Exhibit No.:	505
Witness:	Maurice Brubaker
Type of Exhibit:	Surrebuttal Testimony
Issue:	Fuel Adjustment Clause
Sponsoring Parties:	Enbridge Energy, LP Explorer Pipeline Company General Mills Praxair, Inc. Wal-Mart Stores, Inc.
Case No.:	ER-2008-0093

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	**)**	**Case No. ER-2008-0093**
Rates for Electric Service Provided to	**)**	
Customers in the Missouri Service	**)**	
Area of the Company	**)**	

Surrebuttal Testimony and Schedule of

Maurice Brubaker
on Fuel Adjustment Clause

On Behalf of

Enbridge Energy, LP
Explorer Pipeline Company
General Mills
Praxair, Inc.
Wal-Mart Stores, Inc.

April 25, 2008

BAI
BRUBAKER & ASSOCIATES, INC.
ST. LOUIS, MO 63141-2000

Project 8875

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-2008-0093**

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 Enbridge Energy, LP; Explorer Pipeline Company; General Mills; Praxair, Inc. and Wal-Mart Stores, Inc. in this proceeding on their behalf.

2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony and schedule on fuel adjustment clause which was prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2008-0093.

3. I hereby swear and affirm that the testimony and schedule are true and correct and that they show the matters and things that they purport to show.

M. E. Brubaker
Maurice Brubaker

Subscribed and sworn to before me this 24th day of April, 2008.

TAMMY S. KLOSSNER
Notary Public - Notary Seal
STATE OF MISSOURI
St. Charles County
My Commission Expires: Mar. 14, 2011
Commission # 07024862

Tammy S. Klossner
Notary Public

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	**)**	**Case No. ER-2008-0093**
Rates for Electric Service Provided to	**)**	
Customers in the Missouri Service	**)**	
Area of the Company	**)**	

<u>Surrebuttal 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 WHAT IS YOUR OCCUPATION?

A I am a consultant in the field of public utility regulation and president of Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS CASE?

A Yes. I have filed three pieces of testimony prior to this filing. They are:

- Fuel Adjustment Clause / Revenue Requirement Direct Testimony, filed February 22, 2008 (Exhibit No. 500);
- Fuel Adjustment Clause / Rate Design Direct Testimony, filed March 7, 2008 (Exhibit No. 502); and
- Revenue Requirement / Rate Design Rebuttal Testimony, filed April 4, 2008 (Exhibit No. 503).

Q ARE YOUR QUALIFICATIONS ATTACHED TO YOUR PRIOR TESTIMONIES?

A Yes. They appear as Appendix A to the Fuel Adjustment Clause / Revenue Requirement Direct Testimony filed on February 22, 2008.

Q WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A I will address certain positions taken by members of the Missouri Public Service Commission (MPSC or Commission) Staff in their rebuttal testimony, and certain positions taken by witnesses for Empire District Electric Company (Empire) in their rebuttal testimony.

Q PLEASE SUMMARIZE YOUR SURREBUTTAL TESTIMONY?

A My surrebuttal testimony may be summarized as follows:

1. A utility can manage many of the factors which influence the level of its fuel and purchased power costs. These include: (1) the skill of the utility in negotiating its fuel and purchased power contracts; (2) the skill of the utility in taking advantage of purchases and sales in the economy market; (3) the skill and diligence of a utility in maintaining its generation facilities and in restoring efficient units to service after unexpected outages; (4) the skill of the utility in planning its maintenance outages; (5) the skill and success of the utility in hedging transactions for its fuel supplies; and (6) the management decisions regarding the type, size and timing of facilities added to the utility's generation portfolio.

2. It is important that an FAC have incentives for the utility to appropriately manage its operations and costs.

3. Incentives in an FAC are fully consistent with the legislation which enabled the adoption of an FAC, with the Commission rules implementing the FAC structure, and with this Commission's recent decision in the Aquila case.

4. It is not necessary to track through the FAC all of the costs that are reported in fuel or purchased power accounts. Only those prudently incurred costs which are meaningful in magnitude, vary with the level of kWh generated, are volatile and/or are difficult to predict or control should be tracked through an FAC.

5. Limitations on the recovery of certain fuel and purchased power-related costs through an FAC is generally consistent with industry practice.

