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Issues: Commissioner Questions – FAC,
Asbury, Stipulation, and Hedging
Witness: Aaron J. Doll
Type of Exhibit: Supplemental Testimony
Sponsoring Party: The Empire District
Electric Company
Case No.: ER-2019-0374
Date Testimony Prepared: May 2020

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

Supplemental Testimony to Address Commissioner Questions

of

Aaron J Doll

on behalf of

**The Empire District Electric Company
a Liberty Utilities Company**

May 6, 2020

****Denotes Highly Confidential****



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OF
AARON J. DOLL
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
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1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Aaron J. Doll. My business address is 602 South Joplin Avenue, Joplin,
4 Missouri.

5 **Q. Are you the same Aaron J. Doll who filed direct, supplemental direct, rebuttal,
6 and surrebuttal testimony in this matter on behalf of The Empire District
7 Electric Company (“Liberty-Empire”)?**

8 A. Yes.

9 **Q. What is the purpose of your supplemental testimony in this proceeding?**

10 A. My supplemental testimony addresses certain questions directed to Empire by the
11 Missouri Public Service Commission (“Commission”) in its “Commissioner
12 Questions” issued April 28, 2020. In particular, I address Fuel Adjustment Clause
13 (“FAC”) (issue 5) questions 2 and 4a, Asbury (issue 13) question 4, Global
14 Stipulation questions 1 and 2, and the questions regarding hedging practices 4, 5, 6,
15 and 7 regarding hedging instruments, hedging strategy, and hedging mechanics.

16 **II. FAC ISSUES**

17 **Q. What is the source for the capacity to fulfill the obligations for the MJMEUC
18 contract? (FAC question two)**

1 A. The capacity source for the MJMEUC contract is “EDEP_SWMPEPHUB”, which is
2 a composite hub to reflect Empire’s generation fleet otherwise known as a “slice of
3 system” contract. Refer to Supplemental Schedule AJD-1 which is the Network
4 Integrated Transmission Service (“NITS”) Application Detail which is available on
5 the Open Access Same-Time Information System (“OASIS”) listing of both the City
6 of Monett and the City of Mount Vernon. The Application Detail lists the Resource
7 Name as EMPIRE_GENERATION and the sink as EDE_MONETT and
8 EDE_MTVERNON. Their Assignment Reference numbers are 90812906 and
9 90812930, respectively. The listed capacity is the same capacity with which the both
10 cities were served prior to their aggregation and creation of the Southwest Missouri
11 Power Electric Pool (“SWMPEP”).

12 **Q. FAC question 4a reads as follows: “Ms. Mantle also states in**
13 **her surrebuttal testimony that, ‘it is very likely that Empire would have reduced**
14 **the hedging losses if, at that time, it was required to absorb 15 percent of the**
15 **losses (\$14.3 million) instead of the 5 percent (\$4.8 million) it absorbed.’ Why**
16 **shouldn’t the Commission change the FAC sharing percentage in this case when**
17 **Empire failed to control hedging costs that were largely passed on to their**
18 **customers for a decade?” How does the Company respond to this question?**

19 A. In Commission Case No. EO-2017-0065, the Commission found Empire’s natural gas
20 hedging policy was prudent. The Report and Order issued on January 3, 2018, stated:

21 Empire did not undertake its hedging program in an attempt to beat the
22 market and make a profit. Rather, consistent with the Commission’s
23 regulation of natural gas distribution companies, with which it shares
24 some characteristics, Empire hedges to “structure [its] portfolios with
25 contracts with various supply and pricing provisions in an effort to
26 mitigate upward natural gas price spikes, and provide a level of
27 stability of delivered natural gas prices.” The Commission’s regulation

1 recognizes that at times hedging will mean that the prices the utility
2 will pay for gas will be higher than the spot price subject to the
3 fluctuations of the market, but understands the value of price certainty
4 to both the utility and its customers. It would be terribly unfair to
5 penalize the utility for following a hedging policy just because it did
6 not correctly anticipate the fluctuations of the natural gas markets.
7

8 It is very easy to look back at gas market spot prices with perfect 20-
9 20 hindsight to say that Empire's decision to continue its hedging
10 program has cost its ratepayers a definite amount of money. But the
11 value of certainty and risk reduction gained through the use of a
12 hedging program is less easily defined. The value of having a hedging
13 program truly is analogous to the cost and value of buying property
14 insurance. A homeowner may buy earthquake insurance for a lifetime
15 at a substantial cost and never suffer damage from an earthquake. That
16 does not mean the insurance premiums have been wasted. The risk
17 reduction offered by insurance has a value, although that value may
18 not be fully realized until there is an earthquake, just as the value of
19 hedging may not be fully realized until a combination of factors results
20 in a price spike in the natural gas market.
21

