Exhibit No.:
Issue: Fuel Adjustment Clause
Witness: Daniel I. Beck
Sponsoring Party: MoPSC Staff
Type of Exhibit: True-Up Direct Testimony
File No.: ER-2011-0004
Date Testimony Prepared: May 6, 2011

# MISSOURI PUBLIC SERVICE COMMISSION

## UTILITY OPERATIONS DIVISION

# TRUE-UP DIRECT TESTIMONY

# OF

# DANIEL I. BECK

# THE EMPIRE DISTRICT ELECTRIC COMPANY

# FILE NO. ER-2011-0004

*Jefferson City, Missouri*
*May, 2011*

**** <u>This Document is Highly Confidential in its Entirety</u> ****

**NP**

**TRUE-UP DIRECT TESTIMONY**

**OF**

**DANIEL I. BECK**

**THE EMPIRE DISTRICT ELECTRIC COMPANY**

**FILE NO. ER-2011-0004**

Q. Please state your name and business address?

A. Daniel I. Beck and my business address is Missouri Public Service Commission, P.O. Box 360, Jefferson City, Missouri, 65102.

Q. Did you previously file testimony in this case, File No. ER-2011-0004?

A. No. Schedule 1, attached to this testimony, is a summary of my credentials which includes a list of cases in which I have previously testified.

Q. What is the purpose of this true-up direct testimony?

A. This testimony presents Staff's true-up direct testimony explaining the adjustments associated with the natural gas storage contract that was not in effect during the test year or update period in this case but is now effective. The Empire District Electric Company (Empire or Company), prior to this contract, did not have natural gas storage for their electric operations.

Q. Please summarize your testimony?

A. Staff recommends that the variable costs and benefits associated with Empire's natural gas storage be included in the fuel adjustment clause (FAC). Staff also recommends that the fixed costs associated with Empires natural gas storage be excluded from the FAC and calculation of the FAC base, but be included in the operations expense for this case.



**NP**

Specifically, Staff recommends that the following costs and benefits be included or excluded from the FAC base:

1. Reservation Charge – Not in FAC base since it is a fixed charge, should be included in operating expenses
2. Daily charge for all volumes in storage - include in FAC Base
3. Injection charge (also withdrawal fee) - include in FAC Base
4. Losses - include in FAC Base
5. Seasonal Savings – include in FAC Base
6. Gas sales and purchases to balance usage and nominations - Include in FAC Base
7. Possible savings by using capacity release to take purchase gas from another basin – unquantified so no adjustment to FAC Base is recommended but this would flow through the FAC if future purchases are made from other basins.

Q. Do you dispute Company witness, Todd W. Tarter's description of the Southern Star Central Pipeline Storage Cost contract (contract) on page 10, lines 12-22 of his direct testimony?

A. No, however I would add that the contract has a five (5) year term.

Q. Could you briefly describe the significant cost components of the contract?

A. Yes. There are four cost components:

1. Reservation Charge
2. Daily charge for all volumes in storage
3. Injection/Withdrawal charge
4. Losses

Q. Do you dispute Mr. Tarter's description of the costs of the natural gas contract on pages 10-11 of his direct testimony?

A. Generally, no. However, Mr. Tarter refers to an injection charge and my understanding is that this charge is actually charged for both injections and withdrawals.

Q. Could you briefly describe the significant cost components of the contract?

A. Yes.

1. Reservation Charge – This charge is a fixed charge that is the same for each year of the term of the contract. The total dollars charged will remain the same no matter how Empire actually uses the gas storage.
2. Daily charge for all volumes in storage – This charge will remain constant for the term of the contract, but the total costs that Empire will pay to Southern Star will vary from day to day and will be directly proportional to the amount of natural gas that the Company has in storage for that day.
3. Injection/Withdrawal charge - This charge will remain constant for the term of the contract, but the total costs that Empire will pay to Southern Star will vary from day to day and will be directly proportional to the amount of natural gas that Empire injects or withdrawals from storage for that day.
4. Losses – This is based on the actual losses experienced by Southern Star. Instead of charging a specific fee for losses, the contract requires that Empire physically provide natural gas to Southern Star to replace natural gas that is lost throughout the storage system.

