Exhibit No.:	______________
Issue(s):	FAC/MPPM/Normal Weather
Witness/Type of Exhibit:	Mantle/Rebuttal
Sponsoring Party:	Public Counsel
Case No.:	ER-2024-0261

REBUTTAL TESTIMONY

OF

LENA M. MANTLE

Submitted on Behalf of the Office of the Public Counsel

THE EMPIRE DISTRICT ELECTRIC COMPANY D/B/A LIBERTY

FILE NO. ER-2024-0261

** ____ **
Denotes Confidential Information that has been redacted.

All confidential information is information Empire designated to be confidential. (Rule 20 CSR 4240- 2.135(9)).

August 18, 2025

PUBLIC

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REBUTTAL TESTIMONY

OF

LENA M. MANTLE

THE EMPIRE DISTRICT ELECTRIC COMPANY, d/b/a LIBERTY

CASE NO. ER-2024-0261

Q. Would you state your name?

A. My name is Lena M. Mantle.

Q. Are you the same Lena M. Mantle that provided revenue requirement direct testimony for the Office of the Public Counsel?

A. Yes.

Q. To what direct testimony are you responding?

A. With respect to Liberty's proposal to remove the sharing mechanism from its fuel adjustment clause ("FAC"), I respond to the direct testimonies of Liberty witnesses Leigha Palumbo, John J. Reed, and Todd W. Tarter.

Liberty witness Leigh Palumbo did not include any changes in the FAC tariff sheets to mitigate the subsidization of future large customers through the FAC. I propose a change to the FAC tariff schedule to help minimize the potential subsidization.

With respect to the Market Price Protection Mechanism ("MPPM"), also called the Customer Protection Plan, I respond to the Direct Schedule AJD-1 of Liberty witness Aaron J. Doll's direct testimony.

Finally, with respect to the time period used to calculate normal weather, I respond to the direct testimonies of Staff witness Randall T. Jennings and Liberty witness Eric Fox.

LIBERTY NEEDS A SHARING MECHANISM IN ITS FAC

Liberty's FAC Sharing Mechanism Does Not Deprive Liberty from Earning a Fair Return On Equity

Q. Which Liberty's witnesses claim Liberty's FAC sharing mechanism adversely affects Liberty's ability to earn a fair return on equity?

A. Liberty witness John J. Reed testifies that "the sharing provision at least partially divorces rates from costs and can materially affect the utility's opportunity to earn a fair return on equity."[1] Liberty witness Leigha Palumbo goes further by testifying that "…the current 95%/5% sharing approach deprives the Company of a sufficient opportunity to earn a fair return on equity."[2]

Q. What is the sharing mechanism to which they are referring?

A. At the end of each six-month accumulation period ("AP"),[3] incurred FAC costs are compared to the FAC costs that were billed customers in base rates. If the difference is positive, meaning the actual costs were greater than the costs recovered in the base rates, customers pay for 95% *of that difference* through the FAC rate for a six-month recovery period ("RP").[4] Liberty absorbs the remaining 5% of the difference. If the actual incurred FAC costs are less than the FAC cost included in the base rates, 95% of the difference is returned to the customers and Liberty gets to keep 5% of the savings. This is the 95%/5% sharing approach referred to by Ms. Palumbo. It is often referred to as the 95/5 sharing mechanism.

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[1] Pages 1 and 19.
[2] Page 7.
[3] Liberty's accumulation periods are September through February and March through August.
[4] Liberty's recovery periods are June through November and December through May.

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Q. Does this 95/5 sharing mechanism mean that customers pay 95% of all of Liberty's fuel and purchased power related costs and Liberty absorbs the other 5%?

A. No. These sharing percentages are applied *to the difference* between the FAC costs recovered in base rates and the FAC costs Liberty actually incurs. This means that the more accurate the normalized FAC costs included in base rates, the less costs Liberty absorbs (when actual costs exceed base fuel costs) or retains (when base fuel costs exceeds actual costs).

What this means is that if the base amount is set appropriately and Liberty can increase cost-effectiveness and efficiency sufficiently to drive its actual costs below the base fuel costs, then Liberty will be get to keep 5% of that savings.

Q. Are you aware of any authoritative support for including sharing mechanisms to encourage electric utilities like Liberty to encouraging them to efficiently manage their fuel needs?

A. Yes. I have attached RMI's report *Strategies for Encouraging Good Fuel-Cost Management*[5] to this testimony as LMM-R-1. This report provides various options for encouraging efficient fuel management by electric utilities including the sharing mechanism included in the FACs of the electric utilities in Missouri.

Q. What is RMI?

A. RMI, previously known as Rocky Mountain Institute, is an independent nonprofit founded in 1982 with the objective of transforming global energy systems through market-driven solutions.[6] Because FAC policies give electric utilities little incentive to carefully manage their fuel costs, RMI believes regulatory commissions should investigate and take action to reform these policies. The

[5] https://rmi.org/insight/strategies-for-encouraging-good-fuel-cost-management/, also attached as Schedule LMM-R-1.

[6] *Strategies for Encouraging Good Fuel-Cost Management,* Schedule LMM-R-1, page 3.

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attached report is intended as a resource to support regulatory discussions regarding how FACs can be modified to provide incentives to carefully manage fuel costs.[7]

The first option for incentivizing fuel costs provided in the report is fuel-cost sharing. The fuel cost sharing mechanism included in the FACs of Missouri's investor-owned electric utilities is described on page 14 of the report along with other states that have sharing mechanisms in their FACs.

Q. Does Liberty's 95/5 FAC sharing mechanism affect Liberty's return on equity?

A. Yes, just as any other impact on Liberty's net revenues impacts ROE. When costs increase, it reduces Liberty's return on equity. When costs decrease, it increases Liberty's return on equity. When postage goes up it decreases Liberty's ROE; when the cost of water used by Liberty increases it decreases Liberty's ROE. When actual FAC costs are greater than what was recovered in base rates, the 5% that is not recovered decreases ROE.

When the price of gas used in its fleet vehicle decreases, this savings increases Liberty's ROE; when trees do not get trimmed, this savings increases Liberty's ROE.[8] When Liberty's FAC costs are below the FAC costs recovered in base rates, the 5% of that difference that Liberty does not return to customers, increases Liberty's ROE.

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[7] *Id.*, Page 7.

[8] In Case No. EO-2026-0002, Empire submitted its 2024 Annual reliability Compliance Report pursuant to Commission rule 20 CSR 4240-23.020. This report provides that Liberty did not conduct a single one of the 67,026 inspections planned for 2024 of overhead circuits, structures, and equipment.

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Q. Did Ms. Palumbo provide any support for her testimony that Liberty's FAC sharing mechanism "deprives [Liberty] of a sufficient opportunity to earn a fair return on equity thereby denying [Liberty] one of the major benefits the FAC was designed to provide"[9]?

A. No. Just like most of the testimony provided by Liberty witnesses, there is no data or other support for her position.

Q. Has Liberty's 95/5 sharing mechanism kept Liberty from earning a fair ROE over the past two years?

A. No. Data provided by Liberty in its FAC quarterly surveillance reports submitted to the Commission shows that despite having a sharing mechanism in its FAC, Liberty has been able to achieve a fair ROE. Table 1 shows the ROE that Liberty provided in its last seven FAC quarterly reports. I have also included in this table the ROE as calculated by OPC expert David Murray using an appropriate level of common equity. [10]

Table 1
Actual ROE

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[9] Page 7 – 8.
[10] See OPC witness David Murray's rebuttal testimony.
[11] Test year for this case.

