

Exhibit No.
Issue: Asbury Environmental and Riverton
Rider
Witness: Bryan S. Owens
Type of Exhibit: Direct Testimony
Sponsoring Party: Empire District Electric
Docket No.
Date Testimony Prepared: January 2017

Before the Kansas Corporation Commission

Direct Testimony

of

Bryan S. Owens

January 2017

DIRECT TESTIMONY
OF
BRYAN S. OWENS
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
KANSAS CORPORATION COMMISSION
DOCKET NO.

1 **I. INTRODUCTION**

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

3 A. My name is Bryan S. Owens and my business address is 602 S. Joplin Avenue, Joplin,
4 Missouri.

5 **A. POSITION**

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

7 A. I am employed by The Empire District Electric Company ("Empire," the "Company" or
8 "EDE") as Assistant Director of Planning and Regulatory.

9 **Q. WHAT ARE THE DUTIES AND RESPONSIBILITIES OF YOUR CURRENT**
10 **POSITION?**

11 A. I am responsible for providing various financial analyses in support of utility operations and
12 the management of regulatory filings for the Company.

13 **Q. PLEASE DESCRIBE YOUR EDUCATION AND PROFESSIONAL BACKGROUND.**

14 A. I graduated from the University of Missouri, Kansas City with a Bachelor of Liberal Arts
15 degree in 1996. In 1998, I earned a Bachelor of Science degree in Accounting from the
16 University of Missouri, Kansas City.

17 I began my professional career in 1998, when I joined the accounting firm of KPMG, LLP.

18 I was employed at KPMG from August 1998 to July 2001, as a senior auditor and senior tax

1 specialist performing financial statement audits and preparing federal and state tax returns
2 for individuals and corporations.

3 In July 2001, I joined Overland Consulting, Inc., in Overland Park, Kansas. I was employed
4 at Overland Consulting, Inc. from July 2001 to June 2004, as a senior consultant performing
5 audits of utility Federal Energy Regulatory Commission ("FERC") financial statements as
6 part of general rate case reviews supporting the California Public Utilities Commission.

7 In May 2003, I earned my Certified Public Accountant certificate in Missouri.

8 In June 2004, I joined Aquila, Inc., in Kansas City, Missouri. I was employed with Aquila,
9 Inc. from June 2004 to July 2008, as a senior regulatory analyst preparing rate case filings
10 and managing compliance filings for several state jurisdictions including Missouri, Kansas,
11 and Colorado.

12 In July 2008, Aquila, Inc. was acquired by Black Hills Corporation and Great Plains Energy,
13 Inc. I was briefly employed with Kansas City Power & Light Company (a wholly owned
14 subsidiary of Great Plains Energy, Inc.) before joining Black Hills Corporation in December
15 2008, as Manager, Colorado Electric Regulatory Affairs. In this role, I was responsible for
16 providing various financial analyses in support of utility operations and managing regulatory
17 filings for the electric utility operations of Black Hills/Colorado Electric Utility Company,
18 L.P.

19 In July 2010, I obtained my Colorado Certified Public Accounting license.

20 In November 2014, I joined Empire as Assistant Director of Planning and Regulatory. I
21 have testified as a witness before the Colorado Public Utilities Commission in Docket Nos.
22 14AL-0393, 13A-0446E, and 12AL-1052E, and I have submitted written testimony before
23 the Arkansas Public Service Commission, the Colorado Public Utilities Commission, the

1 Kansas Corporation Commission, the Missouri Public Service Commission, and the
2 Oklahoma Corporation Commission.

3 **B. PURPOSE**

4 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS CASE?**

5 A. The purpose of my testimony is to describe Empire’s proposed Asbury Environmental and
6 Riverton Rider (“AERR”) and the circumstances driving this request.

7 **Q. WHAT SCHEDULES IN THE FILING ARE YOU SPONSORING?**

8 A. Attached to my direct testimony as Schedule BSO-1 are exemplar AERR rider tariff sheets.
9 Also attached to my direct testimony as Schedule BSO-2 is the Weighted Cost of Capital
10 calculation used in this filing.

