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Docket No.: 19-EPDE-223-RTS
Date: December 2018

Before the Kansas Corporation Commission

Direct Testimony

Of

Blake A. Mertens

December 2018



DIRECT TESTIMONY
OF
BLAKE A. MERTENS
ON BEHALF OF
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
KANSAS CORPORATION COMMISSION
DOCKET NO. 19-EPDE-___-RTS

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1 **I. INTRODUCTION**

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

3 A. Blake A. Mertens. My business address is 602 South Joplin Avenue, Joplin,
4 Missouri.

5 **Q. WHO IS YOUR EMPLOYER AND WHAT POSITION DO YOU HOLD?**

6 A. I am employed by Liberty Utilities Service Corp. as the Vice President of Electric
7 Operations for the Liberty Utilities Central Region. My responsibilities include
8 power plant operations, fuel supplies, energy procurement and marketing, and
9 energy supply services. I am also responsible for engineering and commercial
10 operations and am accountable for the proper budgeting and accounting of capital,
11 operating, and maintenance expenses for The Empire District Electric Company's
12 ("Empire" or "Company") generation, transmission and distribution assets, both
13 individually- and jointly-owned.

14 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

15 A. I am testifying on behalf of Empire.

16 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
17 **BACKGROUND.**

1 A. I graduated from Kansas State University in 2000 with a Bachelor of Science
2 Degree in Chemical Engineering and a minor in Business. I received a Masters
3 Degree in Business Administration from Missouri State University in December
4 2007. I am also a professionally licensed engineer in the state of Kansas. After
5 graduating from Kansas State University I was hired by Black & Veatch Corp.
6 From June 2000 through November 2001, I held roles of technical analyst and
7 energy consultant for the Strategic Planning Group of Black & Veatch's Power
8 Sector Advisory Services in the Energy Services Division. My duties included
9 assisting in power plant siting studies, economic analysis of potential power
10 plants using production cost modeling, independent engineering evaluations of
11 plant assets, and market analysis of the California energy crisis of 2000 – 2001.
12 In November 2001, I went to work for Empire as a Staff Engineer in Energy
13 Supply where my duties included tracking of plant capital and operating &
14 maintenance ("O&M") expenses, involvement in energy supply regulatory issues,
15 evaluation of new generating resource options, assisting in the construction of
16 new plant, and assisting in the modeling and tracking of fuel and purchased power
17 costs. In 2003, my title was changed to Planning Engineer and I assumed more
18 responsibilities in the area of generation planning. In the fall of 2004, I accepted
19 a position as Combustion Turbine Construction Project Manager where I was
20 responsible for the construction and commissioning of a 150 megawatt ("MW")
21 combustion turbine at Empire's Riverton Power Plant known as Riverton Unit 12.
22 In the fall of 2006, I became the Manager of Strategic Projects, responsible for the
23 management of new generation and major projects for Energy Supply facilities

1 which included representing Empire's interests at the Iatan, Plum Point and other
2 off-system generation facilities. In January of 2010, my duties were expanded to
3 oversee Empire's environmental and safety departments and my title was likewise
4 changed to Director of Strategic Projects, Safety, and Environmental Services. In
5 April of 2011, I was promoted to Vice President, Energy Supply, responsible for
6 power plant operations, fuel supplies, energy procurement and marketing, and
7 energy supply services. In May 2014, I was named the Vice-President of Energy
8 Supply and Delivery Operations. Finally, in January 2017 I was named Vice
9 President of Electric Operations.

10 **Q. HAVE YOU PREVIOUSLY TESTIFIED IN A PROCEEDING BEFORE**
11 **THE KANSAS CORPORATION COMMISSION (“KCC” or**
12 **“COMMISSION”) OR BEFORE ANY OTHER UTILITY REGULATORY**
13 **AGENCY?**

14 A. Yes. I have testified before this Commission and other regulatory commissions,
15 including in Empire's last rate case filed in Kansas (Docket No. 17-EPDE-101-
16 RTS).

17 **II. PURPOSE OF TESTIMONY**

18 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

19 A. The purpose of my testimony is to give a brief description of the Company, to
20 provide a brief overview of the case and reasons for filing a rate case, and to
21 introduce the additional witnesses providing direct testimony on behalf of the
22 Company. First, I will provide background on Empire's electric operations,
23 including the areas we serve, both in Kansas and in surrounding jurisdictions.

