

Exhibit No.:
Issue: Cost Allocation Manual, Allocation of
Corporate Costs, Praxair Revenue, and Rate
Design
Witness: W. Scott Keith
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Empire District Electric
Case No. ER-2016-0023
Date Testimony Prepared: April 2016

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

Rebuttal Testimony

of

W. Scott Keith

April 2016



SERVICES YOU COUNT ON

Empire Exhibit No. 8
Date 6-2-16 Reporter KKF
File No. ER-2016-0023



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OF
W. SCOTT KEITH
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
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REBUTTAL TESTIMONY
OF
W. SCOTT KEITH
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BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2016-0023

1 **INTRODUCTION**

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

3 A. My name is W. Scott Keith and my business address is 602 South Joplin Avenue,
4 Joplin, Missouri.

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

6 A. I am presently employed by The Empire District Electric Company (“Empire” or
7 “the Company”) as the Director of Planning and Regulatory. I have held this
8 position since August 1, 2005.

9 **Q. ARE YOU THE SAME W. SCOTT KEITH THAT EARLIER PREPARED**
10 **AND FILED DIRECT TESTIMONY IN THIS RATE CASE BEFORE THE**
11 **MISSOURI PUBLIC SERVICE COMMISSION (“COMMISSION”) ON**
12 **BEHALF OF EMPIRE?**

13 A. Yes.

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

15 A. I will address the Office of the Public Counsel’s request that the Commission
16 impose on Empire a particular Cost Allocation Manual (“CAM”). I will also
17 address two Staff adjustments to Empire’s revenue requirement associated with the
18 allocation of corporate costs to Empire’s other operations, one dealing with

1 Empire's fiber affiliate and another dealing with the assignment of corporate costs
2 to Empire's water department. I will respond to a Staff adjustment that "imputes"
3 additional revenue to Praxair and address the Staff's basic rate design proposals.
4 Finally, I will address proposals made by the Division of Energy that were
5 contained in the testimony of Martin Hyman, related to the appropriate residential
6 customer charge, Empire's energy efficiency programs, appropriate tail block
7 charges, and the establishment of a working docket to address the design of
8 volumetric rates for Empire's residential customers.

9 **Q. WHAT DOCUMENTS HAVE YOU REVIEWED IN THE PREPARATION**
10 **OF YOUR REBUTTAL TESTIMONY?**

11 A. I have reviewed the Staff Report Cost of Service Revenue Requirement, the Staff
12 Rate Design and Class Cost-of-Service Report, and the following direct
13 testimonies:

- 14 • Charles Hyneman-OPC, and
- 15 • Martin Hyman-Division of Energy.

16 **OPC'S CAM PROPOSAL**

17 **Q. IS EMPIRE'S CAM A PROPER ISSUE FOR THIS RATE CASE?**

18 A. No. As explained in Empire's Motion to Strike CAM Testimony and in Staff's
19 Reply to OPC's Response to Empire's Motion to Strike, it would be inappropriate
20 to force a new CAM on Empire in this rate case proceeding. Empire is submitting
21 rebuttal testimony on this issue subject to and without waiving its objections to
22 OPC witness Hyneman's CAM testimony.

23 **Q. DOES EMPIRE AGREE WITH OPC WITNESS HYNEMAN'S REQUEST**

1 **THAT THE COMMISSION ORDER EMPIRE TO ADOPT THE CAM**
2 **ATTACHED TO HIS DIRECT TESTIMONY?**

3 A. No. Empire already has a CAM in place that was designed to reflect the structure
4 and characteristics of Empire's operations, unlike the OPC's proposed CAM, which
5 was basically developed by Staff for another utility operating in Missouri, whose
6 operations and organization are quite different than Empire's. In addition, to
7 Empire's knowledge, the CAM used as a template for the CAM attached to Mr.
8 Hyneman's testimony has not been approved by the Commission for use by any
9 Missouri utility.

10 **Q. HOW MANY YEARS HAS EMPIRE USED ITS CAM?**

11 A. Empire's current CAM has been in place since 2001, and it has been submitted
12 annually to the Staff since its inception. The methodology used in Empire's CAM
13 and the various cost assignments included in the CAM have been incorporated in
14 all of the rate cases that have been filed by Empire during the past 15 or 16 years.
15 Until this case, the corporate cost allocation process used in Empire's CAM has not
16 been an issue in any rate case I have been involved with.

