

Exhibit No. 26P

Exhibit No.: _____
Issue(s): Minimum Filing Requirements
Witness: Zachary Quintero
Type of Exhibit: Direct Testimony
Sponsoring Party: The Empire District
Electric Company
Case No.: ER-2021-0312
Date Testimony Prepared: May 28, 2021

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

Direct Testimony

of

Zachary Quintero

on behalf of

The Empire District Electric Company

May 28, 2021



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THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
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DIRECT TESTIMONY OF ZACHARY QUINTERO
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1 **I. INTRODUCTION**

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

3 A. My name is Zachary Quintero. My business address is 602 South Joplin Avenue,
4 Joplin, MO, 64802.

5 **Q. By whom are you employed and in what capacity?**

6 A. I am employed by Liberty Utilities Service Corp. as a Senior Analyst of Rates and
7 Regulatory Affairs for the Liberty Central Region, which includes The Empire District
8 Electric Company (“Empire” or “Company”).

9 **Q. On whose behalf are you testifying in this proceeding?**

10 A. I am testifying on behalf of Empire.

11 **Q. Please describe your educational and professional background.**

12 A. I hold a Bachelor’s degree in Economics from the University of Science and Arts of
13 Oklahoma, and I expect conference of a Master of Science degree in Energy
14 Management from Oklahoma City University in 2021. Prior to joining the Company,
15 I was employed by the Oklahoma Corporation Commission’s (“OCC”) Public Utility
16 Division, where I analyzed and provided recommendations on applications before the
17 OCC concerning electric, gas, and water utilities. I provided analysis or testimony in
18 numerous utility applications, including topics such as revenue requirement
19 components and calculations, fuel cost prudence and accuracy, the Tax Cuts and Jobs
20 Act of 2017, and performance-based rates policy. I have also attended formal

1 regulatory trainings provided by New Mexico State University and Electric Utility
2 Consultants, Inc. I started my current position with the Company in 2020.

3 **Q. Have you previously testified before the Missouri Public Service Commission**
4 **(“Commission”) or any other regulatory agency?**

5 A. I have not previously testified before this Commission, but I have previously testified
6 before the OCC.

7 **Q. What is the purpose of your direct testimony in this proceeding?**

8 A. The purpose of this Direct Testimony is to explain the Company’s compliance with
9 Commission Rule 20 CSR 4240-20.090(2)(A)1-19 in order to continue its Rider FAC
10 and the Company’s compliance with 20 CSR 4240-3.030(3)(A) and 20 CSR 4240-
11 3.030(3)(B).

12 **II. GENERAL RATE CASE MINIMUM FILING REQUIREMENTS**

13 **Q. What is the purpose of this part of your testimony?**

14 A. This portion of my testimony details how the Company met the Commission’s MFRs
15 as set forth in Commission Rule 20 CSR 4240-3.030 and the filing and reporting
16 requirements as set forth in Commission Rule 20 CSR 4240-3.160.

17 **Q. What is required by Commission Rules 20 CSR 4240-3.030(3)(A) and 20 CSR**
18 **4240-3.030(3)(B)?**

19 A. Commission Rule 20 CSR 4240-3.030, effective August 28, 2019, sets forth the MFRs
20 for all general rate increase requests. Counsel for Empire is providing the tariff
21 transmittal letter as required by 20 CSR 4240-3.030(3)(A). The table below displays a
22 list of the remaining MFRs as required by 20 CSR 4240-3.030(3)(B) and a description
23 of where this information can be found in supporting schedules and testimony.

| # | Description | References |
|---|--|-----------------------|
| 1 | Aggregate Annual Increase Dollars and Percentage | Direct Schedule ZQ-01 |
| 2 | Counties and Communities Affected | Direct Schedule ZQ-01 |
| 3 | Number of Customers Affected by Rate and Class | Direct Schedule ZQ-01 |
| 4 | Dollar and Percentage Change by Rate and Class | Direct Schedule ZQ-01 |
| 5 | Proposed Annual Aggregate Change by Rate and Class | Direct Schedule ZQ-01 |
| 6 | Press Release | Direct Schedule ZQ-02 |
| 7 | Summary of Reasons for Proposed Changes | Direct Schedule ZQ-01 |

1

2 **Q. What is required by Commission Rule 20 CSR 4240-3.160?**

3 A. Commission Rule 20 CSR 4240-3.160 contains additional filing requirements for
4 electric utility general rate increase requests: the submission of a depreciation study,
5 database, and property unit catalog under certain circumstances.

