

Exhibit No.:
Issue: Fuel Adjustment Clause
Witness: Leslie L. Forest
Type of Exhibit: Substitute Direct Testimony
Sponsoring Party: Empire District Electric
File No. ER-2018-0095
Date Testimony Prepared: October 2018

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

Substitute Direct Testimony

of

Leslie L. Forest

October 10, 2018



SUBSTITUTE DIRECT TESTIMONY
OF
LESLIE L. FOREST
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI
FILE NO. ER-2018-0095

1 **INTRODUCTION AND QUALIFICATIONS**

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

3 A. My name is Leslie L. Forest and my business address is 602 S. Joplin Avenue,
4 Joplin, Missouri.

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

6 A. I am employed by Liberty Utilities Service Corp. as a Regulatory Analyst for Liberty
7 Utilities Central Region, which includes The Empire District Electric Company,
8 Liberty Utilities (Midstates Natural Gas) Corp., and Liberty Utilities (Missouri
9 Water) LLC.

10 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

11 A. I am testifying on behalf of The Empire District Electric Company (“Empire” or
12 “Company”).

13 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND FOR**
14 **THE COMMISSION.**

15 A. In 2000, I completed my Bachelor of Science in Accounting from the Missouri
16 Southern State University in Joplin, Missouri. In 2016, I completed a Masters of
17 Accountancy from Missouri Southern State University in Joplin, Missouri. Before

1 working for Liberty Utilities, I was employed by Missouri Southern State University
2 for approximately five years in the Bursar's Office. Prior to my employment at
3 Missouri Southern State University, I was employed by the Missouri Department
4 of Revenue, Field Compliance Bureau as a Senior Tax Auditor for twelve years. I
5 performed sales, use and withholding tax audits on various businesses registered
6 with the State of Missouri.

7 **Q. HAVE YOU EVER TESTIFIED BEFORE THIS OR ANY OTHER STATE UTILITY**
8 **COMMISSION?**

9 A. No.

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

11 A. The purpose of my testimony is to support the Fuel & Purchased Power
12 Adjustment Clause ("FAC") rate schedules that have been filed by Empire to
13 reflect the actual energy costs that Empire has incurred during the six-month
14 period March 2018 through August 2018. This six-month period is an
15 Accumulation Period specified in Empire's FAC tariff that was approved by the
16 Commission in its Report and Order issued in File No. ER-2016-0023.

17 **Q. WHY ARE YOU SUBMITTING SUBSTITUTE TESTIMONY?**

18 A. On October 1, 2018, I filed testimony in this case which contained a few
19 inadvertent errors which I now seek to correct. Specifically, page 3, line 18 of my
20 testimony stated that Empire's actual total energy costs eligible for the FAC were
21 lower than the base energy costs included in the Company's Missouri rates by
22 approximately (\$55,567,055) when the actual amount is \$2,047,187. This

1 difference is the result of an inadvertent equation error in Schedule LLF-1 Page 1
2 line 5, and Schedule LLF-1 page 2 line (TEC-B)*J \$(55,567,055). The second change
3 that I have made to my previously filed testimony is on page 6, line 22, which
4 indicated that the Recovery Period ended December 30, 2017 when it should
5 have stated May 31, 2018. None of these corrections affect the rate schedules I
6 filed on October 1, 2018, and each of these changes are reflected in my testimony
7 below.

8 **EXECUTIVE SUMMARY**

9 **Q. PLEASE PROVIDE AN OVERVIEW OF YOUR TESTIMONY IN SUPPORT OF THE FAC**
10 **RATE SCHEDULES FILED BY EMPIRE.**

11 A. The Commission's rule governing fuel and purchased power cost recovery
12 mechanisms for electric utilities – specifically 4 CSR 240-20.090(4) – requires
13 Empire to make periodic FAC filings that are designed to enable Commission
14 review of the actual fuel costs, purchased power costs, cost of consumables
15 associated with the power plants' air quality control system ("AQCS"), net cost of
16 emission allowances, revenue from the sale of renewable energy credits ("REC")
17 and off-system sales margins (collectively referred to as total energy costs) the
18 Company has incurred during an Accumulation Period. In addition, these periodic
19 filings are designed to adjust the FAC rates up or down, to reflect the actual
20 energy costs incurred during the Accumulation Period. Empire's FAC tariff calls
21 for two annual filings: a filing covering the six-month Accumulation Period
22 running from September through February and a second filing covering the

1 Accumulation Period running from March through August. Any increases or
2 decreases in rates approved by the Commission, or that take effect by operation
3 of law, are then collected from or refunded to customers over two six-month
4 Recovery Periods: June through November and December through May.

