

Exhibit No.
Issue: Annual ECA-ACA Filing
Witness: Charlotte T. Emery
Type of Exhibit: Direct Testimony
Sponsoring Party: Empire District Electric
Docket No. 22-EPDE-261-ACA
Date Testimony Prepared: January 2022

Before the Kansas Corporation Commission

Direct Testimony

Of

Charlotte T. Emery

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

January 2022



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OF
CHARLOTTE T. EMERY
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
KANSAS CORPORATION COMMISSION
DOCKET NO. 22-EPDE-261-ACA

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1 **I. INTRODUCTION**

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

3 A. My name is Charlotte T. Emery, and my business address is 602 South Joplin Avenue, in Joplin,
4 Missouri.

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

6 A. My employer is Liberty Utilities Services Corp., and I serve as the Director of Rates
7 and Regulatory Affairs for Liberty's Central Region, which includes The Empire
8 District Electric Company ("Empire" or "Company").

9 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
10 **BACKGROUND.**

11 A. I graduated from College of the Ozarks, Point Lookout, Missouri, in 2000 with a
12 Bachelor of Science degree with a major in Accounting. I have been a Certified Public
13 Accountant ("CPA") in the State of Missouri since 2006. I was hired by Empire in July
14 2016 as a Rates Analyst and promoted to my current position as the Director of Rates
15 and Regulatory Affairs in 2021. Prior to joining the Company, I worked for six years
16 in the regulated insurance industry in Springfield, Missouri as a Director of
17 Accounting. In addition, I have nine years of public accounting experience working for
18 both a national and "Big Four" accounting firm. My primary roles at these

1 organizations included serving as a supervisor for financial statement audits and a tax
2 consultant.

3 **Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE THE**
4 **KANSAS CORPORATION COMMISSION (“COMMISSION”) OR ANY**
5 **OTHER STATE REGULATORY COMMISSION?**

6 A. Yes. I have testified on behalf of Empire before the Kansas Corporation Commission
7 as well as the Missouri Public Service Commission, the Arkansas Public Service
8 Commission, and the Oklahoma Corporation Commission. The case references are
9 attached to this testimony as **Schedule CTE-1**.

10 **II. PURPOSE**

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

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

15 **Q. WHAT IS THE ACA PERIOD THAT IS ADDRESSED IN YOUR**
16 **TESTIMONY?**

17 A. The historical ACA period discussed in my testimony is the twelve-month period
18 November 1, 2020 through October 31, 2021 (“ACA period”). I also discuss the ECA
19 projection for calendar year 2022.

20 **III. BACKGROUND**

21
22 **Q. PLEASE PROVIDE A GENERAL BACKGROUND OF THE FILING AND**
23 **WHY IT IS BEING MADE AT THIS TIME.**

1 A. On October 4, 2005, Empire and the Staff of the Commission ("Staff") reached a
2 settlement agreement in Docket No. 05-EPDE-980-RTS ("980 Docket"). One of the
3 specific terms of the agreement reached with Staff involved the implementation of an
4 ECA for Empire's Kansas retail customers. Part of the terms of the ECA tariff
5 approved by the Commission requires Empire to file an annual "true-up" of its Kansas
6 energy costs. In this instance, Empire and Staff reached an agreement to make this
7 annual ECA true-up as a formal application for approval with the Commission.

8 **Q. PLEASE DESCRIBE EMPIRE'S ELECTRIC OPERATIONS.**

9 A. Empire operates an integrated electric system that covers portions of four states,
10 Kansas, Missouri, Oklahoma, and Arkansas. Empire provides electric service in an
11 area of approximately 10,000 square miles in the southeast corner of Kansas and the
12 adjacent corners of Missouri, Oklahoma, and Arkansas. Empire's operations are
13 regulated by the utility regulatory commissions of these four states as well as the
14 Federal Energy Regulatory Commission ("FERC"). The service area contains 133
15 incorporated communities in 26 counties in the four-state area.

16 **Q. PLEASE BRIEFLY DESCRIBE THE SOUTHWEST POWER POOL**
17 **INTEGRATED MARKETPLACE ("SPP IM").**

18 A. The SPP IM is a full-scale energy market consisting of a day-ahead market, real-time
19 balancing market and transmission congestion market. The SPP IM was active during
20 the entire ACA period. Within the SPP IM, SPP not only commits and dispatches
21 generation to serve load, but also acts as a consolidated balancing authority in order to
22 effectively operate a market-based reserve market. The expected result of the SPP IM

1 is a more efficient commitment and dispatch of regional generation and operating
2 reserves across the SPP footprint, resulting in anticipated shared savings among pool
3 members. Company Witness Todd Tarter discusses the operations of the SPP in greater
4 detail.