6. MEB Schedule 1-Surrebuttal provides an alternative FAC sharing proposal that responds to the comments of Commission Staff witness Lena Mantle concerning

the range of fuel cost changes from the base number over which Empire would share in deviations in cost levels.

Response to Empire

Q TO WHICH EMPIRE WITNESSES ARE YOU OFFERING SURREBUTTAL?

A My surrebuttal testimony responds to the "policy" testimony of Dr. Overcast, and to some of the more Empire-specific issues raised by Empire witness Scott Keith.

Q DOES DR. OVERCAST SUPPORT THE INCLUSION OF A SHARING MECHANISM IN A FUEL ADJUSTMENT CLAUSE (FAC)?

A No. Dr. Overcast does not support such a provision. In fact, in Dr. Overcast's view, each and every expense that is prudently incurred should be guaranteed recovery through the rate setting process. In regard to the sharing mechanism he states the following at line 17 on page 6 of his rebuttal testimony:

> Since I believe that 100% recovery of prudently incurred fuel costs represents the correct basis for a reasonable FAC that provides a sufficient opportunity to earn a reasonable return, there is no need for designing a fuel cost system that randomly rewards or penalizes the utility based on fuel prices, weather, purchased power prices and other variables beyond the reasonable control of the utility.

Q DO YOU SHARE DR. OVERCAST'S VIEW?

A No. I disagree with his position.

Q PLEASE ELABORATE.

A First, it is important to recognize that there are many factors other than the ones mentioned by Dr. Overcast that influence the level of fuel and purchased power costs. Some of these are: (1) the skill of the utility in negotiating its fuel and purchased power contracts; (2) the skill of the utility in taking advantage of purchases and sales in the economy market; (3) the skill and diligence of a utility in maintaining its generation facilities and in restoring efficient units to service after unexpected outages; (4) the skill of the utility in planning its maintenance outages; (5) the skill and success of the utility in hedging transactions for its fuel supplies; and (6) the management decisions regarding the type, size and timing of facilities added to the utility's generation portfolio. Clearly there are many factors besides those which Dr. Overcast mentions that influence the ultimate level of fuel costs incurred by a utility. To simply suggest that a sharing mechanism "…randomly rewards or penalizes…" is an incomplete and incorrect statement. Certainly, there are factors beyond the control of the utility, but there are many factors that the utility can manage. It is these factors that are targeted by the incentive considerations of my proposed fuel adjustment clause.

Second, I would note also that the sharing mechanism which I have proposed has a specific dollar limit on the amount of potential cost savings that could be retained by the utility, as well as a cap on the cost increase above base levels that the utility would be required to absorb. This cap on the maximum cost increase above base levels limits the impact on the utility without destroying the incentives for the utility to appropriately manage its costs.

Third, Dr. Overcast's assertion represents a continued effort by Empire to gain guaranteed recovery for its ***expense*** items while still allowing for the possibility of inflated returns because of uncapped ***revenues*** and reductions in the level of other costs that are recovered through base rates. Dr. Overcast's attempt to flow more expense items through the fuel adjustment clause will lower Empire's risk profile and increase the possibility that it will overearn.

Q DO YOU BELIEVE THAT YOUR INCENTIVE MECHANISM PROVIDES THE UTILITY WITH A REASONABLE OPPORTUNITY TO EARN A FAIR RATE OF RETURN?

A Yes, I do. Under my proposed mechanism, Empire can retain part of the benefits of cost reduction, and its ROE impact is limited.

Q DO THE COMMISSION'S FUEL ADJUSTMENT RULES PROVIDE FOR THE INCLUSION OF INCENTIVES IN FACS?

A Yes. The rules pertaining to the FAC are contained in 4 CSR 240 - 20.090. In the commentary accompanying the September 21, 2006 "Final Order and Rulemaking" issued by the Commission when adopting FAC rules, the Commission made the following statement in responding to issues raised by various parties:

> The Commission finds that a clear statement that it may apportion fuel costs between base rates and a RAM is appropriate, as more fully set forth below. The Commission will not establish a fixed level of apportionment, as the inherent differences in the operation of the utilities, particularly the difference in their fuel mixes for base load generation would render a fixed amount unreasonable in some instances. The Commission believes such authority is inherently in SB179, but will add the language to clarify that it has such authority.

