

Exhibit No. 113

Issues: Iatan/Plum Point Plant O&M
Tracker, Plant Operating & Maintenance
Expense Adjustments, Riverton Unit 12
Long Term Maintenance Expense, Asbury
Air Quality Control System Operations and
Maintenance Expenses, Prepayments

Witness: Blake A. Mertens

Type of Exhibit: Rebuttal Testimony

Sponsoring Party: Empire District Electric

Case No. ER-2014-0351

Date Testimony Prepared: March 2015

Filed
May 07, 2015
Data Center
Missouri Public
Service Commission

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

Rebuttal Testimony

of

Blake A. Mertens

March 2015



SERVICES YOU COUNT ON

Empire Exhibit No. 113
Date 4-14-15 Reporter KF
File No. ER-2014-0351

TABLE OF CONTENTS
REBUTTAL TESTIMONY OF
BLAKE A. MERTENS
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2014-0351

<u>SUBJECT</u>	<u>PAGE</u>
INTRODUCTION.....	1
IATAN AND PLUM POINT OPERATING & MAINTENANCE EXPENSE (O&M) TRACKER.....	2
PLANT OPERATING AND MAINTENANCE EXPENSE	3
RIVERTON UNIT 12 LONG TERM MAINTENANCE EXPENSE	5
ASBURY AQCS OPERATION AND MAINTENANCE EXPENSE	6
IATAN AND PLUM POINT PREPAYMENTS	7

REBUTTAL TESTIMONY
OF
BLAKE A. MERTENS
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2014-0351

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 and Delivery Operations.

8 **Q. ARE YOU THE SAME BLAKE A. MERTENS WHO FILED DIRECT**
9 **TESTIMONY IN THIS CASE BEFORE THE MISSOURI PUBLIC**
10 **SERVICE COMMISSION (“COMMISSION”)?**

11 A. Yes, I am.

12 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

13 A. I will respond to the testimony presented in the Commission Staff’s Cost of Service
14 Report for four different items: (1) Iatan and Plum Point Operations and
15 Maintenance (“O&M”) Trackers and prepayments; (2) plant operating and
16 maintenance expense; (3) Riverton Unit 12 Long Term Maintenance expense
17 tracker; and (4) Asbury Air Quality Control System (“AQCS”) operations and
18 maintenance expense. I will also respond to the testimony of the Office of the

1 Public Counsel (“OPC”) witness Keri Roth and her proposed discontinuation of the
2 Iatan and Plum Point trackers.

3 **IATAN AND PLUM POINT OPERATING & MAINTENANCE EXPENSE (O&M)**
4 **TRACKER**

5 **Q. IS STAFF AND OPC PROPOSING A CHANGE TO THE IATAN AND**
6 **PLUM POINT TRACKERS?**

7 A. Yes. Staff and OPC are recommending discontinuation of the trackers and
8 establishment of an annualized level of O&M expense for Iatan 2, Iatan Common,
9 and Plum Point.

10 **Q. DO YOU AGREE WITH STAFF’S AND OPC’S RECOMMENDATION TO**
11 **DISCONTINUE THE IATAN AND PLUM POINT O&M TRACKERS?**

12 A. No. Empire believes it is reasonable and equitable to continue the use of the tracker
13 mechanisms for this case.

14 **Q. DO YOU BELIEVE THERE IS ENOUGH HISTORICAL COST**
15 **INFORMATION TO JUSTIFY STAFF’S AND OPC’S POSITION?**

16 A. No. To the contrary, there are significant major maintenance milestones that have
17 not been achieved; therefore, such costs are not included in historical data.

18 **Q. WHAT ARE THOSE MAINTENANCE MILESTONES?**

19 A. Most specifically, the first major turbine and generator inspection outage at each
20 facility has not taken place.

21 **Q. WHAT IMPACT MIGHT THEY HAVE ON MAINTENANCE EXPENSE?**

22 A. Costs for these types of outages are usually significant and could materially impact
23 the five or six year average annual maintenance expenses at the facilities

1 **Q. DO YOU BELIEVE STAFF'S METHODOLOGY FOR DETERMINING**
2 **ANNUALIZED LEVELS OF O&M FOR IATAN 2, IATAN COMMON, AND**
3 **PLUM POINT IS CONSISTENT?**

4 A. No. Staff's methods are based on an annualized, four year average; however, for
5 Iatan 1, Staff is using a six year annualized average. The Staff utilizes six years as
6 that is the timeframe between major outages for the turbine and generator at Iatan 1.
7 By not including this type of historical cost data for all of the units in the average,
8 the Staff's methodology is inconsistent and an acknowledgement of inadequate
9 historical information.