17 **Q. IS THERE A COMMISSION DOCKET SPECIFICALLY DEVOTED TO**
18 **EMPIRE'S CAM?**

19 A. Yes, Commission File No. AO-2012-0062. That docket was opened when Empire
20 filed an application seeking Commission approval of its CAM. The procedural
21 schedule in that case was suspended at the request of Staff, Empire, and OPC, and
22 discussions between the parties to the case concerning the Empire CAM continue. I
23 have attached a copy of Empire's existing CAM to my rebuttal testimony as

1 Rebuttal Schedule WSK-1. This schedule is Highly Confidential.

2 **Q. HAS OPC FILED ANY TESTIMONY OR SUBMITTED ANY CAM FOR**
3 **CONSIDERATION IN EMPIRE'S CAM DOCKET?**

4 **A.** No.

5 **Q. HAS OPC WITNESS HYNEMAN POINTED OUT ANY SPECIFIC ISSUES**
6 **HE HAS WITH EMPIRE'S EXISTING CAM, IN THE CONTEXT OF**
7 **EMPIRE'S CAM DOCKET?**

8 **A.** No.

9 **Q. HAS OPC ASKED FOR A PROCEDURAL SCHEDULE TO BE**
10 **REIMPLEMENTED IN EMPIRE'S CAM DOCKET, OR HAS OPC MADE**
11 **A MOTION OR OTHERWISE REQUESTED THAT THE COMMISSION**
12 **TAKE ANY ACTION IN EMPIRE'S CAM DOCKET?**

13 **A.** No.

14 **Q. WITH HIS DIRECT TESTIMONY IN THIS RATE CASE, HAS OPC**
15 **WITNESS HYNEMAN PROVIDED ANY EXPLANATION REGARDING**
16 **HOW OPC'S PROPOSED CAM IN THIS RATE CASE DIFFERS FROM**
17 **THE CAM PROPOSED BY STAFF IN EMPIRE'S CAM DOCKET?**

18 **A.** No.

19 **Q. WITH HIS DIRECT TESTIMONY IN THIS RATE CASE, HAS OPC**
20 **WITNESS HYNEMAN POINTED OUT ANY SPECIFIC ISSUES HE HAS**
21 **WITH EMPIRE'S EXISTING CAM?**

22 **A.** No. He indicates at 13, lines 1 through 2 of his direct testimony in this case that
23 Empire's CAM is significantly insufficient, but he has not offered any specific

1 information concerning any factors in Empire's CAM that caused him to reach this
2 conclusion.

3 **Q. WITH HIS DIRECT TESTIMONY IN THIS RATE CASE, HAS OPC**
4 **WITNESS HYNEMAN EXPLAINED THE DIFFERENCES BETWEEN**
5 **EMPIRE'S CURRENT CAM AND OPC'S PROPOSED CAM?**

6 **A. No.**

7 **Q. WITH HIS DIRECT TESTIMONY IN THIS RATE CASE, HAS OPC**
8 **WITNESS HYNEMAN PROVIDED ANY EXPLANATION REGARDING**
9 **THE COST ALLOCATION CHANGES WHICH WOULD RESULT FROM**
10 **OPC'S PROPOSED CAM?**

11 **A. No.**

12 **Q. WITH HIS DIRECT TESTIMONY IN THIS RATE CASE, HAS OPC**
13 **WITNESS HYNEMAN PROVIDED ANY EXPLANATION REGARDING**
14 **HOW OPC'S PROPOSED CAM WOULD IMPACT EMPIRE'S ELECTRIC**
15 **CUSTOMERS?**

16 **A. No.**

17 **COST ALLOCATIONS**

18 **Q. DO YOU AGREE WITH THE STAFF'S PROPOSED ADJUSTMENTS**
19 **RELATED TO THE ALLOCATION OF CORPORATE OVERHEAD**
20 **COSTS?**

21 **A. No.** These adjustments, which are designated as E-58, E-137, and E-138, purport to
22 deal with the allocation of Empire's corporate costs to Empire's other operations, in
23 one case Empire's water department (Staff adjustments E-137 and E-138), and in

1 another case, Empire's affiliate fiber operations, Empire District Industries ("EDI")
2 (Staff adjustment E-58). Each of these proposed Staff adjustments reduces
3 Empire's revenue requirement in the current electric rate case. In total, Staff
4 adjustments E-137 and E-138 related to Empire's water department reduce
5 Empire's total electric revenue requirement \$445,103. In total, Staff's adjustment
6 E-58 related to Empire's fiber affiliate operation reduces Empire's electric revenue
7 requirement \$1,236,182. Each of these Staff adjustments has flaws, and the
8 Commission should not accept them as filed by Staff.

