

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the General Investigation to)
Examine Issues Surrounding Rate Design for) Docket No. 16-GIME-403-GIE
Distributed Generation Customers)

**AFFIDAVIT OF WILLIAM G. EICHMAN ON BEHALF
OF THE EMPIRE DISTRICT ELECTRIC COMPANY**

STATE OF MISSOURI, COUNTY OF JASPER, ss:

I. INTRODUCTION

1. My name is William G. Eichman. My business address is 602 South Joplin Avenue, Joplin, Missouri 64801. I am employed by The Empire District Electric Company ("Empire"). My job title is Engineer-Business & Community Development. My job duties include customer service responsibilities for Empire's "special contract" retail customers, certain other large retail customers, our four on-system full requirements wholesale customers, and large "prospective" retail customers.

2. I graduated from Iowa State University in 1978 with a Bachelor of Science degree in Engineering Operations. I joined Empire in 1978 as an Industrial Engineer in Empire's Industrial Services Department. I have remained in the industrial services function through various restructures, title changes, department name changes and corporate ownership changes.

3. The comments set forth in this affidavit are being provided to the Kansas Corporation Commission ("Commission" or "KCC") on behalf of Empire and address the two main issues identified by the Commission in its order issued in the above-referenced docket. The first issue is what is the appropriate rate structure for distributed generation ("DG") customers. The second issue is what benefits provided by DG production should be considered by the Commission in establishing an appropriate rate structure for DG customers. Each of these issues

is addressed separately below.

II. EMPIRE'S KANSAS DG CUSTOMERS

4. As of February 14, 2017, Empire has a total of five (5) Kansas small commercial and 1 residential DG customers. The renewable energy source for these DG customers is solar photovoltaic ("PV"). All but one of these Kansas DG customers has installed DG within the last couple of months. Under Empire's current rate structure approved by the KCC, these residential and small commercial DG customers pay the same monthly customer charge and energy (kWh) charge that Empire's residential and small commercial non-DG customers pay for their electric utility service.

III. THE COMMISSION SHOULD ADOPT A SEPARATE RATE FOR DG CUSTOMERS TO ACCOUNT FOR THE STAND BY SERVICE BEING PROVIDED TO SUCH CUSTOMERS BY EMPIRE AND TO AVOID CROSS SUBSIDIES NON-DG CUSTOMERS PROVIDE TO DG CUSTOMERS

5. Under the current rate structure approved by the KCC for Empire's residential and small commercial customers, Empire is required to recover a large portion of its fixed costs, which include the utility's investment in generation, transmission, distribution and customer service assets, through the energy or kWh charge, instead of collecting those fixed costs through the monthly customer charge. This means that DG customers, who generate their own energy and for the most part avoid the energy or kWh charge by Empire, avoid paying for those fixed costs recovered through the energy charge even though the DG customers receive the full benefits provided by those assets as stand-by customers. This also means Empire's non-DG residential and small commercial customers subsidize the DG customers by paying for a disproportionate portion of the fixed costs associated with the assets that the DG customers benefit from as stand-by customers. Because DG customers, as stand-by customers, receive the full benefit of Empire's fixed assets they should pay their fair share of those fixed costs. To account for this deficiency in

the current rate structure and to avoid the cross subsidization of the DG customers by the non-DG customers, the monthly customer charge paid by the DG customers should be increased (with a corresponding decrease to the energy charge) to include that portion of Empire's fixed costs that benefit DG customers as stand by customers.

6. Another option would be to require residential and small commercial DG customers to pay a monthly "Stand-By Charge" or "Access Charge" in addition to the monthly customer charge and energy charge paid by non-DG residential and small commercial customers. The Stand-By Charge or Access Charge would charge DG customers for those fixed costs incurred by the utility relating to its fixed assets that are not included in the customer charge. This would also require a change in the energy kWh charge to the DG customers to back out those fixed charges currently recovered in the energy kWh charge. This rate structure would better reflect the service being provided by Empire to the DG customers and address the subsidy that non-DG customers provide to DG customers under the current rate structure.

