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Witness: Matthew J. Barnes
Sponsoring Party: MO PSC Staff
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Case No.: ER-2012-0345
Date Testimony Prepared: February 4, 2013

MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

SURREBUTTAL TESTIMONY

OF

MATTHEW J. BARNES

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2012-0345

Jefferson City, Missouri
February 2013

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

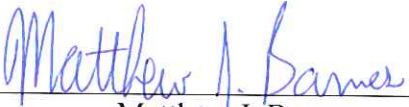
In the Matter of The Empire District)
Electric Company of Joplin, Missouri)
Tariffs Increasing Rates for Electric)
Service Provided to Customers in the)
Missouri Service Area of the Company)

Case No. ER-2012-0345

AFFIDAVIT OF MATTHEW J. BARNES

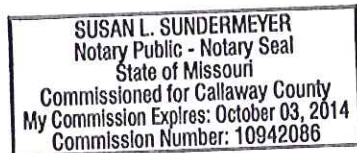
STATE OF MISSOURI)
) ss
COUNTY OF COLE)


Matthew J. Barnes, of lawful age, on his oath states: that he has participated in the preparation of the following Surrebuttal Testimony in question and answer form, consisting of 9 pages of Surrebuttal Testimony to be presented in the above case, that the answers in the following Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.



Matthew J. Barnes

Subscribed and sworn to before me this 1st day of February, 2013.





Notary Public

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Q. Please state your name and business address?

A. My name is Matthew J. Barnes and my business address is Missouri Public Service Commission, P.O. Box 360, Jefferson City, MO 65102.

Q. What is your position with the Staff (“Staff”) of the Missouri Public Service Commission (“Commission”)?

A. I am a Utility Regulatory Auditor IV in the Energy Resource Analysis Unit of the Regulatory Review Division.

Q. Are you the same Matthew J. Barnes that filed rebuttal testimony on January 16, 2013, and contributed to Staff’s Revenue Requirement Cost of Service Report (“COS Report”) filed on November 30, 2012, and Staff’s Rate Design Class Cost of Service Report (“CCOS Report”) filed on December 13, 2012?

A. Yes, I am.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to address the rebuttal testimony of The Empire District Electric Company (“Empire” or “Company”) witnesses Messrs. Todd W. Tarter and W. Scott Keith regarding: a) Staff’s calculation of Empire’s base factor per kWh rate, b) Staff’s recommendation to change the Fuel Adjustment Clause (“FAC”) sharing

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1 mechanism from a 95%/5% sharing mechanism to a 85%15% sharing mechanism, and c)
2 transmission costs that should be included in Empire's FAC.

3 **Staff's Response to Mr. Tarter's Rebuttal Testimony**

4 Q. On page 3, lines 13 through 16, of his rebuttal testimony, Mr. Tarter testifies
5 that "Staff has indicated that it will change its position on [the issue of Empire's FAC sharing
6 mechanism]. What is Staff's position on that issue now?

7 A. As Staff informed the parties during the week of January 7, 2013 through
8 January 11, 2013, that the Commission set aside for settlement discussions, Staff has
9 abandoned its position that Empire's FAC sharing mechanism should be 85%/15% sharing.
10 Staff changed its position because of the Commission's recent decisions to leave the FAC
11 sharing at 95%/5% in the Ameren Missouri and KCP&L Greater Missouri Operations
12 Company ("GMO") rate cases, Case Nos. ER-2012-0166 and ER-2012-0175, respectively.

13 Q. What does Staff now recommend for Empire's FAC sharing mechanism?

14 A. Staff recommends the Commission leave Empire's FAC sharing mechanism at
15 95%/5%.

16 Q. On page 5, lines 1 through 14, of his rebuttal testimony, Mr. Tartar states
17 concerns about Staff's exclusion of Plum Point Operation and Maintenance ("O&M")
18 expense. What is your response?

19 A. As Staff informed parties during the technical discussions during the
20 settlement conference the week of January 7, 2013 through January 11, 2013, it had
21 inadvertently excluded Plum Point O&M expenses from its calculation of the FAC base factor
22 per kWh rate in its COS Report, and that Staff will include Plum Point O&M expenses in its
23 calculation of Empire's base factor per kWh rate in the true-up in this case.

