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Witness: Sherrill L. McCormack
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Sponsoring Party: The Empire District Electric Co.
Case No. ER-2010-0130
Date Testimony Prepared: April, 2010

**Before the Public Service Commission
Of the State of Missouri**

Supplemental Direct Testimony

of

Sherrill L. McCormack

April 2010



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OF
SHERRILL L. MCCORMACK
ON BEHALF OF
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION

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SUPPLEMENTAL DIRECT TESTIMONY
OF
SHERRILL L. MCCORMACK
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2010-0130

1 **INTRODUCTION**

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

3 A. My name is Sherrill L. McCormack, and my business address is 602 S. Joplin Avenue,
4 Joplin, Missouri, 64801.

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

6 A. I am currently employed by The Empire District Electric Company (“Company” or
7 “Empire”) as the Energy Efficiency Coordinator.

8 **Q. ARE YOU THE SAME SHERRILL L. MCCORMACK WHO PREVIOUSLY**
9 **SUBMITTED TESTIMONY IN THIS CASE BEFORE THE MISSOURI PUBLIC**
10 **SERVICE COMMISSION (“COMMISSION”)?**

11 A. Yes, I am.

12 **PURPOSE OF TESTIMONY**

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

14 A. On March 31, 2010, the Commission issued its *Order Directing the Parties to Address the*
15 *Concerns Raised by Low-Income Residential Customers*. By this order, the Commission
16 provided the parties to this case with an opportunity to file additional direct testimony
17 regarding the needs of Empire’s low-income residential customers. In particular, the
18 Commission asked the parties to address the feasibility of establishing an experimental “very

1 low-income” customer class and directed that any additional direct testimony contain the
2 following:

- 3 1. An analysis of the practicality of establishing a “very low-income” customer
4 class, including the effect on revenues and costs;
- 5 2. A proposal for guidelines for inclusion in such a class;
- 6 3. A proposal for verification procedures for participants in such a class;
- 7 4. An analysis of the possible effect on the company’s bad debt expense of such a
8 class; and
- 9 5. An opinion as to whether such a class should be tied to the current industrial rate
10 class or a proposal for an alternative rate.

11
12 My testimony responds to each of these points and outlines Empire’s proposal to address the
13 concerns of Empire’s low-income customers.

14 **EMPIRE’S EXISTING PROGRAMS**

15 **Q. DOES EMPIRE HAVE AN EXPERIMENTAL LOW INCOME PROGRAM IN**
16 **EFFECT AT THIS TIME?**

17 A. Yes. Empire’s tariffs currently on file and in effect include an Experimental Low Income
18 Program (“ELIP”).

19 **Q. PLEASE DESCRIBE THE CURRENT EXPERIMENTAL LOW-INCOME**
20 **PROGRAM.**

21 A. Empire’s ELIP is available to qualified low-income customers whose service is billed under
22 Schedule RG, Residential Service, and provides participants with a fixed credit on their
23 monthly bill for a period up to 12 months. At the end of the 12 month period, an Empire
24 customer may re-apply to continue to participate in the program. Empire’s ELIP was
25 approved in Commission Case Nos. ER-2002-0424, ER-2006-0315, and ER-2008-0093. I
26 have attached a copy of the existing program to this testimony as Supplemental Schedule
27 SLM-1. In Case No. ER-2008-0093, Empire agreed to the continuation of its ELIP with bill

1 credits, administration costs, and evaluation costs being paid from accumulated shareholder
2 funds. There are no costs for this program built into Empire's rates. In the testimony filed
3 on February 19, 2010, in AmerenUE's Case No. ER-2010-0036, Public Counsel witness
4 Barbara Meisenheimer states that programs such as Empire's ELIP should be used as a
5 model for any low-income program to be implemented as part of that case.