22 In fact, OPC witness Mantle even uses the conclusion reached in EO-2017-0065 as
23 support for her position that Evergy should not be shutting down Sibley 3 because it
24 provided a similar value in ER-2018-0145 and ER-2018-0146. Witness Mantle
25 testifies "In this case [EO-2017-0065], the Commission found that losses were
26 prudent because hedging provided value to customers. Currently Sibley 3 is a hedge
27 against market price volatility and capacity availability. With its retirement, that
28 hedge that provides certainty will be gone."¹ It is hard to understand how witness
29 Mantle could use the ruling of the Commission to support her position in a different
30 case, and then ignore that same ruling in this case to support her position to change
31 the FAC sharing mechanism.

32 Immediately following the Commission's ruling that found Empire to be
33 prudent [and the subsequent appeals], Empire submitted a request for proposal to

¹ Case Nos. ER-2018-0145 and ER-2018-0146, Lena M Mantle surrebuttal testimony, page 23.

1 have a third party review its hedging policy, compare it with industry best practices,
2 and provide recommendations for possible modifications. Empire met with
3 stakeholders from all of its operating jurisdictions to solicit any feedback, reviewed
4 the recommended policy, made some modifications and again reviewed the proposed
5 policy with stakeholders in Missouri, and finally ratified a new policy that
6 incorporates some of the recommendations brought forward by the study.

7 Finally, OPC witness John S. Riley describes the changes in Empire's natural
8 gas hedging policy and attributes the reduction of hedging costs in 2019 to changes in
9 Empire's Risk Management Policy and restraint in hedging out to the full 48-month
10 time frame as allowed by Empire's hedging policy². Witness Mantle then
11 summarizes Mr. Riley's rebuttal testimony to support her supposition that Empire is
12 hedging more efficiently and that Empire would still be operating under its old policy
13 but for OPC's alleged imprudence in EO-2017-0065. However, the reduction in
14 hedging costs cited in Mr. Riley's testimony was for operating year 2019, and
15 Empire's new policy was not approved until December 20, 2019. Although Empire
16 had only procured 50% of its requirement for 2019 by the end of 2018, that was a
17 small deviation from the normal 60% requirement to which Empire had been hugging
18 for the past few years. In fact, the 50% of forecast volumes hedged, included
19 positions from 2015, 2016, 2017, and 2018, and 2018 had less volumes hedged than
20 either 2017 or 2016. If Empire had procured in 2018 the 20% of its requirements that
21 its policy required as a minimum, considering 2017 hedges for 2019 were
22 approximately 40% of expected burn, the total amount hedged would have been 58%.

² John S Riley Rebuttal, pages 4-5.

1 In short, the reduction in hedging costs could largely be attributed to market price
2 convergence between hedging, which took place under Empire’s legacy hedging
3 program, and market prices and not due to any change in hedging policy.

4 **III. ASBURY**

5 **Q. Was Asbury operating on March 31, 2019?**

6 A. Yes, the unit was not de-designated until the end of March 1, 2020. It is important to
7 note on January 12, 2016, the Market Operations & Policy Committee (“MOPC”)
8 voted to approve Revision Request 115 which would require a 6 month notice prior to
9 a resource being deactivated, giving SPP sufficient time to study potential reliability
10 impacts of the resource retirement. Upon approval, Appendix E of the SPP Market
11 Protocols was updated to reflect this new requirement notification. Empire had
12 communications with SPP in August and September 2019 to determine a path
13 forward with an unknown amount of recoverable coal and unknown commitment and
14 dispatch of the unit. SPP guidance was to put in a notification of retirement to start
15 the 6 month process required by the SPP Market Protocols and Empire worked with
16 SPP to complete that process via the Model Change Submission Tool on the SPP
17 Market User Interface. The date of retirement confirmed by SPP through this process
18 was end of the day March 1, 2020.

19 **Q. Was Asbury operating on September 30, 2019?**

20 A. Yes, the unit was not de-designated until March 1, 2020.

21 **IV. GLOBAL STIPULATION QUESTIONS**

22 **Q. The first question from the Commissioners references the Company’s**
23 **deployment of AMI and its commitment to data retention. The Commissioners**
24 **then ask how this information will be made available, when this data will be**

1 **made available, and to whom this data will be made available. Please begin by**
2 **answering the question of how this information will be made available.**

3 A. This information will be made available upon request. Empire already has projects
4 underway to use this data as soon as practicable for a variety of purposes.