Consistent with those comments, the Commission included the following language in its 4 CSR 240 - 20.090 (11):

> Incentive Mechanism or Performance Based Program. During a general rate proceeding in which an electric utility has proposed establishment or modification of a RAM, or in which a RAM may be allowed to continue in effect, any party may propose for the commission's consideration incentive mechanisms or performance based programs to improve the efficiency and cost effectiveness of the electric utility's fuel and purchased power procurement activities.
>
> (A) The incentive mechanisms or performance based programs may or may not include some or all of the components of fuel and purchased power costs, ***designed to provide the electric utility with incentives to improve the efficiency and cost effectiveness of its fuel and purchased power procurement activities.*** [Emphasis added.]

Q SUBSEQUENT TO THE ADOPTION OF THESE RULES, HAS THE COMMISSION ADDRESSED THIS ISSUE FROM A POLICY PERSPECTIVE IN A UTILITY RATE PROCEEDING?

A Yes. In the recent Aquila Networks-MPS and Aquila Networks-L&P case, MPSC Case No. ER-2007-0004, the Commission stated as follows at page 54 of its May 17, 2007 Report and Order:

> The Commission also finds after-the-fact prudence reviews alone are insufficient to assure Aquila will continue to take reasonable steps to keep its fuel and purchased power costs down, and the easiest way to ensure a utility retains the incentive to keep fuel and purchased power costs down is to not allow a 100% pass through of those costs.

Thus, it is abundantly clear that inclusion of incentive mechanisms in FACs not only is consistent with Missouri rules, but is, in concept, consistent with recent Commission findings.

Q DOES DR. OVERCAST'S POSITION SEEM TO BE AT ODDS WITH OTHER EMPIRE WITNESSES IN THIS REGARD?

A Yes. Empire has proposed a sharing mechanism within its proposed fuel adjustment clause in which a percentage of the costs of deviations from the base level are retained by Empire. In principle, this approach is the same approach that both Staff and I have recommended, although the specific sharing percentages and structure of the incentive mechanism are different. Nevertheless, the basic concepts are the same, and it would seem that Dr. Overcast's rebuttal is, at least in principle, equally directed to his client's position.

Q APPARENTLY IN RESPONSE TO YOUR PROPOSAL THAT CERTAIN COST ITEMS NOT BE PASSED THROUGH THE FAC, DR. OVERCAST STATES AT PAGE 3 OF HIS REBUTTAL TESTIMONY THAT WHETHER COSTS ARE FIXED OR VARIABLE HAS NO BEARING ON WHETHER OR NOT THESE COSTS ARE PRUDENT AND SHOULD BE RECOVERED. DO YOU AGEE?

A Yes. I agree that whether costs are fixed or variable, demand or commodity, they can be prudent or imprudent. Where we disagree is about his assertion that changes in prudent costs necessarily must be tracked through the FAC. The fact that a cost is prudent and is included in a account that is related to fuel has no bearing on whether it is appropriate to automatically track changes in the level of costs through the FAC.

Q WHAT ARE THE CHARACTERISTICS OF COSTS THAT SHOULD BE FLOWED THROUGH THE FAC?

A In addition to the requirement that the cost be prudent, costs flowed through the FAC should generally be only those that are variable with the level of kWh generated, are volatile and/or difficult to predict or control. In addition, the magnitude of the costs should be significant to the utility.

Q WHICH OF THE COSTS THAT YOU PROPOSE TO EXCLUDE FROM TRACKING THROUGH THE FAC DO EMPIRE WITNESSES BELIEVE SHOULD BE TRACKED THROUGH THE FAC?

A Empire, through Mr. Keith and/or Dr. Overcast, complains about my proposal to exclude: (1) unit train costs’ (2) fuel handling costs; (3) natural gas transportation demand charges; and (4) emission allowance costs from the FAC.

Q WHY IS IT APPROPRIATE TO EXCLUDE THESE COSTS?

A Emission allowance costs should be excluded because they are environmental-related costs, and the Commission has recently adopted rules dealing with the recovery of these types of costs for a utility that has an environmental cost recovery mechanism (ECRM) in place. Empire is free to request consideration of an ECRM in a future case. This will not preclude Empire from cost recovery until then, because it has been Empire's testimony that it does not expect to incur any SO_2 costs for several years.

