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| Exhibit No.: | |
| Issues: | ELIP & FAC |
| Witness: | Lena M. Mantle |
| Sponsoring Party: | MO PSC Staff |
| Type of Exhibit: | Rebuttal Testimony |
| Case No.: | ER-2008-0093 |
| Date Testimony Prepared: | April 4, 2008 |

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY OPERATIONS DIVISION**

# REBUTTAL TESTIMONY

# OF

# LENA M. MANTLE

**THE EMPIRE DISTRICT ELECTRIC COMPANY**

**CASE NO. ER-2008-0093**

**Jefferson City, Missouri**
**April 2008**

**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 Rebuttal Testimony in question and answer form, consisting of 9 pages of Rebuttal Testimony to be presented in the above case, that the answers in the following Rebuttal 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
Lena M. Mantle

Subscribed and sworn to before me this 4th day of April, 2008.

Susan L Sundermeyer
Notary Public

## Table of Contents

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**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. What is your present position with the Missouri Public Service Commission (Commission)?

A. I am the Manager of the Energy Department, Utility Operations Division.

Q. What is your educational background and work experience?

A. My credentials can be found on pages 19 through 22 of the credential section of Staff's Cost of Service Report (Staff COS Report) filed February 22, 2008.

Q. What did you contribute to the Staff COS Report filed in this case?

A. I wrote the portions of the Staff COS Report concerning Empire's Experimental Low-Income Program (ELIP) and the Staff's position respecting a Fuel Adjustment Charge (FAC) for Empire.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to present the Staff's new position regarding ELIP and to respond to the FAC testimony of Empire's witness W. Scott Keith and the FAC testimony filed by Maurice Brubaker on behalf of Enbridge Energy, LP; Explorer Pipeline Company; General Mills; Praxair, Inc.; and Wal-Mart Stores, Inc (Industrial

Intervenors.) All citations to Mr. Brubaker's direct testimony refer to his Fuel Adjustment/Rate Design testimony filed on March 7, 2008.

**Experimental Low-Income Program**

Q. Briefly explain the Experimental Low-Income Program (ELIP.)

A. This experimental program, which began in 2003, provides monthly bill credits of either $50 or $20 to customers with household income of 125% of the Federal Poverty Level or less. Participants are required to enroll in Empire's Average Payment plan and, for participants with outstanding arrearages, participants must enter into special pay agreements to pay Empire over a twelve to twenty-four month time period. Since the program started, $1.4 million has been provided for this program (one half from shareholders, the other half from ratepayers) yet only approximately $0.5 million has been spent.

Q. Please explain Staff's proposal for the ELIP.

A. Staff's proposal is shown on Schedule 1. Briefly, Staff is proposing continuing ELIP until an evaluation can be conducted by an outside party that did not participate in the development of the program. As of February 2008, there was approximately $1 million of unspent funding for ELIP in Empire's possession. Since the ratepayers contributed one half of the funding and the shareholders contributed the other half, the Staff's proposal is for one half of the unspent funds be refunded to ratepayers and the other half (shareholder's contribution) be used to fund the program through the Iatan 2 rate case as specified in the Regulatory Plan.

Q. Will the remaining funds be enough to fund the program through the Iatan 2 rate case?

A. Absent a tremendous increase in participation, the shareholder's contribution will be more than enough to fund the program and pay for an evaluation of the program. At the time of Iatan 2 case order approving new tariffs, the remaining balance of excess ELIP funds, whether it is a plus or minus, will be taken into account in the demand-side management (DSM) amortization level. For example, if the actual ELIP expenditures during the interim period do not use all of the funds available, future DSM amortization levels would be lowered. Just the opposite would take place if actual ELIP expenditures exceed the program funds available; future DSM amortization levels would increase.

Q. What will happen to the ELIP at the end of the Iatan 2 case?

A. The program will be discontinued. Depending on the results of the evaluation of ELIP, it may be replaced by a permanent low-income program.

Q. Is Empire proposing the same on-going approach to ELIP in its rebuttal testimony?

A. It is my understanding that Empire is proposing the same treatment of ELIP funding with the exception of one detail. Staff is recommending that interest be included in the refund to the ratepayers. It is Staff's understanding that Empire, in its rebuttal testimony, will be proposing that the refund not include interest.

**Fuel Adjustment Clause**

Q. What are the differences among the parties' positions regarding a Fuel Adjustment Clause (FAC) for Empire?

A. The parties that filed testimony regarding a FAC (Empire, Staff and the Industrial Intervenors) agree that Empire should be allowed a FAC by the Commission. However, there are differences among the parties regarding what costs and revenues should be flowed through the FAC and the incentive plan portion of the FAC.