6 **Q. Is a depreciation study included with the Company's direct filing?**

7 A. Yes. The Company is presenting its full and complete detailed depreciation study in
8 this proceeding, which was prepared and is being sponsored by Company witness Dane
9 Watson.

10 **Q. Is the Company requesting approval for a new depreciation rate on assets that do
11 not currently have an approved rate?**

12 A. Yes. Empire is requesting approval of new depreciation rates for its new AMI and
13 solar generation projects. Empire is using the 3.33% depreciation rate for the Wind
14 Projects that was approved by the Commission in Cases Nos. EO-2018-0092 and EA-
15 2019-0010. Please refer to the testimony of Company witness Dane Watson for more
16 details.

17 **III. FAC MINIMUM FILING REQUIREMENTS**

18 **Q. Is the Company's request to continue its Rider FAC designed to comply with the
19 Commission's rules?**

1 A. Yes. Empire has designed its Rider FAC continuation request to comply with
2 Commission Rule 20 CSR 4240-20.090(2)(A)1-19. The table below displays a list of
3 the FAC-related minimum filing requirements and a description of where this
4 information can be found in the Company’s Direct Testimony and supporting
5 schedules.

| # | Description | References |
|----|------------------------------|--|
| 1 | Customer Notice | Direct Schedule ZQ-03 |
| 2 | Sample Customer Bills | Direct Schedule ZQ-04 |
| 3 | Proposed FAC Tariff | Direct Schedule AJD-01 |
| 4 | Description and Operation | Quintero Direct Testimony |
| 5 | Equity Return | Quintero Direct Testimony |
| 6 | True-Up | Quintero Direct Testimony |
| 7 | Short-Term Borrowing Rate | Direct Schedule ZQ-05 |
| 8 | Prudence Reviews | Quintero Direct Testimony |
| 9 | Power Supply Costs/Rev. | Tarter Direct Testimony Direct Schedule ZQ-06 |
| 10 | Fuel Costs/Rev. | Tarter Direct Testimony Direct Schedule ZQ-06 |
| 11 | Incentive Features | Quintero Direct Testimony |
| 12 | Rate Volatility Mitigation | Quintero Direct Testimony |
| 13 | Cost Recovery Prudence | Quintero Direct Testimony |
| 14 | Business Risk | Reed Direct Testimony |
| 15 | Plant Efficiency Stats | Direct Confidential Schedule ZQ-07 |
| 16 | IRP Schedule | EO-2019-0049 |
| 17 | Emissions Allowances | Direct Confidential Schedule ZQ-08 |
| 18 | Five-year Plant Availability | Direct Schedule ZQ-09 |
| 19 | Authorization | Quintero Direct Testimony |

6

7 **Q. Has Empire prepared a proposed notice to customers in accordance with 20 CSR**
8 **4240-20.090(2)(A)(1)?**

9 A. Yes. In addition to the normal notice requirements for a general rate case filing, the
10 Company has prepared a notice that describes the request to continue the existing FAC.
11 An exemplar copy of the notice is attached as Direct **Schedule ZQ-03** and includes a
12 description of how its proposed Rate Adjustment Mechanism (“RAM”) shall be applied

1 to monthly bills, the amount of the proposed change in base rates caused by the rebase
2 of energy costs, and the estimated impact on a typical residential customer's bill
3 resulting from the rebase of energy costs.

4 **Q. Has Empire filed an example of a customer bill which shows Rider FAC as a**
5 **separately identified line item in accordance with 20 CSR 4240-20.090(2)(A)(2)?**

6 A. Yes. The costs recovered through Rider FAC are identified as a separate line item on
7 actual customer bills and as shown in the example attached as Direct Schedule ZQ-04.

8 **Q. Has Empire filed its proposed Rider FAC tariff sheets as required under 20 CSR**
9 **4240-20.090(2)(A)(3)?**

10 A. Yes. Please see Company witness Doll's Direct Schedule AJD-01.

11 **Q. Please provide a detailed description of Empire's Rider FAC in accordance with**
12 **20 CSR 4240-20.090 (2)(A)(4).**

13 A. The application of the tariff involves the accumulation of actual Missouri jurisdictional
14 net energy costs over a six-month period and a comparison to the cost of energy FAC-
15 eligible expenses included in the Company's base rates. Ninety-five percent of this
16 over/under recovery balance is then billed or credited to Empire's Missouri retail
17 customers over a six-month billing period. The first six-month Accumulation Period
18 is September through February, and the associated Recovery Period is the following
19 June through November. Rider FAC requires the Company to modify the energy cost
20 recovery factor twice per year, once in June and again in December. Under the
21 currently approved tariff, Empire files these cases in April and October of each year.
22 The FAC process is further described in the Direct Testimonies of Company witnesses
23 Todd Tarter and Aaron J. Doll.