1 Second, I will provide an overview of the Company's request in this case,
2 including the estimated impact to Empire's customers in Kansas and the drivers of
3 the revenue increase request. I will also outline the Company's request to recover
4 future capital investments while minimizing the level of expense incurred to
5 process a general rate case. And, finally, I will introduce the additional witnesses
6 providing direct testimony on behalf of the Company in this case.

7

8 **III. DESCRIPTION OF THE COMPANY AND EMPIRE'S ELECTRIC**
9 **OPERATIONS**

10 **Q. PLEASE PROVIDE A BRIEF BACKGROUND ON THE COMPANY'S**
11 **ELECTRIC OPERATIONS AND ITS CORPORATE STRUCTURE.**

12 A. Empire is a Kansas corporation with its principal office and place of business at
13 602 South Joplin Avenue, Joplin, Missouri, 64801. Empire is engaged in the
14 business of providing electrical utility services in Missouri, Kansas, Arkansas,
15 and Oklahoma.

16 Empire's ultimate corporate parent, Algonquin Power and Utilities Corp.
17 ("Algonquin"), is a Canadian corporation whose stock is traded on the Toronto
18 and New York Stock Exchanges. Algonquin has two business units: (a) a utility
19 services unit that owns and provides retail water, sewer, electric and natural gas
20 service to nearly 800,000 combined customers across 12 states, and; (b) a power
21 generation unit that owns or has interests in renewable energy facilities and
22 thermal energy facilities representing more than 1100 MW of installed capacity.

1 The Company's corporate structure was thoroughly set forth and discussed in
2 Docket No. 16-EPDE-410-ACQ ("410 Docket").

3 **Q. PLEASE DESCRIBE THE AREA SERVED BY EMPIRE.**

4 A. Empire provides electric service in an area of approximately 10,000 square miles
5 in southwest Missouri and the adjacent corners of the states of Kansas, Oklahoma,
6 and Arkansas. Empire's operations are regulated by the utility regulatory
7 commissions of these four states, as well as by the Federal Energy Regulatory
8 Commission ("FERC"). Empire's service area embraces 119 incorporated
9 communities in 21 counties in the four-state area. Most of the communities in
10 Empire's service area are small, with only 32 containing a population in excess of
11 1,500. Only 10 communities have a population in excess of 5,000, and the largest
12 city, Joplin, Missouri, has a population of approximately 50,000. The economy in
13 our service area is diversified. The service territory features small to medium
14 manufacturing operations, medical, agricultural, entertainment, tourism, and retail
15 interests.

16 **Q. HOW MANY ELECTRIC CUSTOMERS DOES EMPIRE CURRENTLY**
17 **SERVE?**

18 A. At June 30, 2018, Empire served approximately 145,600 residential customers,
19 24,787 commercial customers, 351 industrial customers, 2,111 public authority
20 and street and highway customers, and four wholesale customers. As of June 30,
21 2018, in Kansas, Empire served approximately 8,173 residential customers, 1,294
22 commercial customers, 151 industrial customers, 52 public authority and street
23 and highway customers, and one resale customer.

1 **Q. HOW HAS THE ACQUISITION OF EMPIRE BY LIBERTY UTILITIES**
2 **AFFECTED EMPIRE’S OPERATIONS?**

3 A. As a key corporate officer/executive during the transition from Empire to Liberty
4 Utilities, I consider the transition to have been very successful and seamless. I am
5 not aware of any regulatory complaints filed by customers as a result of the
6 acquisition and as Mr. Baker explains in his Direct Testimony, the Company’s
7 reliability has improved post-acquisition.

8 **IV. RATE CASE OVERVIEW**

9 **Q. PLEASE PROVIDE A BREIF OVERVIEW OF EMPIRE’S LAST**
10 **GENERAL RATE PROCEEDING(S) FILED BEFORE THE KCC.**

11 A. Empire’s last general rate case was filed on September 16, 2016, prior to the
12 acquisition by Liberty Utilities. Empire requested an overall increase in its
13 Kansas electric retail rates of \$6.4 million, approximately 26%. However, as part
14 of the Unanimous Settlement Agreement approved by the Commission in the 410
15 Docket¹, Empire agreed it would not change its base rates, which went into effect
16 on January 1, 2012, for a period of seven years (2012-2018).