Q. What is Staff's recommendation regarding which costs and revenues should be flowed through the FAC?

A. Staff recommends that variable fuel and purchased power expenses, off-system sales margin, and emission allowance purchases and sales should be flowed through the FAC. Staff recommends that only two Southwest Power Pool (SPP) costs should be flowed through the FAC. The daily SPP energy imbalance market settlements (i.e., the difference between the energy requirements of Empire and the energy supplied by Empire to SPP either through generation or purchased power) are included in purchased power sales and revenues of Empire. The other SPP charge that Staff recommends flow through the FAC is the revenue neutrality uplift charge. This charge reflects the transmission costs of Empire's use of the SPP energy imbalance market.

Q. Did Empire include purchased power revenues in its recommendation of what should flow through an Empire FAC?

A. Empire did not include off-system sales margin in its proposal. In reference to off-system sales margin, i.e., the net of the revenues and expenses off-system purchases and sales, Empire witness Scott Keith states in his direct testimony: "Empire is not opposed to including 100% of its actual Missouri jurisdictional off-system sales margin as a component of the FAC. Either treatment, base rate or as a component of the FAC, appears to be acceptable under the terms of Empire's approved regulatory plan." (Keith direct p. 26, l. 1-4). In addition, Empire included some fixed costs in its recommendation (response to Industrial Intervenors' Data Request No. 127.)

Q. Does Staff recommend that off-system sales margin be included in base rates or as a component of the FAC?

A. Staff recommends that a base level of off-system sales margin be included in the FAC base cost to which each six month accumulation period is compared. Off-system sales margin should also be included in the accumulation period costs. The adjustment to the FAC rate in each recovery period would then be based on the difference between what was included in the base and the actual off-system sales margin during the accumulation period.

Q. Why is Staff recommending that emission allowance purchases and sales be allowed in the FAC?

A. In the last Aquila, Inc. rate case (Case No. ER-2007-0004), in its Order Rejecting Tariff, Granting Clarification, Directing Filing and Correcting Order Nunc Pro Tunc regarding the inclusion of emission allowances in Aquila, Inc.'s FAC, the Commission on page 4 states: "$SO_2$ emission allowance costs are variable fuel related costs in that they vary based upon the volume of coal used, as well as, the market prices of the allowances themselves." Therefore, Staff recommends emission allowance purchases be included in the FAC. If purchases are included, then Staff recommends that revenues from the sale of emission allowances also be flowed through the FAC.

Q. What are Empire's and the Industrial Intervenors' positions regarding emission allowance purchases and sales?

A. Empire witness Blake Mertens states in his direct testimony:

> Empire is including the cost related to emissions allowances in its fuel adjustment request at this time. Currently Empire projects that we will have sufficient SO2 allowances granted to us by the EPA or in our existing inventory to supply our needs through about 2012 so the inclusion of FERC account 509 in the FAC is not expected to have any impact until that time.

(Mertens direct, p. 19, l. 7-11)

When asked in Staff Data Request No. 191 about Empire's position regarding emission allowance sales, Mr. Scott Keith replied:

> Empire is not opposed to reflecting the revenue from the sale of emission allowances in the FAC. The proposed tariff only reflected the costs in FERC account 509, but the proposed tariff can be clarified to make it clear that the emission costs reflected in the FAC are net of any revenue associated with the sale of emission allowances.

Industrial Intervenors witness Mr. Brubaker recommends that $SO_2$ allowance costs not be included in the FAC. (Brubaker direct, p. 18, l. 21-23).

Q. How does the FAC incentive plan that Staff recommends in its COS report differ from the FAC incentive plan proposed by Empire?

A. The basic principle of the incentive plans are the same: Empire should be held responsible (i.e., over/under recovery) for a percentage of the adjustment to the base fuel rate. The difference between Empire's incentive plan and Staff's is the percentage factor that would be Empire's responsibility. Empire recommended that ninety-five percent (95%) of the total adjustment be billed/credited to the ratepayers. This would mean that Empire would retain five percent (5%) of any decrease in energy costs for an accumulation period or absorb five percent (5%) of any increase in energy costs for an accumulation period. Empire based its recommendation on the FAC authorized by the Commission in the last Aquila, Inc. rate increase case (Case No. ER-2007-0004.) (Keith direct, p. 29, l. 4-5).

Based on Staff's analysis, as described in Staff COS Report on pages 61 though 63, it is Staff's position that the five percent (5%) level gives Empire very little serious incentive to manage its fuel costs efficiently. Staff's analysis respecting Empire's estimated fuel and purchased power costs showed that over the four year time period of 2003 through 2006, Empire absorbed approximately $85.5 million (over sixty percent (60%)) of the total increase in fuel costs of $139 million. During that time, Empire had great incentive to reduce its fuel costs as much as possible.

