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Issues: FAC
Witness: Lena M. Mantle
Sponsoring Party: MO PSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: ER-2008-0093
Date Testimony Prepared: April 25, 2008

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

SURREBUTTAL TESTIMONY

OF

LENA M. MANTLE

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2008-0093

**Jefferson City, Missouri
April, 2008**

Staff Exhibit No. 215
Case No(s). ER-2008-0093
Date 5-12-08 Rptr. KF

EXHIBIT

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215

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of The Empire District)
Electric Company of Joplin, Missouri's)
application for authority to file tariffs)
increasing rates for electric service)
provided to customers in the Missouri)
service area of the Company)

Case No. ER-2008-0093

AFFIDAVIT OF LENA M. MANTLE

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Lena M. Mantle, of lawful age, on her oath states: that she has participated in the preparation of the following Surrebuttal Testimony in question and answer form, consisting of 5 pages of Surrebuttal Testimony to be presented in the above case, that the answers in the following Surrebutal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true to the best of her knowledge and belief.

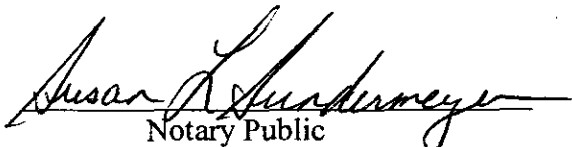


Lena M. Mantle

Subscribed and sworn to before me this 25th day of April , 2008.



SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #08942086



Notary Public

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OF
LENA M. MANTLE
THE EMPIRE DISTRICT ELECTRIC COMPANY
CASE NO. ER-2008-0093

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SURREBUTTAL TESTIMONY
OF
LENA M. MANTLE
THE EMPIRE DISTRICT ELECTRIC COMPANY
CASE NO. ER-2008-0093

Q. Please state your name and business address.

A. My name is Lena M. Mantle and my business address is Missouri Public Service Commission, P. O. Box 360, Jefferson City, Missouri 65102.

Q. Are you the same Lena M. Mantle who has previously filed testimony in this case?

A. Yes. I am.

Executive Summary

Q. Please summarize your surrebuttal testimony.

A. In my testimony I respond to the Empire District Electric Company (Empire) witnesses H. Edwin Overcast's and W. Scott Keith's rebuttal testimony regarding a Fuel Adjustment Charge (FAC). Specifically, I will (1) present Staff's view of what items should be included in the FAC base rate; (2) discuss why Staff still supports its recommended FAC incentive mechanism; and (3) address certain of the impacts of the "growth effect" on Empire's revenue that Dr. Overcast does not discuss in his testimony. In his surrebuttal testimony, Staff witness Mark Oligschlaeger is responding to the "regulatory principles" that Dr. Overcast describes in his rebuttal testimony. Staff witness James C. Watkins is presenting surrebuttal testimony regarding the rate design of the FAC.

1 **Components of the FAC**

2 Q. What is Staff's response to Dr. Overcast's proposal to include certain fixed costs
3 in the FAC?

4 A. Upon review of Dr. Overcast's rebuttal testimony (p. 3, l. 16 - p. 4, line 4 and p.
5 12, ll. 1-10) and Mr. Keith's rebuttal testimony (p. 7, ll. 7-23), Staff agrees that some fixed
6 costs should be included in the FAC such as the demand charges approved by the Federal
7 Energy Regulatory Commission (FERC) to recover pipeline transportation costs. These
8 demand charges are outside of Empire's direct control and are subject to change over time.
9 Schedule 1 contains the costs and revenues that Staff used to calculate the base FAC rates.
10 The FERC pipeline transportation costs are included in the "Gas Transportation – Fixed
11 Costs" Line. The Southwest Power Pool energy imbalance market settlements and neutrality
12 uplift charges are reflected in the purchased power energy charges component. Emission
13 allowance costs and revenues are not included in the base calculation but should be included
14 in the FAC cost/revenues in each accumulation period.

15 Q. What base rates is Staff recommending for the FAC?

16 A. Staff is recommending that the base rates at the generator for the FAC be set at
17 \$0.0301 per kWh for the summer billing months of June through September and \$0.0271 per
18 kWh for the other billing months. In his surrebuttal testimony, Staff witness James Watkins
19 describes how the base rates were calculated.

20 **Incentive Mechanism**

21 Q. How do you respond to Dr. Overcast's representation in his rebuttal testimony
22 that incentive programs randomly reward or penalize Empire (p. 6, ll. 17-22)?

Surrebuttal Testimony of
Lena M. Mantle

1 A. While it may be Dr. Overcast's opinion that incentive programs randomly reward
2 or penalize, the 93rd General Assembly in Section 386.266.1 RSMo gave the Commission the
3 authority to approve incentive programs within a FAC to provide the electric utility with
4 "incentives to improve the efficiency and cost-effectiveness of its fuel and purchased power
5 procurement activities." Dr. Overcast's proposal that the correct basis for a FAC would be
6 100% pass-through of costs is only correct if 100% of fuel and purchased power costs are
7 completely removed from Empire's control. In reality, fuel and purchased power activities
8 are very complex and there are actions that Empire can undertake, or not undertake, that affect
9 the efficiency and cost-effectiveness of its fuel and purchased power procurement costs.