11 **C. OVERVIEW**

12 **Q. WHY IS EMPIRE FILING THIS RATE CASE AT THIS TIME?**

13 A. Empire is requesting approval of the AERR pursuant to the Unanimous Settlement
14 Agreement ("Agreement") approved by the Kansas Corporation Commission
15 (“Commission”) in Docket No. 16-EPDE-410-ACQ ("410 Docket"). The pertinent portions
16 of the Agreement relating to the AERR are as follows:

17 25. The Parties agree the current surcharge established in
18 Docket 15-EPDE-233-TAR for the Asbury plant environmental
19 upgrades shall continue with the modifications discussed in
20 Paragraph 26 below until rates are set in the next base rate case.

21 26. Notwithstanding Paragraph 24 above, and in order to
22 lessen the impact of any future rate increase on customers, the
23 Parties agree that EDE will seek an Order from the Commission to

1 amend the rider referenced in Paragraph 25 herein to include the
2 Riverton 12 revenue requirement increase consisting of return on
3 investment and depreciation expense associated with the Riverton
4 12 plant. The Parties agree that they will not categori[c]ally
5 oppose such a request as long as the rider amendment is filed with
6 the following conditions: 1) The revised rider should be referred
7 to as the AERR (the Asbury Environmental and Riverton Rider; 2)
8 The revised rider should update Gross Plant and Accumulated
9 Depreciation associated with the AERR revenue requirement, to
10 the most recent actual data possible; 3) The AERR will use the
11 least cost capital structure determined by comparing the actual
12 capital structure of EDE and the actual capital structure of any
13 other entity which it receives financing from, (including but not
14 limited to, the consolidated Algonquin capital structure); 4) The
15 AERR will use a return on equity of 9.3%; and 5) The AERR will
16 be implemented on an interim basis, subject to true-up and
17 eventual refund or recovery in EDE's next base rate case...

18 **II. RIVERTON 12**

19 **Q. PLEASE DESCRIBE THE ACQUISITION OF RIVERTON 12 NGCC.**

20 A. As explained in greater detail by Empire Witness Blake Mertens, the Riverton 12 NGCC
21 acquisition cost is directly related to the investment associated with Empire's conversion of
22 the older Riverton 12 unit from a simple cycle natural gas fired unit to a combined cycle
23 unit. The conversion project was identified in Empire's 2013 Integrated Resource Plan

1 (IRP), filed with the Missouri Public Service Commission (MPSC) in Docket No. EO-2013-
2 0547, as a least cost option to comply with environmental regulations including the Cross
3 State Air Pollution Rule (CSAPR).

4 Empire's 2013 IRP compliance plan also called for the retirement of Riverton units 7 and 8,
5 which were coal fired and had capacity of 38 and 54 megawatts respectively. Riverton unit
6 9 was also retired, as part of the plan. In total, 104 megawatts of capacity was eliminated
7 with the retirement of Riverton units 7, 8 and 9. The Riverton 12 NGCC, with 100
8 megawatts of additional capacity, essentially replaces the capacity lost with the retirement of
9 Riverton units 7, 8 and 9. As addressed in the Direct Testimony of Mr. Mertens, Riverton
10 12 NGCC was placed in service May 1, 2016.

11 **Q. PLEASE DESCRIBE THE "PREFERRED PLAN" ASSOCIATED WITH MISSOURI**
12 **IRP RULES.**

13 A. The Missouri Electric Utility Resource Planning rules "require the utility to select a
14 preferred resource plan, develop an implementation plan, and officially adopt a resource
15 acquisition strategy."¹ In addition, among other conditions, "in the judgment of the utility
16 decision-makers, the preferred plan, in conjunction with the deployment of emergency
17 demand response measures and access to short-term and emergency power supplies, [must
18 have] sufficient resources to serve load forecasted under extreme weather conditions
19 pursuant to 4 CSR 240-22.030(8)(B) for the implementation period."² Also, among the
20 fundamental objectives of the resource planning process included in the Missouri IRP rules
21 is that a utility shall "[u]se minimization of the present worth of long-run utility costs as the

¹ Missouri Code of State Regulations 4 C.S.R. 240-22.070

² Missouri Code of State Regulations 4 C.S.R. 240-22.070(1)(D)

1 primary selection criterion in choosing the preferred resource plan, subject to the constraints
2 in”³ 4 CSR 240-22.010(1)(C).