1 **Q. What is the timing of the semi-annual FAC filings in the proposed Rider FAC?**

2 A. The proposed tariff incorporates the following timing of actions, which are the same as
3 those included in Empire’s existing FAC:

- 4 • Filing for a change in the fuel adjustment rate (“FAR”) on April 1st and October 1st
5 each year;
- 6 • Staff recommendation on the filed FAR by May 1st and November 1st each year;
- 7 • Commission action on the FAR by June 1st and December 1st or FAR as filed is
8 allowed to go into effect on June 1st and December 1st each year.

9 In accordance with 20 CSR 4240-20.090(8)(F), Staff has thirty days from the date of a
10 FAR filing to make its recommendation. According to 20 CSR 4240-20.090(8)(H), the
11 Commission has sixty days from the FAR filing date in which it can render a decision
12 concerning the cost recovery factor or allow it to go into effect by operation of law.

13 **Q. What is the timing of Empire’s quarterly FAC surveillance reports?**

14 A. In compliance with the Amended Report and Order in ER-2019-0374,¹ Empire agreed
15 to file its quarterly FAC surveillance reports as shown in the table below. Empire is
16 requesting the same schedule continue in this case.

| Quarter Ending: | Submission Deadline: |
|------------------------|-----------------------------|
| March 31 | End of May |
| June 30 | End of August |
| September 30 | End of November |
| December 31 | End of February |

17

18 **Q. Did the Commission order any additional reporting requirements related to the**
19 **FAC as a result of its Amended Report and Order in ER-2019-0374?**

20 A. Yes. The Commission ordered “a detailed listing of all costs incurred due to the

¹ Per the Order, the parties independently resolved this issue in the Global Stipulation and Agreement filed on April 15, 2020 in ER-2019-0374.

1 MJMEUC contracts and the revenues that Empire receives from MJMEUC.”² Empire
2 complied with the Order by including this detailed listing with its monthly FAC reports
3 beginning in August 2020.

4 **Q. Please provide a detailed explanation of how the Rider FAC provides Empire a**
5 **sufficient opportunity to earn a fair return on equity in accordance with 20 CSR**
6 **4240-20.090(2)(A)(5).**

7 A. The proposed FAC mechanism is a significant improvement over the recovery of these
8 costs solely through base rates. The proposed FAC will recover 95 percent of the
9 changes in energy costs outside of those approved in base rates. This process ensures
10 that a significant portion of the Company’s prudently incurred fuel and energy costs,
11 including transportation, are passed through to Missouri’s retail customers. While the
12 FAC is an improvement over the situation that existed prior to its existence, any
13 negative adjustment to the 95%/5% sharing mechanism could deprive the Company of
14 a sufficient opportunity to earn a fair return on equity, thereby denying the Company
15 one of the major benefits the FAC was designed to provide. During periods when fuel
16 and purchased power costs increase between rate cases, the sharing mechanism
17 prevents Empire from recovering all the increased cost. This directly reduces the
18 Company’s earnings even when those costs are determined prudent by the
19 Commission. If the percentage of costs the Company is required to absorb under the
20 sharing mechanism is increased above the current level, the resulting effect on net
21 income could deprive Empire the opportunity to earn a fair return on equity. Likewise,
22 if energy costs would happen to fall below the FAC base, Empire’s customers could be
23 adversely impacted because they would share in less of those savings. Furthermore, as

² ER-2019-0374, Amended Report and Order, pages 72-73.

1 explained in his Direct Testimony, Empire witness Aaron J. Doll will also discuss that
2 the inclusion of transmission revenue and expense at 100% is critical to not depriving
3 the Company an opportunity to earn a fair return on equity.

