

JILL SCHWARTZ
DIRECT TESTIMONY

Exhibit No.
Issue: Annual ECA-ACA Filing
Witness: Jill Schwartz
Type of Exhibit: Direct Testimony
Sponsoring Party: Empire District Electric
Docket No. 19-EPDE-216-ACA
Date Testimony Prepared: January 2019

Before the Kansas Corporation Commission

Direct Testimony

of

Jill Schwartz

**In Support of the
Annual Energy Cost Adjustment ACA Filing**

January 2019



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OF
JILL SCHWARTZ
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
KANSAS CORPORATION COMMISSION
DOCKET NO. 19-EPDE-216-ACA

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1 **INTRODUCTION**

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

3 A. My name is Jill Schwartz and my business address is 602 South Joplin Avenue, Joplin,
4 Missouri.

5 **POSITION**

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

7 A. I am employed by Liberty Utilities Service Corp. as the Senior Manager of Rates and
8 Regulatory Affairs for Liberty Utilities Central Region, which includes Liberty Utilities
9 (Midstates Natural Gas) Corp. d/b/a Liberty Utilities, The Empire District Electric
10 Company (“Empire”), and Liberty Utilities (Missouri Water) LLC.

11 **PURPOSE**

12 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

13 A. My testimony will support Empire’s request to the Kansas Corporation Commission
14 (“Commission”) for an order approving the Annual Cost Adjustment (“ACA”) factor
15 submitted to the Commission as part of Empire’s approved Energy Cost Adjustment
16 (“ECA”) tariff.

17 **Q. WHAT IS THE ACA PERIOD THAT IS ADDRESSED IN THIS TESTIMONY?**

1 A. The historical ACA period discussed in this testimony refers to the twelve month period
2 November 1, 2017 through October 31, 2018 (“ACA period”). This testimony will also
3 discuss the ECA projection for calendar year 2019.

4 **BACKGROUND**

5 **Q. PLEASE PROVIDE A GENERAL BACKGROUND OF THE FILING AND WHY**
6 **IT IS BEING MADE AT THIS TIME.**

7 A. On October 4, 2005, Empire and the Staff of the Commission ("Staff") reached a
8 settlement agreement in Docket No. 05-EPDE-980-RTS ("980 Docket"). One of the
9 specific terms of the agreement reached with the Staff involved the implementation of an
10 ECA for Empire’s Kansas retail customers. Part of the terms of the ECA tariff approved
11 by the Commission requires Empire to file an annual “true-up” of its Kansas energy
12 costs. In this particular instance, Empire and Staff reached an agreement to make this
13 annual ECA true-up as a formal application for approval with the Commission.

14 **Q. PLEASE DESCRIBE EMPIRE’S ELECTRIC OPERATIONS.**

15 A. Empire operates an integrated electric system that covers portions of four separate states,
16 Kansas, Missouri, Oklahoma and Arkansas. Empire provides electric service in an area
17 of approximately 10,000 square miles in the southwest corner of Missouri and the
18 adjacent corners of Kansas, Oklahoma, and Arkansas. Empire's operations are regulated
19 by the utility regulatory commissions of these four states as well as the Federal Energy
20 Regulatory Commission (“FERC”). The service area contains 119 incorporated
21 communities in 21 counties in the four-state area.

1 **Q. PLEASE BRIEFLY DESCRIBE THE SOUTHWEST POWER POOL**
2 **INTEGRATED MARKETPLACE (“SPP IM”).**

3 A. The SPP IM is a full-scale energy market consisting of a day-ahead market, real-time
4 balancing market and transmission congestion market. The SPP IM was active during
5 the entire ACA period. Within the SPP IM, SPP not only commits and dispatches
6 generation to serve load, but also acts as a consolidated balancing authority in order
7 to effectively operate a market-based reserve market. The expected result of the SPP
8 IM is a more efficient commitment and dispatch of regional generation and operating
9 reserves across the SPP footprint, resulting in anticipated shared savings among pool
10 members. Company Witness Aaron Doll will further discuss

