

Exhibit No. 103
Issues: Transmission Revenue
Transmission Expense
Witness: Aaron J. Doll
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Sponsoring Party: Empire District Electric Co.
Case No. ER-2014-0351
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Before the Missouri Public Service Commission

Direct Testimony

of

Aaron J. Doll

August 2014



Empire Exhibit No. 103
Date 4-14-15 Reporter XF
File No. ER-2014-0351

**DIRECT TESTIMONY
OF
AARON J. DOLL
ON BEHALF OF
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2014-0351**

1 Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS FOR
2 THE RECORD.

3 A. Aaron J. Doll. I am the Manager of Market Settlements and Systems for The Empire
4 District Electric Company ("Empire" or "Company"). My business address is 720
5 South Schifferdecker, Joplin, Missouri.

6 Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL
7 BACKGROUND.

8 A. I graduated from Missouri State University in 2003 with a Bachelor of Science
9 Degree in Psychology and a Minor in Philosophy. Additionally, I received my
10 Masters of Business Administration from Missouri State University in 2008. I have
11 worked for Empire for seven and a half years, formerly in the Planning and
12 Regulatory Department and currently in the Supply Management Department.

13 Q. WHAT ARE YOUR PRIMARY DUTIES AT EMPIRE?

14 A. I am in charge of the accounting/settlement and informational technology (IT) areas
15 in the Supply Management department. My primary responsibility has evolved from
16 preparing the operations, accounting, and information technology for the Southwest
17 Power Pool ("SPP") Integrated Marketplace to managing the back-office functions

1 and ensuring that the information systems used in daily operations are functional and
2 efficient. The back office functions involve verifying and submitting meter data,
3 FERC reporting, transmission service request renewal, and the distribution of various
4 internal reports relating to fuel, natural gas procurement, transmission, etc. I have
5 additional responsibilities that include the budgeting of transmission revenue and
6 expense, as well as the monthly accounting and reporting of transmission invoices
7 and variances. The information technology functions involve the implementation and
8 maintenance of the Power Costs Inc. software application, system administration, and
9 system hardware maintenance.

10 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC**
11 **SERVICE COMMISSION (“COMMISSION”)?**

12 **A.** Yes, while in the Planning & Regulatory department, I testified on behalf of Empire
13 on the topic of weather and rate normalization in Commission Case Nos. ER-2010-
14 0130 and ER-2011-0004. I testified on behalf of The Empire District Gas Company in
15 Case No. GR-2009-0434, on the topic of weather normalization. I have also testified
16 before the Arkansas Public Service Commission on behalf of Empire in Docket No.
17 10-052-U, on the topic of weather normalization, and in Docket 07-076-TF, on the
18 topic of Empire’s 2012 Energy Efficiency Cost Recovery (“EECR”) Tariff. I have
19 also testified on behalf of Empire in the state of Oklahoma in Cause No. PUD
20 201100082, on the topic of weather normalization.

21 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY THIS CASE?**

1 A. I will support the inclusion of Integrated Marketplace-related charges and
2 transmission-related revenue and expense into Empire's Fuel Adjustment Clause
3 ("FAC").

4 **SOUTHWEST POWER POOL'S INTEGRATED MARKETPLACE**

5 **Q. WHAT IS THE SOUTHWEST POWER POOL'S INTEGRATED**
6 **MARKETPLACE ("SPP IM")?**

7 A. The SPP IM is a full-scale energy market consisting of a day-ahead market, real-time
8 balancing market, and transmission congestion market. As a result of the SPP IM,
9 SPP will not only commit and dispatch generation to serve load, but will also act as a
10 consolidated balancing authority ("CBA") in order to effectively operate a market-
11 based reserve market. The expected result of the SPP IM is a more efficient
12 commitment and dispatch of regional generation and operating reserves across the
13 SPP footprint, resulting in shared savings amongst pool members.

14 **Q. HOW WILL EMPIRE CONTINUE TO SERVE ITS CUSTOMERS' NEEDS**
15 **WITHIN THE FRAMEWORK OF THE SPP IM?**

16 A. Empire is registered in the SPP IM as both a generating and load-serving entity. As a
17 generating entity, Empire will offer both generation and reserves into the day-ahead
18 and real-time markets, and SPP will produce a lowest-cost solution for the entire pool
19 while maintaining the security of the bulk transmission system. If either offers are
20 accepted as part of the optimal solution (economical or reliability), Empire will
21 provide the cleared product(s) based on SPP directives and will be compensated
22 according to SPP market clearing prices. As a load-serving entity, Empire will
23 submit demand bids for anticipated load in either the day-ahead market, real-time

1 market, or both and purchase generation to serve its customers load based on SPP
2 market clearing prices.

3 **Q. DOES PARTICIPATION IN THE SPP IM NECESSITATE ANY REVISIONS**
4 **TO EMPIRE'S FAC TARIFF?**

5 A. Yes. Please refer to the Direct Testimony of Empire witness Todd Tarter for a
6 detailed explanation of the FAC tariff and FAC base changes that Empire is
7 proposing.

8 **Q. ARE OTHER CHANGES TO THE FUEL ADJUSTMENT CLAUSE NEEDED**
9 **BASED ON EMPIRE'S CURRENT BUSINESS PRACTICES IN THE SPP IM?**

10 A. Yes. The SPP and Midcontinent Independent System Operator ("MISO")
11 transmission revenue and expense should also be billed and collected through the
12 FAC.

