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| Exhibit No.: | |
| Issue: | Customer Savings Plan |
| Witness: | Greg R. Meyer |
| Type of Exhibit: | Affidavit in Support of Non-Unanimous Stipulation and Agreement |
| Sponsoring Party: | MECG |
| Case No.: | EO-2018-0092 |
| Date Testimony Prepared: | April 24, 2018 |

**BEFORE THE PUBLIC SERVICE COMMISSION**
**OF THE STATE OF MISSOURI**

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|---|---|---|
| **In the Matter of the Application of The Empire District Electric Company for Approval of its Customer Savings Plan.** | **)<br>)<br>)<br>)<br>)<br>)** | **Case No. EO-2018-0092** |

Supporting Affidavit of

**Greg R. Meyer**

On behalf of

**Midwest Energy Consumers Group**

April 24, 2018

BRUBAKER & ASSOCIATES, INC.

Project 10522

**BEFORE THE PUBLIC SERVICE COMMISSION**
**OF THE STATE OF MISSOURI**

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| **In the Matter of the Application of The Empire District Electric Company for Approval of its Customer Savings Plan.** | ) | **Case No. EO-2018-0092** |

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| **STATE OF MISSOURI** | ) | |
| | ) | **SS** |
| **COUNTY OF ST. LOUIS** | ) | |

## Affidavit of Greg R. Meyer

Greg R. Meyer, being first duly sworn, on his oath states:

1. My name is Greg R. Meyer. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by the Midwest Energy Consumers Group in this proceeding on its behalf.

2. Attached hereto and made a part hereof for all purposes is my affidavit in support of the Non-Unanimous Stipulation and Agreement which was prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. EO-2018-0092.

3. I hereby swear and affirm that my affidavit is true and correct and that it shows the matters and things that it purports to show.

Greg R Meyer

Greg R. Meyer

Subscribed and sworn to before me this 24th day of April, 2018.

MARIA E. DECKER
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis City
My Commission Expires: May 5, 2021
Commission # 13706793

Maria E. Decker

Notary Public

**BEFORE THE PUBLIC SERVICE COMMISSION**
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**SUPPORTING AFFIDAVIT OF GREG R. MEYER**

1. I am the same Greg R. Meyer that previously submitted Rebuttal Testimony in this docket on behalf of the Midwest Energy Consumers Group ("MECG").

2. This docket was initiated by Empire District Electric Company ("Empire" or "Company") on October 31, 2017. In its application, Empire sought Commission approval to retire its Asbury generating unit and to add, through the use of tax equity financing, 800 MWs of wind generation. In addition, Empire sought certain ratemaking assurances surrounding the future recovery of any undepreciated amounts associated with the retirement of Asbury.

3. In my rebuttal testimony, I provided certain concerns regarding the economics surrounding the addition of the wind generation as well as the retirement of Asbury. Furthermore, I provided recommendations surrounding the quantification of the regulatory asset associated with the retirement of Asbury. Ultimately, I recommended, on behalf of MECG, that the Commission reject Empire's application.

4. Over the last two weeks, several parties have engaged in extensive negotiation surrounding the issues in this case. Concurrent with the filing of this affidavit, certain parties, including MECG, are filing a Non-Unanimous Stipulation and Agreement. That Stipulation differs from the scope of the initial Empire application. At the most basic

level, that Stipulation differs from the Empire application in that it provides for the addition of 600 MWs of wind generation, but contemplates the continued operation of the Asbury generating station. Given the continued operation of Asbury, my concerns regarding the quantification of the Asbury regulatory asset and its recovery in future rate cases are no longer relevant.

5. The purpose of this Affidavit is to provide a discussion of the various terms of the Non-Unanimous Stipulation focusing primarily on those customer protections and provisions that were critical to MECG agreeing to the Stipulation.

6. While Empire has agreed to the terms of the Stipulation and, if approved by the Commission, will no longer be seeking Commission approval of its initial application; MECG nonetheless understands that there may be an objecting party that seeks an increased amount of wind generation or the retirement of the Asbury unit as described in the initial Empire application. Given this, I will also briefly describe those portions of my rebuttal testimony that would still be relevant under those circumstances.

## SCOPE OF THE NON-UNANIMOUS STIPULATION

7. Following the filing of surrebuttal testimony, several of the parties to this proceeding engaged in extensive settlement discussions. These discussions lasted approximately two weeks and involved detailed analysis of the scope of a revised plan for Empire as well as the implementation of certain customer protections. In addition, given the recent implementation of the Tax Cuts and Jobs Act of 2017, which reduced the federal corporate income tax rate from 35% to 21%, there was an effort to resolve the issues currently pending in Case No. ER-2018-0228. Some of the key provisions of the Non-Unanimous Stipulation are as follows:

a) In contrast to its initial request to add 800 MWs of wind capacity, the Signatories have agreed that Empire's addition of 600 MWs of wind capacity is reasonable.