5 **Q. When will this information be made available?**

6 A. Empire will be storing this information in a data lake that has been procured in the
7 Microsoft Azure cloud. After the meters are connected and begin sending data,
8 Empire will work to ensure that this data is made available as soon as possible.
9 Currently, Empire already has efforts underway to utilize the data as soon as it's
10 available in a bottom-up next forecast for the Energy Supply Services power
11 marketing efforts.

12 **Q. To whom will this information be made available?**

13 A. This data will be made available to Staff and OPC upon request. In an attempt to
14 protect the customer-specific data, it will be made available to other parties only
15 when the proper protections are in place, such as a non-disclosure agreement or
16 protective order.

17 **Q. Referencing paragraph 13.a.8. of the Stipulation, the Commissioners ask why**
18 **the individual customer interval data is to be maintained for only 14**
19 **months. The Commissioners also ask if this a rolling 14 months? Lastly, the**
20 **Commissioners ask: “Why not maintain all individual customer interval data**
21 **until next rate case and then maintain for a minimum of 14 months plus data**
22 **until next rate case?” Please respond to these questions.**

23 A. Empire plans on maintaining this data in perpetuity and has already provisioned a
24 data lake in the Microsoft Azure environment to store the data.

1 **V. COMMISSIONER QUESTIONS REGARDING HEDGING**

2 **Q. Please explain the difference between financial hedges and call options?**

3 A. Call options are financial contracts that can serve a hedging purpose. Empire also
4 used Futures contracts which are also financial contracts that can serve a hedging
5 purpose. A Call Option gives the purchaser the right, but not the obligation, to
6 purchase the contracted instrument at a specified price within a specified period of
7 time. A Call Option requires an up-front expense to be paid known as a Premium for
8 the right to purchase the contracted commodity in the specified period. Although a
9 Futures contract could be to either buy or sell a specified commodity, it was often
10 used in Empire's previous hedging activities as a contract to purchase a specified
11 quantity of natural gas at a pre-determined price at a specified period of time in the
12 future.

13 **Q. Does Empire's hedging plan allow for call options and/or financial hedges?**

14 A. Although both Call Options and Futures contracts are still listed in Empire's Risk
15 Management Policy ("RMP") as authorized tools acceptable for the implementation
16 of the risk management strategy, neither tool is currently referenced as an acceptable
17 vehicle for Empire's current advanced procurement guidelines. As a result, according
18 to current RMP language in the Electric Segment's Hedging Targets, a deviation from
19 the RMP for additional hedging tools would require both authorization from the Risk
20 Management Oversight Committee ("RMOC") and a memo documenting the reason
21 for the deviation. The current Advanced Procurement Guidelines only allows
22 physical natural gas management tools including: Forward Physical Index Contracts,
23 Forward Physical Fixed Contracts, pipeline imbalance tariffs, park and loans,
24 interruptible storage, etc.

1 **Q. What suggestions offered by the consultant did Empire choose not to**
2 **incorporate into its recently approved hedging risk management plan? Please**
3 **explain why these suggestions were not included.**

4 A. Empire chose to reduce the volumes that were required to be hedged using fixed price
5 tools such as options and futures. The consultant's recommendation included a
6 minimum volume of volumes to be hedged with fixed price tools at ****_____****.
7 Further, instead of including shoulder month volumes in the denominator to
8 determine the hedged percentage, Empire chose to only hedge specific months, when
9 natural gas consumption was forecasted to be higher. Those months include:
10 ****_____****. Although Empire chose to
11 adopt the ****_____**** minimum hedging requirement proposed by the consultant,
12 Empire modified the list of acceptable tools to include Forward Physical Index
13 Contracts. Although these contracts will not lock in a price, they will mitigate the
14 volatility of daily natural gas purchases within the operating month while also
15 allowing Empire to have a sufficient base amount of fuel to meet its expected burn.
16 The consultant also suggested a minimum timeframe of 12-24 months for options
17 with a max of 48 months. Since Empire did adopt the consultant's price matrix table
18 to create objective triggers with which hedges could be evaluated for historical value
19 and had only required specified monthly burns rather than annual percentages,
20 Empire only requires the ****_____**** minimum threshold in the month prior to the
21 operating month. Finally, Empire chose not to include any of the financial
22 instruments as authorized vehicles for the Electric segment's advanced procurement
23 of natural gas. Based on the deviations made from the existing plan, basis risk
24 inherent in placing financial instrument using the official delivery location of New

1 York Mercantile Exchange (“NYMEX”) contracts Henry Hub, the minimum time
2 frame to meet hedging minimums falling to within a month prior to the operating
3 month, and regulatory restrictions on Empire’s hedging activities in its other
4 jurisdictions, Empire decided to limit its advanced procurement vehicles to only the
5 physical tools mentioned above.