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As shown in this table, even though Liberty's actual FAC costs incurred were greater than the cost recovered in base rates in every accumulation period covered by this table, the FAC sharing mechanism did not prevent Liberty from earning a fair ROE.

Q. Does a FAC sharing mechanism automatically mean a utility's earnings are reduced?

A. No. The sharing mechanism designed by the Commission and included in Liberty's FAC is symmetrical. Just as utility earnings can be reduced when actual FAC costs are above what is included in the base rates, earnings can increase when actual FAC costs are below what is included in base rates.

Q. Would Liberty's earnings be impacted if the Commission were to agree with you and order your recommendation to end Liberty's FAC?

A. Yes. If Liberty's actual FAC costs were below the amount included in the base rates, then Liberty would keep 100% of the savings and this in turn would increase Liberty's actual ROE. Likewise, if actual FAC costs were above the amount included in base rates, then Liberty's ROE would decrease.

Q. If the Commission were instead to change the sharing mechanism to the 50/50 sharing you proposed in your direct testimony,[12] how would this impact Liberty's opportunity to earn a greater ROE?

A. It would make setting the net base fuel costs amount more meaningful. If Liberty increased the cost-effectiveness and the efficiency of its fuel and purchased power procurement activities in a manner that reduced its FAC costs below what is included in its cost-of-service approved by the Commission, then the 50/50 sharing would provide 10 times more savings for Liberty that what it current gets through

[12] Page 25.

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the sharing mechanism, Therefore, a 50/50 sharing would increase the possibility that a savings would increase earnings.

Any increase in the percentage shared by Liberty would increase the opportunity for Liberty to increase its earnings by improving the cost-effectiveness and efficiency of its fuel and purchased power procurement practices. The greater the share to Liberty, the greater the opportunity to increase earnings. A 50/50 sharing would provide greater opportunity than a 90/10 sharing. If the Commission does not adopt my recommendation to reject Liberty's request to continue its FAC, then it should modify the current sharing mechanism with a 90/10 sharing providing the least reward for efficiency and 50/50 sharing the most. It should not be limited to these two sharing mechanisms but instead set the sharing at a percentage that best incentivizes Liberty to be cost-effective.

Q. Should Mr. Reed's testimony that "embedding an automatic sharing mechanism in a utility's FAC creates a perverse incentive for the utility to seek the highest level of base fuel cost possible,…"[13] be a concern for the Commission?

A. Yes, but it should also be concerned with utilities' incentive to seek the lowest level of base fuel cost as possible in an effort to get the highest possible increase in non-FAC costs and expenses.

The current 95/5 sharing mechanism has not created an incentive for Liberty to attempt to include the highest level of base fuel cost possible. Instead, Liberty's small amount of "skin in the game" with the 95/5 sharing mechanism has created an incentive for Liberty to lowball the FAC costs and not put much effort into estimating the base FAC costs to include in base rates. This allows Liberty to minimize the increase in base rates, and still be assured that it will collect almost

[13] Page 7.

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all of its fuel and purchased power costs incurred through the combination of its base rates and its FAC.

Q. Has this occurred?

A. Yes. In Liberty's last general rate case, and it is seeking to do so again in this case.

Q. What is your basis for your answer that in Liberty's last rate case it was able to minimize the increase in its base rates, with the assurance that it would collect, through its base rates and its FAC, almost all of its fuel and purchased power costs?

A. In Liberty's last rate case, Liberty agreed to a low FAC base cost to keep the overall rate increase low knowing it would, with 95/5 FAC sharing mechanism, recover almost all of its FAC costs. This shown in Table 2 below with a comparison of Liberty's actual and FAC base cost since the Commission set Liberty's current FAC base cost in the last rate case.

Table 2
Recovery of FAC Costs

		Costs	% of Actual FAC Costs incurred
Actual FAC Costs	AP 28 - AP 33	$ 169,991,204	
Recovered from Customers	In Base Rates	$ 99,239,742	58.38%
	Thru FAC	$ 67,213,889	39.54%
	Total	$ 166,453,631	97.92%
Liberty	Absorbed	$ 3,537,573	2.08%

The actual FAC costs over these six accumulation periods ($169,991,204) were 171% of the estimated base costs ($9,239,742). Of the $170 million FAC costs incurred, customers paid $166 million (97.92%) and Liberty absorbed $3.5 million (2.08%). So while the base FAC costs were drastically underestimated in the last case, the "harm" for Liberty over these three years was only a little over a million a year.

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Q. Is this 171% difference due to volatility in the natural gas spot market and SPP energy market prices?

A. No. The last case was soon after Storm Uri caused havoc in the natural gas spot market and in the SPP energy market. Prices in both the natural gas and SPP energy markets dropped and have stabilized since the last case.

Q. Then why was the FAC base cost so off in Liberty's last general rate case?

A. In the last rate case, Liberty was asking to increase its rate base by a little over $500 million for the Neosho Ridge, North Fork Ridge, and Kings Point wind projects ("wind projects"). It had justified these three wind projects to its customers, and the Commission in Case No. EA-2019-0010, touting that these wind projects would bring significant savings to its customers. The return alone on these projects in this rate case was an ask of $36 million.

One of the ways to manage the rate increase and still recover most of its costs was to keep the FAC base costs low knowing that it would recover most of its actual fuel-related costs through its FAC (as shown in Table 2). The only downside was the 5% of the difference between FAC base cost and actual FAC costs that Liberty would not recover from its customers.

Liberty agreed to a low FAC base cost along with $70 million of costs associated with the wind projects[14] being included in its cost-to-serve and accept that it would not recover the 5% share of FAC costs.

Q. What if the FAC base cost had been higher in Liberty's last rate case?

A. For every dollar more in its FAC base cost, Liberty's revenue requirement would have increased a dollar. A higher base factor means a greater increase in base rates.

[14] Capital recovery and expenses associated the wind projects, MPPM workpapers provided in MPPM filings in ER-2021-0321. This amount is shown on the MPPM workpaper attached as Schedule LMM-R-6.

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Q. Did having a low FAC base cost in its last general rate case affect the increase Liberty is requesting in this case?

A. Yes. Because the base fuel cost was lower than it should have been in the last rate case, the base rates also were lower than they should have been. This results in Liberty's increase request in this case is greater than it otherwise would have been.

Q. Given your experience with the amounts of fuel costs included in revenue requirements before electric utilities had FACs, would Liberty have agreed to such a low FAC base cost if it did not have a FAC?

A. No. Prior to the FAC, it was my experience that Liberty (then Empire) would fight to include the highest fuel and purchased power costs in its revenue requirement as possible. Before a FAC was approved for Liberty, Liberty would keep all savings below the fuel and purchased power costs included in its cost-to-serve, but Liberty had to absorb 100% of the fuel and purchased power costs above what was included in its cost-to-serve. So the higher fuel and purchased power costs in its cost-to-serve, then the more likely there would be positive regulatory lag creating earnings for Liberty.

Now with a FAC, Liberty's only concern in setting the FAC base cost is the 5% of the difference between the FAC base cost and actual costs. As shown in Table 2, without its FAC, Liberty would have had to absorb over $70 million instead of the $3.5 million that it has absorbed over that time period.

Q. In its last rate case was Liberty concerned about the impact of the FAC sharing mechanism on its ROE?

A. In my opinion, no. Instead, it was more interested in manipulating the amount of the general rate impact of its rate increase request.

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Q. Why is it your opinion that Liberty is keeping its FAC base cost low in this case too?

A. Liberty did not model fuel costs in a manner that would get the most accurate fuel costs for this case. There is little to no description of how the inputs to the fuel and purchased power model were calculated and there is no justification of how the normalization of the other components of the FAC base cost were calculated.