b) The Signatories have agreed that, despite the upcoming need for capital expenditures associated with the Coal Combustion Residual ("CCR") rule, the Asbury generating unit should remain operable pending future integrated resource planning analysis. Given this, issues surrounding the quantification and recovery of a regulatory asset resulting from the retirement of Asbury is no longer of concern.

c) The Signatories have agreed to the implementation of certain customer protections including, but not limited to: (1) a market price protection agreement; (2) certain provisions related to the timing of rate cases focused on the inclusion of wind project capital costs in Empire rates as well as provisions designed to ensure no customer detriments resulting from a change in Empire's regulatory capitalization or a downgrade in Empire credit rating / increase in Empire debt cost; (3) a rate reduction associated with recent enactment of the Tax Cuts and Jobs Act of 2017; (4) the implementation of a rate moratorium; (5) the future proposal of a program designed to provide for non-residential access to renewable energy including renewable energy credits; and (6) a most favored nation provision that protects Missouri ratepayers in the event that either Kansas, Oklahoma or Arkansas provide for an enhanced level of customer protections.

## CUSTOMER PROTECTIONS

8. Market Price Protection Provision: As with integrated resource planning analysis, the parties to this case relied extensively on modeling to determine the impact on customer rates associated with changes in various factors. Foremost among the factors considered in this case were changes in wholesale market prices as well as production

assumptions for any wind capacity additions. For market prices, base, high and low price scenarios were modeled. To address production variances, several probability factors were utilized. For example, a P95 scenario would predict a level of wind production that would be reached or exceeded 95% of the time while a P50 scenario would equate to the normal level of wind production.

9. While the modeling shows reduced customer rates for the agreed upon plan relative to Empire's current preferred plan, those savings may disappear if a situation develops in which both the low market price scenario and the low wind production scenario occur simultaneously. In order to protect customers against this possibility, the parties developed a mechanism that I call a market price protection provision. In general, that mechanism compares the revenues derived from selling the wind energy into the SPP Integrated Marketplace to the revenue requirement associated with 600 MW of wind additions agreed to in the stipulation. In addition, the mechanism also allows for recognizing the benefit of the expiration of two wind purchase power agreements ("PPA") that Empire currently pays, but will expire in 2025 and 2028. To the extent that revenues and the benefits from the expiring PPAs exceed the wind revenue requirement, then customers are realizing benefits. To the extent that the revenues and the expiring PPAs fall short of the wind revenue requirement, then customers are suffering a detriment. Under the modeling conducted, if the low market price scenario and the low wind production scenario occur simultaneously, then customers may lose as much as $22 million over the initial 10-year period.

10. The market price protection mechanism calls for the possibility of Empire paying Missouri customers, through the form of reduced revenue requirements in a rate case, as much as $35 million over the first ten years of the Customer Savings Plan. The

$35 million cap provides customer protections above the worst case modeled by Empire for the addition of 600 MWs of wind.

11. I believe that the market price protection mechanism provides protections to customers associated with the possibility of the wind revenue requirement exceeding the amount of revenues received from the SPP IM over the relevant period. As such, my previously stated concerns regarding market prices and the increasing prevalence of negative market prices are largely alleviated.

12. Rate Case Provisions: The settlement contains provisions that will affect the rate case in which the wind investment is included in rates. Specifically, to protect customers from the possibility that Empire's regulatory capital structure becomes either highly leveraged or equity-rich in order to finance the wind investment, there is a provision that requires the equity in the regulatory capital structure to fall within a band of 47%-53%. Furthermore, in order to provide adequate time for parties to determine that the wind projects are in-service, Empire has agreed to time the case such that the true-up date will be no later than five months prior to the effective date of rates. This provision has previously been included in regulatory plans in which large capital projects have been included in rates.

13. Tax Reform Rate Reduction: Earlier this year, the federal government enacted a reduction in the federal corporate tax rate from 35% to 21%. Such a reduction has a large impact on the rates of public utilities. Immediately following the passage of the tax reduction, state utility commissions began to open dockets to ensure that the benefits of the corporate income tax reduction were passed on to customers in the form of reduced rates.

14. Earlier this year, the Missouri Commission opened a generic docket designed to look at the impact on Missouri utilities (Case No. AW-2018-0174) as well as utility-specific dockets. For Empire, this is Case No. ER-2018-0228. In addition to the Commission dockets, the General Assembly has also introduced legislation that would ensure that all benefits of the reduced corporate tax rate are flowed back to customers.

15. Initially, many of the utilities, including Empire, opposed any attempts by the Commission to reduce rates to reflect the lower corporate tax rate. Through the settlement, however, Empire has agreed to a rate reduction, effective October 1, 2018, to reflect the lower federal corporate tax rate. In addition, Empire has agreed to book a regulatory liability for the revenue requirement effects associated with the deferred income tax effects resulting from the lower federal tax rate. Clearly then, since the agreement provides assurances that the benefits of the corporate tax reduction are passed through to customers, regardless of whether current state legislation is enacted, there are definite customer benefits.