5 **IV. ACA APPLICATION**

6
7 **Q. WERE THE ATTACHMENTS TO THE ACA APPLICATION PREPARED BY**
8 **YOU OR PREPARED UNDER YOUR DIRECT SUPERVISION?**

9 A. Yes.

10 **Q. PLEASE DESCRIBE THE ATTACHMENTS?**

11 A. The attachments to the ACA application support the ACA and display the actual energy
12 costs incurred by Empire during the ACA period ending October 31, 2021, as well as
13 the actual ECA revenue billed to our Kansas retail customers during the ACA true-up
14 period to arrive at the (over)/under ACA recovery period. In addition, the attached
15 schedules display a monthly energy cost forecast for calendar year 2022 as required by
16 Empire's ECA tariff. This monthly forecast of 2022 energy costs were developed using
17 a production cost model that is discussed in Company witness Todd Tarter's testimony.
18 As required by the settlement approved by the Commission in the 712 Docket, this
19 forecast excludes the effect of the financial instruments Empire had in place to hedge
20 the price of natural gas for calendar year 2022.

21 **Q. DID EMPIRE CONSIDER THE SPP IM IN ARRIVING AT ITS 2022 ECA**
22 **FORECAST?**

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

9 **Q. PLEASE EXPLAIN HOW THE SPP IM HAS CHANGED THE OFF-SYSTEM**
10 **PROFIT FACTOR IN THE CALCULATION OF THE KANSAS ECA?**

11 A. As discussed by Company witness Todd Tarter, the Company's entrance into the SPP
12 IM has changed the way Empire does business. Within the SPP IM Empire purchases
13 100 percent of its native load requirement from the market and sells energy from its
14 generating resources into the market, and as such, the off-system gross profit factor has
15 become obsolete going forward.

16 With the SPP IM, any bilateral deals or import/export deals with counterparties
17 will flow through the ACA calculation rather than the off-system profit factor. Thus,
18 there is no balance for off-system sales profit that needs to be incorporated into the
19 ACA factor for calendar year 2022. This is reflected on Attachment A, Schedule 2. As
20 indicated, the energy cost under-recovery of \$840,790 has been used to arrive at an
21 ACA factor of \$0.00362 per kWh for calendar year 2022. This ACA factor is designed
22 to remain constant for each month of calendar year 2022.

1 **Q. PLEASE EXPLAIN THE CHANGE IN THE ACA FACTOR WHEN**
2 **COMPARED TO THE 2021 ACA FACTOR.**

3 **A.** For the 2022 ECA year, the ACA recovery factor increased from an under-recovery
4 factor of \$0.00046 per kWh in 2021 to an under-recovery factor of \$0.00362 per kWh.
5 From roughly late 2020 through much of 2021, natural gas spot prices have generally
6 increased over the level they were at previously, which is the primary contributor to
7 the continued under-recovery of the ACA recovery factor. In general, natural gas prices
8 are volatile and have generally increased since the last update. The natural gas price is
9 a very important input for calculating the ACA recovery factor.

10 **Q. WERE THERE ANY PRIOR PERIOD OR CURRENT PERIOD**
11 **ADJUSTMENTS MADE?**

12 **A.** Yes. Empire made an adjustment related to extraordinary fuel costs that was a result
13 of winter Storm Uri which is further addressed in Company Witness Todd Tarter's
14 testimony. The recovery of these costs will be discussed in a separate docket which
15 has been opened by the Commission on the matter. The Kansas extraordinary
16 adjustment amount removed from the calculation totals \$11,257,535. Refer to
17 Attachment A Schedule 2 and Schedule 3 for more specifics.

18 **Q. WHAT WAS THE (OVER)/UNDER RECOVERY BALANCE AT THE END OF**
19 **OCTOBER 2021 AS FILED?**

20 **A.** As reflected on Attachment A, Schedule 2, there was an under-recovery at October 31,
21 2021 of \$840,790. The overall ACA balance has been adjusted to reflect the exclusion
22 of the gains/losses associated with the financial instruments used to hedge natural gas

1 purchases during the ACA period and the gains/losses associated with any sale of
2 excess natural gas.

3 **Q. HOW DID THE INITIAL 2021 FORECAST OF KANSAS ECA ENERGY**
4 **COSTS COMPARE TO THE ACTUAL KANSAS ECA ENERGY COSTS FOR**
5 **THE CURRENT ACA PERIOD IF THE FUEL IMPACT OF STORM URI IS**
6 **REMOVED?**

7 A. When removing the impacts on fuel of Storm Uri the actual Kansas ECA average
8 energy costs, including the natural gas transportation, for the twelve-months ending
9 October 31, 2021 were higher than those originally forecast in the last ACA filing
10 prepared roughly a year ago. The average energy cost was originally forecast as \$22.22
11 per Mega-Watthour (“MWh”). The actual energy costs came in at \$29.41 per MWh,
12 or about 32% higher than the original forecast. In terms of overall eligible energy costs
13 for Empire’s Kansas jurisdiction, the ACA period energy costs were \$6.9 million
14 versus a budget of \$4.9 million.

15 **Q. PLEASE DESCRIBE THE FORECAST OF ECA FACTORS FOR THE**
16 **UPCOMING CALENDAR YEAR OF 2022.**

17 A. Attachment A, Schedule 1 of the ACA filing, reflects the forecast of the ECA factor
18 for each month for calendar year 2022. This forecast combines the results for the
19 (over)/under recovery of eligible energy costs and the Kansas ECA forecast of 2022
20 fuel and energy costs to arrive at a monthly forecast of 2022 Kansas ECA factors. As
21 indicated, these factors range from a high of \$0.03778 in April of 2022 to a low of
22 \$0.01868 in November of 2022. The forecast of energy costs for 2021 also incorporates

1 Empire's current estimate of fuel prices excluding the impact of the financial
2 instruments used to hedge Empire's natural gas requirements for calendar year 2022.