IV. EMPIRE DOES NOT AGREE THAT INTANGIBLE OR UNQUANTIFIABLE BENEFITS THAT MAY BE ASSOCIATED WITH DG PRODUCTION SUPPORT A RATE STRUCTURE THAT RESULTS IN NON-DG CUSTOMERS SUBSIDIZING DG CUSTOMERS

7. To the extent that there is a quantified cost and/or benefit relating to DG production that will increase or decrease the costs and/or revenues that are recorded on the books and records of Empire's FERC accounting system, then such costs and/or benefits should be considered. However, an attempt to quantify artificial costs to be recovered from non-DG customers for the purpose of passing on artificial benefits to DG customers in the form of subsidized rates is unreasonable and should not be adopted by the Commission.

8. With respect to Empire's cost of service and whether DG production reduces Empire's costs relating to avoided generation capacity, avoided ancillary services, capacity

reserve, transmission costs, distribution costs, and environmental costs, Empire suggests that DG production is likely to have little if any impact on those costs for various reasons. DG production will have little impact on Empire's peak demand requirements, which drive generation, capacity reserve, transmission and distribution costs. To some extent DG production may have a negative impact on those costs. For example, Empire's peak annual system demand has occurred during the 7AM to 8AM time frame during the coldest winter mornings for each of the past three years, when very little, if any, output is generated by these DG systems. DG production from PV in the Summer months drops off as the sun sets in the late afternoon and early evening, which is about the same time that summer peak demands occur as customers return home in the evenings from work. DG production may also have a negative impact on costs associated with the distribution costs if the utility is required to make significant changes to its distribution system to account for changes in the directional flow of energy through a distribution substation

9. With respect to societal costs and benefits and whether DG production provides benefits to such things as the environment or health, the federal government has already attempted to estimate the potential societal benefits associated with DG renewable energy systems and has incorporated those estimates into the IRS income tax code, which provides direct benefits to the DG customers. The DG customer also retains the Renewable Energy Credits (RECs) associated with the energy production from their systems, which provides further potential financial value to the DG customers. With respect to whether DG production benefits economic development, Empire suggests that unless there is a change in the structure of rates charged to DG customers, DG production can eventually have a detrimental impact on economic development and the associated job creation. This is because often-times one of the initial criteria required by industrial prospects when searching for a site for a new plant or expansion of an existing plant is the cost of

electricity. If non-DG customers are required to subsidize DG customers, then that increases the cost of electricity for non-DG customers, which could have a negative impact on economic development and job creation.

V. CONCLUSION

10. Empire appreciates and thanks the Commission for opening this docket and holding the roundtable meetings in this docket. Empire plans to fully participate in such meetings and looks forward to discussing the issues outlined above regarding the proper rate treatment for DG customers. In conclusion, the Commission should adopt a policy in this docket that requires utilities to establish a separate rate for DG customers, which accounts for cost incurred by the utility to provide stand-by service to the DG customers, and which addresses the subsidy currently being provided by non-DG customers to DG customers. This can be done by either increasing the monthly customer charge paid by DG customers so that charge includes all fixed costs incurred by the utility to provide stand by service to DG customers and reduces the energy charge, or by establishing a monthly stand-by or access charge paid by DG customers that includes those fixed costs incurred by the utility to provide stand by service to DG customers that are not currently included in the monthly customer charge. The monthly customer charge would stay the same and the energy charge would be reduced for DG customers under this option. Finally, the policy adopted by the Commission should not find that the subsidy currently provided by non-DG customers is justified by intangible or unquantifiable benefits associated with DG production. Instead, rates should be set using traditional cost of service methodologies based upon real and embedded costs of the utility.

11. This concludes Empire's initial written comments.

William G. Eichman
William G. Eichman

SUBSCRIBED AND SWORN to before me this 14th day of March, 2017.

[Signature]
Notary Public

Commission/Appointment Expires:

01/16/2021

JON SHARROCK DERMOTT
Notary Public - Notary Seal
State of Missouri
Commissioned for Jasper County
My Commission Expires: January 16, 2021
Commission Number: 13436499

CERTIFICATE OF SERVICE

I hereby certify that a copy of the above and foregoing was sent via U.S. Mail, postage prepaid, hand-delivery, or electronically, this 17th day of March, 2017, addressed to:

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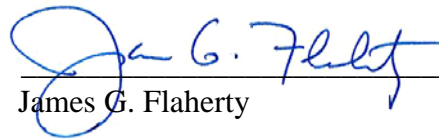
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