revenue components are not even the same. For  
12 instance, in rebuttal testimony, Staff witness David Roos discusses the inclusion of Plum  
13 Point purchased power operation and maintenance costs in the updated FAC base factor  
14 (page 2, lines 12-14), but this cost is not included in the Staff's Electronic EMS Run  
15 revenue requirement.

16 **Q. DOES AN ADJUSTMENT NEED TO BE MADE TO STAFF'S ELECTRONIC EMS**  
17 **RUN REVENUE REQUIREMENT FOR THE PLUM POINT PURCHASED**  
18 **POWER AGREEMENT ("PPA") OPERATION AND MAINTENANCE ("O&M")**  
19 **COSTS?**

20 A. Yes. The Plum Point purchased power operation and maintenance cost is a legitimate cost  
21 that has been included in Empire's rates since Plum Point has been in service and should be  
22 included in the Staff's revenue requirement in this case. This is of critical importance. If  
23 Empire's FAC base has the Plum Point PPA O&M costs included, but Staff's EMS revenue



1 requirement does not the amount of base rate revenue will not correspond with the  
2 proposed level of fuel and purchased power calculated by Mr. Roos. In other words, the  
3 result of not including the expense associated with the Plum Point PPA O&M costs in the  
4 Electronic EMS Run, will understate the amount of revenue required to recover the  
5 proposed level of fuel and purchased power energy calculated by Mr. Roos.

6 **Q. WHY IS IT IMPORTANT THAT THE FAC BASE FACTOR MATCH THE BASE**  
7 **ENERGY COSTS AND REVENUES IN THE REVENUE REQUIREMENT USED**  
8 **FOR SETTING GENERAL RATES?**

9 A. Since a portion of fuel recovery occurs in the base rates and any over or under recovery,  
10 based on the FAC base factor, is handled in the FAC rider, it is very important that the base  
11 factor in the FAC correctly matches the base energy costs and revenues in the revenue  
12 requirement. For example, if the FAC base factor is larger than the amount of fuel and  
13 purchased power energy recovered in base rates, the result, in this instance, could be a  
14 significant under-recovery of base rate revenue. Alternately, if the FAC base factor is less  
15 than the amount of fuel and purchased power energy recovered in base rates, the result  
16 could be a significant over-recovery of base rate revenue which would be unfair to the  
17 customer. Staff discussed this topic in the Staff Cost of Service Revenue Requirement  
18 Report for this case on pages 123-125.

19 **Q. BASED ON STAFF'S UPDATED ELECTRONIC EMS RUN, WHAT IS THE**  
20 **DIFFERENCE IN THE STAFF'S UPDATED FAC BASE FACTOR AND STAFF'S**  
21 **EMS RUN?**

1 A. It is Empire's understanding that the Staff updated FAC base factor is based on a total net  
2 energy cost of \$129,068,167, while the corresponding base energy costs and revenues in  
3 the Staff revenue requirement is \$142,143,115.

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

5 A. Yes.