6 **Q. Did Empire share its draft hedging risk management plan with staff and OPC**
7 **prior to its adoption?**

8 A. Yes. Empire representatives met with Staff, Office of Public Counsel, and
9 Department of Energy on June 11, 2019.

10 **Q. What are the hedging review procedures?**

11 A. The hedges are reviewed internally prior to placement to ensure that the
12 communication with the counterparty is accurate and the appropriate parameters
13 according to the strategy have been met. Once placed, any fixed price hedges are
14 included in the monthly Natural Gas Position Report that is distributed to the RMOC.

15 **Q. Who has the authority to approve the hedges?**

16 A. Authorization limits are determined based on the List of Authorized Traders which is
17 approved by the RMOC. For the hedging instruments discussed in this testimony,
18 those authorized would primarily be myself, or one of three managers in the Energy
19 Supply Services Department pending the dollar amount and duration of the deal.
20 However, emergency procedures referenced in the List of Authorized Traders also
21 allow specific executive approval with specified financial limits.

22 **Q. Who reviews the hedges and how often are they reviewed?**

23 A. The hedges are reviewed in advance of their placement and, if fixed priced, are
24 reviewed monthly in the Natural Gas Position Report.

1 **Q. What employees of Empire approved the hedging plan?**

2 A. The plan was approved by vote of the RMOC on December 20, 2019, and it was
3 approved unanimously. At that time, voting members of the RMOC included: Tisha
4 Sanderson (VP-Finance and Administration Central Region), Mike Beatty (Vice
5 President-Gas and Water Operations), Tim Wilson (VP-Electric Operations), Sheri
6 Richard (Director Rates and Regulatory Affairs), and Aaron Doll (Senior Director,
7 Energy Strategy). A copy of Empire's current RMP which includes the Electric
8 Segment's hedging strategy is attached to this testimony as Supplemental Schedule
9 AJD-2. Pages 9-10 describe the currently approved strategy, and pages 38-39 provide
10 supplemental information regarding the referenced guidelines and price trigger
11 matrix.

12 **Q. Please provide a copy of the consultant's report.**

13 A. A copy is provided as Supplemental Schedule AJD-3.

14 **Q. Does this conclude your supplemental testimony?**

15 A. Yes.

VERIFICATION OF AARON J. DOLL

Aaron J. Doll, under penalty of perjury, declares that the foregoing supplemental testimony is true and correct to the best of his knowledge, information, and belief.

/s/Aaron J. Doll _____

Aaron J. Doll

Senior Director, Energy Strategy

ADDNITSDNR Details [AREF: 90812906] - [CONFIRMED]

NITS Request Detail			
Provider: SWPP	Assignment Ref: 90812906	Application Ref: 1445	Transaction Ref:
Seller: SWPP	Seller Duns: 077396224	Customer: MCU	Customer Duns: 603802547
Status: CONFIRMED	Preconfirmed: NO	Affiliate: No	Created By: MOWR
Time Queued: 02/11/2020 10:25:09 CS	Response Time Limit: 02/26/2020 13:40:56 CS	TOL: 02/12/2020 05:45:41 CS	Modified By: MOWR
Status Comments	Customer Comments	Seller Comments	Provider Comments
NITS DNR Timing.	Updating the source from EDE to EDEP_SWMPEPHUB per RMS ticket 57641. This request to correct start time conflict that 90788808 had with request 90812208.	Replaces Original ADDNITSDNR 84123185 and ADDNITSDNR Designation Extension 87807808. Correcting Source.	