11 **Q. WERE THE ATTACHMENTS TO THE ACA APPLICATION PREPARED BY**
12 **YOU OR PREPARED UNDER YOUR DIRECT SUPERVISION?**

13 A. Yes. These attachments were prepared under my direct supervision.

14 **Q. PLEASE DESCRIBE THE ATTCHAMENTS?**

15 A. The attachments to the ACA application support the ACA and display the actual energy
16 costs incurred by Empire during the ACA period beginning November 1, 2017 through
17 October 31, 2018, as well as the actual ECA revenue billed to the Kansas retail
18 customers during the ACA true-up period to arrive at the (over)/under ACA recovery
19 balance. In addition, the attached schedules also display a monthly energy cost
20 forecast for calendar year 2019 as required by Empire’s ECA tariff. This monthly
21 forecast of 2019 energy costs was developed using a production cost model that is
22 discussed in Company Witness Aaron Doll’s testimony. This forecast included the

1 exclusion of the effect of the financial instruments Empire had in place to hedge the
2 price of natural gas for calendar year 2019 as required by the settlement approved by the
3 Commission in the 712 Docket.

4 **Q. DID EMPIRE CONSIDER THE SPP IM IN ITS 2019 ECA FORECAST?**

5 A. Yes. Empire utilized a production cost model to simulate a market approach for this
6 Kansas ECA forecast. The production cost model yields a forecast of the monthly
7 resource generation and fuel requirements at each of the Company's power plants. It
8 also provides a forecast of the monthly resource generation and costs associated with
9 purchased power agreements. This generation from Empire resources is sold into the
10 SPP IM. Monthly revenue from those sales and native load costs from market purchases
11 are also products of the production cost model in order to arrive at a monthly net fuel
12 and purchase power figure.

13 **Q. PLEASE EXPLAIN HOW THE SPP IM HAS CHANGED THE OFF-SYSTEM**
14 **PROFIT FACTOR IN THE CALCUALTION OF THE KANSAS ECA?**

15 A. As discussed by Company Witness Aaron Doll, the Company's entrance into the SPP
16 IM has changed the way Empire does business. Within the SPP IM, Empire purchases
17 its native load requirement from the market and sells energy from its generating
18 resources into the market, and as such, the off-system gross profit factor has become
19 obsolete going forward.

20 With the SPP IM, any bilateral deals or import/export deals with counterparties will
21 flow through the annual cost adjustment ("ACA") calculation rather than the off-system
22 profit factor. Thus, there is a balance of about \$0 of off-system sales gross profit that

1 needs to be incorporated into the ACA factor for calendar year 2018. This has been
2 done on Attachment A, Schedule 2. As indicated the energy cost under recovery of
3 \$746,482 and the excess recovery of off-system sales gross profit of \$0 have been
4 combined to arrive at an ACA factor of \$0.00318/Kwh for calendar year 2019 as filed.
5 This ACA factor is designed to remain constant for each month of calendar year 2019.

6 **Q. WHAT WAS THE (OVER)/UNDER RECOVERY BALANCE AT THE END OF**
7 **OCTOBER 2018 AS FILED?**

8 A. As reflected on Attachment A, Schedule 2, there was an under recovery at October 31,
9 2018 of \$746,482. The overall ACA balance has been adjusted to reflect the exclusion
10 of the gains/losses associated with the financial instruments used to hedge natural gas
11 purchases during the ACA period and the gains/losses associated with any sale of excess
12 natural gas.

13 **Q. HOW DID THE INITIAL 2018 FORECAST OF KANSAS ECA ENERGY COSTS**
14 **COMPARE TO THE ACTUAL KANSAS ECA ENERGY COSTS FOR THE**
15 **CURRENT ACA PERIOD?**

16 A. The actual Kansas ECA average energy cost, including the natural gas transportation, for
17 the twelve-months ending October 31, 2018 were lower than those originally forecast in
18 the last ACA filing prepared roughly a year ago. The average energy cost was originally
19 forecast as \$25.21 per Mwh. The actual energy costs came in at \$22.84 per Mwh, \$2.37
20 per Mwh, or about 9.4% lower than the original forecast. In terms of overall eligible
21 energy costs for Empire's Kansas jurisdiction, the ACA period energy costs were \$5.4
22 million versus a budget of \$5.6 million.