10 **Q. DOES OPC PROPOSE AN ANNUALIZED LEVEL OF O&M FOR IATAN 2,**
11 **IATAN COMMON, AND PLUM POINT?**

12 A. No. OPC witness Keri Roth did not make a recommendation regarding this issue in
13 her direct testimony.

14 **PLANT OPERATING AND MAINTENANCE EXPENSE**

15 **Q. DOES STAFF PROPOSE AN ADJUSTMENT TO TEST YEAR PLANT**
16 **OPERATING AND MAINTENANCE EXPENSE IN ITS COST OF**
17 **SERVICE REPORT?**

18 A. Yes. Staff recommends using five- or six-year annualized averages to normalize
19 annual plant expenses at Empire's Iatan 1, Asbury, Ozark Beach, Riverton, State
20 Line Combined Cycle, State Line 1, and Energy Center generating facilities. In the
21 aggregate, adjustments related to expenses at these plants equates to a positive
22 adjustment of \$799,088.

1 **Q. DO YOU AGREE WITH STAFF'S METHODOLOGY AND**
2 **ADJUSTMENT?**

3 A. No. Staff's and Empire's methodologies are similar in utilizing a historic average to
4 normalize annual plant expenses. However, Staff does not factor price escalation
5 into its normalization.

6 **Q. DO YOU AGREE WITH STAFF'S EXCLUSION OF PRICE ESCALATION?**

7 A. No. I anticipated that Staff would utilize its historical adjustment methodology (i.e.
8 five- and six-year averages) to calculate its adjustment excluding price escalation,
9 and, in my direct testimony in this case, I presented various reasons why I do not
10 agree with excluding escalation. Instead of restating that testimony here, I refer you
11 to pages 4 through 6 of my direct testimony.

12 **Q. IS THERE ADDITIONAL TESTIMONY YOU WOULD LIKE TO PROVIDE**
13 **IN RESPONSE TO STAFF'S TESTIMONY ON THIS ISSUE?**

14 A. Yes. In my direct testimony on page 5, I detail that the Consumer Price Index
15 ("CPI") and Producer Price Index ("PPI"), with PPI having grown at a compound
16 annual growth rate of 2.17% between the periods of April 2009 and April 2014. On
17 pages 5 through 6 of Staff's Cost of Service Report, Staff shows that the CPI and
18 PPI have grown 12.35% and 17.84% in the aggregate between 2007 and the end of
19 2013. These aggregate growths rates equate to 2.06% and 2.97% compound annual
20 growth rates, respectively, and average 2.52% annually.

21 **Q. WHY IS THIS RELEVANT?**

22 A. As stated in my direct testimony, employing the Staff methodology and ignoring
23 five years of escalation would mean establishing ongoing cost levels 8.7 percent

1 below the current level of expenses. For Empire's level of expenses at these plants,
2 that is nearly \$1 million dollars of under-recovery of expenses that Empire currently
3 incurs to meet the needs of its customers at its generating plants.

4 **Q. DOES EMPIRE HAVE CONTRACTS IN PLACE THAT INCLUDE**
5 **ESCALATION CLAUSES?**

6 A. Yes. Empire's long term maintenance contracts with Siemens associated with the
7 State Line Combined Cycle combustion turbines and Riverton Unit 12 are two
8 specific examples.

9 **Q. WHAT ARE THE GENERAL TERMS OF THESE ESCALATION**
10 **CLAUSES?**

11 A. Generally, each uses a consumer price index as a proxy for cost escalations
12 associated with the contract. Empire is invoiced quarterly, with escalation assessed
13 on the base contractual fee. Given the long term nature of these contracts,
14 escalation is assessed to recover the gap from the established base fee to current
15 costs.

16 **RIVERTON UNIT 12 LONG TERM MAINTENANCE EXPENSE**

17 **Q. DID STAFF ADDRESS A PROPOSED MAINTENANCE TRACKER FOR**
18 **RIVERTON UNIT 12?**

19 A. Yes. On pages 2 through 3 in Staff's Cost of Service Report, Staff states; "*Empire*
20 *has proposed a tracker similar to the previous trackers for Iatan and Plum Point*
21 *for a new maintenance contract with Siemens Instrumentation, Controls and*
22 *Electrical Group for the Riverton 12 unit. Staff does not believe a tracker is*
23 *appropriate for this cost at this time. Staff has also not included any additional*

1 *expense in its cost of service for this new contract, since the contract became*
2 *effective January 1, 2015, which is outside the update test year (12 months ending*
3 *August 31, 2014) for this rate case proceeding. Staff will examine this cost in its*
4 *true-up recommendation.”*

5 **Q. DO YOU DISAGREE WITH STAFF’S STANCE ON THIS ISSUE?**

6 A. Yes. First, Staff states the “contract became effective January 1, 2015”. This is
7 incorrect. The contract became effective August 20, 2014. The first payment due
8 under the contract was not scheduled to be invoiced until January 1, 2015. Second,
9 while I believe the contract was effective at a sufficient time for Staff to take a more
10 definitive stance on inclusion of costs associated with this contract in its direct
11 testimony, I will wait for further analysis and comment on this issue until after
12 reviewing Staff’s true-up recommendation.