4 **Q. Please provide an explanation of how the proposed Rider FAC shall be trued-up**
5 **in accordance with 20 CSR 4240-20.090 (2)(A)(6).**

6 A. The true-up of recovered energy costs takes place every six months. If the costs
7 incurred during the Accumulation Period are different than the costs included in base
8 rates, then the mismatch is recovered through the Rider FAC during the subsequent
9 Recovery Period, subject to review and approval by the Commission. Any refunds
10 ordered by the Commission will include interest at the Company's short-term
11 borrowing rate.

12 **Q. Please describe how the FAC monthly short-term borrowing rate is defined and**
13 **applied to over/under billed amounts and disallowances in accordance with 20**
14 **CSR 4240-20.090 (2)(A)(7).**

15 A. The interest rates for Empire's FAC accounts are calculated monthly at a rate equal to
16 the weighted average interest paid on the Company's short term debt, applied to the
17 average balance of the under or over recovery calculations for periods including the
18 current accumulation period and all prior accumulation periods net of
19 recoveries/refunds from/to customers. A sample calculation of the short-term rate is
20 shown on Direct Schedule ZQ-05.

21 **Q. Please describe how the FAC complies with the prudence review procedures**
22 **prescribed by the Commission's rules in accordance with 20 CSR 4240-20.090**
23 **(2)(A)(8).**

24 A. Empire's proposed FAC allows the Commission to adjust the amount of FAC recovery

1 if any cost is disallowed as the result of a prudence review. The accounting procedures
2 used by Empire will involve an audit trail that should facilitate the audit process
3 associated with the periodic prudence reviews. The exact timing of the prudence review
4 has not been explicitly set out in the tariff, but the tariff specifies that prudence reviews
5 will take place no less than every eighteen (18) months. Empire's operation of the FAC
6 has been audited by the Commission Staff through August 31, 2019, and no
7 disallowances have been recommended by Staff.³

8 **Q. Please explain the costs and revenues that shall be considered for recovery in the**
9 **FAC in accordance with 20 CSR 4240-20.090(2)(A)(9) and 20 CSR 4240-20.090**
10 **(2)(A)(10).**

11 A. The costs and revenues considered for base fuel expenses in the FAC are discussed in
12 the Direct Testimonies of Company witnesses Aaron J. Doll and Todd Tarter. The
13 specific accounts included and excluded from Empire's existing FAC and proposed
14 FAC are attached as Direct Schedule ZQ-06. This schedule also includes a mapping
15 of the subaccounts to the proposed FAC tariff and a description of the subaccounts and
16 Southwest Power Pool Integrated Marketplace charge types.

17 **Q. Do the energy costs eligible for recovery through the proposed FAC include the**
18 **costs and benefits associated with Empire's Fuel Risk Management (hedging)**
19 **program?**

20 A. Yes. As indicated on Direct Schedule ZQ-06, the costs eligible for recovery through
21 the tariff include Empire's fuel risk management costs, which are recorded in FERC
22 accounts 501, 547, and 555.

23 **Q. Please describe any incentive features and the associated benefits in the proposed**

³ EO-2020-0059, Order Approving Staff's Prudence Report.

1 **FAC in accordance with 20 CSR 4240-20.090 (2)(A)(11).**

2 A. The Commission determined in its Amended Report and Order issued on July 23, 2020,
3 in Case No. ER-2019-0374 that the 95%/5% sharing mechanism “provides the
4 appropriate incentive to properly manage its net energy costs.” Empire is not proposing
5 to change the sharing mechanism for the FAC in this case. As described previously,
6 any reduction in the 95% recovery mechanism could deprive Empire of its opportunity
7 to earn a fair return.

8 Empire and its customers benefit from this sharing mechanism through the
9 recovery of most of its actual fuel and energy costs through the FAC. This strengthens
10 Empire’s financial profile and enhances its ability to attract the financing necessary to
11 meet its customers’ needs and to obtain that financing at the best rates possible. In
12 addition, the need to file general rate cases for the purpose of recovering ongoing fuel
13 and energy costs, including transportation, in base electric rates has essentially been
14 eliminated. Fewer general rate case filings lower the Company’s regulatory costs and,
15 as such, the cost to serve Empire’s customers.

16 In addition, the FAC conveys a more accurate cost of electric energy to
17 Empire’s customers. If energy costs increase, the customer will know within six
18 months and will be able to make an informed decision concerning any energy efficiency
19 measures that could be implemented in an effort to lower consumption. The fixed
20 energy pricing system that Missouri used prior to the FAC tended to shield the customer
21 from the true cost of electric energy, which may have prevented customer adoption of
22 or participation in energy efficiency programs.