5 Since the implementation of Empire's FAC, the variable cost of fuel and purchased
6 power used by the Company's Missouri customers has varied from the base fuel
7 and energy cost established in rates. For the Accumulation Period March 2018
8 through August 2018, Empire's actual total energy costs eligible for the FAC were
9 lower than the base energy costs included in the Company's Missouri rates by
10 approximately \$2,047,187. In accordance with the FAC tariff, Empire has
11 absorbed 5% of the overall increase in Missouri variable energy costs during that
12 six-month period. Therefore, in accordance with the Commission's FAC rule and
13 Empire's approved FAC tariff, the Company has filed FAC rate schedules that are
14 designed to recover 95 percent of the energy cost differences of approximately
15 \$(1,944,828) from its Missouri jurisdictional customers.

16 In addition, Empire also seeks to return approximately \$1,224, which is further
17 described in the true-up testimony that is provided in a separate filing, of over-
18 recovered energy costs from the prior recovery period ending May 31, 2018. This
19 brings the total net return due to customers to approximately \$1,800,606
20 including interest. This total represents the Fuel and Purchased Power
21 Adjustment ("FPA").

22 As reflected in the rate schedules filed by the Company, Empire has developed

1 two Fuel Adjustment Rates (“FAR”) designed to recover the FPA, each of which is
2 based on forecasted retail Missouri sales over the next Recovery Period: a FAR of
3 \$-0.00085 per kilowatt-hour (kWh) for primary service, and a FAR of \$-0.00087
4 per kWh for secondary service have been developed for this filing. These FARs
5 will enable Empire to return, over a Recovery Period ending May 2019, the
6 difference between energy costs built into its base rates and the total energy
7 costs actually incurred during the Accumulation Period and the true-up of fuel
8 and energy costs during the Recovery Period ended May 31, 2018.

9 **Q. DOES THE EMPIRE FAC TARIFF INCLUDE PROVISIONS THAT ARE DESIGNED TO**
10 **LIMIT EMPIRE’S FAC RECOVERYS TO THE ACTUAL COST OF ENERGY?**

11 A. Yes. Empire’s FAC and the Commission’s rule governing FACs include two
12 safeguards limiting FAC recovery to actual, prudently-incurred energy costs. The
13 first safeguard is a true-up process that ensures the FAC collections during the
14 Recovery Period do not exceed actual energy costs incurred during the
15 Accumulation Period. The second safeguard involves a requirement that Empire’s
16 energy costs be subjected to periodic Prudence Reviews, to ensure only
17 prudently-incurred energy costs are passed through to customers using the FAC.
18 Empire’s operation of the FAC has been audited by the Commission’s staff
19 through February 28, 2018. Staff filed its report in File No. EO-2017-0244 finding
20 no imprudence on Empire’s part.

21 **THE PROPOSED FAC RATE ADJUSTMENT**

22 **Q. WHY HAS EMPIRE FILED FAC-RELATED RATE SCHEDULES AT THIS TIME?**

1 A. The Commission's rules – specifically 4 CSR 240-20.090(4) – and Empire's FAC
2 tariff require the Company to make periodic FAC filings that enable the
3 Commission to review Empire's actual fuel, purchased power, AQCS costs, off-
4 system sales, REC revenue, and net costs of emissions allowances so that Empire's
5 FAC rates can be adjusted to reflect the actual energy costs the Company incurs
6 to provide electric service to its Missouri customers. Empire's Missouri FAC tariff
7 calls for two FAC adjustment filings per year: (1) a filing covering the six-month
8 Accumulation Period running from September through February and (2) a filing
9 covering the Accumulation Period running from March through August. Empire
10 is seeking a decrease in its FAC rates to reflect 95% of the difference between the
11 energy costs built into its base Missouri rates and Empire's actual Missouri energy
12 costs for the Accumulation Period, plus a true-up of the costs recovered during
13 the Recovery Period ending May 31, 2018. This recovery via FAC rates will be
14 reflected on the Missouri customers' bills over the six-month Recovery Period
15 running from December 2018 through May 2019.