9 **Q. WHAT ARE THE PROBLEMS YOU HAVE IDENTIFIED WITH STAFF**
10 **ADJUSTMENT E-58, WHICH PURPORTS TO BE AN ADJUSTMENT**
11 **RELATED TO AN ALLOCATION OF EMPIRE'S CORPORATE**
12 **EXPENSES TO EDI?**

13 A. There are several problems with Staff adjustment E-58. First, the adjustment has
14 nothing to do with the allocation of Empire's corporate costs to EDI. This Staff
15 adjustment is directly related to the cost of fiber services provided by EDI to The
16 Empire District Electric Company.

17 **Q. DID YOU REVIEW STAFF'S WORKPAPERS SUPPORTING THIS**
18 **ADJUSTMENT?**

19 A. Yes. The analysis prepared by the Staff develops what amounts to a Fully
20 Distributed Cost Study ("FDC") for EDI services to Empire, but then Staff misuses
21 the information.

22 **Q. HOW DOES STAFF MISUSE THE INFORMATION?**

23 A. The Staff's analysis fails to compare the results of Staff's FDC for EDI to the actual

1 level of charges from EDI to Empire for the test year. More specifically, the Staff
2 has determined that based upon the EDI rate base of \$17.4 million, an EDI rate of
3 return based upon the Staff's recommended midpoint rate of return in this rate case
4 of 7.48 percent, and EDI operating costs of almost \$6.9 million, that the Missouri
5 jurisdictional cost of EDI's fiber services to Empire would be \$1.236 million
6 annually. The Staff then fails to compare this level of cost, which as I mentioned
7 earlier is a form of FDC, to the actual EDI charges to Empire during the test year,
8 which in total are \$1.379 million, and on a Missouri jurisdictional basis are \$1.154
9 million.

10 **Q. WHAT DOES STAFF'S ANALYSIS OF EDI COSTS INDICATE TO YOU?**

11 A. The actual EDI charges to Empire for the test year on a Missouri jurisdictional basis
12 are lower than the FDC level developed by Staff for this case, \$1.154 million versus
13 \$1.236 million. Since the actual EDI charges are lower than the FDC calculated by
14 Staff, there should be no adjustment to Empire's electric revenue requirement in
15 this case, and the Commission should reject in its entirety the Staff's proposed
16 adjustment for EDI costs of \$1.236 million.

17 **Q. HOW DOES EDI DEVELOP ITS CHARGES TO EMPIRE FOR FIBER
18 COMMUNICATION SERVICE?**

19 A. The charges to Empire for EDI fiber services are based upon a market study
20 developed by an independent third party consultant.

21 **Q. WHAT ARE THE PROBLEMS YOU HAVE IDENTIFIED WITH STAFF'S
22 ADJUSTMENTS E-137.2 AND E-138.2 RELATED TO THE ALLOCATION
23 OF EMPIRE CORPORATE COSTS TO EMPIRE'S WATER**

1 **DEPARTMENT?**

2 A. The adjustment is based upon statistics taken from another Missouri utility,
3 Missouri-American Water Company, which are not at all related or correlated to
4 Empire’s electric/water operations. Any cost allocation methodology developed for
5 Empire’s water department should be based upon cost drivers using Empire
6 statistics, not Missouri-American Water, which is a much larger and much different
7 water utility than Empire’s very small water operation, which has around 4,000
8 customers.

9 **Q. DOES EMPIRE’S CURRENT CAM INCLUDE EMPIRE’S WATER**
10 **DEPARTMENT OPERATION?**

11 A. Yes. In addition to directly assigning costs to the water department in its normal
12 accounting process, Empire’s water department is reflected in some of the cost
13 drivers used to apportion common costs between The Empire District Electric
14 Company and its affiliate operations, The Empire District Gas Company (“EDG”)
15 and EDI.

