

Exhibit No.:
Issue: Rate Design, Praxair Capacity and
Low-income Energy Efficiency
Witness: W. Scott Keith
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Empire District Electric
Case No. ER-2016-0023
Date Testimony Prepared: May 2016

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

Surrebuttal Testimony

of

W. Scott Keith

May 2016



Empire Exhibit No. 9
Date 6-2-16 Reporter KKF
File No. ER-2016-0023



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OF
W. SCOTT KEITH
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2016-0023

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SURREBUTTAL TESTIMONY
OF
W. SCOTT KEITH
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2016-0023

1 **INTRODUCTION**

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

3 A. My name is W. Scott Keith and my business address is 602 South Joplin Avenue,
4 Joplin, Missouri.

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

9 A. Yes.

10 **PURPOSE**

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

12 A. I will respond to the Office of the Public Counsel’s positions on the following:

- 13 • Residential Customer Charge,
14 • Low-income usage levels,
15 • Opening a case to examine Empire’s energy charges,
16 • Praxair Capacity in Empire’s Integrated Resource Planning, and
17 • Low-income weatherization spending.

18 In addition, my surrebuttal testimony will address Staff witness Fortson’s

1 recommendation that Empire develop a new low-income energy efficiency
2 program.

3 **Q. WHAT DOCUMENTS HAVE YOU REVIEWED IN THE PREPARATION**
4 **OF YOUR SURREBUTTAL TESTIMONY?**

5 A. I have reviewed rebuttal testimonies of Geoff Marke on behalf of the Office of the
6 Public Counsel (“OPC”) and Brad Fortson of the staff of the Commission.

OPC RESIDENTIAL CUSTOMER CHARGE

7 **Q. DOES EMPIRE AGREE WITH OPC WITNESS MARKE’S**
8 **RECOMMENDATION THAT THE RESIDENTIAL CUSTOMER CHARGE**
9 **REMAIN AT ITS CURRENT LEVEL OF \$12.52 PER MONTH?**

10 A. No. Empire’s customer charge should be increased to move it towards cost of
11 service. Both Empire and the Commission Staff recommend increases in the
12 monthly customer charge based upon cost of service, and Empire now recommends
13 that the Commission use Staff’s recommended charge of \$15 per month for a
14 residential customer.

15 **Q. DID OPC’S WITNESS MARKE PREPARE A COST OF SERVICE TO**
16 **SUPPORT HIS RECOMMENDATION THAT THERE BE NO CHANGE IN**
17 **THE RESIDENTIAL CUSTOMER CHARGE?**

18 A. No. OPC’s recommendation appears to be based upon the contention that higher
19 energy charges offer low-income customer’s more control over their electricity
20 costs. In addition, the OPC supports its position on the higher residential energy
21 charges by indicating these higher energy charges tend to encourage and support
22 energy efficiency.

1 **Q. HOW DO YOU RESPOND?**

2 A. I disagree with both points. For those Empire customers using government
3 assistance to pay their electric bills, the OPC's recommendation will lead to higher
4 electric bills, not lower bills, given that this group of customers, those using
5 government assistance, consume at higher than the average levels. In addition, by
6 placing more cost recovery in the variable component of the residential electric rate,
7 the OPC's recommendation will increase the risk of even higher electric bills for
8 these customers during periods of extreme temperatures when the customers are the
9 most vulnerable from a public health standpoint.

10 **Q. PLEASE CONTINUE WITH YOUR REACTION TO THE OPC'S**
11 **POSITION ON HIGH ENERGY CHARGES AND ENERGY EFFICIENCY.**

12 A. I disagree with OPC's position. OPC witness Marke suggests at several points in
13 his rebuttal testimony that the higher energy charges will benefit environmentally
14 responsible ratepayers or in his view, the group of customers that has invested in
15 energy efficiency measures, and that higher energy charges will increase the value
16 of their investment in energy efficiency measures. In reality, the OPC's position
17 simply continues to make other Empire customers subsidize the energy efficiency
18 investments made by other electric customers through higher energy charges that
19 are not based upon cost. In addition, the higher energy charges supported by the
20 OPC are in excess of Empire's avoided cost, which will lead to further rate
21 subsidies. The energy pricing mechanism the OPC supports in this case would tend
22 to especially favor those customers who have the money to invest in items such as
23 more efficient air conditioners and solar systems, by constantly raising the energy

1 or variable component of Empire's rate and ignoring cost of service while doing so.

LIHEAP & LOW-INCOME

2 **Q. DO YOU AGREE WITH THE OPC AND DIVISION OF ENERGY**
3 **POSITON THAT EMPIRE'S LOW-INCOME CUSTOMERS**
4 **PARTICIPATING IN GOVERNMENT PAYMENT ASSISTANCE**
5 **PROGRAMS DO NOT INCLUDE ALL OF THE LOW-INCOME**
6 **CUSTOMERS ON THE EMPIRE ELECTRIC SYSTEM?**

7 A. Yes. The Empire customers participating in these programs represent a subset of
8 the low-income customer group, which does not include all of Empire's low-
9 income customers.

EMPIRE RATE DESIGN CASE

10 **Q. DO YOU AGREE WITH OPC'S POSITION THAT A RATE DESIGN CASE**
11 **SHOULD BE OPENED FOR EMPIRE?**

12 A. No. As I indicated in my rebuttal testimony in response to the Division of Energy,
13 this type of case will only result in more costs for Empire and its customers. Rate
14 design and the various issues associated with it should be addressed in a rate case,
15 not in a special "working" case, which could drag on for months or years.