Q. Does Liberty witness Todd W. Tarter discuss how he developed his fuel modeling inputs in his direct testimony?

A. No. He provides no discussion and no support to show that the inputs into his model are reasonable or that the results of his model are reasonable. He states that the fuel model assumptions were updated, annualized, and normalized,[15] but he does not tell how the assumptions were annualized and normalized, nor does he provide support for why these were the appropriate methods for annualization and normalization of the various inputs. Mr. Tarter testifies that he used hourly energy market prices, but gives no support for the reasonableness of the market prices he uses, only that the prices were correlated with the natural gas prices used in the model.[16] The rationale given for why Liberty's natural gas hedging was not included in the fuel modeling for this case was that Liberty did not include natural gas hedging in its past two rate cases.[17] There was no discussion of why not including natural gas hedging is still appropriate for this case.

Q. Did Liberty directly input into its cost-to-serve for this case Mr. Tarter's normalized fuel and purchased power estimates?

A. No. The workpapers show that total fuel costs from the fuel model were allocated back to the fuel subaccounts based on the percentage of actual costs in these

[15] Page 8.
[16] Page 8 – 9.
[17] Page 10.

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accounts in the test year. So if 50% of the costs in Mr. Tarter's model run was from the use of coal, but in the test year only 40% of the total fuel costs were coal cost, then 10% of the costs are moved from coal unit costs to other costs in Liberty's cost-to-serve.

Q. Does this make a difference in the total cost-to-serve proposed by Liberty?

A. No, not in the total cost, but it does make the subaccount amounts suspect.

Q. Did you ask Liberty how it calculated its inputs into its fuel and purchased power model?

A. Yes. I sent OPC data request 8009.3 asking:

> Please provide a list items of the Fuel Model were developed by Liberty subject matter experts. Identify for each item (1) the direct testimony (witness and testimony page) that describes the development of each item and (2) the workpaper provided with the direct testimony including a site to where in the workpapers the item was developed. If workpapers that show how an item was developed were not provided with direct testimony, please provide the workpaper that shows the development of each item.

Mr. Tarter's response to this data request is attached as Schedule LMM-R-2. None of the items provided in response were inputs into the fuel model. They are all components of the FAC base cost that are calculated outside the fuel model.

However, Mr. Tarter did supply workpapers in response to this data request that he had not previously provided. The response and the workpapers that were provided showed the lack of attention to the development of these non-fuel model FAC components.

Q. What does this data request response show?

A. For eight out of the nine components listed in the response to this data request, Mr. Tarter gave the rationale for the calculation of the annualized, normalized amount as "consistent with past rate cases." He did not explain why the methods used in past rate cases are still relevant in this case. The ninth component described in this

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response, transmission, was developed by a different Liberty witness, Aaron J. Doll. A separate workpaper was provided in this response but there was no rationale given as to why the transmission component calculation was appropriate for this case.

Q. Did you review how different components in this workpaper were "normalized" in the workpapers provided?

A. Yes. Some costs were averaged over four years; some over five years. Others were projected 2025 amounts; some were 12 months of data from an unknown year; one was for the 12 months ending September 2023. There was no explanation for the methods used, why amounts for different time periods were used, or why the particular method chosen was appropriate for the particular cost/revenue component. The only explanation was that each (other than transmission costs) were estimated "consistent with past rate cases."

Q. What do you surmise from this?

A. Liberty put very little effort into determining what the appropriate amounts should be. It matters very little to Liberty because any inaccuracies will be almost all recovered through its FAC.

Q. Do you see any indication that Liberty was concerned about the impact on its ROE of not recovering the 5% of the costs it could incur due to inaccuracies?

A. No, I did not. This is why the Commissions should not remove the sharing mechanism and, instead, should increase the share of the difference between the actual FAC costs and FAC base cost that Liberty absorbs or retains.

It is best for both Liberty and its customers to have a good estimate of FAC costs when setting the FAC base cost. This results in low volatility of the FAC charges to customers, and timely revenues to Liberty. The current low sharing

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amount for Liberty only incents Liberty to play games with its FAC base cost and its base rates increase.

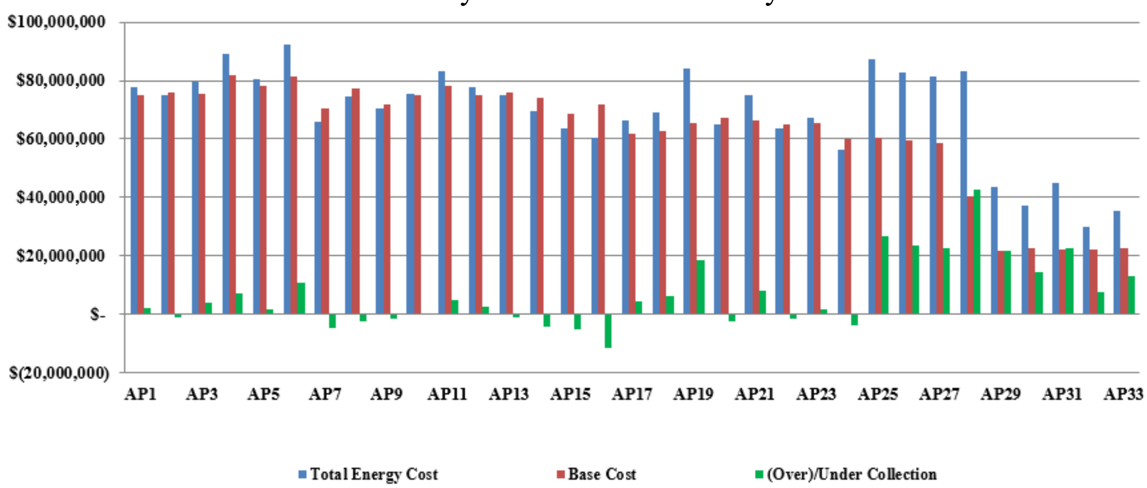
Q. Given the impact shown in Table 2, would the 50/50 sharing mechanism you recommend impact Liberty's ROE?

A. Only if the FAC base cost approved in this case were considerably inaccurate as they were in Liberty's last rate case. If the FAC costs included in the base rates is low, then there is a greater probability that a sharing mechanism would impact Liberty's ROE. The greater the percentage of Liberty's sharing, the greater the impact on ROE.

Q. Over how many of Liberty's FAC accumulation periods has there been a very large difference between base FAC costs and actual incurred FAC costs?

A. Chart 1 below is a summary of Liberty's Total Energy Costs ("TEC"), Base Costs, and the over- or under-collection of fuel and purchased-power costs, minus off-system sales revenues through its permanent rates, since the Commission authorized Liberty's FAC.

Chart 1
Liberty's FAC Costs Summary



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This chart, also provided in Staff witness Brooke Mastrogiannis' revenue requirement direct testimony,[18] shows that the differences between the Total Energy Costs and the Base costs for AP 1 through AP 24 were typically less than $10 million and in eleven of the APs, the total cost was less than the FAC Base Cost. However, this changed with AP 25 which was the six months ending February 2021.[19] In the remaining eight APs, the Total Energy Costs (actual FAC costs) have been much higher than the FAC base cost.

Q. Why are the Total Energy costs (actual FAC costs) higher in AP 25 through AP 28?

A. Because of Storm Uri in February 2021. Liberty's Total Energy Costs were greater for some time after Storm Uri because SPP energy market prices and natural gas prices did not immediately return to pre-Storm Uri ranges for a while. However, this does not explain the differences for AP 29 through AP 33. Liberty's FAC Base Cost was reset in Liberty's general rate Case No. ER-2021-0312 and this lower base is fully reflected beginning with AP 29. This reset should have included consideration of the change in the market. This chart shows that even though total cost did drop after that case, Liberty's FAC Base Cost set in that case were set too low.

