Exhibit No.:	
Witness:	Maurice Brubaker
Type of Exhibit:	Rebuttal Testimony
Issue:	Rate Design; Fuel and Purchased Power Expense
Sponsoring Parties:	Explorer Pipeline Company and Praxair, Inc.
Case No.:	ER-2006-0315

BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

In the matter of The Empire District Electric Company of Joplin, Missouri for authority to file tariffs increasing rates for electric service provided to customers in the Missouri service area of the Company	)))))))	**Case No. ER-2006-0315**

Rebuttal Testimony of

Maurice Brubaker on Rate Design; Fuel and Purchased Power Expense

On Behalf of

Explorer Pipeline Company and Praxair, Inc.

July 28, 2006

Brubaker & Associates, Inc.
St. Louis, MO 63141-2000

Project 8531

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of The Empire District Electric Company of Joplin, Missouri for authority to file tariffs increasing rates for electric service provided to customers in the Missouri service area of the Company	)	**Case No. ER-2006-0315**

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

Affidavit of Maurice Brubaker

Maurice Brubaker, being first duly sworn, on his oath states:

1. My name is Maurice Brubaker. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141-2000. We have been retained by Explorer Pipeline Company and Praxair, Inc. in this proceeding on their behalf.

2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony on rate design; fuel and purchased power expense issues which was prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2006-0315.

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

M E Brubaker
Maurice Brubaker

Subscribed and sworn to before this 28th day of July, 2006.

CAROL SCHULZ
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: Feb. 26, 2008

Carol Schulz
Notary Public

My Commission Expires February 26, 2008.

BEFORE THE PUBLIC SERVICE COMMISSION
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<u>Rebuttal Testimony of Maurice Brubaker</u>

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Maurice Brubaker. My business address is 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141-2000.

Q HAVE YOU SUBMITTED OTHER TESTIMONY IN THIS PROCEEDING?

A Yes. On June 23, 2006 I submitted direct testimony on revenue requirement issues, and on June 30, 2006 I submitted direct testimony addressing the issue of rate design.

Q ARE YOUR QUALIFICATIONS SET FORTH IN YOUR JUNE 23 TESTIMONY?

A Yes.

Q WHAT IS THE SUBJECT OF THIS REBUTTAL TESTIMONY?

A My rebuttal testimony addresses two sets of issues. The first is the allocation issue pertaining to how to distribute any increase or decrease in revenue requirements among customer classes and rate schedules; and the second involves the projected fuel and projected purchased power expense that has been submitted by Empire District Electric Company (Empire) in its supplemental direct testimony.

Summary

Q PLEASE SUMMARIZE YOUR TESTIMONY.

A My testimony may be summarized as follows:

1. Any change in revenue requirements resulting from this case should be allocated as an equal percentage across-the-board adjustment to all rate schedules.

2. In spreading any change in revenues, it is important that the revenue at present rates used for Praxair be net of Praxair's interruptible credit in order to properly distribute any revenue change and to recognize the interruptible nature of Praxair's load.

3. Much of the supplemental direct testimony filed by Empire, and particularly that sponsored by witnesses Gipson and Fetter, extol the virtues of a fuel adjustment clause. Since the Commission already has ruled that Empire may not seek a fuel adjustment clause in this proceeding, the relevance of this testimony is not apparent.

4. The "amortization" vehicle from the Regulatory Plan is not a substitute for fuel cost recovery, but is a safety net designed to provide Empire with sufficient cash flow and credit metrics in the event that strict application of traditional ratemaking principles prove insufficient to achieve these results.

5. To the extent Empire is not receiving timely recovery of its prudently incurred fuel and purchased power expense, this is the result of the three-year IEC which Empire bargained for and got.

6. The references which Empire witness Gipson makes to a natural gas task force report (WLG-4) are largely irrelevant to the issues at hand in this proceeding and should be given no weight.

7. The Commission should not try to set rates in this case by using projected fuel and purchased power costs for calendar year 2007, 2008 and 2009. There would be several flaws with this approach:

    a. Empire has not hedged, and does not intend to hedge at current forward prices, its remaining gas requirements for those years.

    b. Introduction of complex new production cost simulations at this stage of the proceeding effectively precludes any meaningful review of the input assumptions and the study results.

c. Relying on projections of just one element of the revenue requirement is inconsistent with the test year concept and is not good ratemaking.

Revenue Allocation

Q IN YOUR DIRECT TESTIMONY ON REVENUE ALLOCATION, HOW DID YOU PROPOSE TO DISTRIBUTE ANY CHANGE IN REVENUES THAT MIGHT RESULT FROM THIS CASE?

A I proposed to allocate any changes in revenues as an equal percent to existing base rates.

Q WHAT PROPOSALS HAVE BEEN MADE BY THE STAFF OF THE MISSOURI PUBLIC SERVICE COMMISSION?

