

Exhibit No.:
Issue: On-System Fuel and Purchased Power
Expense
Witness: Todd W. Tarter
Type of Exhibit: Direct Testimony
Sponsoring Party: Empire District Electric
Case No.
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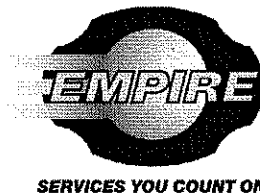
**Before the Public Service Commission
Of the State of Missouri**

Direct Testimony

of

Todd W. Tarter

October 2009



****Denotes Highly Confidential****

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OF
TODD W. TARTER
ON BEHALF OF
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION

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DIRECT TESTIMONY OF
TODD W. TARTER
ON BEHALF OF
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION

1 **I. INTRODUCTION**

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

3 A. Todd W. Tarter. My business address is 602 S. Joplin Avenue, Joplin, Missouri.

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

5 A. The Empire District Electric Company ("Empire" or "Company"). My title is Manager of
6 Strategic Planning.

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
8 **BACKGROUND FOR THE COMMISSION.**

9 A. I graduated from Pittsburg State University in 1986 with a Bachelor of Science Degree in
10 Computer Science. After graduation I received a mathematics education certification. I
11 began my employment with Empire in May 1989. During my tenure with Empire I have
12 worked in the Corporate Planning, Strategic Planning, Information Technology, and
13 Planning and Regulatory departments. My primary responsibilities during this time have
14 included work with the Company's construction budget, load forecasts, sales and revenue
15 budgets, financial forecasts and fuel and purchased power projections, among others. In
16 September 2004, I was promoted to my current position where I primarily work with fuel
17 and purchased power projections and integrated resource planning.

18 **Q. HAVE YOU EVER TESTIFIED BEFORE THIS OR ANY OTHER STATE**
19 **UTILITY COMMISSION?**

20 A. Yes. I testified on behalf of Empire on the topic of on-system fuel and purchased power

1 expense in Missouri Cases No. ER-2006-0315 and No. ER-2008-0093 and in Kansas Case
2 No. 05-EPDE-980-RTS.

3 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS CASE**
4 **BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION**
5 **(“COMMISSION”)?**

6 A. My direct testimony addresses the on-system fuel and purchased power expense for base
7 rates. I will also provide some of the forecasted data required for a Fuel Adjustment
8 Clause (“FAC”) filing.

9 **II. ENERGY COST RECOVERY**

10 **Q. WHAT IS EMPIRE PROPOSING FOR ENERGY COST RECOVERY IN THIS**
11 **RATE CASE?**

12 A. Empire is proposing that the Commission approve the continuation of an FAC in this case.
13 For a more detailed description of this request, please refer to the Direct Testimony of Empire
14 witness W. Scott Keith. Empire believes that in conjunction with the FAC it is important to
15 establish the correct level of fuel and purchased power costs for base rates (the portion of the
16 rates that are fixed).

17 **Q. ARE YOU PROVIDING ANY SUPPORTING INFORMATION FOR EMPIRE’S**
18 **REQUEST TO CONTINUE THE FAC?**

19 A. Yes. I am providing information as required by the various subparts of 4 CSR 240-
20 3.161(3):

- 21 • Schedule TWT-1, which is a list of the supply-side and demand-side resources that
22 the Company expects to use to meet its load for the next four (4) years (as required by
23 4 CSR 240-3.161(3)(P));

- 1 • Schedule TWT-2, which shows the expected dispatch (generation levels) of the
2 supply-side resources that Empire expects to utilize for the next four (4) years and
3 explains why these expected dispatch levels are appropriate (as required by 4 CSR
4 240-3.161(3)(P));
- 5 • Schedule TWT-3, which shows the expected heat rates for each supply-side resource
6 that the Company expects to utilize for the next four (4) years (as required by 4 CSR
7 240-3.161(3)(P));
- 8 • Schedule TWT-4, which shows the fuel types utilized in each of Empire's supply-side
9 resources (as required by 4 CSR 240-3.161(3)(P)); and
- 10 • Schedule TWT-5, which establishes the fact that Empire has in place a long-term
11 resource planning process, which has among its objectives to minimize overall
12 delivered energy costs and to provide reliable service to customers (as required by 4
13 CSR 240-3.161(3)(R)).