1 **Q. Please provide a detailed explanation of any rate volatility mitigation features in**
2 **the FAC in accordance with 20 CSR 4240-20.090 (2)(A)(12).**

3 A. The energy cost changes that occur during the Accumulation Period will be spread over
4 six months. This feature will fix the FAC component of a customer's bill for six months
5 and smooth out energy price volatility.

6 **Q. Does the Empire FAC tariff include provisions that are designed to limit Empire's**
7 **FAC recoveries to prudently incurred cost of energy in accordance with 20 CSR**
8 **4240-20.090 (2)(A)(13)?**

9 A. Yes. The Empire FAC and the Commission's rule governing FACs include two
10 safeguards that limit FAC recovery to actual, prudent energy costs. The first safeguard
11 is a true-up process that ensures that the FAC collections during the Recovery Period
12 do not exceed actual energy costs incurred during the Accumulation Period. The
13 second safeguard involves a requirement that Empire's FAC costs be subjected to
14 periodic prudence reviews, which ensure that only prudently-incurred energy costs are
15 passed through to customers. To ensure its costs are prudent, Empire plans its fuel
16 procurement activity using long-term planning and maintains an active Risk
17 Management Policy.

18 **Q. Please provide any information about the change in business risk resulting from**
19 **the implementation of the proposed FAC in accordance with 20 CSR 4240-20.090**
20 **(2)(A)(14)?**

21 A. Empire's business risk is discussed in the Direct Testimony of John Reed.

22 **Q. Please provide the results of any heat rate testing on the Company's generation**
23 **units during the previous twenty-four months in accordance with 20 CSR 4240-**

1 **20.090 (2)(A)(15).**

2 A. The heat rate test results are attached as Direct **Confidential Schedule ZQ-07**.
3 Additionally, the documentation of the test monitoring procedures to the parties in this
4 case as part of the workpapers it provides in connection with its direct case filing.

5 **Q. Please provide any information that demonstrates that Empire has a long-term**
6 **resource planning process in place in accordance with 20 CSR 4240-20.090**
7 **(2)(A)(16).**

8 A. Empire filed its most recently completed triennial IRP in Missouri on June 28, 2019,
9 in Case No. EO-2019-0049 (“2019 IRP”). The Commission issued its Order
10 Approving 2019 Triennial Integrated Resource Plan in that case on May 13, 2020
11 which found that “Liberty-Empire’s IRP filings demonstrate compliance with the
12 requirements of Commission Rule 20 CSR 4240-22”.

13 **Q. Please provide a description of the Company’s emission management policy and**
14 **forecasted environmental investments and allowance purchases and sales in**
15 **accordance with 20 CSR 4240-20.090 (2)(A)(17).**

16 A. Empire is currently subject to two sets of regulations which utilize emissions
17 allowances. They are the Acid Rain program and the Cross State Air Pollution Rule
18 (“CSAPR”). Under these programs, each year, a set number of emissions allowances
19 are provided to Empire for each of the affected plants. Empire anticipates being able
20 to comply with these regulations with the allowances provided. At this time, Empire
21 has no plans to sell any banked allowances, which are used to help ensure compliance
22 with existing regulations. Therefore, based on current market conditions, the Company
23 expects little to no costs or revenue over the next four years related to emissions
24 allowances. **Confidential Schedule ZQ-08** further describes Empire’s current

1 emissions allowances.

2 **Q. Please provide data and illustrations detailing generating plant availability for the**
3 **preceding five years for each plant Empire owns either in part or in its entirety in**
4 **accordance with 20 CSR 4240-20.090 (2)(A)(18).**

5 A. The plant availability data is attached as Direct Schedule ZQ-09.

6 **Q. In accordance with 20 CSR 4240-20.090 (2)(A)(19), does Empire grant**
7 **authorization for the Commission to release to all parties to the general rate case**
8 **the previous five years of historical Surveillance Monitoring Reports that Empire**
9 **has submitted through the Electronic Filing Information System?**

10 A. Yes.

11 **IV. CONCLUSION**

12 **Q. Does this conclude your direct testimony?**

13 A. Yes.

VERIFICATION

I, Zachary Quintero, under penalty of perjury, on this 28th day of May, 2021, declare that the foregoing is true and correct to the best of my knowledge and belief.

/s/ Zachary Quintero