

Exhibit No.
Issue: Rate Design Agreement
Witness: Blake A. Mertens
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Empire District Electric
Case No. WR-2011-0337
Date Testimony Prepared: January 2012

Before the Missouri Public Service Commission

Rebuttal Testimony

of

Blake A. Mertens

January 2012

Empire Exhibit No. 3
Date 2-21-12 Reporter JL
File No. WR-2011-0337

REBUTTAL TESTIMONY
OF
BLAKE A. MERTENS
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. WR-2011-0337

1 **INTRODUCTION**

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

3 A. Blake A. Mertens. My business address is 602 South Joplin Avenue, Joplin,
4 Missouri.

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

6 A. The Empire District Electric Company ("Empire" or "Company"), I am - Vice
7 President Energy Supply.

8 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

9 A. I graduated from Kansas State University in 2000 with a Bachelor of Science Degree
10 in Chemical Engineering with a minor in Business. I received a Masters Degree in
11 Business Administration from Missouri State University in December of 2007. I am
12 also a professionally licensed engineer in the state of Kansas.

13 **Q. PLEASE GIVE AN OVERVIEW OF YOUR PROFESSIONAL**
14 **EXPERIENCE.**

15 A. I was employed by Black & Veatch Corp. immediately following my graduation
16 from Kansas State University in May of 2000. From June of 2000 through
17 November of 2001, I held roles as a technical analyst and energy consultant for the
18 Strategic Planning Group of Black & Veatch's Power Sector Advisory Services in
19 the Energy Services Division. Duties included assisting in power plant siting

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1 studies, economic analysis of potential power plants using production cost modeling,
2 independent engineering evaluations of plant assets, and market analysis of the
3 California energy crisis of 2000 – 2001. I went to work for Empire in November of
4 2001 as a Staff Engineer in Energy Supply where my duties included tracking of
5 plant capital and operating & maintenance (“O&M”) expenses, involvement in
6 energy supply regulatory issues, evaluation of new generating resource options,
7 assisting in the construction of new plant, and assisting in the modeling and tracking
8 of fuel and purchased power costs. In 2003, my title was changed to Planning
9 Engineer with similar duties but more responsibilities in the area of generation
10 planning. In the fall of 2004 I took a position as Combustion Turbine Construction
11 Project Manager. In this position I was responsible for the construction and
12 commissioning of a 150 megawatt (“MW”) combustion turbine at Empire’s Riverton
13 Power Plant known as Riverton Unit 12. Riverton Unit 12 went into commercial
14 operation in April of 2007. In the fall of 2006 I took on the position of Manager of
15 Strategic Projects. In this role I was responsible for the management of new
16 generation and major projects for Energy Supply facilities. This included
17 representing Empire's interests at the Iatan, Plum Point and other off-system
18 generation facilities. In January of 2010 my duties were expanded to oversee
19 Empire’s environmental and safety departments and my title was likewise changed
20 to Director of Strategic Projects, Safety, and Environmental Services. In April of
21 2011 I was promoted to my current position which is responsible for power plant
22 operations, fuel supplies, energy procurement and marketing, and energy supply
23 services.

1 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?**

2 A. I will respond generally to the rate design proposals being made by the other parties
3 to this proceeding and support the long-term contract Empire has reached with
4 Missouri-American Water Company ("Water Company") regarding water service to
5 Empire's State Line generating facility, which clarifies the terms and conditions
6 under which Empire will take water service from Water Company at the State Line
7 unit.

8 **Q. DO THE RATE CHANGES INITIALLY PROPOSED BY THE MISSOURI-
9 AMERICAN WATER COMPANY HAVE ANY EFFECT UPON EMPIRE?**

10 A. Yes. Under the Water Company's initial rate proposals it appears that the
11 interruptible tariff under which Empire currently takes service at the State Line
12 facility will be cancelled. The changes proposed by Water Company will increase
13 the cost of water at Empire's State Line generating unit. In addition, the water
14 service contract Empire currently has with the Water Company will expire in the
15 near future.

16 **Q. HAS AN INTERRUPTIBLE TARIFF BEEN RECOMMENDED BY OTHER
17 PARTIES IN THIS CASE?**

18 A. It is not clear. There is no discussion of an interruptible tariff or proposed tariffs
19 included in the direct testimony of the other parties.

20 **Q. PLEASE BRIEFLY DESCRIBE THE WATER SERVICE CONTRACT
21 UNDER WHICH EMPIRE CURRENTLY TAKES SERVICE AT THE
22 STATE LINE UNIT.**

1 A. The original contract agreement between Empire and the Water Company covered
2 the terms and conditions under which the Water Company would supply water for
3 use at Empire's State Line generating station. The State Line unit is a 499
4 megawatt ("MW") combined cycle facility. The unit is jointly owned by Empire
5 and Westar Generation Inc. Empire is the majority owner with a 60 percent
6 ownership share; Empire also operates the facility. On December 14, 2001, Empire
7 and the Water Company entered into a 15 year water supply agreement for the State
8 Line facility. In 2004, this original agreement was amended to include an
9 interruptible rate feature that had been approved by the Missouri Public Service
10 Commission ("Commission") in Case No. WR-2003-0500. The existing water
11 service contract also included a specified minimum level of annual revenue
12 payments. In the new service agreement reached with the Water Company in this
13 rate case, both companies have agreed to replace the existing service agreement
14 with a new service agreement. The new water service agreement clarifies the terms
15 and conditions under which service will be provided by the Water Company at the
16 State Line unit for an extended period of time and includes an interruptible
17 component that was eliminated in the Water Company's initial rate design in this
18 case.