6 **Q. DOES EMPIRE HAVE ANY OTHER LOW INCOME PROGRAMS IN PLACE?**

7 A. Yes. In her testimony filed in AmerenUE's Case No. ER-2010-0036, Ms. Meisenheimer
8 notes that Empire also has a special program in place targeted to make utility service more
9 affordable for vulnerable customers, such as the elderly and disabled. Empire's "Project
10 Help" is an assistance program created to meet emergency, energy-related expenses of the
11 elderly and/or disabled residents in Empire's electric service area. In addition, Empire's
12 Action to Support the Elderly ("EASE") is designed to lift the burden of worry from the
13 elderly (age 60 and older) and physically disabled. For Empire customers who register, late
14 penalties are waived, due dates may be adjusted, deposits waived, and third party notification
15 is available when an account becomes delinquent.

16 **EMPIRE'S PROPOSAL**

17 **Q. HOW DOES EMPIRE PROPOSE TO REDUCE THE BURDEN ON LOW-INCOME**
18 **CUSTOMERS WHILE PROVIDING A FAIR AND ADEQUATE RETURN TO**
19 **EMPIRE?**

20 A. Empire proposes to address the needs of its low-income residential customers by continuing
21 its ELIP, with some modifications. As set forth in my rebuttal testimony filed on April 2,
22 2010, Empire's ELIP was evaluated by TecMarket Works. The final evaluation report, dated

1 March 29, 2010, is attached to my rebuttal testimony as Rebuttal Schedule SLM-2. The
2 report contains six recommendations for the operation of Empire's ELIP:

- 3 1. Re-structure ELIP's participation guidelines so that customers with income of
4 135% of the Federal Poverty Level are eligible to participate. This would make
5 ELIP guidelines the same as most other low-income programs offered by the area
6 CAP agencies, and would lessen the need for checking incomes of applicants,
7 expediting the application process.
- 8 2. Consider changing the Federal Poverty Level thresholds for Tier 1 and Tier 2
9 participants. Currently, participants whose sole source of income is from Social
10 Security payments (elderly and disabled) are placed in Tier 1, receiving ELIP
11 credits of \$20 per month instead of the \$50 per month. Making a slight
12 adjustment in the threshold levels will allow those participants that are the target
13 market for the ELIP to receive the full program benefit of \$50 per month in credit.
- 14 3. Include ELIP information on the Empire website, and encourage the CAP
15 agencies to include links to the ELIP program on their web sites.
- 16 4. Consider adding an educational workshop component that focuses on energy
17 efficient behaviors and measures to the program. Offer the participants higher
18 ELIP credits for successful completion of the workshop to encourage additional
19 savings.
- 20 5. Change the income verification from "last 30 days" to "last month's income" to
21 be more in line with other low-income programs and make the processing of
22 applications easier for the partnering CAP agencies by making income
23 verification the same across more low-income programs.
- 24 6. TecMarket Works recommends that the CAP agencies be notified of the option
25 for participants to pay more than their Arrearage Payment amount and receive \$1
26 for every \$2 paid above the monthly deferred payment to an annual maximum of
27 \$60. This information should also be included in program materials and
28 described on the application form so that it can serve as a reminder to the CAP
29 agency staff and participants.

30
31 Empire proposes to continue its ELIP through the effective date of tariffs resulting from its
32 next electric rate case (Empire's Iatan 2 case), but with the recommendations listed above
33 adopted in this case.

34 **Q. HOW DOES EMPIRE PROPOSE TO FUND THE ELIP?**

35 A. As noted above, there are no costs for this program built into Empire's current rates.
36 Pursuant to the agreement reached in Case No. ER-2008-0093, the costs of the ELIP were
37 eliminated from Empire's annual cost of service. Bill credits, administration costs, and

1 evaluation costs are being paid from accumulated shareholder funds. Empire proposes to
2 continue using the accumulated shareholder funds that were set aside pursuant to the
3 agreement in Empire's prior rate case. This should result in the availability of sufficient
4 funds to cover the costs of the program through the effective date of tariffs resulting from
5 Empire's Iatan 2 rate case, but, in the event costs exceed the shareholder funds currently set
6 aside for this purpose, Empire proposes that a regulatory asset be established for all
7 additional costs.