Q. Could Liberty have done something before this case to correct its FAC Base Cost to change the impact of its FAC sharing mechanism on its ROE?

A. Yes. Since FACs can only be changed in base rate cases, if Liberty was concerned about the impact of the sharing mechanism on its ROE, it could have filed for a general rate increase to correct its FAC base cost. However, this would have meant that every cost and revenue in its cost-to-serve would be examined. Positive

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[18] Page 5.
[19] Storm Uri hit the central United States in mid-February 2021 resulting in extreme natural gas and energy market prices.

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regulatory lag from the inclusion of the wind projects costs, which were contributing to Liberty's high ROE during this time, would have been replaced with an updated, lower undepreciated amount with a lower return on the project costs.

During this time, Liberty knew that even with the 5% sharing it would recover almost all of its actual FAC costs, so it chose to not come in to correct the FAC base cost and instead take the minor hit on its ROE caused by its FAC sharing mechanism so it could enjoy the positive regulatory lag from the return on the large wind project rate base amount included in Case No. ER-2021-0312.

So, while the FAC sharing mechanism did impact Liberty's ROE, the impact was not great enough to induce Liberty to correct its base FAC cost. Other factors drove Liberty's decision on general rate case timing since Liberty would recover 98% of its total FAC costs.

Q. What is your response to Mr. Reed's testimony that the current FAC sharing mechanism does not provide any efficiency incentive to Liberty because it is "virtually impossible to estimate the amount of energy and transmission cost that should be included in base rates *that are set as much as four years in advance* of the costs actually being incurred."? (Emphasis added.)[20]

A. Liberty decides when to file rate cases. It does not have to wait four years between rate cases.

The FAC statute requires Liberty "to file a general rate case with the effective date of new rates *to be no later* than four years after the effective date of the [C]ommission order implementing the adjustment mechanism." (Emphasis added)[21] It does not require Liberty to wait four years. It sets the maximum length of time at four years. In this case, the high rate base and depreciation expense amounts of Liberty's wind projects included in rates was the driver of the timing of this rate case filing, not the inaccuracy of the FAC base cost.

[20] Page 16 - 17.
[21] Section 386.266.5(3) RSMo.

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Also, at Liberty's request, the test year in this case is October 2022 through September 2023 meaning some of the cost data used will be over three years old before new rates go into effect. If Liberty is concerned about the length of time that its FAC base is in effect, it should not have used such an old test year and true up period in this case.

<u>Liberty's Decisions Do Impact Fuel Costs</u>

Q. What do Liberty witnesses say about control over actual FAC costs and FAC incentive mechanisms?

A. Mr. Reed opines in his direct testimony that incentive mechanisms should only be applied to costs or activities within the control of the utility[22] and fuel adjustment clauses are for costs that are large, volatile, and not within the control of the utility.[23] Therefore, "Incentive mechanisms as they relate to fuel cost recovery clauses should be limited because they are contrary to the purpose of FACs and can create perverse incentives."[24] He goes on to say "Nearly all of the costs included in the Company's current FAC are no longer within its control and should not be subject to sharing of either positive or negative cost differentials."[25]

Q. What is Mr. Reed's support for his assertions?

A. I do not know. He provided no support.

Q. Are nearly all of Liberty's FAC costs within Liberty's control?

A. Yes, Liberty has some control over all of its actual FAC costs. I agree that there are market forces that Liberty cannot control that impact FAC costs. However, that does not mean that Liberty has little to no control over its fuel and purchased power costs.

[22] Page 6.
[23] *Id.*
[24] Page 7.
[25] Page 13.

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Liberty chooses the type and timing of generation resources that it builds. Liberty chooses when to retire generation plants. Liberty chooses whether to hedge natural gas prices and at what price to hedge them. Liberty chooses the maintenance and upgrades of the generation plants it owns. Liberty chooses whether or not to enter into purchased power agreements ("PPAs") and negotiates the terms of those contracts.

Liberty chooses when and at what price to bid its generating units into the energy market. Liberty chooses how much of its SPP transmission auction revenue rights ("ARRs") to convert to transmission congestion rights ("TCRs"). Liberty chooses when to sell renewable energy credits ("RECs") and at what price. Liberty chooses whether or not to enter into contracts like its current contract with Missouri Energy Commission ("MEC") and the amounts of capacity and energy it offers.

While Liberty does not have control over all components of its actual FAC costs; it does exercise considerable control over many of them.

Q. Do you agree with Mr. Reed that "[t]he sharing provision should represent an incentive to control costs that are within [Liberty's] control and provide the benefits of that cost control primarily to customers and partially to [Liberty]."?[26]

A. Theoretically I do if Liberty has a direct and isolated line of control. With all of the different aspects of control that Liberty has over FAC costs and the many interactions between the FAC cost components, it would be impossible to directly tie incentives to each of the specific ways Liberty can control the FAC costs. Guessing or supposing would likely create unintended consequences.

Q. Does Mr. Reed propose an incentive mechanism tailored to apply to costs or conduct that is within Liberty's control?

A. No. His only suggestion is that there be no sharing mechanism.

[26] Page 11.

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Q. Does Liberty's current sharing mechanism recognize in its design that there are influences on some costs that are not under Liberty's control?

A. Yes. With the design of Liberty's FAC and the sharing mechanism, recovery of all the FAC costs is not at risk. The inclusion of FAC costs in the base rates assures Liberty that it will recover a set amount. The current sharing of 95/5 recognizes that Liberty does not have complete control over its FAC costs.

However, as shown since Liberty's last general rate case, the 5% sharing has not influenced Liberty to estimate an accurate FAC base nor has it influenced Liberty to carefully examine the inputs to its fuel and purchased power cost estimation model. Liberty used its FAC to manipulate how the large increase that it was requesting was presented to regulators and the public.

In Missouri, the FAC is a privilege, not a right. The Commission has the authority to reject Liberty's request to continue its FAC. Liberty has taken this privilege and used it to manipulate how its customers are billed and how its rate increase was presented. These are reasons why the Commission should reject Liberty's request to continue its FAC.

At the very least the Commission should increase Liberty's share of FAC costs. This is not a penalty. In Liberty's early FAC accumulation periods the 95/5 sharing mechanism seemed to be effective. Recent history has shown that the current 5% is not enough to incentivize Liberty to minimize the impact of its FAC on customers. Something changed. Liberty seems to be treating the FAC not as a privilege, but as a tool for manipulating rate increase impacts.

Continuing with business as usual or removing the sharing mechanism as Liberty is requesting will not effect a change in the efficiency or cost-effectiveness of Liberty's FAC costs. In my direct testimony, if the Commission does not agree that Liberty's FAC be rejected, I recommended a sharing of 50/50 of the difference between the actual FAC costs and the FAC base cost. If the Commission believes this is too extreme, then any increase in the share of the difference for Liberty

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should incentivize Liberty to not manipulate this tool that has shown to greatly reduce its risk of cost recovery.

<u>Sharing Mechanisms are Appropriate for Utilities in Organized Energy Markets</u>

Q. What do Liberty's witnesses say about the impact of Liberty's transfer to the SPP of functional control of its generating resources on FAC sharing mechanism incentives?