14 **III. PROPOSED LEVEL OF ON-SYSTEM FUEL AND PURCHASED POWER**
15 **EXPENSE FOR BASE RATES**

16 **Q. IS EMPIRE PROPOSING ANY CHANGE TO THE ON-SYSTEM FUEL EXPENSE**
17 **USED TO DEVELOP BASE RATES IN ITS INITIAL FILING?**

18 A. No. The data used in the development of this rate case filing does not include any change
19 to the on-system fuel expense that is used to establish the base rates. The Missouri retail
20 base fuel rate in this filing is the same rate as was granted by the Commission in Empire's
21 last Missouri electric rate case where the use of an FAC was approved (Case No. ER-2008-
22 0093).

23 **Q. WHY HAS EMPIRE REQUESTED NO CHANGE TO THE ON-SYSTEM FUEL**

1 **EXPENSE PER KILOWATT-HOUR USED IN BASE RATES?**

2 A. During the past year the average base energy cost approved in Empire's most recent rate
3 case has been very close to the actual base energy cost on a \$/MWh basis. The base
4 energy cost that I am referring to is the on-system fuel and purchased power expense
5 without purchase demand and net of off-system fuel and purchased power margin on a per
6 unit basis. Since the Missouri retail FAC has been in effect, there have been two six-
7 month accumulation periods. During the first period a modest under collection of fuel and
8 purchase power expense occurred resulting in a cost adjustment factor added to customer
9 bills. During the second period a slight over collection of fuel and purchased power
10 expense occurred resulting in a customer refund. During both periods, which encompasses
11 one year (the twelve-months ending August, 2009), the actual energy costs incurred have
12 been within one percent of the base energy cost approved in the last Missouri rate Case No.
13 ER-2008-0093.

14 **Q. WILL EMPIRE CONTINUE TO MONITOR ENERGY COSTS AS THIS RATE**
15 **CASE PROGRESSES?**

16 A. Yes. After the Commission establishes a test year, Empire will continue to monitor energy
17 costs to determine if a revision to the base energy cost in the FAC is required.

18 **IV. SUMMARY**

19 **Q. PLEASE PROVIDE A SUMMARY OF YOUR DIRECT TESTIMONY.**

20 A. In this case Empire is requesting the continuation of an FAC. The attached schedules to
21 this testimony provide the forecasted data required for an FAC continuation. In conjunction
22 with an FAC, it is important to correctly set the appropriate level of on-system fuel and
23 purchased power expense in base rates. For the initial filing, Empire is using the same

1 base energy cost approved in its most recent Missouri rate case no.ER-2008-0093. Empire
2 may request an update of this base energy cost in future true-up runs if needed.

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

4 A. Yes, at this time.

**The Empire District Electric Company
Load and Capability Forecast**

Based on Budgeted Load Forecast 2010-2013

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BUDGET ON-SYSTEM ENERGY MWHS

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These resources were economically dispatched with the PROSYM production cost model. The model dispatches resources to meet demand requirements on an hourly basis. The model commits resources based on fuel costs, unit start-up costs, and variable operation and maintenance costs after accounting for operational characteristics of a utility system.

NP

BUDGET HEAT RATES (BTU/KWH)
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Fuel Types For Each Supply Side Resource

