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Witness: Charlotte T. Emery
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Testimony
Sponsoring Party: The Empire District
Electric Company
File No. ER-2020-0311
Date Testimony Prepared: June 2020

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

Supplemental Direct Testimony

of

**Charlotte T. Emery,
Senior Manager Rates and Regulatory Affairs**

**On Behalf Of
The Empire District Electric Company,
a Liberty Utilities Company**

June 30, 2020



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OF
CHARLOTTE T. EMERY
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI
FILE NO. ER-2020-0311

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SUPPLEMENTAL DIRECT TESTIMONY
OF
CHARLOTTE T. EMERY
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI
FILE NO. ER-2020-0311

1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Charlotte T. Emery, and my business address is 602 South Joplin
4 Avenue, Joplin, Missouri.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. My employer is Liberty Utilities Services Corp., and I serve as a Senior Manager in
7 the Rates and Regulatory Affairs Department for Liberty Utilities' Central Region,
8 which includes The Empire District Electric Company ("Empire" or "Company").

9 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
10 **BACKGROUND.**

11 A. I graduated from College of the Ozarks, Point Lookout, Missouri, in 2000 with a
12 Bachelor of Science degree with a major in Accounting. I have been a Certified
13 Public Accountant ("CPA") in the State of Missouri since 2006. I was hired by
14 Empire in July 2016 as a Rates Analyst and promoted to my current position as a
15 Senior Manager in the Rates and Regulatory Affairs Department in May 2020.
16 Prior to joining Empire, I worked for six years in the regulated insurance industry
17 in Springfield, Missouri as a Director of Accounting. In addition, I have nine years
18 of public accounting experience working for both a national and "Big Four"

1 accounting firm. My primary roles at these organizations included serving as a
2 supervisor for financial statement audits and as a tax consultant.

3 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI**
4 **PUBLIC SERVICE COMMISSION (“COMMISSION”) OR ANY OTHER**
5 **STATE UTILITY COMMISSION?**

6 A. Yes. I have testified on behalf of Empire before the Commission, as well as before
7 the Kansas Corporation Commission, the Arkansas Public Service Commission,
8 and the Oklahoma Corporation Commission. The case references are attached to
9 this testimony as Schedule CTE-1.

10 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL DIRECT**
11 **TESTIMONY?**

12 A. The purpose of my supplemental direct testimony is to provide additional support
13 for the Fuel & Purchased Power Adjustment Clause (“FAC”) rate tariff sheet that
14 was originally filed by Empire on April 1, 2020 and corrected on April 6, to reflect
15 the actual energy costs the Company incurred during the six-month period
16 September 2019 through February 2020. These energy costs include a coal
17 inventory adjustment to reflect the actual cost of coal at the Asbury generation unit
18 while in-service to Empire’s customers. As explained below, the Staff of the
19 Commission recommended approval of Empire’s proposed tariff sheet. The Office
20 of the Public Counsel (“OPC”), however, objected to the inclusion of the coal
21 inventory adjustment in its Response to Staff’s Recommendation filed on May 11,
22 2020.

1 **Q. HAS EMPIRE PREVIOUSLY FILED TESTIMONY IN THIS DOCKET TO**
2 **SUPPORT ITS FAC TARIFF?**

3 A. Yes. On April 1, 2020, Empire filed its initial Direct Testimony to support its FAC
4 tariff filing designed to reflect its actual cost of purchased power for the
5 accumulation period ending February 2020 and a true-up of under-collection for the
6 recovery period ending November 2019. On April 6, 2020, the Company filed a
7 substitute tariff to correct a transposition error reported on page 1 of the FAC tariff
8 sheet.

9 **Q. DID COMMISSION STAFF RECOMMEND APPROVAL OF THE**
10 **COMPANY'S PROPOSED FAC TARIFF?**

11 A. Yes. Staff filed its Recommendation to Approve on May 1, 2020, stating the
12 substitute tariff should become effective June 1, 2020, subject to true-up and
13 prudence reviews.

14 **II. EXECUTIVE SUMMARY**

15 **Q. PLEASE PROVIDE AN OVERVIEW OF YOUR TESTIMONY IN**
16 **SUPPORT OF THE FAC RATE TARIFF FILED BY EMPIRE.**

17 A. On April 1, 2020, the Company filed the instant cause with the Commission to
18 modify its FAC tariff to reflect recovery of its FAC costs. On April 6, 2020, the
19 Company filed a substitute tariff to correct a transposition error reported on page 1
20 of the FAC tariff sheet. On May 1, 2020, Commission Staff filed its
21 Recommendation to Approve, and on May 11, 2020, OPC filed its Response to
22 Staff's Recommendation, disputing \$2,103,771 in fuel expenses related to Asbury.
23 On June 24, 2020, the Commission approved a procedural schedule in this docket

