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

Supplemental Direct Testimony

of

Dr. James H. Vander Weide

November, 2014

Empire Exhibit No. 129
Date 4-14-15 Reporter KF
File No. ER-2014-0351

**SUPPLEMENTAL DIRECT TESTIMONY
OF
DR. JAMES H. VANDER WEIDE
ON BEHALF OF
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2014-0351**

1 **Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.**

2 A. My name is James H. Vander Weide. I am President of Financial Strategy
3 Associates, a firm that provides strategic and financial consulting services to
4 business clients. My business address is 3606 Stoneybrook Drive, Durham,
5 North Carolina 27705.

6 **Q. ARE YOU THE SAME JAMES VANDER WEIDE WHO FILED DIRECT
7 TESTIMONY IN THIS PROCEEDING IN AUGUST 2014?**

8 A. Yes, I am.

9 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?**

10 A. I have been asked by The Empire District Electric Company ("Empire" or
11 "Company") to discuss any change in the Company's business risk and cost
12 of equity that would result from implementation of the Company's proposed
13 fuel adjustment clause ("FAC") in this proceeding.

14 **Q. HOW DOES A FAC GENERALLY IMPACT A REGULATED COMPANY'S
15 BUSINESS RISK?**

1 A. A FAC generally reduces a regulated company's business risk by allowing the
2 company to recover a significant portion of changes in prudently incurred
3 energy costs through timely changes in customer rates.

4 **Q. DOES EMPIRE'S PROPOSED FAC ALLOW IT TO RECOVER ALL**
5 **CHANGES IN PRUDENTLY INCURRED ENERGY COSTS THROUGH**
6 **TIMELY CHANGES IN CUSTOMER RATES?**

7 A. No. Empire's proposed FAC only allows it to recover ninety-five percent of the
8 changes in prudently incurred costs through timely changes in customer
9 rates.

10 **Q. ARE FACs COMMON IN THE ELECTRIC UTILITY INDUSTRY?**

11 A. Yes. Virtually all integrated electric utilities have FACs that allow the
12 companies to adjust customer rates for changes in fuel and purchased power
13 costs. (Distribution-only utilities are generally not at risk for changes in energy
14 costs because they pass through energy costs purchased in competitive
15 markets to customers.)

16 **Q. IS EMPIRE'S PROPOSED FAC PATTERNED AFTER THE APPROVED**
17 **FAC FOR ANY OTHER MISSOURI ELECTRIC UTILITY?**

18 A. Yes. The Company's proposed FAC is patterned after the FAC approved by
19 the Missouri Public Service Commission for Ameren, as described in the
20 testimony of Company Witness Mr. Todd W. Tarter.

21 **Q. HOW DO YOU ESTIMATE EMPIRE'S COST OF EQUITY IN THIS**
22 **PROCEEDING?**

1 A. I estimate Empire's cost of equity by applying several standard cost of equity
2 methods to market data for a large proxy group of publicly-traded electric
3 utilities.

4 **Q. IS THE AVERAGE REDUCTION IN BUSINESS RISK FROM THE**
5 **IMPLEMENTATION OF A FAC ALREADY INCLUDED IN YOUR ESTIMATE**
6 **OF EMPIRE'S COST OF EQUITY?**

7 A. Yes. Because the utilities in my proxy group have FACs, the average
8 reduction in business risk from the implementation of a FAC is already
9 included in my estimate of Empire's cost of equity.

10 **Q. RECOGNIZING THAT YOUR PROXY UTILITIES ALREADY HAVE FACs,**
11 **WOULD IMPLEMENTATION OF THE COMPANY'S PROPOSED FAC**
12 **REDUCE YOUR ESTIMATE OF EMPIRE'S COST OF EQUITY?**

13 A. No. Because the impact of a FAC is already included in my estimate of
14 Empire's cost of equity, a decision to implement the Company's proposed
15 FAC would not reduce my estimate of Empire's cost of equity.

16 **Q. WOULD A DECISION TO DISCONTINUE THE COMPANY'S FAC OR TO**
17 **REDUCE THE PROPORTION OF PRUDENTLY-INCURRED ENERGY**
18 **COSTS RECOVERED THROUGH THE FAC INCREASE EMPIRE'S COST**
19 **OF EQUITY COMPARED TO THE AVERAGE COST OF EQUITY FOR THE**
20 **PROXY UTILITIES?**

21 A. Yes.

1 Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL DIRECT TESTIMONY?

2 A. Yes, it does.