16 **Q. HOW HAVE EMPIRE'S AVERAGE ENERGY COSTS CHANGED OVER THE COST**
17 **INCLUDED IN BASE RATES DURING THE ACCUMULATION PERIOD?**

18 A. Empire's average energy costs per kWh have declined below the level built into its
19 base electric rates, which is why the FAC rate schedules filed by the Company
20 seek a decrease in the rates charged to the Missouri customers. More
21 specifically, Empire's Missouri base rates included an average cost of energy per
22 kWh of net system production of \$0.02415 during the Accumulation Period of

1 March 2018 through August 2018. Empire actually incurred average energy costs
2 of \$0.02326 per kWh during the Accumulation Period, which is \$-0.00089 per
3 kWh or about 3.69 percent less than the average cost built into base rates.
4 Pursuant to Empire's FAC tariff, Empire is requesting to return to its Missouri
5 customers the net of 95 percent of this cost decrease plus approximately \$1,224
6 of under-recovered energy cost and \$145,446 of interest income from the
7 Recovery Period ending May 31, 2018, or an average of \$-0.00081 per kWh sold
8 during the upcoming Recovery Period.

9 **Q. HOW DOES THE MONTHLY FAC CHANGE FOR A TYPICAL RESIDENTIAL**
10 **CUSTOMER?**

11 A. For Missouri residential customers using 1,000 kWh per month, the electric bill
12 will decrease by approximately \$8.45 per month over the six-month period
13 December 2018 through May 2019, when the current FAC credit factor of \$.00087
14 is applied to their bill and the previous FAC recovery factor of \$0.00758 is
15 eliminated from their bill.

16 **Q. DID THE AVERAGE ENERGY COST VARY FROM EXPECTATIONS?**

17 A. Yes, during the Accumulation Period, specifically in July and August 2018, cooler
18 than normal weather prevailed. As such, the actual total energy cost per
19 megawatt-hour was below the Company budget by approximately 8.83 percent.

20 **Q. DO YOU EXPECT THE AVERAGE ENERGY COSTS ELIGIBLE FOR THE FAC TO BE**
21 **HIGHER OR LOWER THAN THE BASE DURING THE NEXT ACCUMULATION PERIOD**
22 **FROM MARCH 2018 THROUGH AUGUST 2018?**

1 A. Based on the current budget, Empire expects the total energy costs eligible for
2 the FAC to be about 6.7% higher than the base. The period in question,
3 September 2018 through February 2019, contains the winter months, so this
4 period has the potential for a higher average cost per megawatt-hour than what
5 would be expected for an annual average cost per megawatt-hour. The current
6 budget, which assumes normal weather, anticipates average energy costs eligible
7 for the FAC to be higher than the current FAC base of \$24.15 per megawatt-hour
8 during the next Accumulation Period.

9 **Q. DO YOU BELIEVE EMPIRE'S FUEL ADJUSTMENT CLAUSE IS REASONABLE AND**
10 **APPROPRIATE?**

11 A. Yes. The design of the Commission's rule governing the FAC was the subject of
12 much discussion and debate prior to being approved by the Commission. In
13 addition, there was much discussion and debate concerning Empire's FAC tariff in
14 Case No. ER-2008-0093, in which the Commission ultimately approved Empire's
15 initial FAC tariff. Additional discussions have occurred in subsequent cases.
16 Empire's FAC filing is being made in accordance with the Commission's rules
17 governing the FAC and in accordance with the FAC tariff approved for Empire.