A. On page 4 of his testimony, Mr. Reed states:

> The most obvious changed circumstance that warrants a revision to the FAC is that the need for the efficiency incentive that the Commission wished to provide is now obviated due to the regional operation of the generation fleet by an independent system operator (SPP), replacing the utility's operation of the power resources it has in its portfolio.

Later in his testimony he explains:

> Under the earlier non-organized operating model, utilities focused their dispatch and fuel procurement decisions on meeting their on-system requirements, and they engaged in wholesale market operations that allowed them to reduce costs through short-term and medium-term bilateral power sales and purchases which took advantage of heat-rate differentials, fuel cost differentials, load diversity, and transmission availability.[27]

Mr. Reed seems to believe that maintenance to keep plants running efficiently, PPA price negotiations, fuel hedging and acquisition activities will be naturally incentivized by the market so there is no reason for the Commission to include an incentive sharing mechanism in Liberty's FAC.

Q. What is your response to Mr. Reed's reasoning?

A. It is flawed. The presence of a FAC without a sharing mechanism would incentivize Liberty to do as little maintenance on its generating resources as

[27] Page 24.

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possible because, without a sharing mechanism, Liberty receives no benefit from selling energy into the market.

SPP is responsible for providing energy to Liberty's customers, along with the energy needs of all of its members. This relieves the responsibility of assuring Liberty's customers' energy needs are met from Liberty. SPP does this by setting resource adequacy requirements for the amount of capacity each of its members including Liberty needs but does not have requirements on the amount of energy each member must provide. Liberty decides when to bid its generating resources into the SPP market and at what price. Liberty decides whether to use the funding that allocated for maintenance to maintain the plants or to now spend it with the savings being used to increase its ROE.

With no incentive mechanism, there is no reason for Liberty to negotiate low energy prices in any PPAs (like the Elk River wind PPA that it recently extended) because none of the saving from a lower price will be kept by Liberty. There is no reason to be careful in fuel hedging or even to do fuel hedging since the any savings from hedging flows back to the customers through Liberty's FAC.

Being a member of an organized market does not alleviate the need for a sharing mechanism to assure customers that Liberty is cost-effectively and efficiently using the resources that the customers are paying for. Since membership in SPP removes the responsibility from Liberty of meeting its customers' energy requirement, there is a greater need for an incentive mechanism with SPP having functional control of its generating units.

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<u>Commission Oversight Does Not Alleviate the Need For a Sharing Mechanism</u>

Q. What do Liberty's witnesses say about FAC prudence reviews and FAC sharing mechanisms?

A. Mr. Reed opines that no sharing mechanism is needed because the Commission's prudence reviews are a sufficient incentive for Liberty to ensure that its FAC costs are just and reasonable.[28]

Q. What support does he provide for his claim that prudence reviews obviate the need for sharing incentives?

A. He offers no support for his opinion.

Q. Does prudent necessarily mean cost-effective?

A. No. There are wide ranges of prudent decisions, some of which are more cost-effective and efficient than others. For example, it may be prudent to hedge natural gas prices. That does not necessarily mean that Liberty's natural gas hedging strategy is cost-effective. It is prudent to cash in transmission auction revenue rights ("ARRs") for transmission congestion rights ("TCRs"), but where is the line between cost-effective and not cost-effective? It may be prudent to build combustion turbine plants, but it may be more efficient to build a combined cycle plant, or it may be more cost-effective to build a different size combustion turbine plant.

Even Mr. Reed seems to realize this in his testimony when he states:

> … decisions being reviewed need to be compared to a range of reasonable behavior; prudence does not require perfection or achieving the lowest possible cost. This standard recognizes that reasonable people can differ and that there is a range of reasonable actions and decisions that is consistent with prudence.[29]

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[28] Page 16.
[29] Page 15.

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All decisions have a wide range of prudency and of cost-effectiveness. Proving imprudence is nearly impossible when Liberty holds all the cards, and when the decisions are subjective. With a sharing mechanism, Liberty can be rewarded for prudent, *cost-effective* decisions. Without a sharing mechanism, Liberty has no reason to take an action that may increase cost-effectiveness. Liberty will recover a prudent cost whether or not there was a more cost-effective decision. As long as the decision can be called prudent, the cost-effectiveness would make no difference to Liberty because it is provided no benefit for choosing the more cost-effective prudent decision.

Q. Have you been participated in a FAC prudence audit?

A. Yes, many times. I directed FAC prudence audits when I worked for Staff, and I have participated in prudence audits for the OPC.

Q. What are your observations about prudence audits?

A. A prudence audit is only as good as the questions asked by the auditor and the quality of information provided. The questions asked are a function of the experience and knowledge of the auditor. There will always be questions that should have been asked but are unasked. Utilities do not provide information that is not asked for and hold information tightly.

A prudence review is also limited by availability of time to conduct it. Commission Staff, like OPC, rarely, if ever, have the opportunity to dedicate personnel that can solely concentrate on a single prudence review. Division of time and distractions are abundant and impact the quality of the review.

It is impossible to review every decision that impacts costs and even more impossible to understand all that went into making that decision and prove that it was an imprudent decision. Just as impossible is measuring the cost impact of many decisions – prudent or imprudent.

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Q. Is a sharing mechanism a substitute for Commission oversight?

A. No. As the Commission said in its *Findings of Fact* of its *Report and Order* where the Commission first approved a FAC: [30]

> The Commission also finds after-the-fact prudence reviews alone are insufficient to assure Aquila will continue to take reasonable steps to keep its fuel and purchased power costs down, and the easiest way to ensure a utility retains the incentive to keep fuel and purchased power costs down is to not allow a 100% pass through of those costs.

Q. Are you aware of anything that has proven this finding to be incorrect?

A. No, I am not. However, as I have detailed in this and other testimonies, I have seen evidence that the sharing mechanism needs to change to give the utilities more skin in the game.

<u>Different Does Not Mean Wrong</u>

Q. What should the Commission glean from Mr. Reed's high-level information regarding the various energy cost recovery mechanisms across the nation?

A. While this information is interesting, the Commission should keep in mind that the enabling statute or tariff sheets for each of these states and each utility in each state is different. What costs and revenues are included in the energy costs recovery mechanism in each state are different. This is evidenced by Mr. Reed referring to "energy cost recovery mechanism" instead of FAC.[31] Some Commissions are not allowed to include incentive mechanisms in the utility's FAC even if they see the benefit of a mechanism. Some states, like Missouri, are allowed to include an incentive mechanism. I have heard it said that one of the good things about the United States is that every state does things differently – it is like having 50 different experiments. While it is good to look at the other state's experiments, it

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[30] Case No. ER-2007-0004, *In the Matter of Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P, for Authority to File Tariffs Increasing Electric Rates for the Service provided to Customers in the Aquila Networks-MPS and Aquila Networks-L&P Service Area*, Report and Order, page 54.
[31] Pages 4 and 19.

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is not necessary to assume that Missouri's experiment is wrong or bad because it is different from other states' experiments.

The positive to pull out of Mr. Reed's recitation is that there are other states with FACs that include incentive mechanisms. These states, like the Missouri Legislature, recognized that, even though an electric utility cannot control all aspects of fuel and purchased power costs, a FAC would remove all incentives for the electric utility to cost-effectively and efficiently manage what it could. The Commission should use the tools given to it to make our electric utilities efficient and not be swayed by the number of states that do not include incentive mechanisms.