PRAXAIR CAPACITY-IRP

16 **Q. IS THE OPC'S CHARACTERIZATION OF HOW EMPIRE'S**
17 **INTEGRATED RESOURCE PLAN HANDLES THE PRAXAIR LOAD**
18 **ACCURATE?**

19 A. No. The OPC has omitted a critical point concerning Empire's Integrated Resource
20 Plan ("IRP") and the Praxair load.

21 **Q. WHAT IS THE POINT OPC HAS OMITTED FROM ITS REBUTTAL**

1 **TESTIMONY?**

2 A. Empire's IRP includes Praxair load, but the IRP also includes Praxair's
3 interruptible capacity as an offset or resource. Since the vast majority of the Praxair
4 load is interruptible, there is very little need for future firm capacity associated with
5 Praxair in Empire's IRP planning horizon.

INTEREST & LOW-INCOME WEATHERIZATION

6 **Q. DO YOU AGREE WITH OPC WITNESS MARKE'S STATEMENT THAT**
7 **EMPIRE IS COLLECTING INTEREST ON WEATERIZATION FUNDS?**

8 A. No. Until August of 2015, Empire included its Low-income weatherization
9 program costs in its pre-MEEIA regulatory asset, and amortized actual program
10 expenditures over ten and six year amortization periods. Since between one-tenth
11 and one-sixth of actual program expenditures are included in Empire's revenue
12 requirement when it files a rate case, annual expenditure levels are not indicative of
13 the costs being recovered in rates. There is a substantial lag in cost recovery, not an
14 early cost recovery that would enable Empire to invest excess program cost
15 recovery and earn interest.

16 **Q. WHAT CHANGED IN TERMS OF PROGRAM COST RECOVERY IN**
17 **AUGUST 2015 IN ER-2014-0351?**

18 A. The annual cost of the low-income weatherization program was included as a
19 component of Empire's overall revenue requirement. This cost was bundled in
20 with the other costs that makeup Empire's overall revenue requirement.

21 **Q. WAS THERE A SPECIAL CHARGE OR RATE DESIGNED TO RECOUP**
22 **THE LOW-INCOME WEATHERIZATION COSTS COMING AS A**

1 **RESULT OF ER-2014-0351?**

2 A. No. Unlike Empire's Energy Efficiency program cost recovery, there is no special
3 charge or stream of revenue that can be attributed to the low-income weatherization
4 program or that can be tracked.

5 **Q. HAS EMPIRE RECOVERED THE ANNUAL COST OF THE LOW-**
6 **INCOME WEATHERIZATION PROGRAM IN ITS BASE RATES AS OF**
7 **END OF MARCH 2016?**

8 A. No. First, the rates authorized in ER-2014-0351 have not been in place for a full
9 year, so full recovery of the entire revenue requirement, including low-income
10 weatherization, agreed to in the last case has not taken place. In addition, the mild
11 weather in the winter of 2015/2016 has depressed Empire's expected sales levels.
12 The lower sales levels have depressed Empire's revenue, which also reduces
13 revenue requirement cost recovery, including low-income.

14 **Q. DOES EMPIRE HAVE AGREEMENTS WITH THE VARIOUS CAPS IT**
15 **USES TO ADMINISTER ITS LOW-INCOME WEATHERIZATION**
16 **PROGRAM?**

17 A. Yes. Empire has entered into agreements with the various CAPs that dictate, among
18 other things, the timing and levels of payments to the CAPs and how and when
19 reports from the CAPs on Empire's low-income customers are due. These
20 arrangements help us track the CAPs use of Empire funds so that we can ensure
21 Empire funds are used on Empire customers and what energy efficiency measures
22 were installed for the Empire customers. The pace at which the weatherization of
23 homes takes place is entirely within the control of the CAP agencies using Empire's

1 program funds.

2 **Q. HAS THE CHANGE IN HOW THE LOW-INCOME PROGRAM COST IS**
3 **RECOVERED (BASE RATES) RESULTED IN EMPIRE EARNING**
4 **INTEREST ON UNUSED LOW-INCOME FUNDING THAT SHOULD BE**
5 **CREDITED TO THE LOW-INCOME PROGRAMS?**

6 A. No. Empire's earnings have not been excessive by any measure since the effective
7 date of the rates coming out of ER-2014-0351. There are no excessive cash reserves
8 associated with the low-income weatherization program earning extra interest.

STAFF DEMAND-SIDE MANAGEMENT

9 **Q. HAVE YOU REVIEWED STAFF'S RECOMMENDATIONS**
10 **CONCERNING EMPIRE'S DEMAND-SIDE MANAGEMENT**
11 **PROGRAMS?**

12 A. Yes. I reviewed the rebuttal testimony of Brad Fortson.

13 **Q. HOW DOES EMPIRE RESPOND TO STAFF'S RECOMMENDATION**
14 **CONCERNING MEETING WITH THE PARTIES TO THIS CASE TO**
15 **REACH AN AGREEMENT ON PROGRAM DESIGN AND SPENDING**
16 **LEVELS?**

17 A. Empire is generally willing to work with the parties in this area, but it is premature
18 to agree to work in this area at this time. Any modifications to Empire's energy
19 efficiency programs, except current program termination, should take place using
20 the Commission's MEEIA rule, not what appears to be an ad hoc process. In
21 addition, Empire has recently filed its 2016 IRP. As part of its IRP filing, Empire
22 has selected a preferred resource plan that does not include any energy efficiency

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SURREBUTTAL TESTIMONY

1 programs. The plan selected was the lowest cost alternative for Empire's
2 customers. Any energy efficiency programs only drive up the cost of electricity for
3 our customers, and Empire is not interested in modifying or expanding its existing
4 energy efficiency programs at this time.

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

6 **A. Yes.**