NITS Resource Designation			
Resource Name: EMPIRE_GENERATION	DNR Action: DESIGNATION	POR: EDE	Source: EDEP_SWMPEPHUB
Posting Ref:	Sale Ref:	Request Ref:	Deal Ref:
Attested: YES	Attestor Name: Darren Dunlap	Attestation Submitter: Darren Dunlap	Concomitant: NO
DNR Attestation:	All of the Network Resources listed pursuant to Section 29.2(v) satisfy the following conditions: (1) the Network Customer owns the resource, has committed to purchase generation pursuant to an executed contract, or has committed to purchase generation where execution of a contract is contingent upon the availability of transmission service under Part III of the Tariff; and (2) the Network Resources do not include any resources, or any portion thereof, that are committed for sale to non-designated third party load or otherwise cannot be called upon to meet the Network Customer's Network Load on a		
Effective Start Time: 02/13/2020 00:00:00 CS	Effective Stop Time: 01/01/2026 00:00:00 CS	Time Of Last Update: 02/11/2020 10:25:08 CS	CGDeadline: CS

NITS Resource Capacity										
Resource Name	Start Time	ResCap	StartTZ	Stop Time	ResCap	StopTZ	Gen Name	MW Req	MW Granted	Time of Last Update
EMPIRE_GENERATION	02/13/2020 00:00:00	CS		01/01/2026 00:00:00	CS			53	53	02/11/2020 13:40:57 CS

NITS Scheduling Rights														
Resource Name	Start Time	SchRightsStartTZ	Stop Time	SchRightsStopTZ	Path Name	POR	POD	Source	Sink	MW Req	MW Grant	Priority	Other	Time of Last Update
EMPIRE_GENERATION	02/13/2020 00:00:00	CS	01/01/2026 00:00:00	CS	P/SWPP/EDE-EDE//	EDE	EDE	EDEP_SWMPEPHUB	EDE_MONETT	53	53	7		02/12/2020 05:45:41 CS

ADDNITSDNR Details [AREF: 90812930] - [CONFIRMED]

NITS Request Detail			
Provider: SWPP	Assignment Ref: 90812930	Application Ref: 1461	Transaction Ref:
Seller: SWPP	Seller Duns: 077396224	Customer: MTVN	Customer Duns: 012114492
Status: CONFIRMED	Preconfirmed: NO	Affiliate: No	Created By: MOWR
Time Queued: 02/11/2020 10:32:25 CS	Response Time Limit: 02/26/2020 13:41:13 CS	TOL: 02/12/2020 05:44:23 CS	Modified By: MOWR
Status Comments	Customer Comments	Seller Comments	Provider Comments
NITS DNR Timing.	Updating the source from EDE to EDEP_SWMPEPHUB per RMS ticket 57641. This request to correct start time conflict that 90806440 had with request 90812239.	Replaces Original ADDNITSDNR 84123251 and ADDNITSDNR Designation Extension 87807613. Correcting Source.	

NITS Resource Designation			
Resource Name: EMPIRE_GENERATION	DNR Action: DESIGNATION	POR: EDE	Source: EDEP_SWMPEPHUB
Posting Ref:	Sale Ref:	Request Ref:	Deal Ref:
Attested: YES	Attestor Name: Darren Dunlap	Attestation Submitter: Darren Dunlap	Concomitant: NO
DNR Attestation:	All of the Network Resources listed pursuant to Section 29.2(v) satisfy the following conditions: (1) the Network Customer owns the resource, has committed to purchase generation pursuant to an executed contract, or has committed to purchase generation where execution of a contract is contingent upon the availability of transmission service under Part III of the Tariff; and (2) the Network Resources do not include any resources, or any portion thereof, that are committed for sale to non-designated third party load or otherwise cannot be called upon to meet the Network Customer's Network Load on a		
Effective Start Time: 02/13/2020 00:00:00 CS	Effective Stop Time: 01/01/2026 00:00:00 CS	Time Of Last Update: 02/11/2020 10:32:25 CS	CGDeadline: CS

NITS Resource Capacity										
Resource Name	Start Time	ResCap	StartTZ	Stop Time	ResCap	StopTZ	Gen Name	MW Req	MW Granted	Time of Last Update
EMPIRE_GENERATION	02/13/2020 00:00:00	CS		01/01/2026 00:00:00	CS			25	25	02/11/2020 13:41:13 CS

NITS Scheduling Rights												
Resource Name	Start Time	SchRights	StartTZ	Stop Time	SchRights	StopTZ	Path Name	POR	POD	Source	Sink	Time of Last Update
EMPIRE_GENERATION	02/13/2020 00:00:00	CS		01/01/2026 00:00:00	CS		P/SWPP/EDE-EDE//	EDE	EDE	EDEP_SWMPEPHUB	EDE_MTVERNON	02/12/2020 05:44:23 CS

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