3 **Q. WAS THE RIVERTON 12 NGCC CONVERSION PROJECT SELECTED AS PART**
4 **OF THE PREFERRED PLAN IN MPSC DOCKET EO-2013-0547?**

5 A. Yes. The preferred plan, which included the Riverton 12 NGCC conversion project, was
6 selected among 18 alternative resource plans developed by Empire in MPSC Docket EO-
7 2013-0547.

8 “Ventyx, an ABB Company (Ventyx), who was already retained by Empire for work on the
9 2013 IRP, conducted the 2016 resource analysis. As part of the agreement, Empire
10 provided a statement of work for this study, and it was reviewed and amended by the
11 interested parties. Ventyx performed the study by utilizing the 2013 IRP assumptions and
12 the methodology reviewed by all parties in the scope of work statement as amended based
13 on stakeholder input. A study report was supplied to the interested parties on April 5, 2013,
14 and a meeting to discuss the results was held on April 23, 2013. The study showed that the
15 Riverton conversion project was the lowest cost and lowest risk resource option for Empire
16 for its 2016 resource need. In addition, there were several other key factors such as
17 operational issues, transmission and congestion cost risks and unit age that favored the
18 Riverton 12 conversion option. Empire concluded, and expressed to the interested parties,
19 that the Riverton 12 conversion is the lowest cost 2016 supply alternative, should continue
20 to be treated as a committed resource in its 2013 IRP and that Empire would move forward
21 with the Riverton combined cycle project.”⁴

³ Missouri Code of State Regulations 4 C.S.R. 240-22.070(1)(B)

⁴ MPSC Docket EO-2013-0547, The Empire District Electric Company, Integrated Resource Plan, Volume 1, page 16.

1 **Q. DID THE PARTIES TO THE MPSC DOCKET EO-2013-0547 COME TO AN**
2 **AGREEMENT CONCERNING EMPIRE’S 2013 IRP FILING?**

3 A. Yes. “On January 31, 2014, Empire and the parties who submitted reports alleging
4 deficiencies and concerns (collectively, the ‘Signatories’) filed a Joint Filing, which
5 proposed a remedy to most of the alleged deficiencies and concerns. The Joint Filing also
6 identified six alleged deficiencies and concerns that remain unresolved.”⁵

7 **Q. DID THE MPSC ISSUE AN ORDER IN DOCKET EO-2013-0547?**

8 A. Yes. However, the MPSC rules outlining the procedure for the IRP process in Missouri do
9 not require a hearing on IRP filings. Consequently, Docket No. EO-2013-0547 was not a
10 contested case. Nevertheless, the MPSC, in its order dated March 12, 2014, found that
11 “Empire’s IRP filing demonstrates compliance with the requirements of Commission Rule 4
12 CSR 240-22 and concludes that no hearing is necessary concerning the six unresolved
13 alleged deficiencies and concerns.”⁶

14 **Q. DID EMPIRE SEEK RECOVERY OF THE RIVERTON 12 NGCC INVESTMENT**
15 **COST IN MISSOURI?**

16 A. Yes. On October 16, 2015 Empire filed a request with the MPSC for changes in rates for its
17 Missouri electric customers. Case No. ER-2016-0023 was assigned to the request. The
18 most significant factor driving the rate request was the cost associated with the Riverton 12
19 NGCC conversion project. Other factors in the case included increased transmission
20 expense, administrative and maintenance expense and costs incurred as a result of a
21 mandated solar rebate program.

⁵ MPSC Docket EO-2013-0547, Order Regarding 2013 Integrated Resource Plan, page 1.