1 **Q. IF THE ACTUAL ENERGY COSTS ENDED UP BEING BELOW THE**
2 **BUDGETED ENERGY COST WHY IS THERE AN UNDER-RECOVERY OF**
3 **NEARLY \$750,000?**

4 A. The under-recovery is primarily due to a billing system error that occurred in 2018 that
5 incorrectly billed the under-recovery from the prior year as an over-recovery. Empire is
6 in the process of developing a quality assurance process to avoid this billing error from
7 occurring in the future.

8 **Q. PLEASE DESCRIBE THE FORECAST OF ECA FACTORS FOR THE**
9 **UPCOMING CALENDAR YEAR OF 2019.**

10 A. Attachment A, Schedule 1 of the ACA filing, reflects the forecast of the ECA factor for
11 each month for calendar year 2019. This forecast combines the results of the
12 (over)/under recovery of eligible energy costs and the Kansas ECA forecast of 2019 fuel
13 and energy costs to arrive at a monthly forecast of 2019 Kansas ECA factors. As
14 indicated, these factors range from a high of \$0.03012 in August of 2019 to a low of
15 \$0.02303 in May of 2019. The forecast of energy costs for 2019 also incorporates
16 Empire's current estimate of fuel prices excluding the impact of the financial
17 instruments used to hedge Empire's natural gas requirements for calendar year 2019 and
18 the inclusion of the cost of air quality control consumables.

19 **CONCLUSION**

20 **Q. DO THE ENERGY COSTS REFLECTED IN THE EMPIRE ACA,**
21 **CONSTITUTE A FAIR, REASONABLE AND EFFECTIVE METHOD OF**

1 **PROCURING THE FUEL AND ENERGY REQUIREMENTS FOR THE**
2 **COMPANY AND EMPIRE’S KANSAS ELECTRIC CUSTOMERS?**

3 A. Yes. The calculation of the ACA has been made in accordance with the Empire ECA
4 tariff authorized by the Commission. It also reflects the actual results of a reasonable
5 and effective management policy related to the operation of Empire’s generating units
6 and a structured approach to the acquisition of fuel for the generating units that has been
7 in place for a number of years. The fuel acquired for the units was acquired in the
8 competitive marketplace under competitive conditions. I believe approval of the ACA
9 factor proposed by Empire for calendar year 2019 in its entirety is reasonable, prudent
10 and in the public interest and would urge such action by the Commission.

11 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

12 A. Yes it does.

AFFIDAVIT OF JILL SCHWARTZ

STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

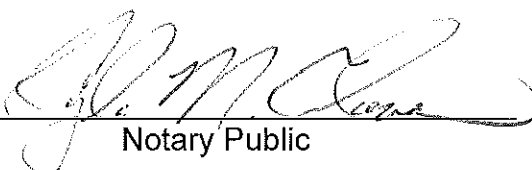
On the 25th day of January 2019, before me appeared Jill Schwartz, to me personally known, who, being by me first duly sworn, states that she is Senior Manager of Rates and Regulatory Affairs of The Empire District Electric Company – Liberty Utilities Central and acknowledges that she has read the above and foregoing document and believes that the statements therein are true and correct to the best of her information, knowledge and belief.



Jill Schwartz

Subscribed and sworn to before me this 25th day of January, 2019.

ANGELA M. CLOVEN
Notary Public - Notary Seal
State of Missouri
Commissioned for Jasper County
My Commission Expires: November 01, 2019
Commission Number: 15262659



Notary Public

My commission expires: 11/01/19.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the Direct Testimony of Jill Schwartz was sent via electronic mail, this 31st day of January, 2019, addressed to:

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