Q. Does Empire contend there are benefits to contract?

A. Yes. Empire provided Staff their analysis of this contract. This analysis included a two (2) page summary of the Company's analysis and a spreadsheet that calculates the expected costs and benefits associated with this contract.

Q. What are the benefits that Empire asserts are associated with the contract?



**NP**

1. Seasonal savings – Empire maintained that the storage contract would allow natural gas to be purchased during the months of April, May, June, July, August, September, and October and then used during the months of November, December, January, February, and March. The analysis showed that unit cost in the April - October timeframe would be lower than the November - March timeframe and therefore a benefit would result from the availability of storage.
2. Gas sales and purchases to balance usage and nominations – Empire maintained the operational flexibility provided by the addition of storage would also result in benefits. On Southern Star's pipeline, Empire is required to nominate the amount of natural gas that will be used in the near future. To the extent that the nomination is different than the actual gas used, Empire is required to purchase or sell gas to cover this imbalance. The ability to inject or withdrawal natural gas from storage would limit the amount of natural gas Empire purchases or sells and therefore result in a savings.
3. Possible savings by using capacity release to take purchase gas from another basin – Empire maintained that capacity release transport from the Wyoming basins would allow Empire the opportunity to purchase natural gas from that basin instead of purchasing natural gas from the mid-continent where Empire currently purchases natural gas. At times, the price differential between these two basins has become quite large. If the price differential is larger than the cost of the capacity release, the excess differential would result in savings.

Q. Has Empire quantified the costs and benefits?

A. Yes, for the four costs previously described and for the benefits associated with seasonal savings and with gas sales and purchases to balance usage and nominations. However, Empire did not quantify savings for purchases from other basins.

Q. How does Empire quantify the costs and benefits?



NP

A. The Company used both historical values and futures prices to compute the costs and benefits. Here is a list of the values assigned to each component:

1. Reservation Charge $1,135,150
2. Daily charge for all volumes in storage $287,782.95
3. Injection charge (also withdrawal fee) $21,694.20
4. Losses $205,668.70
5. Seasonal Savings $1,023,432.17
6. Gas sales and purchases to balance usage and nominations $625,833.34 (Savings)
7. Possible savings by using capacity release to take purchase gas from another basin – unquantified

Q. Does Staff dispute Empire's quantification of the costs and benefits?

A. Staff's only dispute with the quantification of the costs is in regard to the computation of the reservation charge. Staff believes that the Company used the wrong rate in its calculations and maintains the correct value is $1,131,500. Staff would note that the actual levels of storage, injections, withdrawals and losses will vary from year to year but the Company's analysis appears to be reasonable. At several places in the Empire's summary, the Company discusses how the estimated benefits are conservative. For example, since the current price of natural gas is well below historical levels, higher prices in the future would likely result in higher seasonal differentials. Since these benefits will flow through the FAC, the Staff supports these estimates. In the next rate case, historic FAC costs will include the benefits.

Q. What is the relationship between this contract and Empire's FAC?

A. Since this contract results in variable costs and benefits that are fuel related, Staff recommends recognizing this contract in Empire's FAC.

Q. Should either the costs or the benefits of this contract be reflected in Empire's FAC?

The variable costs and benefits should be included in the FAC and in the calculation of the FAC base. However, the reservation charge, which is a fixed amount, should not be included in the FAC or the FAC base. Instead, this fixed cost should simply be included as an operating expense.

Q. How does Staff recommend each component of the costs and benefits of this contract be reflected in Empire's FAC?

A. Staff's recommendation is as follows:

1. Reservation Charge – Not in FAC base since it is a fixed charge, should be included in operating expenses
2. Daily charge for all volumes in storage - include in FAC Base
3. Injection charge (also withdrawal fee) - include in FAC Base
4. Losses - include in FAC Base
5. Seasonal Savings – include in FAC Base
6. Gas sales and purchases to balance usage and nominations - Include in FAC Base
7. Possible savings by using capacity release to take purchase gas from another basin – unquantified so no adjustment to FAC Base is recommended but this would flow through the FAC if future purchases are made from other basins.

Q. Does this conclude your True-up Direct Testimony?

A. Yes.



**NP**