19 **Q. PLEASE DESCRIBE THE NEW WATER SERVICE AGREEMENT.**

20 A. The new interruptible water supply agreement includes an initial term of 25 years
21 and specifies that Empire shall be charged a commodity charge per gallon that is the
22 lower of:

23 (a) the Water Company's fully loaded production cost for the Joplin district, or

1 (b) the Water Company rate for manufacturers and large quantity users of water
2 The new water supply agreement, which includes an interruptible feature, also calls
3 for Empire to annually consume a minimum of 360,000 gallons of water from the
4 Water Company at the State Line unit and the agreement is subject to renegotiation
5 if certain specified events occur.

6 **Q. PLEASE DESCRIBE THE EVENTS THAT TRIGGER CONTRACT**
7 **RENEGOTIATION IN THE NEW AGREEMENT.**

8 A. The specified events that trigger contact renegotiation are as follows:

- 9 • A rate proceeding in which the Commission raises the Water Company's fully
10 loaded production cost rate for the Joplin district in excess of \$2.00 per CCF; or
- 11 • Empire determines the water supplied by Water Company does not meet
12 minimum water quality requirements and/or Empire cannot meet environmental
13 regulations by using water supplied by Water Company; or
- 14 • The appropriate regulatory authority determines Water Company's use of the
15 water plant supplying the water must be terminated for non-compliance with
16 environmental regulations; or
- 17 • Empire's State Line facility is taken out of service as said plant is determined to
18 be no longer useful or may no longer be used.

19 **Q. HOW DOES THE AGREEMENT REACHED BETWEEN EMPIRE AND**
20 **THE WATER COMPANY DEFINE THE RATE EMPIRE PAYS FOR**
21 **WATER SERVICE AT THE STATE LINE UNIT?**

22 A. If the Agreement is approved by the Commission, and the rate Empire pays for
23 water service at the State Line unit is under Water Company's rate for manufactures

1 and large quantity users of water. Empire's rate will increase from \$1.04 per CCF to
2 \$1.40 per CCF, an increase of almost 35 percent.

3 **Q. DO YOU SUPPORT THIS SETTLEMENT AGREEMENT?**

4 A. Yes. Empire believes the new water service contract at the State Line unit is a
5 reasonable compromise. It clarifies the terms under which Empire will take service
6 at the State Line facility, retains an interruptible feature and ensures that the State
7 Line facility will have access to the water resources it needs for the remaining
8 useful life of the State Line facility. It produces an equitable balance of customer
9 and of shareholder interests. The provisions of the new contract result in just and
10 reasonable rates.

11 **Q. IS THE AGREEMENT IN THE PUBLIC INTEREST?**

12 A. Yes. Viewed in totality, the new water service contract provides benefits for all
13 classes of customers and is in the public interest. Empire will continue to take
14 water service from the Water Company at the State Line facility, providing a
15 significant stream of revenue to the Water Company to cover its ongoing cost of
16 service in the Joplin area. The Agreement also provides Empire with a reliable
17 long-term supply of water at its State Line generating unit. Empire believes the
18 result reached in the new contract fairly balances the needs of all stakeholders.

19 **Q. IF THE NEW AGREEMENT IS NOT APPROVED BY THE COMMISSION,
20 WHAT IS EMPIRE'S POSITION CONCERNING THE WATER
21 COMPANY'S ELIMINATION OF THE INTERRUPTIBLE RATE?**

22 A. Empire does not agree with the elimination of the interruptible rate. Empire
23 requests that an interruptible rate be made part of the Water Company's overall base

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1 rate(s) portfolio. Having access to an interruptible rate would better reflect the
2 character of service Empire receives at the State Line facility from the Water
3 Company.

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

5 **A. Yes, it does.**

AFFIDAVIT OF BLAKE A. MERTENS

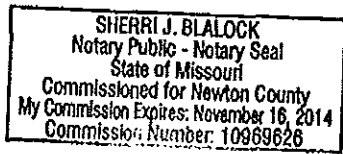
STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 19th day of January, 2012, before me appeared Blake A. Mertens, to me personally known, who, being by me first duly sworn, states that he is Vice President – Energy Supply 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.

Blake A. Mertens

Blake A. Mertens

Subscribed and sworn to before me this 19th day of January, 2012.



Sherril J. Blalock

Notary Public

My commission expires: Nov. 16, 2014.