⁶ *Ibid.* page 2

1 **Q. HAVE THE COSTS ASSOCIATED WITH THE RATE BASE INVESTMENT IN**
2 **RIVERTON 12 NGCC BEEN REVIEWED?**

3 A. Yes. The Staff of the Missouri Public Service Commission (MPSC Staff) visited Empire's
4 corporate offices the week of May 23, 2016, to perform an audit of the costs associated with
5 the Riverton 12 NGCC investment. The audit was performed in connection with MPSC
6 Staff's review of Empire's general rate case in Case No. ER-2016-0023.

7 **Q. WHAT WAS THE RESULT OF THE AUDIT PERFORMED BY THE MPSC**
8 **STAFF?**

9 A. No Riverton 12 NGCC costs were disallowed by the MPSC Staff. The Missouri
10 jurisdictional portion of the Riverton 12 NGCC investment included for recovery in
11 Missouri Public Service Commission Case No. ER-2016-0023 was not recommended for
12 adjustment by the MPSC Staff or any intervenor.

13 **Q. WHAT IS THE STATUS OF MISSOURI PUBLIC SERVICE COMMISSION CASE**
14 **ER-2016-0023?**

15 A. On June 21, 2016, a unanimous stipulation and agreement was reached by all parties to the
16 proceeding and submitted to the Missouri Public Service Commission for approval. The
17 stipulation includes a request by the Signatories "that the Commission adopt Staff's
18 recommended in-service criteria regarding the conversion of the existing Riverton 12 simple
19 cycle gas turbine, which went into service in 2007, to a combined cycle gas turbine and find
20 Riverton 12 to be 'fully operational and used for service'."⁷ On August 10, 2016 the
21 Missouri Public Service Commission issued its Order Approving Stipulation and Agreement
22 in File No. ER-2016-0023, bearing an effective date of September 14, 2016.

⁷ MPSC Case No. ER-2016-0023, Stipulation and Agreement, page 11.

1 **III. PROPOSED RIDER**

2 **Q. WHAT COSTS ARE DESIGNED TO BE RECOVERED THROUGH EMPIRE'S**
3 **PROPOSED AERR?**

4 A. As indicated on Schedule BSO-1, and as stipulated in the 410 Docket, the proposed AERR
5 is designed to recover the Kansas jurisdictional portion of the annual carrying costs (rate of
6 return, income taxes and depreciation) associated with Empire's investment in the new air
7 quality control system at its Asbury power plant and the investment associated with the
8 combined cycle conversion at the Riverton 12 plant.

9 **Q. DID EMPIRE USE THE EXISTING AECR RIDER APPROVED BY THE**
10 **COMMISSION AS A GUIDE WHEN CONSTRUCTING ITS PROPOSED AERR**
11 **RIDER?**

12 A. Yes. As stated above, per the Agreement in the 410 Docket, the AECR rider (approved by
13 the Commission in Docket No. 15-EPDE-233-TAR) is being amended, as illustrated in
14 Schedule BSO-1, to include the Riverton 12 revenue requirement increase consisting of
15 return on investment and depreciation expense associated with the Riverton 12 plant.

16 **Q. PLEASE DESCRIBE THE AERR REVENUE REQUIREMENT CALCULATION.**

17 A. As illustrated below, plant and equipment associated with AERR investment in service at
18 September 30, 2016 is reduced by related accumulated depreciation to arrive at total AERR
19 rate base at September 30, 2016. The Kansas jurisdictional rate of 5.055% is applied to the
20 rate base amount described above to arrive at the Kansas jurisdictional AERR rate base.
21 The proposed 7.57% rate of return on rate base is multiplied by the Kansas Jurisdictional
22 AERR rate base to arrive at the proposed Kansas jurisdictional return on rate base.⁸

⁸ The components of the return on rate base (i.e. WACC) as illustrated in Schedule BSO-2, conform to the conditions as outlined in the Agreement in the 410 Docket.

1 Associated Kansas jurisdictional depreciation and income tax expense are added to the
2 proposed return on rate base to arrive at the total proposed AERR revenue requirement.