17 **Q. DID THE UNANIMOUS SETTLEMENT AGREEMENT APPROVED IN**
18 **THE ACQUISITION DOCKET ELIMINATE EMPIRE’S NEED FOR AN**
19 **INCREASE IN RETAIL RATES?**

20 A. Not entirely. While the Unanimous Settlement Agreement did not allow the
21 Company to increase its base rates during the prescribed time period, it did allow
22 the Company to request a modification to its surcharge for the Asbury plant

¹ Joint Motion for Commission Approval of Unanimous Settlement Agreement, 16-EPDE-410-ACQ, October 6, 2016, ¶ 24.

1 environmental upgrades² to include the Riverton 12 revenue requirement increase,
2 including a return on and of its Riverton 12 plant investments.

3 **Q. DID THE COMPANY REQUEST A MODIFICATION OF ITS**
4 **SURCHARGE TO INCLUDE THE REVENUE REQUIREMENT**
5 **INCREASE FOR ITS INVESTMENTS IN RIVERTON 12?**

6 A. Yes. On June 29, 2017 the Commission approved Empire's Asbury
7 Environmental and Riverton Cost Recovery (AERR) rider to recover
8 approximately \$1.7 million annually from Kansas retail customers.

9 **Q. WHAT IS THE AMOUNT OF THE REVENUE INCREASE EMPIRE IS**
10 **REQUESTING IN THIS PROCEEDING?**

11 A. In this proceeding, Empire is seeking to increase rates by approximately \$4.9
12 million, inclusive of moving the \$2.4 million in revenues currently recovered
13 through the AERR Rider and Ad Valorem Tax Surcharge ("AVTS") into base
14 rates and discontinuing the AERR Rider and setting the AVTS to zero. The net
15 new increase in base rates is \$0.8 million. In addition, Empire is requesting
16 permission to remove all transmission related costs and revenues from base rates
17 and place them into a Transmission Delivery Charge ("TDC") Rider as permitted
18 under Kansas law. The total amount of revenue requirement assigned to the TDC
19 Rider is \$3.2 million, which is comprised of \$1.5 million in transmission related
20 revenue requirement that is currently recovered in base rates and being moved to
21 the TDC Rider and \$1.7 million in new transmission related revenue requirement
22 to cover transmission related costs and expenses that are not currently being

² Established in Docket No. 15-EPDE-233-TAR

1 recovered in base rates. The incremental increase in total revenue requirement is
2 \$2.5 million (\$1.7 million for new transmission related investments, plus \$0.8
3 million for the net new increase in base rate revenues).

4 **Q. WHAT INCREMENTAL IMPACT WOULD THE PROPOSED INCREASE**
5 **HAVE ON EMPIRE’S CUSTOMERS IN KANSAS?**

6 A. If the Commission approves Empire’s request, the average residential customer in
7 Kansas would see an increase of approximately \$19.99 per month on their electric
8 bill. Empire understands this is a significant increase for our customers even
9 given the fact that their base rates will not have increased in over seven years.
10 However, the increase sought in this case is necessary to allow us to continue to
11 provide reliable electric service to our customers.

12 **Q. WHY IS THE COMPANY’S REQUESTED REVENUE INCREASE IN**
13 **THIS 2018 CASE LOWER THAN THE REQUEST IN THE 2016 CASE?**

14 A. The decrease in the revenue deficiency requested in this case compared to the
15 2016 case can be attributed to the impact of the Tax Cuts and Jobs Act on the
16 revenue requirement.

17 **Q. WHAT GENERAL FACTORS ARE INFLUENCING THE NEED FOR**
18 **THIS RATE CASE FILING?**

19 A. There are many reasons why the Company is in need of an increase in its Kansas
20 retail electric rates. First, as I mentioned earlier in my testimony, the Company’s
21 current base rates were established in a 2011 rate case and went into effect on
22 January 1, 2012, nearly seven years ago. Since that time, Empire has made
23 significant investments in its generation, transmission, and distribution systems to

1 provide service to its customers. In addition to increased capital investments, the
2 Company is not immune to normal and inflationary increases in operating costs.
3 Such investments and expenses need to be reflected in rates if Empire is to have a
4 reasonable opportunity to recover its prudently incurred costs and an opportunity
5 to earn a reasonable return on its investments.

