

EXECUTIVE SUMMARY
REBUTTAL TESTIMONY OF W. SCOTT KEITH
DOCKET NO. ER-2006-0315

Purpose of Testimony:

The topics addressed in my rebuttal testimony include: gain on the unwinding of a long-term natural gas hedge position, off-system sales levels, prepayments, banking fees, outside services, Edison Electric Institute (“EEI”) fees, and rate case expense. There is also an explanation of how Empire chose to respond to the accounting issues as a result of the two Staff revenue requirement cases.

Summary and Conclusion:

- Gain from unwinding of long-term hedge position - This section of the testimony on the unwinding of the hedge transaction describes the flaws associated with the positions taken by the Staff and the Industrials. Essentially, the gain on this non-recurring transaction was used by Empire to offset fuel and energy costs. In addition to offsetting the unexpected increase in 2005 natural gas prices this transaction reduced some of the credit exposure that existed with this single natural gas supplier and enabled Empire to use this shift in credit exposure to support more near-term natural gas hedges. The gains from this transaction should not be used to reduce future rates.
- Off-system sales levels - This section of the testimony addresses the positions taken by the Staff and OPC on ongoing off-system sales and proposes an alternative 5-year average for use in the rate case.
- Prepayment Balances - This section of the testimony describes the omission of two prepayment account balances by the Staff and how they should be included in the Empire rate base in Missouri.
- Banking fees - This section of the testimony takes issue with the Staff position on banking fees by pointing out inconsistencies in the Staff approach to the annualization of the banking fees associated with the existing Empire line-of-credit and the inappropriate use of interest income to reduce the retail cost of service.
- Outside services - This section of the testimony explains how a five-year average of outside service costs does not result in a reasonable level of outside service expenses due to the current and upcoming IRP filings required in Missouri.
- EEI dues - This section of the testimony explains how the Company and customers benefit from Empire’s membership in EEI through Empire’s access to industry resources in the environmental, safety and financial areas.
- Rate case expense - This section of the testimony describes a process where rate case expenses can be made closer to actual by the filing of additional information closer to the hearing date or the subject of a true-up later on in the process.
- Two Staff revenue requirements - This section of the testimony describes how Empire chose to address the accounting issues in the rate case given the two Staff cases presented.