3

**The Empire District Electric Company
the Asbury Environmental and Riverton Rider (AERR) Revenue Requirement**

Line No.	Description	Amount (\$)
1	I. AERR Costs	
2	Rate Base	
3	Plant and Equipment In Service at September 30, 2016	\$ 303,948,175
4	Accumulated Depreciation	5,481,425
5	Total Rate Base (Line 3 - Line 4)	\$ 298,466,749
6		
7	Kansas Jurisdiction Allocation Percentage	5.0550%
8		
9	Kansas Jurisdictional Rate Base (Line 5 x Line 7)	\$ 15,087,494
10	Rate of Return on Rate Base	7.57%
11	Return on Rate Base (Line 9 x Line 10)	\$ 1,141,420
12		
13	Expenses	
14	Depreciation Expense	\$ 309,229
15	Income Taxes	417,053
16	Total Expenses (Sum Lines 14 - 15)	\$ 726,282
17		
18	Total AERR Revenue Requirement (Line 11 + Line 16)	\$ 1,867,702
19		
20	II. True-Up Adjustment	
21	Prior Year Actual AERR Revenue Requirement	\$ -
22	Prior Year Actual AERR Revenue	-
23	Current Year True-Up Adjustment (Line 21 - Line 22)	\$ -
24		
25	III. Total AERR Revenue Requirement (Line 18 + Line 23)	\$ 1,867,702
26		
27	IV. Kansas Retail Revenue Sales - kWh (for the Twelve Months Ending June 30, 2016)	218,064,176
28		
29	V. Kansas AERR Rate per kWh	\$ 0.00856

4

5 **Q. WHAT IS THE ESTIMATED BILL IMPACT TO A TYPICAL RESIDENTIAL**
6 **CUSTOMER?**

7 A. Based on the proposed AERR rider, the average retail residential customer bill, using 1,053
8 kWh's per month, will increase \$5.55 or 4.83%.

1 **Q. WHAT IS THE PROPOSED EFFECTIVE DATE OF THE PROPOSED AERR**
2 **RIDER?**

3 A. Empire has proposed an effective date of February 6, 2017, for the AERR tariff.

4 **Q. DOES THAT COMPLETE YOUR TESTIMONY?**

5 A. Yes, it does.

THE STATE CORPORATION COMMISSION OF KANSAS

Index No. 4

THE EMPIRE DISTRICT ELECTRIC COMPANY
(Name of Issuing Utility)

SCHEDULE AERR

ALL TERRITORY
(Territory to which schedule is applicable)

Replacing Schedule AECR Sheet 12
which was filed April 14, 2015

ASBURY ENVIRONMENTAL AND RIVERTON
RIDER - AERR
Sheet 1 of 2 Sheets

APPLICATION:

To all bills rendered by the Company for utility service, permitting the recovery of such cost.

TERM:

This rider will have a term beginning with the effective date of a Commission Order approving this rider and ending with the rate effective date of the next general rate case, unless extended by the State Corporation Commission of Kansas ("Commission").

BASIS OF ADJUSTMENT:

Company will collect from customers as an adjustment to the aforementioned bills, an additional charge equal to the annual capital investment-related revenue requirements associated with the Asbury Environmental Retrofit and Riverton 12 Project (ERR) undertaken by Company. The calculation of such revenue requirements will be made in conformity with the formula stated in this Rider, and will not change absent Commission approval.

Company shall provide periodic reports to the Commission of its collections including a calculation of the total collected under this Rider.

METHOD OF BILLING:

The additional charge shall be collected by applying the following factor and adding the charge to each applicable customer's bill. The billing method shall include:

- 1. A per kilowatt hour (kWh) charge determined by dividing the AERR revenue requirements by the annual applicable kWh sales.

BASIS FOR DETERMINING THE AERR:

The monthly charge shall reflect the recovery of the AERR revenue requirement as approved by the Commission. The AERR charge shall be implemented on an interim basis subject to refund, and shall remain fixed until otherwise ordered by the Commission.