A Staff proposes essentially across-the-board increases. Staff distinguishes between whether the Interim Energy Charge (IEC) is terminated or remains in effect.

Q WHAT METHODOLOGY HAS BEEN PROPOSED BY THE OFFICE OF PUBLIC COUNSEL (OPC)?

A OPC's primary recommendation is to continue the IEC in effect, and to allocate any change in revenues as an equal percent of current class revenues ". . . excluding the proportion of variable fuel cost reflected in current revenues." (Direct testimony of Barbara Meisenheimer, page 2) Should the Commission, over the objections of Industrial Intervenors and OPC, terminate the IEC and allow additional fuel costs to be collected through rates set in this case, OPC proposes to apply some complex formulas that apparently would distinguish between fuel and non-fuel revenues in allocating the revenue change, but the logic of the mathematics associated with the allocation recommendation is not evident.

Q WHAT BASE REVENUES DO STAFF AND OPC UTILIZE FOR PRAXAIR IN DEVELOPING REVENUE ALLOCATIONS?

A Both Staff and OPC use $2,436,000 as the current base annual revenues for Praxair.

Q WHAT REVENUES DID YOU USE IN YOUR DIRECT TESTIMONY?

A I used $2,077,000.

Q WHAT IS THE DIFFERENCE IN THESE NUMBERS AND WHAT IS THE ORIGIN OF THE DIFFERENCE?

A The difference in the numbers is roughly $360,000 per year, which is the amount of credit that Praxair receives for its interruptibility.

Q WHAT DOES THE $2,436,000 FIGURE THAT STAFF AND OPC HAVE USED REPRESENT?

A This is the amount of base revenue that Praxair would pay if it took firm service only, and no interruptible service at all. The actual base revenue which Praxair pays ($2,077,000) is about 15% lower than what it would pay if all of its load were firm.

Q IF THE REVENUE THAT PRAXAIR WOULD PAY IF IT WERE FIRM WERE USED IN THE ALLOCATION AS STAFF AND OPC PROPOSE, WHAT IS THE IMPACT THAT ANY ACROSS-THE-BOARD EQUAL PERCENTAGE INCREASE ON CURRENT REVENUES WOULD HAVE ON THE ACTUAL REVENUES WHICH PRAXAIR PAYS?

A It would give Praxair too large of an increase. Let me illustrate this with a simple example. Suppose that an across-the-board revenue increase of 10% were applied. Under Staff and OPC's methodology, Praxair's rates would go up $244,000 (10% of

$2,436,000). In relation to the $2,077,000 that Praxair actually pays, this is an 11.7% increase, not a 10% increase. By allocating an across-the-board increase on "phantom" revenues that Praxair does not actually pay, an increase that purports to be across-the-board is actually much higher than an across-the-board increase for Praxair because it does not pay the phantom revenues; it pays the lower revenue, net of the interruptible credit.

Q WHAT IS YOUR RECOMMENDATION?

A In revenue allocation, it is important to use Praxair's actual revenues paid to Empire, not the inflated revenues used by Staff and OPC. Use of Praxair's actual revenues properly reflects the fact that Praxair provides Empire the ability to interrupt Praxair's load. Using the phantom revenues, as recommended by Staff and OPC, treats Praxair like all other customers, despite the fact that no other customer provides Empire with the ability to curtail load.

<u>Supplemental Direct Testimony</u>

Q HAVE YOU REVIEWED THE SUPPLEMENTAL DIRECT TESTIMONY FILED BY EMPIRE AND OTHERS IN THIS CASE?

A Yes, I have.

Q DO YOU HAVE ANY COMMENTS CONCERNING THE SUPPLEMENTAL DIRECT TESTIMONY FILED BY EMPIRE WITNESSES GIPSON AND FETTER?

A Yes. It appears to me that much of the testimony of these two witnesses is for the purpose of extolling the virtues of a fuel adjustment clause. However, since the

Commission already has ruled that Empire may not seek a fuel adjustment clause in this proceeding, the relevance of this testimony is not apparent.

Q ON PAGE 4 OF HIS SUPPLEMENTAL DIRECT TESTIMONY WITNESS GIPSON COMMENTS THAT THE "AMORTIZATION" VEHICLE THAT RESULTED FROM THE REGULATORY PLAN SHOULD NOT BE VIEWED AS A REPLACEMENT FOR TIMELY RECOVERY OF PRUDENTLY INCURRED FUEL AND PURCHASED POWER EXPENSE. DO YOU AGREE?

A I agree that they were not designed to be substitutes. However, the amortization alternative was a "safety net" designed to provide Empire with sufficient cash flow and credit metrics in the event that strict application of traditional ratemaking principles is insufficient to achieve these results. In this regard, the amortization mechanism does not distinguish between various types of expenses. In essence all operating expenses, whether they result from generation, transmission, distribution or corporate functions, are treated the same in determining whether Empire has sufficient cash flow to meet the credit metrics. Therefore, the positions advanced in Empire's supplemental direct, which attempts to distinguish between fuel expense and all other expense items, are flawed.