13 **Q. DOES IT REMAIN APPROPRIATE TO ESTABLISH A TRACKER FOR**
14 **RIVERTON UNIT 12 MAINTENANCE EXPENSES?**

15 A. Yes. As stated in my direct testimony, due to the variability in maintenance
16 expenses directly correlated to the number of operating hours of Riverton Unit 12, I
17 believe it is most fair and equitable to the customers and the Company that a tracker
18 be used in this instance.

19 **ASBURY AQCS OPERATION AND MAINTENANCE EXPENSE**

20 **Q. HAS STAFF MENTIONED THE PROPOSED OPERATIONS AND**
21 **MAINTENANCE EXPENSE INCREASE DUE TO THE INSTALLATION OF**
22 **THE AQCS AT THE ASBURY PLANT?**

1 A. Yes. On page 6 in Staff's Cost of Service Report, Staff States; "*Empire has*
2 *requested additional operations and maintenance expense due to the AQCS. Staff*
3 *has included in its true-up estimate \$238,300 (Empire's estimation) for the*
4 *additional operations and maintenance expense. The AQCS was not in service*
5 *during the test year or the update period. Staff will examine this expense in its true-*
6 *up audit.*"

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

8 A. Empire will review Staff's position on the proposed expenses when it becomes
9 available.

10 **IATAN AND PLUM POINT PREPAYMENTS**

11 **Q. DID STAFF PROPOSE AN ADJUSTMENT RELATED TO PREPAYMENTS**
12 **AT IATAN AND PLUM POINT?**

13 A. Yes. In its Cost of Service Report on page 55, Staff proposes to include
14 "prepayments in rate base at the 13-month average level ending August 2014".
15 However, Staff proposes to exclude Working Funds Iatan (165350) and Working
16 Funds Plum Point (165351) from the 13-month average level, because Staff
17 considers these accounts as cash accounts, not actual investment in utility assets.

18 **Q. DO YOU AGREE WITH THESE RATE BASE EXCLUSIONS?**

19 A. No. These accounts represent working capital funds that are required as part of the
20 Plum Point and Iatan Ownership agreements, and, therefore, should not be excluded
21 from rate base. Kansas City Power & Light Company ("KCPL") and Plum Point
22 Energy Associates are "holders" of these working capital accounts, which would be

1 drawn upon if Empire were in default of the ownership agreements for these two
2 plants (i.e. could not make required payments).

3 **Q. ARE WORKING CAPITAL FUNDS NORMALLY INCLUDED AS PART**
4 **OF RATE BASE?**

5 A. Yes. In fact, on page 50 of Staff's Cost of Service Report, Staff states as follows:
6 "Cash Working Capital ("CWC") is the amount of funding necessary for a utility to
7 pay the day-to-day expenses incurred in providing utility services to its customers.
8 When a utility expends funds in order to pay an expense necessary for the provision
9 of service before its customers provide any corresponding payment, the utility's
10 shareholders are the source of the funds. This shareholder funding represents a
11 portion of each shareholders' total investment in the utility, for which the
12 shareholders are compensated by the inclusion of these funds in rate base. By
13 including these funds in rate base, the shareholders earn a return on the CWC-
14 related funding they have invested."

15 These cash working capital funds at Iatan and Plum Point should be subject to the
16 same rate base treatment as other cash working capital funds.

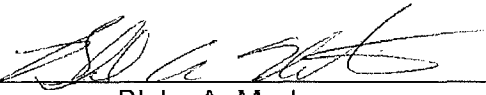
17 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

18 A. Yes, it does.

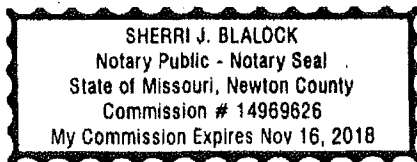
AFFIDAVIT OF BLAKE A. MERTENS

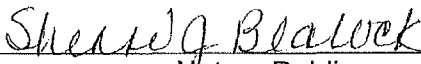
STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 6th day of March, 2015, 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

Subscribed and sworn to before me this 6th day of March, 2015.




Notary Public

My commission expires: NOV. 16, 2018.