1 to address the disputed issues. OPC disputes the inclusion of the Company's coal
2 inventory adjustment and any additional undistributed Asbury coal costs from
3 December 2019 through February 2020. The Company's coal inventory
4 adjustment of approximately \$1,925,886 was made within the normal course of
5 month end accounting procedures to reflect the actual value of recoverable coal
6 inventory at the Asbury plant at the end of December 2019. Managing the coal
7 inventory of a power plant is an inexact science that regularly requires adjustments
8 of the Company's books to ensure they meet Generally Accepted Accounting
9 Principles ("GAAP") and ensure that the Company passes through only the actual
10 cost of fuel to customers. OPC contends the adjustment, which was made to
11 comply with Accounting Standards Codification ("ASC"), is not allowable under
12 the FAC tariff. The FAC, however, is specifically designed to ensure that all
13 necessary coal commodity costs are recovered. The remaining \$177,885 in
14 disputed costs are attributable to undistributed coal expenses occurring from
15 December 2019 to Asbury's retirement date of March 1, 2020. These costs are
16 allowable under the current Commission-approved FAC and were necessary to
17 support sales at the Asbury plant as the Company sought to procure economic fuel
18 while the plant was still in service.

19 **III. ASBURY COAL INVENTORY ADJUSTMENT**

20 **Q. DOES THE COMMISSION-APPROVED FAC TARIFF FOR EMPIRE**
21 **INCLUDE PROVISIONS THAT ARE DESIGNED TO LIMIT THE**
22 **COMPANY'S FAC RECOVERY TO THE ACTUAL COST OF ENERGY?**

23 **A.** Yes. Empire's FAC and the Commission's rule governing FACs include two

1 safeguards limiting FAC recovery to actual, prudently-incurred energy costs. The
2 first safeguard is a true-up process that ensures the FAC collections during the
3 Recovery Period do not exceed actual energy costs incurred during the
4 Accumulation Period. The second safeguard involves a requirement that Empire's
5 energy costs be subjected to periodic Prudence Reviews, to ensure only prudently-
6 incurred energy costs are passed through to customers using the FAC. Empire's
7 operation of the FAC has been audited by the Commission's Staff through August
8 31, 2019. Staff filed its report in File No. EO-2020-0059 finding no imprudence on
9 the part of Empire.

10 **Q. IS THE ASBURY COAL ADJUSTMENT RELATED TO ACTUAL**
11 **ENERGY COSTS?**

12 A. Yes. The coal inventory adjustment of \$1,925,886 is comprised of commodity and
13 freight costs related to the unrecoverable coal at the bottom of the Asbury plant's
14 coal piles.

15 **Q. DID THE COMPANY TAKE STEPS TO MAXIMIZE THE AMOUNT OF**
16 **RECOVERABLE COAL?**

17 A. Yes. The Asbury facilities faced the significant challenge of preventing impurities,
18 such as clay and rocks, from mixing into the coal pile while the plant was in
19 operation. Empire routinely utilized experienced dozer operators to loosen, roll,
20 and aerate the coal pile as much as possible to maximize the amount of coal which
21 could be reclaimed from the pile. Dozer operators also packed the coal to prevent
22 moisture saturation when precipitation was forecast. This process was achieved
23 with a combination of contracted dozer operators and the Company's own dozer

1 operators. As the coal pile dwindled, the Company switched its reclaiming
2 operations to the day shift only in order to identify and minimize the amount of
3 impurities in the recoverable coal. Despite these efforts, some clay and rock from
4 the base mat have still migrated into the bottom layer of coal, creating a level of
5 impurity which prevents the coal from being used as fuel.

6 **Q. WHY DID THE COMPANY NOT MAKE THE COAL INVENTORY**
7 **ADJUSTMENT AT ISSUE IN THIS CAUSE PRIOR TO DECEMBER 2019?**

8 A. Receiving, transferring, storing, using, and measuring coal pile inventory levels is
9 not an exact science. The Company makes every effort to accurately measure and
10 report inventory levels. However, it is not possible to place an accurate and precise
11 value on the complete coal pile since continuous maintenance is necessary as coal
12 is recovered and used as fuel. The amount of unrecoverable coal will change over
13 time as it is compressed into the mat and exposed to the environment.