18 **Q. PLEASE DESCRIBE HOW EMPIRE IS PROPOSING TO COLLECT THE ENERGY COST**
19 **INCREASES EXPERIENCED DURING THE MARCH 2018-AUGUST 2018**
20 **ACCUMULATION PERIOD?**

21 A. The FAC rate schedule filed by Empire will collect the energy cost increase actually
22 incurred during the Accumulation Period by applying the negative Fuel

1 Adjustment Rate or FAR of \$0.00085 for primary and \$0.00087 for secondary
2 service to the actual Missouri retail kWh sales that take place during the
3 December 1, 2018 to May 31, 2019 Recovery Period. The proposed FARs were
4 calculated in accordance with Empire's authorized FAC tariff. I have attached to
5 my testimony, as Schedule LLF-1, an exemplar copy of one of Empire's approved
6 FAC tariff sheets. In addition to the tariff sheet, I have included as page 2 of
7 Schedule LLF-1 a monthly analysis of the energy costs and energy cost recovery
8 that has taken place during the Accumulation Period. Schedule LLF-1 contains the
9 basic information and FAC formula that Empire used to calculate the FARs that
10 have been included in the proposed revised FAC rate schedule sheet 17e. The
11 Empire FAC tariff and the formula included therein were approved by the
12 Commission in File No. ER-2016-0023.

13 **Q. HOW WERE THE VARIOUS VALUES USED TO DETERMINE THE PROPOSED FARs**
14 **SHOWN ON SCHEDULE JMS-1 DEVELOPED?**

15 A. The data upon which Empire based the values for each of the variables in the
16 approved FAR formula are included on the schedule, and came from Empire's
17 books and records. Schedule LLF-1 contains all of the basic information that is
18 required to calculate the proposed change in the FAR. In addition, Empire has
19 filed the detailed information required by 4 CSR 240-3.161(7) (A) with this
20 testimony as Schedule LLF-2. Additional information about the true-up amount
21 was filed concurrently in a separate docket. Also, as required by 4 CSR 240-
22 3.161(7) (B), the Company has separately provided to all parties of record in File

1 Nos. ER-2008-0093, ER-2010-0130, ER-2011-0004, ER-2012-0345, ER-2014-0351,
2 and ER-2016-0023 with a set of these workpapers.

3 **Q. IS EMPIRE IN COMPLIANCE WITH THE PROVISIONS OF THE COMMISSION'S FAC**
4 **RULE CONCERNING PERIODIC REPORTING AND SURVEILLANCE?**

5 A. Yes. Empire has complied with all of the Commission's rules, 4 CSR 240-3.161(5)
6 and (6), governing periodic reports and surveillance using the Commission's
7 electronic filing system and provided all of the parties to File Nos. ER-2008-0093,
8 ER-2010-0130, ER-2011-0004, ER-2012-0345, ER-2014-0351, and ER-2016-0023
9 with copies of the periodic compliance reports and copies of surveillance reports
10 at the same time they were filed with the Commission.

11 **Q. IF FAC SHEET 17e IS APPROVED BY THE COMMISSION, WHAT SAFEGUARDS EXIST**
12 **TO ENSURE THE FAC REVENUE COLLECTED BY EMPIRE DOES NOT EXCEED THE**
13 **ACTUAL TOTAL ENERGY COST INCURRED BY EMPIRE DURING THE**
14 **ACCUMULATION PERIOD?**

15 A. As mentioned earlier, Empire's FAC and the Commission's rules provide two
16 mechanisms designed to limit the FAC amounts collected from customers to
17 Empire's actual, prudently-incurred energy costs. First, at the end of each
18 Recovery Period the Company is required to true-up the amounts collected from
19 customers through the FAR with the total energy costs that were actually incurred
20 during the Accumulation Period to which the FAR applies. In addition, Empire's
21 energy costs will be subjected to periodic Prudence Reviews to ensure that only
22 prudently-incurred energy costs are collected from customers through the FAC.

1 These two mechanisms serve as checks that ensure that Empire’s Missouri
2 customers pay only the prudently-incurred, actual cost of energy used to provide
3 electric service in Missouri (less the 5% Empire absorbs or retains) – no more and
4 no less.