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1 Q. On page 6, lines 8 through 18, of his rebuttal testimony, Mr. Tarter expresses
2 concerns about Staff removing administrative and labor expenses from the FAC asserting that
3 it would be burdensome for Empire to remove and audit those expenses. What is your
4 response?

5 A. Empire's FAC is not designed to include administrative and labor expenses;
6 rather it is designed to flow through variable fuel and purchased power expenses, emission
7 allowance expenses and revenues, and off-system sales revenues. Staff submitted Data
8 Request 0163 that requested all of the Federal Energy Regulatory Commission ("FERC")
9 accounts and subaccounts that currently flow through Empire's FAC. The following are
10 FERC subaccounts that Empire is including in its FAC expenses where it is currently booking
11 administrative and labor expenses: 501400, 501601, 501604, 501605, 547603, 547605, and
12 547606. Staff simply added each of these subaccounts during the test year (they equal
13 \$250,867) and made a negative adjustment to Staff's calculation of the FAC base factor per
14 kWh rate.

15 Q. On page 5, line 20 through 22, of his rebuttal testimony, Mr. Tarter states the
16 following: "The annualized value of RECs that Empire has utilized in this case represents the
17 expected level for calendar year 2013... ." Is it appropriate to include expected or pro forma
18 expenses and revenues in a FAC?

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1 A. No. As Staff witness Jermaine Green discussed in his surrebuttal testimony on
2 this issue, expected, or pro forma expenses and revenues, are generally not used in Missouri
3 for setting rates, and thus are not allowed to flow through a FAC. Only historical expenses
4 and revenues are allowed to flow through FACs.¹

5 Q. On page 6, lines 18 through 22, of his rebuttal testimony, Mr. Tarter provides
6 an alternative solution if it is determined that administrative and labor expenses are not to be
7 included in Empire's FAC. Mr. Tarter's solution is to reflect these costs in this case in an
8 area other than fuel and purchased power expense. Do you agree with this proposal?

9 A. No. Empire does not need to change its accounting of administrative and labor
10 expenses in subaccounts 501400, 501601, 501604, 501605, 547603, 547605, and 547606 to
11 exclude these costs from its FAC. But, as Staff proposes, Empire should exclude these
12 subaccounts from its FAC.

13 Q. On page 7, lines 15 through page 8, line 15, of his rebuttal testimony,
14 Mr. Tarter states that the components of Staff's calculation of Empire's base factor per kWh
15 rate include fixed costs for natural gas transportation, natural gas storage, and purchased
16 power demand charges. Is he correct?

17 A. Yes. However, Staff inadvertently included these fixed costs in its calculation
18 of Empire's base factor per kWh rate when filing its direct case. Staff removed these fixed
19 costs from its calculation of Empire's base factor per kWh rate in my rebuttal testimony filed
20 on January 16, 2013.

¹ Section 386.266.1, RSMo, Supp. 2011 states: "Subject to the requirements of this section, any electrical corporation may make an application to the commission to approve rate schedules authorizing an interim energy charge, or periodic rate adjustments outside of general rate proceedings to reflect increases and decreases in it *prudently incurred* fuel and purchased-power cost, including transportation." (Emphasis added)

1 **Staff's Response to W. Scott Keith's Rebuttal Testimony**

2 Q. On page 7, line 5 through line 15, of his rebuttal testimony, Mr. Keith states
3 Empire should recover outside transmission costs² through its FAC. Does Staff agree?

4 A. No. Staff recommends that Empire be able to recover only transmission costs
5 that are necessary to make off-system sales ("OSS") and to meet native load.

6 Q. On page 8, line 17 through line 22, of his rebuttal testimony, Mr. Keith states
7 that including Regional Transmission Operator ("RTO") transmission costs in Empire's FAC
8 would eliminate the inconsistency between the various FAC tariff sheets in the state of
9 Missouri. Do you agree?