Given the estimate that Empire absorbed over sixty percent (60%) of an increase in fuel and purchased power costs between 2003 and 2006, Staff believes that requiring Empire to absorb/retain a percentage of the change in the FAC in the range of twenty to forty percent (20% - 40%) would result in a much greater incentive for Empire to manage the costs included in its FAC while greatly reducing the risk of Empire having to absorb increased fuel costs. At twenty percent (20%), Empire would have less risk and Empire's ratepayers would be absorbing/retaining more of the costs. At 40%, Empire's risk would be greater and the ratepayers would be absorbing/retaining less of the costs. Staff recommends that the percentage be set at the mid-point of this range – thirty percent (30%).

Staff's proposal gives Empire a great incentive to reduce its fuel and purchased power costs below the base rate. With Staff's recommendation, Empire can keep thirty (30) cents of every dollar that it does not spend.

Q. How does the Staff's incentive plan differ from the incentive plan proposed by the Industrial Intervenors witness Mr. Brubaker?

A. The incentive plan proposed by Mr. Brubaker is much more complicated than that of the Staff or Empire's. It requires the calculation of a dead-band (plus or minus one percent (1%) of total fuel costs) around the FAC base rate within which Empire is responsible for all of the increased costs, but also retains all of the savings. In addition, there are two bands of approximately five percent (5%) each within which the amount absorbed/retained by Empire changes. Outside of these bands (greater than eleven percent (11%) change), the customers absorb/retain all of the costs/savings. (Brubaker direct, p. 8).

This proposal greatly benefits the customers if fuel and purchased power costs fall. All savings greater than eleven percent (11%) are credited back to the ratepayers. However, it gives Empire no incentive to reduce costs more than eleven percent (11%). At that point on, Empire retains none of the savings.

On the other hand, Mr. Brubaker's proposal greatly benefits Empire if the costs flowing through the FAC increase more than eleven percent (11%.) Once the cost increase is greater than eleven percent (11%), Empire recovers all costs from the rate payers. Therefore, once costs increase more than eleven percent (11%), Empire will have no incentive to manage its costs since all of the costs will be passed on to the ratepayers.

Staff analyzed Mr. Brubaker's proposal using the estimated fuel and purchased power costs it used in the analysis shown in Staff's COS report. Over the 2003 through 2006 time period modeled, fuel and purchased power costs increased by more than eleven percent (11%) every year. When applying Mr. Brubaker's methodology to these estimates, the ratepayers would absorb approximately ninety-one percent (91%) of the increase in costs while Empire absorbed only nine percent (9%) of the increase.

Q. On page 11 of his direct testimony, doesn't Mr. Brubaker explain that his methodology is based on the capital structure and not the percentages given on page 8?

A. Yes, he does. Matt Barnes is the Staff witness on capital structure so, in my analysis, I used the sharing percentages that Mr. Brubaker gave on page 8 of his direct testimony. It really does not matter exactly how wide each band is. What is important is that with Mr. Brubaker's proposal, Empire is allowed to recover one hundred percent (100%) of its costs above a level that it has easily reached in the recent past. Mr. Brubaker's proposal provides very little "incentive" in his incentive mechanism.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

Experimental Low-Income Program Proposal

To become effective on the effective date of the new rates coming out of the current rate case (ER-2008-0093)

1. One half of the balance of the unspent ELIP funds, including interest, will be refunded to the customers as a one time credit to customer bill during one billing month based on the usage of the customers in the April billing month. As of February 2008, this amount is approximately $470,000.

2. ELIP costs recovery will be set at zero in the Missouri jurisdictional cost of service, and shareholder funding of the ELIP will be set at zero. The shareholder's excess funds will be used to support the ELIP expenditures until the new rates are implemented in the Iatan 2 rate case as specified in the Regulatory Plan Stipulation And Agreement, Case No. EO-2005-0263 (Iatan 2 case.)

3. An evaluation of the ELIP will be completed prior to the filing of the Iatan 2 case with the cost of the evaluation paid using excess ELIP shareholder funds. The evaluation will not be completed by anyone who helped design ELIP.

4. In the Iatan 2 case, the parties will propose either a permanent program based on the evaluation of ELIP or the discontinuance of a low-income payment program.

5. At the time of Iatan 2 case order approving new tariffs, the remaining balance of excess ELIP funds, whether it is a plus or minus, will be taken into account in the DSM amortization level. For example, if the actual ELIP expenditures during the interim period do not use all of the funds available, future DSM amortization levels would be lowered. Just the opposite would take place if actual ELIP expenditures exceed the program funds available, future DSM amortization levels would increase. Remaining balance of excess ELIP funds (shareholder portion) will become an offset to the CPC regulatory asset balance at the end of the Iatan 2 rate case.