5 **Q. WHAT ACTION IS EMPIRE REQUESTING FROM THE COMMISSION WITH RESPECT**
6 **TO THE FAC RATE SCHEDULE THAT THE COMPANY HAS FILED?**

7 A. As provided by 4 CSR 240-20.090(4), Staff has thirty (30) days from the date the
8 FAC rate schedule is filed to conduct a review and to make a recommendation to
9 the Commission as to whether the rate schedule complies with the Commission’s
10 FAC rules, the requirements of Section 386.266, RSMo, and Empire’s approved
11 FAC. The Commission has sixty (60) days from the date of Empire’s filing to either
12 approve the rate schedule or to allow it to take effect by operation of law.
13 Empire believes its FAC filing satisfies all of the requirements of applicable
14 statutes, the Commission’s rules, and Empire’s approved FAC. Empire requests,
15 following Staff’s review, the Commission approve revised FAC sheet 17e to be
16 effective as of December 1, 2018, which is the first day of the Recovery Period
17 prescribed in Empire’s FAC tariff.

18 **Q. IS EMPIRE REQUESTING ANY OTHER CHANGES TO THE FAC TARIFF AT THIS**
19 **TIME?**

20 A. No other changes to the FAC tariff sheets are being requested at this time.

21 **Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?**

22 A. Yes, it does.

THE EMPIRE DISTRICT ELECTRIC COMPANY

P.S.C. Mo. No. 5 Sec. 4 5th Revised Sheet No. 17ac

Canceling P.S.C. Mo. No. 5 Sec. 4 4th Revised Sheet No. 17ac

For ALL TERRITORY

FUEL & PURCHASE POWER ADJUSTMENT CLAUSE
RIDER FAC
For service on and after December 1, 2018

	Accumulation Period Ending		August 31, 2018
1	Total Energy Cost (TEC) = (FC + PP + E – OSSR - REC)		64,930,243
2	Net Base Energy Cost (B)	-	67,415,208
	2.1 Base Factor (BF)		0.02415
	2.2 Accumulation Period NSI (S _{AP})		2,791,520,000
3	(TEC-B)		(2,484,965)
4	Missouri Energy Ratio (J)	*	82.19%
5	(TEC - B) * J		(2,047,187)
6	Fuel Cost Recovery	*	95.00%
7	(TEC - B) * J * 0.95		(1,944,828)
8	True-Up Amount (T)	+	(1,224)
9	Prudence Adjustment Amount (P)	+	
10	Interest (I)	+	145,446
11	Fuel and Purchased Power Adjustment (FPA)	=	(1,800,606)
12	Forecasted Missouri NSI (S _{RP})	÷	2,214,363,961
13	Current Period Fuel Adjustment Rate (FAR)	=	(0.00081)
14	Current Period FAR _{PRIM} = FAR x VAF _{PRIM}		(0.00085)
15	Current Period FAR _{SEC} = FAR x VAF _{SEC}		(0.00087)
16	VAF _{PRIM} = 1.0464		1.0464
17	VAF _{SEC} = 1.0657		1.0657

DATE OF ISSUE October 1, 2018

DATE EFFECTIVE December 1, 2018

ISSUED BY Chris Krygier, Director Planning & Regulatory

AFFIDAVIT OF LESLIE L. FOREST

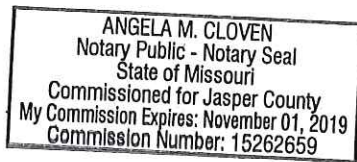
STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 10th day of October, 2018, before me appeared Leslie L. Forest, to me personally known, who, being by me first duly sworn, states that she is a Regulatory Analyst, in Rates and Regulatory Affairs of The Empire District Electric Company and acknowledges that she has read the above and foregoing document and believes that the statements therein are true and correct to the best of her information, knowledge and belief.



Leslie L. Forest

Subscribed and sworn to before me this 10th day of October, 2018.





Notary Public

My commission expires: 11/01/19.