10 A. No. The Commission issued a *Report and Order* for KCP&L Greater Missouri
11 Operations Company ("GMO") in Case No. ER-2012-0175 in which it specifically disallowed
12 RTO transmission costs in GMO's FAC. Mr. Keith is incorrect that including RTO
13 transmission costs in Empire's FAC would eliminate an asserted inconsistency between the
14 various FAC tariff sheets for all the utilities that have a FAC.

15 Q. Does Ameren Missouri's FAC the Commission approved include all FERC
16 Account 565 costs and revenues for RTO transmission services?

17 A. Yes.

18 Q. When did the Commission first approve a FAC for Ameren Missouri that
19 included FERC Account 565 costs and revenues for RTO transmission services?

20 A. In Ameren Missouri's 2008 general electric rate case, Case No.
21 ER-2008-0318.³

² At rebuttal testimony of W. Scott Keith, page 7, lines 18 – 22: "Empire uses FERC account 565 Transmission of Electricity by Others to record the cost of transmission services provided by other entities. At the present time, this account includes charges from Southwest Power Pool ("SPP") and Entergy, the latter which will ultimately become MISO charges when Entergy completes its move into MISO RTO."

³ Union Electric Company, MO.P.S.C. Schedule No. 5, Original Sheet No. 98.3

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1 Q. Did Staff recommend in Ameren Missouri's last general rate case, Case No.
2 ER-2012-0166, that Ameren Missouri be allowed to flow all charges it received from
3 Midwest Independent System Operator ("MISO") through its FAC?

4 A. No. Staff witness Lena M. Mantle testified in her surrebuttal testimony that
5 Staff recommended that "Ameren Missouri's tariff sheets clarify that only transmission
6 associated with off-system sales and purchased power be allowed to pass through the FAC,"⁴
7 and "It is the position of Staff that the costs that flow through the FAC be fuel and purchased
8 power cost incurred to provide energy to its customers. It is not a mechanism to flow
9 transmission costs through."⁵

10 Q. Does Staff have the same views with respect to Empire's FAC in this case?

11 A. Yes. The costs that flow through a FAC should be the fuel and purchased
12 power costs the utility, including Empire, incurs to provide energy to its customers.

13 Q. What is your understanding of why the FAC the Commission approved for
14 Ameren Missouri in Case No. ER-2012-0166 included the recovery of all RTO charges?

15 A. As I stated earlier, FERC Account 565 charges have always been defined as a
16 cost in Ameren Missouri's FACs, since Ameren Missouri first had a FAC; its first FAC
17 became effective on March 1, 2009. Further, on pages 84 through 85 of its *Report and Order*
18 issued December 12, 2012, in Case No. ER-2012-0166, the Commission said the following:

19 Under the Federal Energy Regulatory Commission's Uniform System of
20 Accounts, transmission charges for the transmission of the utility's electricity
21 over transmission facilities owned by others are to be recorded in account 565.
22 Since the tariff specifically provides that costs of purchased power reflected in
23 account 565 are to be flowed through the fuel adjustment clause, Ameren
24 Missouri acted appropriately in doing so.
25 [External citation omitted]

⁴ Surrebuttal testimony of Lena M. Mantle in Case No. ER-2012-0166 at page 2, lines 16 – 17.

⁵ Surrebuttal testimony of Lena M. Mantle in Case No. ER-2012-0166 at page 3, lines 26 - 28.

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1 It is Staff's understanding that the Commission's decision in Case No. ER-2012-0166
2 to allow all transmission costs to flow through Ameren Missouri's FAC was based on the fact
3 that they had always flowed through its FAC since it first had one in effect— March 1, 2009 .
4 As described in the *Report and Order*, the Commission's decision to allow all transmission
5 costs to *continue* to flow through Ameren Missouri's FAC was premised on those costs
6 *already* flowing through Ameren Missouri's FAC.