16. <u>Rate Moratorium</u>: Prior to the scheduled hearing in this case, Empire had executed a settlement with the parties in the Oklahoma docket. As part of that settlement, the parties agreed to a rate moratorium. In the context of the current rate case, the parties agreed to a rate moratorium. Under the moratorium, Empire is precluded from filing tariffs to implement a rate increase until April 1, 2019. Given the typical 11-month rate case timeline in Missouri, rates will not change until approximately March of 2020. Given that Empire's last rate case was completed in September of 2016, Empire's rates will have remained the same, except for the reduction for corporate taxes, for a period of 3½ years.

17. <u>Future Proposal for Non-Residential Access to Renewable Energy</u>: In recent years, many corporations have emphasized sustainability efforts including efforts to acquire

renewable energy. In order to demonstrate compliance with the sustainability commitments, corporations must receive the renewable energy credits. Currently, Ameren and KCPL both have pending cases designed to consider programs so that non-residential customers can access renewable energy. As part of this agreement, Empire has agreed, as part of its next rate case, to propose tariffs to implement a program whereby non-residential customers can access renewable energy including the renewable energy credits.

18. Most Favored Nation Provision: Empire has electric operations in four states: Missouri, Oklahoma, Arkansas and Kansas. As part of this case, Empire is seeking approval from the state utility commissions of each state. In the executed agreement, Empire has agreed to extend any condition from the other states (except for provisions related to tax rate reductions; the location of the wind facilities; the rate moratorium; and the market price protection cap) to Missouri customers.

## RATE IMPACTS

19. The 600 MWs of wind generation is projected to be in service by the end of 2020. Therefore, the first full year of rate impacts from the wind would be 2021. The rate impact in 2021 from the addition of 600 MWs of wind and continuing to operate Asbury would increase current rates (pre-tax reform) by 12%. The 12% increase in current rates compares current revenues from pre-tax reform to the revenues with the 600 MWs of wind and rates reflecting tax reform. Comparing the rate impacts with the effects from tax reform, results in a 17% increase in current rates.

20. The rate impact from the addition of 600 MWs of wind and continuing to operate Asbury can be compared to Empire's current IRP Plan. This comparison will show the revenue requirement impact from the addition of the wind and Asbury compared to the

revenue requirements under the current IRP Plan. I have prepared a table that shows the annual revenue requirements from the IRP Plan and the addition of wind.

**Annual Revenue Requirements**
**<u>Current IRP/600 MW Wind/Asbury</u>**

| Year | Current IRP | 600 MW Wind/Asbury |
|---|---|---|
| 2021 | $618 | $637 |
| 2022 | $643 | $644 |
| 2023 | $659 | $663 |
| 2024 | $677 | $676 |
| 2025 | $694 | $693 |
| 2026 | $709 | $707 |
| 2027 | $721 | $714 |
| 2028 | $738 | $725 |
| 2029 | $744 | $737 |
| 2030 | $800 | $743 |

As can be seen from the above table, the revenue requirement under the settlement is initially higher as the capital investment in wind is placed in rates. Shortly thereafter the revenue requirement from the settlement is less than under the current IRP plan. In fact, by 2030, the revenue requirement from the settlement is $57 million less than under the IRP.

## MECG POSITION ON STIPULATION

21. While MECG opposed Empire's initial application, it now supports the Non-Unanimous Stipulation. The scaled down nature of the wind addition, the continued operation of Asbury; and the implementation of the described customer protections result in a resource plan that MECG now supports. As such, MECG asks that the Commission find that the Stipulation is reasonable.

**APPLICABLE POSITIONS IF STIPULATION IS OPPOSED**

22. While the Signatories to the agreement believe that the provisions are a well-balanced approach that ensures an increased emphasis on wind generation, MECG understands that some parties may oppose the settlement on the basis that it leaves the Asbury coal generating unit in service for the immediate future. Given this possible opposition, some of the concerns raised in my rebuttal testimony would be relevant to the position of those parties.

23. Specifically, at pages 20-27 of my rebuttal testimony, I provide five recommendations that would affect the quantification of any regulatory asset that is created associated with the premature retirement of the Asbury unit. Specifically, I recommend that any regulatory asset be reduced to account for the continuing depreciation and return on the Asbury investment that will occur between the time that Asbury is retired and when that even is reflected in rates. Simply because Asbury is retired does not mean that rates will reflect that change and customers will continue to pay the depreciation and return on the Asbury investment. Next, I recommend that the regulatory asset be reduced for the value of the excess deferred taxes associated with the TCJA [Tax Cuts and Jobs Act of 2017]. Additionally, I recommend that Empire's proposed 30-year amortization for the regulatory asset be reduced such that customers pay off the balance in a more timely fashion. Finally, I recommend that Empire's cost of long-term debt should be used to calculate the return on the regulatory asset. Applying Empire's long-term interest rate to the regulatory asset seems to be a reasonable balance between the customers and shareholders of Empire."

24. This concludes my affidavit in support of the April 24, 2018 Non-Unanimous Stipulation and Agreement.

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