<u>FAC Does Not Provide Timely Price Signals To Customers</u>

Q. Is Liberty witness Palumbo's testimony that Liberty's proposal to remove the sharing mechanism will provide a more accurate pricing signal to Liberty's customers correct?[32]

A. No. Regardless of the sharing mechanism included in Liberty's FAC, its FAC cannot send accurate price signals to Liberty's customers due to the timing of the accumulation and recovery periods. It takes three months after the end of an accumulation period for new rates to take effect and the rates to recover those costs are recovered over the next six months. For example, one of Liberty's accumulation periods is from August to February. This accumulation period will include costs from late summer through the coldest months of the winter. The recovery period over which this price signal will be sent to customers is from June through November which includes the next summer and fall months.

Similarly, Liberty's other accumulation period is March through September – spring and summer months. The rate calculated from the costs in this recovery period will be recovered from December through May – winter and spring. This

[32] Page 11.

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timing does not allow for accurate price signals, regardless of the magnitude of the cost differential. Liberty's FAC does not provide accurate price signals to customers.

Q. Does Mr. Reed address in his direct testimony how a FAC without a sharing mechanism would give a more accurate price signal to customers as Ms. Palumbo testifies?[33]

A. I could not find any such discussion in his testimony.

IMPACT ON LIBERTY'S FAC OF LARGE CUSTOMERS

Q. Did Liberty address the impacts of large load customers on its FAC?

A. No.

Q. Should Liberty have done so?

A. Yes. While Liberty does not have such a large load customer yet, given the plethora of data centers that are being forecasted as needed in the United States and the Commission's PowerMO Summits on August 13, 2024 and November 25, 2024, Liberty should have been proactively preparing for a large load customer to be added to its system when it first filed this rate case on November 6, 2024. Because of the magnitude of the energy, capacity, and system support required for large customers, Liberty should be prepared for such a customer and not wait until a large customer comes on its system.

Q. How do you define a large load customer?

A. I define a large load customer as a customer that has a demand of 25 MW.

[33] Liberty witness Palumbo direct, page 11.

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Q. Why is your definition lower than the 50 MW definition in the soon-to-be effective SB 4 definition of a large load customer?

A. Based on my experience with the Liberty electric system and its resources, a customer with a peak demand of 25 MW will cause substantial resources and create substantial costs for Liberty.

Q. Can the Commission approve a large load customer tariff outside of a rate case?

A. It is my understanding that it can. However, large load customers will impact Liberty's FAC charges and by statute, section 386.266.5, RSMo, the Commission can only authorize modifications to Liberty's FAC in a general rate case. Therefore, it is important to incorporate in this case any changes necessary to "correct" the impact on the operation of Liberty's FAC of new large load customers.[34]

Q. How will large load customers affect the costs that flow through Liberty's FAC as it is currently designed?

A. I do not think that we will actually know all the impacts until Liberty has a large load customer and we know what the load of this customer looks like. At a minimum, the amount of energy which Liberty must pay SPP will greatly increase. The timing and amount of load will vary based on the load characteristics of the customer. Volatility in their load would cause an increase in certain SPP charges associated with such load volatility.[35]

In addition, if Liberty enters into a short-term capacity contract (less than 12 months) to meet the increased SPP resource adequacy requirements because of a new large load customer, the costs of this contract would flow through Liberty's

[34] This is my non-attorney view.
[35] Voltage regulation, spinning reserve requirements, forecast deviation are at least three of the types of cost types will be impacted.

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FAC, as the current FAC allows recovery of capacity costs of contracts of less than a year in duration.

Q. Will adding large load customers increase Liberty's fuel costs that flow through its FAC?

A. No. Liberty's generation is not dispatched to meet Liberty's load, so additional load does not equate to requiring additional generation. Entities, including Liberty, bid their generation into the SPP market and SPP dispatches that generation depending on the load requirements of SPP as a whole. As a result, the addition of large load customers will not directly impact the generation Liberty sells into the SPP markets, or the revenues Liberty gets from SPP for its generation.

Q. Will adding large load customers impact Liberty's revenues from selling RECs created by renewable resources?

A. Yes. Because Liberty's Missouri RES requirements are based on a percentage of the energy requirements of Liberty's Missouri customers, the increased load will increase the number of RECs that Liberty needs to retire to meet its Missouri RES requirements.

Q. Would you summarize your testimony about the impacts of adding large load customers on Liberty's FAC charges based on Liberty's current FAC tariff language?

A. Adding large load customers will increase FAC cost components but not FAC revenues. This means as large load customers are added, the average actual FAC cost will increase above the FAC base cost set in Liberty's most recent general rate case. This will cause Liberty's other retail customers to pay a portion of the costs Liberty incurs to serve these large load customers. If a large load customer has been on Liberty's system for a while, its costs could be incorporated in the FAC base factor.

However, if the load of a large customer decreases, which may be due to customer changes in production or the closing of a customer facility, then average actual FAC costs could fall below the base FAC costs, and the non-large load customers would get back more than Liberty's FAC design intended that they should.

Q. Which Liberty witness is sponsoring Liberty's proposed changes to its FAC?

A. Leigha Palumbo.

Q. Did she propose any change to Liberty's FAC tariff sheets to protect Liberty's current customers from the impacts of large load customers coming onto Liberty's system?

A. No.

Q. What change to Liberty's FAC tariff sheets do you recommend to reduce the risk of existing customers subsidizing large load customers through Liberty's FAC?

A. The costs incurred in serving large load customers should be excluded from Liberty's FAC. At this point in time, where we do not know all the impacts and all the costs, a simple line in the FAC tariff sheet that states that the energy, capacity, and transmission costs incurred due to each large load customer are excluded from the costs that flow through Liberty's FAC would be sufficient.

Q. Why not wait until after Liberty has a large load customer to address your concerns?

A. Every large load customer added to Liberty's system before its FAC is modified to exclude at least the energy, capacity, and transmission costs associated with them will be subsidized by Liberty's other customer classes, and Liberty's FAC can only lawfully be modified in a Liberty general rate case.

Q. Given that Liberty first filed its direct testimony before SB 4 was prefiled at the legislature, was it reasonable for Liberty to not address SB 4 impacts in its direct testimony?

A. No, as the following timeline demonstrates. Liberty filed its direct testimony for the first time in this case on November 6, 2024. SB 4, which contains Section 393.130.7 RSMo., was prefiled on December 1, 2024, which means it was drafted before then. Liberty resubmitted direct testimony of five of its witnesses on December 20, 2024. Liberty withdrew all of its 2024 testimony and filed "new"[36] direct testimony on February 26, 2025. By that date, there had already been considerable action on SB 4.[37] Liberty filed more direct testimony on March 14, 2025, the day after SB 4 was Truly Agreed To and Finally Passed. Governor Kehoe signed SB 4 on Apr 9, 2025.

Liberty either knew or should have known what SB 4 would contain and begun preparing for these customers and the protection of it other customers during this time period where it was pursuing a general rate case before the Commission.

Q. Would this change prepare Liberty's FAC to meet the SB 4 requirement of Section 393.130.7, RSMo. of "prevent[ing] other customer classes' rates from reflecting any unjust or unreasonable costs arising from service to such [large load] customers"?

A. Yes, it would.

[36] The majority of that "new" testimony was *verbatim* the same as the withdrawn testimony from November 6, 2024.
[37] SB 4 timeline https://www.senate.mo.gov/25info/BTS_Web/Actions.aspx?SessionType=R&BillID=66.

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MARKET PRICE PROTECTION MECHANISM

Q. What did Liberty witness Aaron J. Doll include in his direct testimony about the Market Price Protection Plan ("MPPM") to which you wish to respond?