7 Q. Do RTO costs flow through Empire's current FAC?

8 A. No. Unlike Ameren Missouri's FAC, they do not.

9 Q. Did Empire request that RTO transmission costs be included in its FAC in its
10 direct testimony in this case?

11 A. No, it did not. In fact, in its direct filing in this case Empire did not propose
12 any changes to its current FAC. Empire did not request to include RTO transmission costs in
13 its FAC until it did so in its rebuttal testimony, after Empire saw that Staff had included all
14 transmission costs in its calculation of the base cost factor per kWh for Empire's FAC in
15 Staff's Cost of Service Report. Staff doing so was an error which I corrected in my rebuttal
16 testimony. I also informed Empire of the error before I filed my rebuttal testimony.

17 Q. Does Empire state in the rebuttal testimony of Mr. Keith that not all
18 transmission costs are currently included in Empire's FAC and that adding RTO transmission
19 costs is a new component?

20 A. Yes. His on page 7, lines 1 through 4. Mr. Keith states:

21 Yes. The Staff FAC tariff sheet recommendation includes transmission cost as
22 one of the cost components in Empire's FAC. This is a "*new cost component*"
23 for Empire's FAC, and its inclusion in Empire's FAC would make Empire's
24 FAC consistent with the other FACs used in Missouri. (Emphasis added).

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1 Q. Did Staff intend to add all transmission costs as a new cost component to
2 Empire's FAC?

3 A. No. As I testified to earlier, Staff's inclusion of RTO transmission costs was
4 an inadvertent error, not a proposal to enlarge the scope of the cost components of Empire's
5 FAC to include RTO transmission costs.

6 Q. In which FERC account is Empire booking transmission costs?

7 A. FERC Account 565.

8 Q. Did Staff include all of FERC Account 565 in its calculation of Empire's base
9 factor per kWh rate included in Staff's COS Report and in the exemplar tariff sheets Staff
10 included in its direct filing in this case?

11 A. Yes. Staff inadvertently included all transmission costs in its calculation of
12 Empire's base factor per kWh rate in its COS Report.

13 Q. Is it easy to separate RTO transmission costs from the transmission costs
14 incurred to make off-system sales and to meet native load that are all recorded in FERC
15 Account 565?

16 A. Yes. They can be recorded in separate accounts, that is, Empire could record
17 in separate subaccounts its transmission costs to make off-system sales, its transmission costs
18 to meet native load, and its RTO transmission costs, e.g., subaccounts 565XXX, 565YYY and
19 565ZZZ. Even separating the costs into two subaccounts, one for RTO transmission costs and
20 the other for transmission costs to make off-system sales and meet native load would suffice.

21 Q. With the information Staff received from Empire before it filed its direct case
22 was Staff able to separate Empire's transmission Regional Transmission Organization costs,
23 and its transmission costs to make off-system sales and meet native load?

24 A. No.

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1 Q. Has Staff been able to do so since?

2 A. No, Staff has not been able to separately identify these amounts from the
3 remainder of transmission RTO costs in FERC Account 565, as those costs are not separately
4 identified from transmission costs to make OSS or to meet native load on the documents
5 provided by Empire at this time.

6 Q. On page 7, line 5 through line 15, of his rebuttal testimony, Mr. Keith states
7 that RTO transmission costs are beyond the control of Empire's management and are volatile.
8 Did Mr. Keith provide any analysis to support this statement?

9 A. No he did not. Staff submitted a data request to Empire asking for this
10 information after seeing Mr. Keith's rebuttal testimony, but Staff has not received it yet.

11 **Recommendation**

12 Q. Please summarize Staff's recommendations to the Commission for Empire's
13 FAC.

14 A. Staff recommends the following:

- 15 1. Continue Empire's 95%/5% sharing mechanism;
- 16 2. Exclude from Empire's FAC administrative and labor costs in FERC Accounts
17 501 and 547;
- 18 3. Exclude from Empire's FAC fixed costs for natural gas transportation, natural
19 gas storage, and purchased power demand charges; and
- 20 4. Include in Empire's FAC only transmission costs to make OSS and to meet
21 native load in specified Empire subaccounts of FERC Account 565.

22 Q. Does this conclude your surrebuttal testimony?

23 A. Yes it does.