	Primary Fuel	Secondary Fuel	Start Fuel	Additional Fuel
Asbury 1	Asbury PRB Coal (~87%)	Asbury Blend Coal (~13%)	Oil	Tire Derived Fuel
Asbury 2	Asbury PRB Coal (~87%)	Asbury Blend Coal (~13%)	-	Tire Derived Fuel
Iatan	Iatan Western Coal		Oil	
Plum Point	Plum Point Western Coal		Oil	
Riverton 7	Riverton PRB Coal (~78%)	Riverton Petroleum Coke (~22%)	Natural Gas	Natural Gas *
Riverton 8	Riverton PRB Coal (~78%)	Riverton Petroleum Coke (~22%)	Natural Gas	Natural Gas **
Riverton 9	Natural Gas		Natural Gas	Oil
Riverton 10	Natural Gas		Natural Gas	
Riverton 11	Natural Gas		Natural Gas	
Riverton 12	Natural Gas		Natural Gas	
Energy Center 1	Natural Gas		Natural Gas	Oil
Energy Center 2	Natural Gas		Natural Gas	Oil
Energy Center 3	Natural Gas		-	Oil
Energy Center 4	Natural Gas		-	Oil
State Line 1	Natural Gas		Natural Gas	Oil
SLCC 1x1	Natural Gas		Natural Gas	
SLCC 2x1	Natural Gas		Natural Gas	

Approximate % blends in the table are on an MMBtu basis (87%/13% for Asbury and 78%/22% for Riverton units 7 & 8)

Corresponding approximate % blends on a weight (ton) basis are (90%/10% for Asbury and 85%/15% for Riverton units 7 & 8)

PRB is an abbreviation for Powder River Basin

* Riverton 7 has a rated capacity of 38 MW but a modeled max of 24 MW on coal & petroleum coke. Over firing with natural gas needed to reach 38 MW.

** Riverton 8 has a rated capacity of 54 MW but a modeled max of 45 MW on coal & petroleum coke. Over firing with natural gas needed to reach 54 MW.

CTs with oil as an additional fuel can burn oil if natural gas is unavailable or if oil is more economical

Long-Term Resource Planning Process in Missouri

Since October 1999 Empire has been meeting with the Missouri Commission Staff (Staff), Missouri Office of Public Counsel (OPC) and Missouri Department of Natural Resources (MDNR) twice each year as an alternative to electric utility resource plan filings. As part of the stipulation and agreement (S&A) in the experimental regulatory plan Case No. EO-2005-0263, Empire submitted a new resource plan to Missouri in July 2006. Empire presented this resource plan to all interested non-IOU Signatory Parties (Parties) on August 25, 2006. The requirements of this resource plan can be found in the S&A. The S&A states that for the duration that the S&A is in effect, Empire will continue to hold Integrated Resource Plan (IRP) presentations semiannually, and invite the Parties. The S&A also established the Empire Customer Programs Collaborative (CPC). This group comprised of the Parties, serves as a collaborative that makes decisions pertaining to the development, implementation, monitoring and evaluation of Empire's Affordability, Energy Efficiency and Demand Response Programs.

In September 2007, Empire filed a Missouri IRP in Case No. EO-2008-0069 to comply with the requirements of 4 CSR 240-22. Empire formally requested variances and clarifications from the Missouri Public Service Commission for those instances in which the IRP does not comply with 4 CSR 240-22. The Commission granted Empire's request for waivers in Case No. EE-2008-0025. This periodic IRP analysis in conjunction with Empire's normal planning process assists Empire in making decisions concerning the timing and type of system expansion that should occur. In addition to the formal IRP filing, Empire develops an annual and five year business plan each year, and makes updates to these plans as conditions change.

Empire will file a new IRP in Missouri in September 2010.

According to 4 CSR 240-22.010 Policy Objectives, "the fundamental objective of the Missouri resource planning process at electric utilities is to provide the public with energy services that are safe, reliable and efficient, at just and reasonable rates, in a

manner that serves the public interest.” As stated in Empire’s recent IRP filing, integrated resource planning for electric utilities has evolved considerably over the past twenty years and can no longer solely identify the least cost resources; such a plan must explicitly consider risks and uncertainties. Empire’s objectives in preparing its 2007 IRP reflect its commitment to provide cost-effective, safe, and reliable electric service to its customers:

- to generate and provide reliable electricity service while complying with all environmental requirements
- to minimize rate impacts for customers
- to achieve and/or maintain investment grade ratings on its debt; thus providing for corporate financial stability and minimizing the financing costs included in the rates paid by Empire’s customers
- to accommodate and manage cost, environmental, and load growth uncertainties.