13 **TRANSMISSION REVENUE AND EXPENSE**

14 **Q. WHY SHOULD REGIONAL TRANSMISSION ORGANIZATION ("RTO")**
15 **REVENUE AND EXPENSE BE INCLUDED IN EMPIRE'S FAC?**

16 A. Empire's customers are served from energy purchased from the SPP IM, and any net
17 revenue produced from the sale of Empire's generation or operating reserves to the
18 SPP IM are used to offset fuel and purchased power costs paid for by the customers
19 via the FAC. Empire's customers are receiving benefits from Empire's participation
20 in the SPP IM, but many of the benefits associated with the SPP IM are possible
21 because of regional funding of network transmission.

22 **Q. PLEASE ELABORATE.**

1 A. The benefits of the SPP IM are contingent upon having available the transmission
2 facilities needed to make the change from the individual commitment and dispatch of
3 generation to a regional commitment and dispatch of generation. Without investment
4 in the regional transmission network, changing the flow of power to take advantage of
5 less online capacity and a more transparent wholesale market may not be possible.
6 Empire has contributed to the development of the regional network through its
7 network service agreements with SPP. A condition for receiving network
8 transmission service is the responsibility to pay SPP, as the regional transmission
9 service provider, for a share of various transmission costs and upgrades. If benefits
10 from the SPP IM are passed on to the customers via the FAC, then so too must the
11 costs associated with the development of the network that makes the SPP IM reliable,
12 efficient, and possible. The direct testimony of Empire witness Todd Tarter contains
13 an estimate of the current benefits associated with the SPP IM.

14 **Q. ARE THERE ADDITIONAL TRANSMISSION CHARGES INCURRED AS A**
15 **PART OF OFFERING EMPIRE'S GENERATION ASSETS INTO THE SPP**
16 **IM?**

17 A. Yes. Empire's Plum Point facility is located in Osceola, Arkansas, and has an
18 interconnection agreement with Entergy. As a result of the Plum Point's Entergy
19 interconnection and Entergy's membership with the MISO, Plum Point is pseudo-tied
20 out of MISO and into SPP, resulting in real-time congestion and losses from MISO,
21 as well as transmission charges related to the through-and-out rates of MISO. Since
22 Entergy became a member of MISO (December 19, 2013), the congestion and losses
23 from MISO have resulted in \$764,998 in revenue, which is recorded in a FERC 555

1 account, and thus is passed on to the customers as an offset to fuel costs via the FAC.
2 However, Schedule 7 firm point-to-point charges, which are required to export
3 Empire's generation from MISO to SPP, as well as other variable MISO schedules,
4 are recorded in FERC 565 accounts and are not currently included as components of
5 Empire's existing Missouri FAC.

6 **Q. HOW DOES EMPIRE CURRENTLY RECOVER COSTS ASSOCIATED**
7 **WITH RTO TRANSMISSION?**

8 A. Currently, transmission costs are included in the base rates determined in a rate case
9 test year as annualized for any "known and expected" changes.

10 **Q. DOES THE RECOVERY OF SPP/MISO CHARGES AND REVENUE IN**
11 **BASE RATES RESULT IN A FAIR AND REASONABLE RECOVERY**
12 **MECHANISM?**

13 A. No. The base rate recovery of SPP/MISO transmission cost recovery is not fair or
14 reasonable. SPP/MISO transmission expense and SPP/MISO transmission revenue
15 are anything but static. They change based upon many factors including load, energy,
16 network construction costs, administration rates, power flows, through and out rates,
17 prior period adjustments, FERC formula rate adjustments, etc. Based on the timing of
18 the individual pool members' FERC formula rate updates, the uncertainty of future
19 network upgrade costs, the frequency of adjustments, and the requirement of Empire
20 to contribute to network upgrade costs, Empire believes these SPP/MISO
21 transmission charges, which are directly related to the delivery of electric power to
22 our customers, meet the Commission's past standards of significant, volatile, and
23 beyond Empire's control, and thus qualify for inclusion in Empire's FAC.

1 Q. HAS THE COMMISSION PREVIOUSLY RULED ON THE RECOVERY OF
2 RTO TRANSMISSION CHARGES THROUGH A FUEL ADJUSTMENT
3 CLAUSE?

4 A. Yes. In Commission Case No. ER-2012-0166, Union Electric Company d/b/a
5 Ameren Missouri was authorized to pass the changes in RTO transmission charges
6 through its FAC. Additionally, in Commission Case No. EU-2014-0077, the
7 Commission stated that transmission expenses are "...the type of expenses which
8 may be collected through a Commission approved Fuel Adjustment Charge ("FAC")
9 during a general rate case proceeding."

10 Q. WHAT IS THE MISSOURI JURISDICTIONAL TRANSMISSION EXPENSE
11 AND REVENUE EXPECTED THROUGH DECEMBER 2014?

12 A. On an annualized basis, Empire's Missouri jurisdictional RTO transmission expense
13 is expected to increase \$3,504,994 for the twelve months ending December 31, 2014,
14 relative to the April 30, 2014 test year used in this case. On an annualized basis,
15 Empire's Missouri jurisdictional RTO transmission revenue is expected to increase
16 \$769,050 for the twelve months ending December 31, 2014, relative to the April 30,
17 2014 test year. The overall net result is an increase in Missouri jurisdictional
18 normalized transmission charges through December 30, 2014 of \$2.7 million.

19 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

20 A. Yes.