14 **Q. IS THE UNRECOVERABLE COAL ESSENTIAL TO THE OPERATION**
15 **OF THE COAL GENERATING FACILITY?**

16 A. Yes. The unrecoverable coal was located at the bottom of the generating facility's
17 coal piles and, over time, blended with the coal mat upon which all the recoverable
18 coal sits. This mat protects the recoverable coal from degradation that can occur
19 when the coal has extended contact with the ground. The coal mat is necessary to
20 reliably operate the plant. While the mat for the coal is initially constructed using
21 packed rock and/or clay, the coal that rests on this mat will compress into the mat
22 over time as additional coal is piled on top. When the facility was first constructed,
23 the Company was aware some portion of coal would eventually become

1 unrecoverable due to the aforementioned factors, but it cannot accurately and
2 precisely determine this amount until all the recoverable is consumed. Without a
3 doubt, the unrecoverable coal was a necessary expense to support sales at the
4 Asbury plant.

5 **Q. DID THE ADJUSTMENT INCREASE OVERALL COSTS TO**
6 **CUSTOMERS?**

7 A. No. The adjustment simply ensured the actual cost of coal inventory was
8 accurately recorded and passed through to customers. Put another way, the cost of
9 the unrecoverable coal has always existed, but it was not possible to accurately and
10 precisely measure that cost until the recoverable coal had been consumed.

11 **Q. DOES THE COMPANY REGULARLY MAKE ADJUSTMENTS TO**
12 **COMPLY WITH GAAP AS IT DISCOVERS VARIANCES IN ITS COAL**
13 **INVENTORY?**

14 A. Yes. While it was not possible to make the particular adjustment at issue until the
15 recoverable coal was consumed, the Company has regularly made other
16 adjustments caused by similar factors when it could. Factors which cause these
17 adjustments include, but are not limited to, weather impact on measurement, belt
18 scale limitations, coal transfers, and survey challenges. Weather can impact coal
19 measurement when rain causes the fuel weight to increase and heat causes the fuel
20 weight to decrease. Snow and ice can cause slick conditions which result in
21 accidental double measurements of the same fuel, and erosion can cause coal to
22 move off the pile entirely. Belt scale limitations occur due to the belt operating at
23 speeds that are only a fraction of its intended design. This increases the likelihood

1 of error since measures are not as consistent. Coal transfer errors can occur when
2 the coal is unloaded from the rail car and moved to the pile. Survey errors can
3 occur whenever the coal pile changes in density or shape, resulting in less accurate
4 measurements.

5 **Q. DOES THE COMPANY MAKE EVERY ATTEMPT TO PREVENT THESE**
6 **ERRORS?**

7 A. Yes. However, several factors are outside the Company's control. Regardless of
8 the cause, the Company makes every attempt to reduce these errors and adjusts its
9 books on a regular basis to ensure it reflects the inventory level as accurately as
10 possible.

11 **Q. IS THE UNRECOVERABLE COAL A COMMODITY COST?**

12 A. Yes. At the time the now-unrecoverable coal was purchased, it could have been
13 recovered and used as fuel for the plant. As discussed earlier, coal piles shift and
14 are regularly exposed to environmental factors that impact their quality. While a
15 vast majority of the plant's purchased coal was recovered and burned over the life
16 of the plant, some of the coal became degraded and unrecoverable. The amount of
17 unrecoverable coal was unknown until the pile was reduced in size and the
18 recoverable coal was completely consumed.

19 **Q. ARE ADJUSTMENTS NECESSARY TO ENSURE ONLY THE ACTUAL**
20 **COST OF FUEL IS PASSED ON TO CUSTOMERS?**

21 A. Yes. To disallow an adjustment to fuel inventories as a part of commodity costs
22 would essentially only allow estimated costs, rather than actual costs, to be passed
23 through to customers. For instance, if the Company had previously underestimated

1 the size and value of its recoverable coal inventory, it would make an adjustment to
2 its books to reflect this higher level of inventory. Fewer coal commodity purchases
3 would be necessary to increase the available inventory on hand, resulting in
4 previously unrecognized savings to customers.

5 **Q. SHOULD THE ADJUSTMENT BE RECORDED IN ACCOUNT 501 AND**
6 **INCLUDED IN THE FAC?**

7 A. Yes. According to the FERC Uniform System of Accounts, the following costs
8 should be included in FERC account 501.

9 This account shall include the cost of fuel used in the production of steam
10 for the generation of electricity, including expenses in unloading fuel from
11 the shipping media and handling thereof up to the point where the fuel
12 enters the first boiler plant bunker, hopper, bucket, tank or holder of the
13 boiler-house structure. Records shall be maintained to show the quantity,
14 B.t.u. content and cost of each type of fuel used.

15
16 Empire's Original Tariff Sheet No. 17v does not exclude these costs from the FAC.

17 Despite the Company's good faith attempts, some coal became unrecoverable due
18 to outside environmental factors that degraded the fuel. The unrecoverable coal is a
19 necessary and reasonable cost incurred to support sales at the Asbury plant and,
20 therefore, should be recovered through the FAC.