16 **Q. IS THIS AN INDICATION THAT EMPIRE’S EXISTING CAM IS**
17 **DEFICIENT WITH RESPECT TO THE WATER OPERATION?**

18 A. No. Empire’s CAM is designed to account for cost or apportion common costs
19 between The Empire District Electric Company and its affiliate operations, EDG
20 and EDI. The water operation is housed within The Empire District Electric
21 Company. It is not a separate affiliate operation, so the CAM is not specifically
22 designed to apportion common corporate costs to the water department. This type
23 of cost apportionment is more properly accomplished within The Empire District

1 Electric Company itself.

2 **Q. AFTER REVIEWING THE STAFF'S PROPOSED ADJUSTMENT FOR**
3 **EMPIRE'S WATER OPERATION, DO YOU AGREE THAT SOME OF**
4 **EMPIRE'S CORPORATE COSTS COULD BE FURTHER ASSIGNED TO**
5 **EMPIRE'S WATER DEPARTMENT?**

6 A. Yes, although the level of corporate cost that should be allocated to Empire's water
7 department is much lower than the \$445,000 recommended by the Staff in
8 adjustments E-137 and E-138. For example, using Empire's CAM, and expanding
9 the existing formula used to drive common costs, the water department would see
10 an increase in common corporate cost of around \$97,000 annually, and Empire's
11 electric department would see a corresponding decrease of the same amount. On a
12 Missouri electric jurisdictional basis, this would amount to an annual decrease in
13 costs of \$86,000. Given the number of water customers Empire serves, this lower
14 level of common cost allocation of \$97,000 is more reasonable than the \$445,000
15 proposed by Staff, which would drive up costs to Empire's Missouri water
16 customers by over \$105 per year per customer.

17 **Q. DID STAFF OR OPC DISPUTE ANY OF EMPIRE'S CORPORATE**
18 **OVERHEAD CHARGES THAT WERE ALLOCATED TO EMPIRE'S**
19 **AFFILIATES, EDI OR EDG, DURING THE TEST YEAR?**

20 A. No. Neither party disputed or even quantified any of the charges that were
21 allocated to Empire's affiliates during the test year.

22 **Q. PLEASE QUANTIFY THE LEVEL OF COMMON CORPORATE COSTS**
23 **THAT EMPIRE ALLOCATES TO THESE TWO AFFILIATES**

1 **ANNUALLY.**

2 A. Empire allocates approximately \$2.3 million to EDG annually and approximately
3 \$588,000 to EDI annually, for a total of almost \$2.9 million. These costs are
4 assigned or allocated monthly on Empire's records, so any given twelve month test
5 period would reflect this CAM allocation process, with Empire's electric revenue
6 requirement being reduced as a result.

7 **Q. DID THE STAFF'S TEST YEAR RESULTS FOR EMPIRE'S ELECTRIC**
8 **OPERATIONS INCLUDE THE IMPACT OF THE EMPIRE CAM'S**
9 **CORPORATE ALLOCATION PROCESS?**

10 A. Yes. Since the Staff's revenue requirement starts with Empire's books and records,
11 the reduction in the electric revenue requirement related to Empire's CAM
12 allocation process would be reflected in Staff's revenue requirement. As I
13 mentioned earlier, the corporate allocation process provided for in Empire's current
14 CAM reduces Empire's electric revenue requirement by almost \$2.9 million
15 annually.

16 **STAFF RATE DESIGN**

17 **Q. HAVE YOU REVIEWED THE STAFF RATE DESIGN REPORT?**

18 A. Yes.

19 **Q. IS EMPIRE WILLING TO ACCEPT THE STAFF'S OVERALL REVENUE**
20 **ALLOCATION IN THIS CASE?**

21 A. Yes. Empire can accept Staff's overall allocation of the increase in the revenue
22 requirement in this case, along with Staff's proposed increase in the customer
23 charge for the residential customers and the revenue neutral shift in the revenue

1 requirement from the General Power rate class to the residential class. Of course,
2 the amount of the overall increase to be allocated to the various rate classes is still
3 in dispute at this point, but Staff's general methodology of revenue allocation in
4 this case is acceptable to Empire.

5 **Q. HAVE YOU REVIEWED THE STAFF'S ADJUSTMENT TO INCREASE**
6 **THE REVENUE TO PRAXAIR BY ELIMINATING THE CAPACITY**
7 **PAYMENT EMPIRE MAKES TO PRAXAIR FOR THE ABILITY TO**
8 **INTERRUPT SERVICE TO PRAXAIR ON VERY SHORT NOTICE?**

9 A. Yes, and I do not agree with this adjustment.

10 **Q. WHY?**

11 A. The Staff adjustment treats this payment to Praxair, which is made per an
12 authorized tariff charge, as it would a discount offered to electric customers under
13 some sort of economic development tariff.

14 **Q. DOES EMPIRE REIMBURSE PRAXAIR FOR THE ABILITY TO**
15 **INTERRUPT ELECTRIC SERVICE?**

16 A. Yes. Empire essentially views this as a capacity payment to Praxair, and if needed
17 will access this capacity during periods when situations on grid dictate its use. The
18 price we pay for this capacity is included in the tariff used to serve Praxair, and this
19 pricing has been approved by the Commission.