ANNUAL TRUE-UP:

The revenue collected pursuant to the application of this Rider shall be compared to the estimated revenue approved for collection by the Commission on an annualized basis. The amount of any over (under) recovery shall be included in any refund calculation that may result from the re-calculation of the revenue requirement to take place during Empire's next rate case.

INTERIM SUBJECT TO REFUND:

The revenue collected pursuant to this rider, as approved by the Commission, shall be collected on an interim basis, subject to refund. For purposes of determining whether a refund is necessary, each component of the ERR revenue requirement will be determined by the Commission during Empire's next general rate case. The ERR revenue requirement will then be compared against the AERR revenue requirement approved by the Commission. If the ERR revenue requirement calculated by the Commission in Empire's next general rate case is less than the AERR revenue requirement approved by the Commission, then Empire shall refund the difference through a bill credit. The refund rates (bill credits) shall be distributed to customers in the same fashion as the original AERR rates

Commission File Number _____

Issued January 06 2017
Month Day Year
Effective _____
Month Day Year
By _____
Signature of Officer Title

SCHEDULE BSO-1

THE STATE CORPORATION COMMISSION OF KANSAS

Index No. 4

THE EMPIRE DISTRICT ELECTRIC COMPANY
(Name of Issuing Utility)

SCHEDULE AERR

ALL TERRITORY
(Territory to which schedule is applicable)

Replacing Schedule AECR Sheet 12

which was filed April 14, 2015

ASBURY ENVIRONMENTAL COST RECOVERY RIDER - AERR
Sheet <u>2</u> of <u>2</u> Sheets

contained in this tariff. The components of the ERR revenue requirement to be determined in the next general rate case shall include the following:

Revenue requirements for ERR = (RB x r) + D

RB = the rate base investment associated with the ERR. Rate base will consist of all prudently incurred gross plant investment associated with the ERR, less Accumulated Depreciation associated with the ERR, less any applicable Accumulated Deferred Income Taxes directly associated with the ERR.

r = the pretax rate of return approved by the Commission in Docket No. 16-EPDE-410-ACQ, unless otherwise agreed to by the parties and the Commission.

D = the Depreciation Expense, calculated using Commission approved depreciation rates, and the Commission approved Gross Plant component of ERR Rate Base described above.

BILLING ADJUSTMENT FACTORS:

The following charges are applied to a customer's monthly energy of each rate schedule as indicated. The amount determined by the application of such unit adjustment shall become a part of the total bill for electric service furnished and will be itemized separately on customer's bill.

<u>Rate Schedule</u>	<u>\$ per kWh</u>
Residential Service – Schedule RG	\$0.00856
Residential Total Electric Service – Schedule RH	\$0.00856
Commercial Service – Schedule CB	\$0.00856
Small Heating Service – Schedule SH	\$0.00856
General Power Service – Schedule GP	\$0.00856
Transmission Service – Schedule PT	\$0.00856
Total Electric Building Service – Schedule TEB	\$0.00856
Mobile Home Park Service – Schedule MHP	\$0.00856
Municipal Street Lighting Service – Schedule SPL	\$0.00856
Private Lighting Service – Schedule PL	\$0.00856
Special Lighting Service – Schedule LS	\$0.00856
Miscellaneous Service – Schedule MS	\$0.00856
Church and School Service – Rider SC	\$0.00856
General Municipal Service – Rider M	\$0.00856

DEFINITIONS AND CONDITIONS:

Company for the purposes of this rate schedule or rider is defined as The Empire District Electric Company.

Commission File Number _____

Issued January 06 2017
Month Day Year

Effective _____
Month Day Year

By _____
Signature of Officer Title

The Empire District Electric Company
Proforma Capital Structure and Weighted Cost of Capital

	Pro Forma		
	% of Total	Cost Rate	Weighted Cost
First Mortgage Bonds/Unsecured Debt	55.00%	6.15%	3.38%
Common Equity	45.00%	9.30%	4.19%
Total	<u>100.00%</u>		<u>7.57%</u>