It is the position of Industrial Intervenors that to the extent Empire is not receiving timely recovery of its prudently incurred fuel and purchased power expense it is a result of the three-year IEC which Empire bargained for and got.

Q ARE YOU FAMILIAR WITH THE TESTIMONY OF MR. GIPSON AT PAGE 7 WHERE HE REFERENCES SCHEDULE WLG-4, A TASK FORCE REPORT CONCERNING NATURAL GAS DISTRIBUTION UTILITIES?

A Yes.

Q DO YOU HAVE ANY COMMENTS ON THE SECTIONS WHICH HE DRAWS TO THE ATTENTION OF THE COMMISSION?

A Yes. The first portion that he highlights is on page 24 of the report. It simply refers to the role of gas-fired generation in electric utilities. At best, the comment is gratuitous and has no real relevance to the issues in this proceeding.

The other two sections that he highlights, those appearing at pages 28 and 36, address the impact of fluctuating natural gas prices on natural gas LDCs. There is little relevance in terms of magnitude because of the much larger impact that fluctuating natural gas prices have on natural gas LDCs than on electric utilities who only supply a portion of their energy requirements from natural gas. On the other hand, there is relevance in terms of intent because the very purpose of the IEC in the first place was to deal with fluctuating natural gas prices. It seems that Mr. Gipson's complaint is not directed toward the mechanism itself, but rather to the specific costs captured by the mechanism that Empire negotiated with the other parties.

Q ARE YOU FAMILIAR WITH THE TESTIMONY OF OTHER WITNESSES WHO PROVIDE PROJECTED GAS USAGE AND COST INFORMATION?

A Yes. For example, Empire witness Tarter provides fuel and purchased power projections for calendar years 2007, 2008 and 2009 based on production cost simulation studies. The unhedged gas volumes were priced based on futures prices on July 10, 2006, as specified in the Commission order. Effectively, Mr. Tarter ran production cost simulation studies which assume that Empire hedged 100% of its natural gas needs for 2007, 2008 and 2009 as of July 10, 2006.

Q CAN THIS INFORMATION BE USED TO SET RATES IN THIS CASE?

A No. This information is a forecast of just certain selected items in the revenue requirement. 2007, 2008 and 2009 are beyond the test year and would contain a variety of additional factors different from the test year. For example, growth in sales volumes would have to be included if one were to extend beyond the test year for an examination of gas volumes or of revenue requirements.

It would be inappropriate to reach forward and selectively pluck certain items for insertion in the revenue requirement. That would violate the entire concept of the "matching" principle and defeat the very purpose of using a "test year" to set rates.

It is also the case that hedging all the remaining natural gas requirements at the July 10, 2006 futures price is unrealistic and in conflict with the practice that Empire follows in its risk management strategy. As even Empire notes in its supplemental direct testimony (Richard McCord, at p. 12-16), locking up 100% of unhedged anticipated volumes is not something that it would do at this time. Thus, the numbers produced by this exercise have no relevance and should not be relied upon for any purpose by the Commission in this case.

Moreover, the assumption that 100% of all projected gas volumes (beyond the current hedges) were supplied based upon the price as of a single point in time is contrary to the logic underlying Commission Rule 4 CSR 240-40-.018. Although that rule is applicable only to LDCs, it reflects a Commission policy that natural gas purchasing activities be diversified. The logic underlying that rule and Empire's risk management strategy clearly indicate the faulty nature of the assumptions underlying Tarter's production cost simulation studies.

Q ARE THERE ANY OTHER REASONS WHY THE COMMISSION SHOULD NOT RELY UPON THIS INFORMATION?

A Yes. As Mr. Tarter notes in his supplemental direct testimony, the projections were determined by running the PROSYM production cost simulation model for 2007-2009. These are very complex models and require many inputs that must be derived from separate analyses. Presentation of this type of information at such a late date in the proceeding effectively precludes other parties from having a reasonable opportunity to review these studies.

Also, curiously, Empire did not provide copies of its workpapers, and it is my further understanding that a request to Empire's Counsel for copies of such workpapers elicited the response that there were "no workpapers."

Q IN YOUR EXPERIENCE, IS IT CUSTOMARY TO HAVE WORKPAPERS FOR PRODUCTION COST SIMULATIONS?

A Yes. These are very complex models and require numerous inputs. At a minimum, the input values would be expected to constitute the workpapers. Indeed, Mr. Tarter provided significantly more information in his direct testimony with respect to Empire's initial production cost simulation than was provided in the supplemental testimony, which essentially included only gas prices and a single page output report.

Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A Yes, it does.

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