A. To support Liberty's interpretation of certain terms in the MPPM, Mr. Doll attached as Direct Schedule AJD-1 Liberty's *Response to OPC's MPPM Motion* ("Motion") filed in Case No. ER-2021-0312; however, he omitted the privileged settlement email communications between Liberty and OPC regarding the settlement of MPPM terms that were attached to that motion.[38] I am including those communications as Schedule LMM-R-3 to this testimony. Mr. Doll also did not include Public Counsel's responsive pleadings which I am including as schedules to this testimony.[39]

Q. What is your response to Mr. Doll's testimony about the significance of his Schedule AJD-1?

A. Mr. Doll testifies that this Motion, which includes the settlement emails, supports Liberty's position that "the parties discussed and settled on a specific set of criteria for some of the perceived ambiguity in the original MPPM mechanism."[40] In doing so he is asserting that OPC had agreed to a specific set of criteria. That assertion is incorrect.

Q. Did you participate in that settlement process which culminated in the paragraph 21 MPPM terms in the Fourth Partial Stipulation and Agreement filed in Case No. ER-2021-0312?

A. Yes.

[38] While Mr. Doll did not include the privileged settlement emails Appendix A as a part of his schedule, these settlement emails can still be found attached to the Motion in Case No. ER-2021-0312 and are referred to in the Motion that Mr. Doll attached as a schedule to his testimony.

[39] To give the Commission a complete picture, I am attaching the OPC response to Liberty's first MPPM fling, *Public Counsel's Motion in Response to Liberty's MPPM Notice Filing* as Schedule LMM-R-4 and *Public Counsel's Reply to Liberty's Response to OPC's Motion in Response to Liberty's MPPM Notice Filing* as Schedule LMM-R-5.

[40] Page 16.

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Q. Did OPC agree to a specific set of criteria for the PPA replacement value?

A. No. There was disagreement with the specifics of how to calculate the PPA replacement value. This was one of the last issues to be resolved in the case. OPC wanted to be specific to avoid the current disagreement. I proposed settlement language to document the method of assigning renewable energy RECs to meet the RES that Liberty was following at that time.

Q. Until it added the wind projects to its generation portfolio, how had Liberty been determining which of its generation resources were being used to meet its Missouri RES requirements?

A. The Missouri RES statute limits the impact on rates of the RES to one percent and that it should be met with the most cost-effective resources.[41] Prior to the addition of the wind projects, Liberty had five renewable resources that created RECs which it used to meet the RES: 1) the Ozark Dam, 2) the Elk River Wind PPA, 3) the Meridian Way Wind PPA, and 4) solar RECs purchased from customers to whom it was required to give rebates. The Ozark Dam and the wind PPAs are considered zero cost in the RES since Liberty had these resources prior to the RES.

Liberty applied all of these RECs to the RES in a manner that left some RECs from the wind PPAs available to sell. This allowed Liberty to meet the RES without having to add more resources, and this process could still provide enough RECs for Liberty to meet the RES today.

Q. How did Liberty change this assignment methodology after it entered into the MPPM?

A. To calculate a replacement value for the MPPM, the only solar RECs used in meeting the RES is the 2% of the total 15% required to meet the statute. None of the additional RECs from the solar rebates customers were required to pay for is included. The RECs from Ozark Dam are not included. The wind PPA RECs

[41] Section 393.1030.3(1) RSMo.

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amounts available are applied to the RES[42] and then the rest is provided, not just with its Missouri wind projects where it can get a 1.25 per REC RES credit, but with some of all of its wind projects. This is so it can claim in the MPPM that the wind projects are providing benefits to customers from meeting the RES, a claim it could not make if it continued to use its pre-MPPM execution methodology.

Q Why does Public Counsel disagree with what Liberty is doing with its wind project RECs for meeting its RES requirements?

A. The MPPM was proposed as a mechanism to limit the impact on customers if the wind projects did not meet Liberty's expectations of profitability for Liberty's customers. The intent was to measure *added* value against *added* cost. Therefore, the MPPM's determination of the need for the wind projects to meet the Missouri RES should be the need that remained after what was already in Liberty's rates – Ozark Dam, customer solar, Elk River wind PPA and Meridian Way PPA. And then, if any additional renewable generation was needed, it should be from one of the Missouri wind projects since the RES gives 1.25 RECs for each MWh generated from Missouri renewable sources.[43] This was how Liberty complied with the RES before the wind projects, and the settlement language OPC proposed would have put this process into writing.

Q. Is formalizing in writing this process what you were trying to accomplish in settlement?

A. Yes; however, as shown in the settlement emails attached as Schedule LMM-R-3, Liberty would not agree to being this specific.

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[42] Liberty entered into a PPA selling a portion of its energy and RECs from the Meridian Way PPA thus having fewer RECs available to meet the RES. The price received for the RECs of **____ ** is far below the market value of RECs that Liberty estimated to be **________ ** in its recent RES Report filed with the Commission in Case No. EO-2025-0287.

[43] Both Ozark Dam and customer solar RECs are Missouri sourced RECs with a 1.25 value for the Missouri RES.

Q. Specific to the RES compliance process, to what language did the parties agree?

A. In the context of their agreement that their settlement regarding MPPM terms was for "clarification only," the language regarding the calculation of the PPA replacement value in the MPPM to which they agreed in the *Fourth Partial Stipulation and Agreement* in Case No. ER-2021-0312 follows:

> A PPA replacement value will be calculated:
>
> - For any renewable compliance standard not met by the existing wind PPAs through life of the MPPM;
> - Based on the energy from the wind projects being used to meet the renewable standards that is not met by existing solar requirements (e.g., currently 2% of Missouri RES).[44]

Q. As Public Counsel's representative, when you agreed to this language was it your understanding that you were agreeing that the replacement value should be based solely on the difference between the wind PPAs and the RES requirement?

A. No. My understanding was that Liberty should be maximizing the benefit of the PPAs in the MPPM by continuing to treat its renewable resources for RES purposes as it had before it added with wind farms, and maximizing the benefit to customers when adding the wind farms by, if needed for RES compliance, applying Missouri sourced RECs first as they are valued at 1.25 RECs for RES compliance purposes. It did not even occur to me that someone would argue this language means that the Ozark Dam and excess solar RECs would not be considered in this MPPM replacement value determination.

My understanding corresponds to what Liberty told the Commission that the MPPM was designed to measure – the benefits and costs above what Liberty customers were already paying. Liberty customers were already paying for the

[44] Page 8.

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solar, Ozark Dam, and the wind PPAs RECs. The wind projects provide RES value only if these sources of RECs are not sufficient to cover Liberty's Missouri RES requirements. Liberty selling some of its wind PPA RECs at a loss in a new PPA, and its ignoring the Ozark Dam and excess solar RECs to determine the need for the wind project RECs is attributing a value to the wind projects that does not actually exist.

Q. Does Staff agree that the PPA replacement value should be zero?

A. Unless it has changed its position it does. As memorialized in *Public Counsel's Motion in Response to Liberty's MPPM Notice Filing*:[45]

> Before filing this response, Public Counsel shared a draft of this motion with the Commission's Staff who requested Public Counsel to include the following statement: "Staff has reviewed Liberty's market price protection mechanism filing and supports the OPC's position to require Empire to refile its compliance filing to reflect a PPA replacement value balance of $0.00."

Q. Did Public Counsel assert that PPA replacement values should be zero until the Elk River PPA expired as Liberty asserts in its motion and in Mr. Doll's direct testimony?

A. Yes. That is stated in the memorandum attached to Public Counsel's Motion in Response to Liberty's MPPM Notice Filing that is attached as Schedule LMM-R-4. This was an observation from my analysis of the RES requirements and the RECs typically provided by Ozark Dam, solar sources, and the wind PPAs. I would not disagree with the calculation of RES value from the wind projects if the prior resources could not meet the RES. However, my analysis showed that this was unlikely.