6 Also included in this case, the Company is requesting to roll the AERR
7 rider into its base rates and thereby eliminate the AERR surcharge currently billed
8 to customers in Kansas. And finally, as agreed to in the Settlement Agreement
9 filed in Docket No. 18-GIMX-248-GIV and approved by the KCC on July 12,
10 2018, Empire's rate case includes the regulatory liabilities established relating to
11 the Tax Cuts and Jobs Act.

12 **Q. WHAT CAPITAL INVESTMENTS HAS EMPIRE MADE SINCE ITS**
13 **CURRENT BASE RATES WERE LAST SET IN 2012?**

14 A. Since the Company's 2011 rate case, it has invested approximately \$317 million
15 in its generation fleet, largely related to its environmental upgrades at its Asbury
16 plant and the construction of its Riverton 12 unit. The Company has also invested
17 over \$566 million in its transmission, distribution system, other general plant, and
18 intangible plant since 2011.

19 **Q. IN THE COMPANY'S PROPOSED CUSTOMER SAVINGS PLAN**
20 **("CSP") (DOCKET NO. 18-EPDE-184-PRE) IT PROPOSED THE EARLY**
21 **RETIREMENT OF ASBURY. WHAT ARE EMPIRE'S CURRENT PLANS**
22 **FOR ASBURY?**

1 A. Although the Company ultimately withdrew its proposed CSP filing in Kansas, it
2 has continued to work with stakeholders in Missouri and seek approval from the
3 Missouri Public Service Commission (“MPSC”) to proceed with the acquisition
4 of 600 MW of wind generation. In its Report and Order³, the MPSC stated
5 “[r]etirement of Asbury is an issue the Commission could consider in future
6 integrated resource planning cases. However, the timing of such a retirement
7 could ultimately be a management decision for the utility, subject to review by the
8 Commission in a subsequent rate case.” Empire is currently preparing its triennial
9 integrated resource plan (“IRP”) which will be filed in Missouri in April 2019. In
10 its IRP, Empire is studying the economic feasibility of continuing to operate
11 Asbury in consideration of further environmental upgrades and investments that
12 will be required.

13 **Q. IF EMPIRE’S IRP SUPPORTS THE EARLY RETIREMENT OF ASBURY**
14 **WHY SHOULD KANSAS CUSTOMERS CONTINUE TO PAY FOR**
15 **ASSETS THAT ARE NO LONGER SERVING CUSTOMERS?**

16 A. As discussed in the direct testimony of Company Witness Tim Wilson, Empire
17 reasonably and prudently incurred costs to comply with Environmental Protection
18 Agency (“EPA”) rules on air quality. Although the investments made at Empire’s
19 Asbury plant would be retired and no longer be providing generation, the
20 Company had no choice but to make the investments in order to comply with EPA
21 standards. As stated above, Empire is currently studying the economics of
22 continuing to operate Asbury in its triennial IRP. If the analysis supports the

³ Report and Order, Case No. EO-2018-0092, issued July 11, 2018

1 early retirement of the Asbury plant, the Company's remaining net-book-value
2 should continue to be recovered from customers through retail rates.

3 **Q. DOES THE COMPANY'S CASE INCLUDE ANY OTHER REQUESTS?**

4 A. Yes. In addition to Empire's request for an increase in its Kansas retail revenue
5 requirement, the Company is also proposing regulatory reform mechanisms and a
6 cost recovery plan. Company Witness Aaron Doll presents the Company's
7 proposal for the TDC Rider for the recovery of Empire's transmission related
8 investments and expenses. In addition, Company Witness Timothy Lyons
9 presents the Company's proposal for a Revenue Stabilization Rider. Finally, the
10 Company proposes approval of a Capital Tracker Rider to allow it to recover the
11 cost of future capital improvements once those improvements are placed into
12 service on an interim basis and subject to refund until Empire's next rate case
13 similar to how the AERR worked.

14 With the approval of the TDC, the revenue stabilization mechanism, and a
15 Capital Tracker Rider, Empire will be able to more timely recover significant
16 capital investments and certain operating and maintenance expenses, while
17 dramatically limiting the amount of regulatory expense incurred to process more
18 frequent general rate cases for its relatively small number of customers.