20 **Q. IS THE INTERRUPTIBLE CAPACITY PAYMENT MADE TO PRAXAIR**
21 **RELATED TO EMPIRE'S ECONOMIC DEVELOPMENT RATE?**

22 A. No. The payment to Praxair is not the result of an economic development tariff.
23 Instead, it is a payment authorized by a Commission approved tariff, and Staff's

1 adjustment to eliminate this cost should be rejected by the Commission.

2 **DIVISION OF ENERGY**

3 **Q. DID YOU REVIEW THE DIRECT TESTIMONY FILED BY MARTIN**
4 **HYMAN OF THE DIVISION OF ENERGY ("DOE")?**

5 A. Yes. Mr. Hyman's testimony included comments concerning, among other things,
6 Empire's proposal concerning the residential customer charge, Empire's energy
7 efficiency programs, the opening of a MEEIA docket for Empire, and the opening
8 of a working docket to redesign Empire's rate structure. Empire disagrees with all
9 of Mr. Hyman's proposals.

10 **Q. WHY DOES EMPIRE DISAGREE WITH DOE'S POSTION ON THE**
11 **RESIDENTIAL CUSTOMER CHARGE?**

12 A. Mr. Hyman implies that Empire's residential customer charge proposal was not
13 based upon cost of service. This is incorrect. The residential customer charge
14 Empire proposed of \$14.47 per month was based upon and is supported by the cost
15 of service filed in Empire's prior rate case, ER-2014-0351. In addition, the Staff
16 cost of service study filed in this case would also support this level of residential
17 customer charge. In addition, Empire's customers using government assistance to
18 pay their electric bills would benefit from an upward shift in the customer charge,
19 as compared with putting all of the increase on energy as DOE witness Hyman
20 suggests.

21 **Q. DO YOU AGREE WITH DOE'S POSITION THAT THE RESIDENTIAL**
22 **CUSTOMER CHARGE SHOULD REMAIN UNCHANGED AND ANY**
23 **INCREASE GRANTED SHOULD ALL BE REFLECTED IN THE**

1 **RESIDENTIAL ENERGY CHARGES?**

2 A. No. This recommendation is not cost based and should be rejected by the
3 Commission. Empire's current energy charges collect substantial levels of fixed
4 costs that do not vary with usage, and further increases in these energy prices will
5 send improper price signals to Empire's customers. In addition, such a pricing
6 system will unnecessarily burden Empire's customers with added costs during
7 periods of extreme weather when customer usage tends to increase.

8 **Q. DOES EMPIRE TRACK THE INCOME LEVELS OF ITS CUSTOMERS?**

9 A. No, Empire has no records that indicate customer income levels. Empire does,
10 however, have records of which customers are receiving assistance with the
11 payment of their electric bills, and Empire used this information to analyze the
12 usage patterns of those customers to see how Empire's original residential customer
13 charge proposal would affect this group.

14 **Q. DO YOU AGREE WITH MR. HYMAN'S RECOMMENDATION THAT**
15 **THE COMMISSION OPEN AN EMPIRE WORKING DOCKET OR CASE**
16 **TO INVESTIGATE AND DEVELOP REVISED RESIDENTIAL RATES?**

17 A. No. This type of docket for Empire is inappropriate, unnecessary and potentially
18 very costly for Empire and its residential customers. Residential rate design
19 changes are properly handled at the time of a rate case.

20 **Q. DO YOU AGREE WITH MR. HYMAN'S RECOMMENDATION THAT**
21 **EMPIRE FILE FOR APPROVAL OF DEMAND-SIDE MANAGEMENT**
22 **PROGRAMS USING THE COMMISSION'S MEEIA RULES?**

23 A. No. Empire currently has an Integrated Resource Plan ("IRP") on file with the

1 Commission. Our preferred plan in the IRP, which is the lowest cost alternative for
2 our customers, does not include any demand-side management programs. Thus, a
3 MEEIA filing for Empire is not contemplated at the current time.

4 **Q. DO YOU AGREE WITH MR. HYMAN'S RECOMMENDATION THAT**
5 **THE COMMISSION ORDER EMPIRE TO CONTINUE ITS CURRENT**
6 **DSM PORTFOLIO AS PART OF THIS RATE CASE?**

7 A. No. DSM is not mandatory in Missouri, and the Commission should reject Mr.
8 Hyman's request.

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

10 A. Yes.

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