10 Allowing Empire to recover 100% of its fuel and purchased power costs is very
11 similar to providing a car and gas with 100% fuel cost recovery for someone to drive. The
12 typical driver would really not care how far he drives, how much the gas costs or whether the
13 car is running efficiently or not. However, if he is required to pay for a portion or all of the
14 cost of the gas, there is greater incentive for him to pay attention to the price of gas, how
15 much gas he is using and immediately take the car in to the garage when the gas mileage of
16 the car begins to get worse.

17 The same principle applies to fuel and purchased power procurement actions. Being
18 responsible for a portion of any increase in cost or receiving the benefit of a savings would
19 provide Empire an incentive to manage its fuel and purchased power costs. Dr. Overcast
20 seems to imply that Empire does have some control over these costs when, on page 10 of his
21 rebuttal testimony, he states that "There is no real incentive in a plan that guarantees a loss
22 and provides no opportunity for management to change the situation regardless of how well
23 they manage the business." (ll. 7 – 9)

Surrebuttal Testimony of
Lena M. Mantle

1 Q. Please respond to Dr. Overcast's characterization of Staff's incentive mechanism
2 as being asymmetrical (p. 6, ll. 9-23).

3 A. Theoretically, the incentive mechanism proposed by Staff is symmetrical given
4 the assumption that changes from the base, both positive and negative, are normally
5 distributed around the base. None of the FAC witnesses in this proceeding, including Dr.
6 Overcast, have provided any probability distribution analysis or other evidence that would
7 demonstrate why a symmetrical FAC mechanism would not be the most fair way to share
8 risks associated with fluctuations in fuel expenses.

9 Q. Is Dr. Overcast certain that fuel and purchased power costs are going to increase?

10 A. Dr. Overcast states that it is "reasonable" to conclude that costs will increase
11 (Rebuttal, p. 8, l. 23 - p. 9, l. 2).

12 Q. Do you agree with Dr. Overcast?

13 A. I also believe that it is reasonable to conclude that prices are more likely to
14 increase than decrease. However, there is a significant probability that fuel and purchased
15 power costs could decrease. In Case No. ER-2001-0299, the entire amount of revenue
16 collected through an interim energy charge approved in the previous Empire rate case was
17 returned to Empire's customers due to an unexpected decrease in fuel costs. In any case, Staff
18 will not design a FAC under the assumption that fuel and purchased power expenses are only
19 destined to increase above current levels.

20 Q. Has your recommendation regarding the appropriate structure for an FAC
21 incentive plan changed?

Surrebuttal Testimony of
Lena M. Mantle

1 A. No it has not. Staff continues to recommend that Empire be responsible for 30%
2 of any change in fuel and purchased power costs (up or down) and customers should be
3 responsible for the other 70% through a FAC.

4 **Impact of Customer Growth**

5 Q. Will customer growth automatically result in an increase in fuel and purchased
6 power costs as Dr. Overcast asserts on page 8, lines 19-20 of his rebuttal testimony?

7 A. Customer growth is likely to result in higher aggregate fuel and purchased power
8 costs for Empire to serve its expanding customer base.

9 Q. So would Empire be "losing" revenue if it experiences customer growth as
10 characterized by Dr. Overcast on pages 9 and 10 of his rebuttal testimony?

11 A. The situation is not as clear cut as Dr. Overcast characterizes it. Empire would
12 "lose" only if fuel costs increased so much that they entirely offset all contribution to margin
13 in the revenues collected from the new customers. The energy charges for all of Empire's
14 customer classes are designed to recover some portion of Empire's fixed costs in addition to
15 its base fuel and purchased power costs. Therefore, when growth occurs, Empire is
16 collecting, through its base energy charge, more than its variable cost of providing service.
17 This excess revenue above the actual base cost of fuel and purchased power should be netted
18 against any increase in fuel cost to determine whether or not Empire is "losing" when
19 customer growth occurs. Revenue collected by the entire rate schedule needs to be considered
20 to determine if Empire "loses" revenue due to customer growth; not just the revenue
21 recovered by the FAC.

22 Q. Does this conclude your surrebuttal testimony?

23 A. Yes, it does.

Cost and Revenues Used to Calculate Empire Base FAC Rates

FUEL

Fuel
Gas Transportation - Fixed
Gas Transportation - Variable
Gas Capacity Release - Variable
Gas LUF at Cost of Gas
Total Fuel

FUEL RELATED COSTS

PURCHASED POWER ENERGY CHARGES

Purchased power
Cost of off system sales
Energy exchanged - SWPA

OFF SYSTEM SALES MARGIN