[45] Attached as Schedule LMM-R-4

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Q. How has Liberty's method of assigning RES value to the wind projects impacted the MPPM replacement value calculations?

A. For the first three years of the MPPM, Liberty has calculated a replacement value of $23 million.[46] The MPPM was designed to return to customers half of any net cost after 10 years. This $23 million of "value" reduces the net cost without customers really getting any actual benefit for the $23 million.

Assuming all of Liberty's other MPPM calculations are correct, correction of the replacement value (from $23 million to $0) would result in the wind projects having a cumulative net cost of over $26 million at the end of year 3.

Q. Has Liberty included revenues in the MPPM benefit calculation that were not specified in the MPPM or the MPPM clarification settlement?

A. Yes. Insurance payments to Liberty for energy that was not generated due to the loss of transformers at Neosho Ridge Wind Project were included in the MPPM. There is no mention of insurance payments in the MPPM settlement nor is it mentioned in response to OPC data request 1215 that asked for a detailed list of all the costs and the benefits in the MPPM.[47]

Q. Do you agree that these insurance payments should be included in the MPPM calculation?

A. For the MPPM to truly be a measure of added costs and benefits, then they should since those payments are a benefit that Liberty's customers received. However this would also mean that the need for wind project RECs be calculated after all the other sources are utilized, and then to utilize the Missouri wind project RECs first. However, if Liberty follows the strict letter of the agreement, the insurance payments should not be included in the MPPM.

[46] Exhibit A – MPPM Year 3.pdf filed on July 30, 2025, in Case No. ER-2021-0312, attached as Schedule LMM-R-6.
[47] Attached as Schedule LMM-R-7.

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Q. Would you summarize your response to Mr. Doll regarding the MPPM?

A. Liberty is disingenuous when it calls the MPPM the "Customer Protection Plan." Liberty felt so sure that the wind projects would provide substantial benefits to its customers within the first ten years, that it proposed this mechanism to supposedly "protect" them. Currently customers are paying almost $71 million a year through rates for these wind projects and have not seen true benefits of that magnitude yet.

Liberty is manipulating this mechanism to unfairly assign benefits in the mechanism it proposed to "protect customers." Like its Customer First rollout, this is just another example of the low regard that Liberty has for its customers. The Commission should hold Liberty to the promise of this mechanism to protect customers over the first 10 years of the operation of these wind projects.

NORMALIZED WEATHER

Q. What do Staff's and Liberty's witnesses with regard to weather normalization do which you wish to respond?

A. Both Staff witness Randall T. Jennings and Liberty witness Eric Fox testify that they use thirty years of weather data to determine normal weather in their weather normalization of customer use.[48] However, examination of this weather data reveals that temperatures, generally, were cooler in the first 15 years of the weather history than in the last 15 years.

Q. Why does this raise a concern?

A. It reveals a trend that Staff and Liberty did not take into consideration when normalizing test year weather. Normal weather measures used to determine the increase in revenue requirement should be calculated to expect cooler weather 50% of the time and warmer weather 50% of the time going forward. The weather data shows that there is a much greater probability that the weather in the near future will be warmer than the calculated normal.

[48] Direct testimony of Jennings, page 3; direct testimony of Fox, page 10.

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Q. What is the impact of using 30 years of weather data which includes a trend of warming temperatures?

A. The amount of increase in rates is the difference between the cost-to-serve set by the Commission and the revenues that would be collected with current rates given normalized usage.

Using actual revenue impacted by test year weather, which is always abnormal, would result in an inaccurate increase. Therefore, the actual usage in the test year is adjusted for the difference between actual and normal weather to provide the normalized usage that the current rates are applied to calculate a normalized current revenue. This normalized usage is also one of the billing determinants used to design rates to recover the newly-set cost-to-serve.

In the summer the primary usage driver is air conditioning. The warmer the temperatures, the greater the energy usage. If "normal" weather is cooler, then normal usage is lower. Since the increase in revenue requirement is set on the difference between normal and the cost-to-serve, a lower normal usage means a higher increase in revenue requirement.

In the winter, where the primary usage driver is space heating, it is opposite. The cooler the weather, the greater the energy usage. If the normal weather is cooler, the normal usage is higher resulting in a lower increase in revenue requirement.

Q. How does using a 30-year average where the early years of that 30 years of data are cooler than the more recent years impact the calculation of weather normalized revenues for a dual peaking utility like Liberty?

A. The normalized billing determinants in the summer are lower and the normalized billing determinants in the winter are higher than they should be; however, it is difficult to say what the impacts on revenues are. Historically rates are higher in the summer to correspond with higher costs in the summer. Because rates are different for the summer months than the other months of the year, normalized billing determinants will result in even higher rates in the summer than if warmer normal weather billing determinants were used. This means that, everything else remaining the same, the increase in revenues in the summer months will be greater than necessary to meet the cost-of-service in the four summer months of June through September.

In the other months (October through May), base rates are lower and, as explained above, normalized revenues are higher meaning a smaller increase in revenue in these months is necessary to get to the cost-to-serve. Everything else remaining the same, the rate increase will not recover the cost-to-serve in these months.

Q. Is anything else affected by the weather normalization of energy usage?

A. Yes. Weather normalization is conducted differently for each of the customer classes. Weather normalized class energies are used to calculate allocation factors used in the class cost-of-service studies. Using a normal that is too cool means that the energy of the more weather sensitive classes, e.g. residential, small general service, will be lower that it should be in the summer and higher in the winter. Using different weather normals will result in different energy allocation factors.

Additionally, hourly energies used to determine an estimate of the cost of energy from SPP should be consistent with the weather normalized class energy. Therefore, normal weather impacts SPP purchased power costs.

Q. Is it appropriate to use weather data from different historical time periods for natural gas utilities and electric utilities?

A. No. Both electric and gas utilities operate in the same weather. Normal weather should not be different based on which type of utility is seeking a rate increase. Normal weather should not be used to manipulate a rate increase.

Q. What would the impact on residential customers be if a 30-year history is used to define normal weather for electric utilities and a 10-year history is used for natural gas utilities for ratemaking purposes?

A. It depends on the weather during those periods of time. If the 10-year history average is warmer than the 30-year history average, then this would impact the most weather sensitive customer classes, the residential and small general service, the greatest. These customers see increases in electric rates in the summer because of a cooler "normal" and increases in natural gas rates for heating because the normal used for them would likely be warmer than "normal."

Q. What is your recommendation to the Commission regarding normal weather?

A. I recommend that the Commission conduct workshops with both the electric and gas utilities and determine a fair and accurate time length to use to calculate normal weather that does not benefit one type of utility over the other.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Request of The Empire District Electric Company d/b/a Liberty for Authority to File Tariffs Increasing Rates for Electric Service Provided to Customers in Its Missouri Service Area	))))))	Case No. ER-2024-0261

AFFIDAVIT OF LENA M. MANTLE

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Lena M. Mantle, of lawful age and being first duly sworn, deposes and states:

1. My name is Lena M. Mantle. I am a Senior Analyst for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

Lena M. Mantle
Lena M. Mantle
Senior Analyst

Subscribed and sworn to me this 14th day of August 2025.

TIFFANY HILDEBRAND
NOTARY PUBLIC - NOTARY SEAL
STATE OF MISSOURI
MY COMMISSION EXPIRES AUGUST 8, 2027
COLE COUNTY
COMMISSION #15637121

Tiffany Hildebrand
Tiffany Hildebrand
Notary Public

My Commission expires August 8, 2027.