21 **IV. UNDISTRIBUTED COAL EXPENSES**

22 **Q. WHAT ARE UNDISTRIBUTED COAL EXPENSES?**

23 A. These are miscellaneous charges that were properly moved to coal expense during
24 the months of December 2019, and January through February of 2020 totaling
25 \$177,885.

26 **Q. WERE THESE EXPENSES DISCUSSED IN OPC'S RESPONSE TO**
27 **STAFF'S RECOMMENDATION?**

CHARLOTTE T. EMERY
SUPPLEMENTAL DIRECT TESTIMONY

1 A. Yes. These costs make up the difference between the Company's filed Total
2 Energy Cost and OPC's recommended Total Energy Cost without consideration of
3 the Asbury coal inventory adjustment of \$1,925,886. OPC contends that no cost
4 recorded from after January 1, 2020 should be included in the FAC because the
5 Company agreed to such a provision in the non-unanimous Stipulation and
6 Agreement in the Company's pending rate case, Case No. ER-2019-0374.
7 However, OPC objected to the non-unanimous Stipulation and Agreement, and no
8 terms from the non-unanimous Stipulation and Settlement Agreement have been
9 adopted by the Commission or reflected in Empire's effective tariff sheets.

10 **Q. ARE THE UNDISTRIBUTED COAL EXPENSES NECESSARY TO**
11 **SUPPORT THE SALES AT THE ASBURY PLANT?**

12 A. Yes. Asbury was not de-designated from the market until the end of the day on
13 March 1, 2020. As the Company actively sought to procure economic fuel supply
14 prior and up until that date, expenses were also incurred to support sales at the
15 Asbury plant up until that date. These expenses were properly recorded in FERC
16 account 501 and should be included in the FAC at this time.

17 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL DIRECT**
18 **TESTIMONY?**

19 A. Yes, it does.

Schedule CTE-1
The Empire District Electric Company
a Liberty Utilities Company
Case References

Jurisdiction	Type	Docket No.	Docket Description
MO	Testimony	GR-2018-0013	In the Matter of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities' Tariff Revisions Designed to Implement a General Rate Increase for Natural Gas Service in the Missouri Service Areas of the Company
MO	Affidavit	EO-2018-0092	Affidavit in Support of Non-Unanimous Stipulation and Agreement
MO			In the Matter of the Application of the Empire District Electric Company for Approval of Its Customer Savings Plan
AR	Testimony	18-006-U	In the matter of an Investigation of The Effect on Revenue Requirements Resulting From Changes to Corporate Income Tax Rates Under the Tax Cuts and Jobs Act of 2017
AR	Testimony	16-053-U	In the matter of The Empire District Electric Company's Request for approval of its proposed Riverton Rider
KS	Testimony	18-GIMX-248-GIV	In the Matter of a General Investigation Regarding the Effect of Federal Income Tax Reform on the Revenue Requirements of Kansas Public Utilities and Request to Issue an Accounting Authority Order Requiring Certain Regulated Public Utilities to Defer Effects of Tax Reform to a Deferred Revenue Account
AR	Testimony	81-071-F	In the Matter of the determination of the rules regulating the rate and service of cogenerators and small power producers
AR	Testimony	18-055-TF	In the Matter of The Empire District Electric Company Request for Approval of a Tax Adjustment Rider to Provide Tax Benefits to its Retail Customers
AR	Testimony	18-054-TF	In the Matter of Liberty Utilities (Pine Bluff Water) Inc. Request for Approval of a Tax Adjustment Rider to Provide Tax Benefits to its Retail Customers
MO	Testimony	ER-2018-0366	In the Matter of a Proceeding Under Section 393.137 (SB 564) to Adjust the Electric Rates of The Empire District Electric Company
OK	Testimony	PUD 201800087	Application of Brandy L. Wreath, Director of the Public Utility Division, Oklahoma Corporation Commission, For a Public Hearing To Review and Monitor Application of the Fuel Adjustment Clause of Empire District Electric Company, a Kansas Corporation, for the Calendar Year 2017 and, For a Prudence Review of the Fuel Procurement Processes and Costs of Empire District Electric Company, A Kansas Corporation, for the Calendar Year 2017
KS	Testimony	19-EPDE-223-RTS	In the Matter of the Application of The Empire District Electric Company for Approval of the Commission to Make Changes in Charges for Electric Service
MO	Testimony	ER-2020-0093; EO-2020-0094	Fuel Adjustment Clause- October 1, 2019 Semi-Annual Update
MO	Testimony	ER-2020-0311; EO-2020-0312	Fuel Adjustment Clause- April 1, 2020 Semi-Annual Update

VERIFICATION OF CHARLOTTE T. EMERY

Charlotte T. Emery, under penalty of perjury, declares that the foregoing document is true and correct to the best of her knowledge, information, and belief.

/s/Charlotte T. Emery _____
Charlotte T. Emery