8 **EMPIRE'S RESPONSES TO THE FIVE POINTS SET FORTH IN THE COMMISSION'S**
9 **ORDER OF MARCH 31, 2010**

10 **Q. WHAT IS THE PRACTICALITY OF ESTABLISHING A "VERY LOW-INCOME"**
11 **RATE CLASS?**

12 A. Given the short timeline to review and establish a specific customer class, and given the
13 necessary information that should be identified to develop a new customer class, Empire
14 believes it would be impractical, if not impossible, to undertake an analysis of the practicality
15 of establishing a "very low-income" rate class in Empire's current rate case, Case No. ER-
16 2010-0130, and to fully evaluate the potential impact on Empire's cost and revenue. It is
17 Empire's belief that this would be better addressed in Empire's Iatan 2 rate case when class
18 cost of service will be addressed and the parties can more fully undertake the necessary
19 analyses.

20 **Q. WHAT IS EMPIRE'S PROPOSAL FOR GUIDELINES FOR INCLUSION IN SUCH**
21 **A CLASS, IF ONE WERE TO BE ESTABLISHED?**

22 A. At this time, Empire does not have a proposal for guidelines for inclusion in a "very low-
23 income" rate class," but Empire suggests that it may be proper to look to the eligibility

1 criteria for the government-funded LIHEAP program. At the current time, households with
2 income at or below 135% of the Federal Poverty Guideline are LIHEAP-eligible. Allowing
3 participation at this level in Empire's ELIP is the first recommendation outlined above with
4 regard to changes that Empire proposes be made to its current ELIP. It should be noted,
5 however, that identifying customers eligible for a low-income rate or program has the same
6 problems as identifying customers for a separate low-income customer class.

7 **Q. WHAT IS EMPIRE'S PROPOSAL FOR VERIFICATION PROCEDURES FOR**
8 **PARTICIPANTS IN SUCH A CLASS, IF ONE WERE TO BE ESTABLISHED?**

9 A. Empire does not collect, maintain, or update personal information, such as the income levels,
10 of its electric customers, and Empire does not have in place the personnel and supporting
11 systems that would be necessary to undertake such a process. There are organizations,
12 however, such as the agencies which administer the LIHEAP program and other need-based
13 community programs, that do collect this information. Empire suggests that its customers
14 would benefit by any verification procedures being administered by such an agency.

15 **Q. HAS EMPIRE ASSESSED THE POSSIBLE EFFECT OF THE CREATION OF**
16 **SUCH A CLASS ON THE COMPANY'S BAD DEBT EXPENSE?**

17 A. It is difficult for Empire to respond on this point, as the parameters of this new potential rate
18 class are unknown and cannot be analyzed at this time. TecMarket Works, the consultant
19 that evaluated Empire's ELIP, did perform an "arrearage effects" evaluation for that
20 program. The details are contained in pages 15-22 of the final evaluation report, dated
21 March 29, 2010, attached to my rebuttal testimony as Rebuttal Schedule SLM-2. In
22 summary, the ELIP participants' arrearages were lower while on the program. Post-ELIP

1 customers, however, take longer to pay their bills after leaving the program than they did
2 before they were participants in the program.

3 **Q. IF THE COMMISSION ESTABLISHES A NEW “VERY LOW INCOME” RATE**
4 **CLASS, SHOULD THE RATE OF SUCH A CLASS BE TIED TO THE RATE OF**
5 **THE CURRENT INDUSTRIAL RATE CLASS?**

6 A. No. The service characteristics and cost drivers of the industrial rate class are different from
7 those of any residential class, and the application of the various billing components of the
8 industrial rate class would likely make the newly created rate impractical for a “very low-
9 income” class of customers. More specifically, the LP tariff has been designed for the
10 service characteristics and costs associated with large customers and is restricted to
11 customers with demands of 1,000 kilowatts and greater.

12 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL DIRECT TESTIMONY ON**
13 **THE ISSUE OF EMPIRE’S LOW-INCOME RESIDENTIAL CUSTOMERS?**

14 A. Yes.