19 **Q. WHAT CAPITAL INVESTMENTS DOES THE COMPANY PLAN TO
20 RECOVER THROUGH THE PROPOSED CAPITAL TRACKER RIDER
21 AND TDC RIDER?**

22 A. Empire has plans to invest over \$212 million in its existing generation fleet, and
23 over \$608 million in transmission and distribution projects between 2019 and

1 2024. Company Witnesses Tim Wilson and Jeff Westfall provide additional
2 information regarding these planned generation, transmission and distribution
3 investments.

4 **V. INTRODUCTION OF WITNESSES**

5 **Q. PLEASE IDENTIFY THE OTHER COMPANY WITNESSES**
6 **PRESENTING DIRECT TESTIMONY IN THIS RATE PROCEEDING.**

7 A. In addition to my testimony, Empire will present the direct testimony and
8 schedules of the following witnesses:

- 9 • **Brent Baker**, Vice President National Customer Experience Operations,
10 is presenting testimony regarding the Company's customer service
11 philosophy and initiatives, involvement in the local communities, and the
12 Company's satisfaction of certain performance metrics from the 410
13 Docket.
- 14 • **Tim Wilson**, Central Region Director of Electric Operations Services, is
15 sponsoring testimony to address Empire's investments in its generation
16 fleet, in particular the investments made to comply with EPA air quality
17 standards at its Asbury plant, investments made for the conversion of the
18 Riverton 12 unit to a combined cycle gas turbine, as well as its future
19 investments in Empire's existing generation fleet.
- 20 • **Jeff Westfall**, Central Region Director of Transmission and Distribution,
21 is presenting testimony to support the Company's capital investments to
22 its transmission and distribution system since the last rate case, notably its
23 investments in Operation Toughen-Up. In addition, Mr. Westfall will also

1 outline Empire’s planned future investments for the distribution system
2 that the Company proposes to recover through a Capital Tracker Rider and
3 future investments in the transmission system that the Company proposes
4 to recover through the TDC rider. Mr. Westfall will also address Empire’s
5 request to establish a light-emitting diode (“LED”) municipal street
6 lighting tariff and its request to establish a regulatory liability/asset to
7 track and recover/credit the cost relating to new LED street lighting in
8 Kansas.

- 9 • **Jill Schwartz**, Rates and Regulatory Affairs Senior Manager, is
10 presenting testimony to address the Company’s overall revenue
11 requirement. Additionally, Ms. Schwartz will outline the Company’s
12 proposed recovery for the regulatory liabilities established for the TCJA.
13 In addition to the above, Ms. Schwartz is sponsoring testimony to address
14 the Company’s compliance with the stipulations and agreements made in
15 the 410 Docket.
- 16 • **Aaron Doll**, Director of Electrical Procurement, is providing testimony to
17 in support of the Company’s request for the TDC rider.
- 18 • **Eric Fox**, Itron, is sponsoring testimony on behalf of the Company to
19 support the normalization of heating and cooling degree days experienced
20 by Empire.
- 21 • **Tom Sullivan**, Navillus Utility Consulting LLC, is presenting testimony
22 on behalf of Empire in support of the depreciation study conducted for the
23 Company and its proposed depreciation rates.

- 1 • **James Fallert**, James Fallert Consultant LLC, addresses the accounting
2 for Pension and Other Post-Employment Benefit (“OPEB”) expenses.
- 3 • **Keith Magee**, ScottMadden, Inc., is presenting testimony to address
4 Empire’s capital structure and rate of return.
- 5 • **Tim Lyons**, ScottMadden, Inc., sponsors and addresses the lead/lag study,
6 Revenue Stabilization Rider, Capital Tracker, class cost of service study
7 and resulting rate design proposals.
- 8 • **Robert Hevert**, ScottMadden, Inc., is presenting testimony in support of
9 the Company’s proposals relating to the adoption of the specific
10 regulatory mechanisms supported by Mr. Lyons and Mr. Doll.

11 **VI. CONCLUSION**

12 **Q. DO YOU HAVE ANY CLOSING REMARKS?**

13 A. I believe that the rates requested in this filing are just, reasonable and in the public
14 interest, and will allow Empire to meet its obligations to provide safe and reliable
15 service and to earn a reasonable return on its investment.

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

17 A. Yes, it does.