3 **V. CONCLUSION**

4 **Q. DO THE ENERGY COSTS REFLECTED IN THE EMPIRE ACA**
5 **CONSTITUTE A FAIR, REASONABLE AND EFFECTIVE METHOD OF**
6 **PROCURING THE FUEL AND ENERGY REQUIREMENTS FOR THE**
7 **COMPANY AND EMPIRE'S KANSAS ELECTRIC CUSTOMERS?**

8 A. Yes. The calculation of the ACA has been made in accordance with the Empire ACA
9 tariff authorized by the Commission. It also reflects the actual results of a reasonable
10 and effective management policy related to the operation of Empire's generating units
11 and a structured approach to the acquisition of fuel for the generating units that has
12 been in place for several years. The fuel acquired for the units was acquired in the
13 competitive marketplace under competitive conditions. I believe approval of the ACA
14 factor proposed by Empire for calendar 2022 in its entirety is reasonable, prudent and
15 in the public interest and recommend approval by the Commission.

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

17 A. Yes, it does.

Jurisdiction	Type	Docket No.	Docket Description
MO	Testimony	GR-2018-0013	In the Matter of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities' Tariff Revisions Designed to Implement a General Rate Increase for Natural Gas Service in the Missouri Service Areas of the Company
MO	Affidavit	EO-2018-0092	Affidavit in Support of Non-Unanimous Stipulation and Agreement In the Matter of the Application of the Empire District Electric Company for Approval of Its Customer Savings Plan
AR	Testimony	18-006-U	In the matter of an Investigation of The Effect on Revenue Requirements Resulting From Changes to Corporate Income Tax Rates Under the Tax Cuts and Jobs Act of 2017
AR	Testimony	16-053-U	In the matter of The Empire District Electric Company's Request for approval of its proposed Riverton Rider
KS	Testimony	18-GIMX-248-GIV	In the Matter of a General Investigation Regarding the Effect of Federal Income Tax Reform on the Revenue Requirements of Kansas Public Utilities and Request to Issue an Accounting Authority Order Requiring Certain Regulated Public Utilities to Defer Effects of Tax Reform to a Deferred Revenue Account
AR	Testimony	81-071-F	In the Matter of the determination of the rules regulating the rate and service of cogenerators and small power producers
AR	Testimony	18-055-TF	In the Matter of The Empire District Electric Company Request for Approval of a Tax Adjustment Rider to Provide Tax Benefits to its Retail Customers
AR	Testimony	18-054-TF	In the Matter of Liberty Utilities (Pine Bluff Water) Inc. Request for Approval of a Tax Adjustment Rider to Provide Tax Benefits to its Retail Customers
MO	Testimony	ER-2018-0366	In the Matter of a Proceeding Under Section 393.137 (SB 564) to Adjust the Electric Rates of The Empire District Electric Company
OK	Testimony	PUD 201800087	Application of Brandy L. Wreath, Director of the Public Utility Division, Oklahoma Corporation Commission, For a Public Hearing To Review and Monitor Application of the Fuel Adjustment Clause of Empire District Electric Company, a Kansas Corporation, for the Calendar Year 2017 and, For a Prudence Review of the Fuel Procurement Processes and Costs of Empire District Electric Company, A Kansas Corporation, for the Calendar Year 2017
KS	Testimony	19-EPDE-223-RTS	In the Matter of the Application of The Empire District Electric Company for Approval of the Commission to Make Changes in Charges for Electric Service
MO	Testimony	ER-2020-0093; EO-2020-0094	Fuel Adjustment Clause- October 1, 2019 Semi-Annual Update
MO	Testimony	ER-2020-0311; EO-2020-0312	Fuel Adjustment Clause- April 1, 2020 Semi-Annual Update
MO	Testimony	ER-2021-0097; EO-2021-0098	Fuel Adjustment Clause- October 1, 2020 Semi-Annual Update
MO	Testimony	ER-2021-0332; EO-2021-0333	Fuel Adjustment Clause- April 1, 2021 Semi-Annual Update
MO	Testimony	ER-2021-0312	In the Matter of the Request of The Empire District Company d/b/a Liberty for Authority to File Tariffs Increasing Rates for Electric Service Provided to Customers in its Missouri Service Area
MO	Testimony	ER-2022-0095; EO-2022-0096	Fuel Adjustment Clause- October 1, 2021 Semi-Annual Update

CERTIFICATE OF SERVICE

I hereby certify that a copy of the above and foregoing was sent via electronic mail, this 26th day of January, 2022, addressed to:

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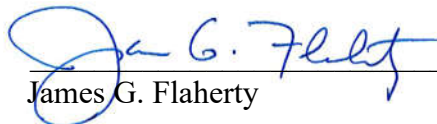
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