Q PLEASE ADDRESS THE OTHER COSTS.

A The other costs are basically fixed or demand-related costs, costs that are not volatile, and costs that are controllable by the utility.

For example, fuel handling costs are primarily labor, and labor costs are neither volatile nor outside the control of the utility. There is no reason to distinguish labor costs associated with fuel handling from any other labor costs that are incurred. Transportation demand charges and unit train costs are fixed costs. They do not vary directly with the quantity of kWh generated, but tend to be more fixed and stable, and thus should not require pass through.

Q WHAT WAS SAID ABOUT THESE TYPES OF COSTS IN THE AQUILA CASE WHICH YOU PREVIOUSLY REFERENCED?

A This is addressed at pages 42 and 43 of the Aquila case May 17, 2007 Report and Order.

> **i. What costs should be recoverable through the fuel adjustment clause?**
>
> Aquila originally proposed to recover through its fuel adjustment clause all costs recorded in Federal Energy Regulatory Commission ("FERC") Accounts 501, 509, 547, and 555. In addition to the actual costs of

fuel and purchased power, these accounts also included related costs, such as unit train lease, depreciation, and maintenance costs; freeze/dust suppression costs; fuel handling costs; costs associated with fly-ash removal; gas reservation charges; and demand charges for purchased power contracts with terms in excess of one year. After considering objections of various parties, Aquila has agreed these costs will be recovered exclusively through base rates. Aquila continues to believe, however, that hedging costs and demand charges related to purchased power contracts with terms of one year or less should be recovered through the fuel adjustment clause.

Staff witness Cary Featherstone argues only variable fuel and purchased power costs, including variable transportation costs, should be included in a fuel adjustment clause. Specifically, Mr. Featherstone contends it is inappropriate to include demand charges for any capacity contracts, regardless of their duration, for two reasons. First, Mr. Featherstone points to the fact that demand charges are fixed costs to reserve capacity, and as such are more like plant investment cost than fuel or purchased power cost. Second, Staff opposes Aquila's use of short-term contracts to meet its growing capacity needs. Staff argues that allowing Aquila to pass on this type of cost would allow Aquila to meet its growing load requirements through short-term capacity, thus creating another disincentive for it to build generating units and placing all the risk of future fuel and purchased power cost increases on its customers. Mr. Featherstone's analysis is persuasive.

Findings of Fact: The Commission finds a reasonable fuel adjustment clause should be straightforward and simple to administer, retain some incentive for company efficiency, and be readily auditable and verifiable through expedited regulatory review. The Commission can find no probative evidence in the record to support a finding that hedging costs or demand charges related to purchased power contracts with terms of one year or less should be recovered in a different manner than purchased power contracts with longer terms. The Commission agrees with Staff, and finds that demand charges are fixed costs to reserve capacity, and as such are more like plant investment cost than fuel or purchased power cost. This is the case irrespective of the length of the purchased power contract. Further, if demand charges on short term contracts are allowed to flow through the fuel adjustment clause, Aquila would be encouraged to forgo entering long term contracts in favor of short term contracts.

Conclusions of Law: The Commission concludes it would be improper to allow Aquila to flow hedging costs or demand costs associated with any purchased power contract through its fuel adjustment clause. The Commission concludes Aquila will only be allowed to flow variable fuel and purchased power costs, including variable transportation costs, through its fuel adjustment clause. [Footnotes omitted.]

It should also be noted, however, that in a Clarifying Order issued May 21, 2007, the Commission did provide that hedging costs could be passed through the FAC.

Q DIDN'T THE AQUILA ORDER ALSO PROVIDE THAT SO_2 ALLOWANCE COSTS COULD BE INCLUDED IN THE FAC?

A Yes, it did. However, at the time of the Aquila Order, the Commission had not published any rules concerning the ECRM and that Aquila was already incurring SO_2 costs. Thus, the circumstances in the Aquila case are markedly different from the circumstances faced by Empire.

Q IS IT CONVENTIONAL TO EXCLUDE FIXED COSTS FROM FAC'S?

A Yes, it is. Predominantly, FACs are designed to recover changes in variable costs; that is, costs that vary on a kWh basis. In addition to the reasons I have previously mentioned, costs passed through the fuel clause are on a per kWh basis (adjusted for losses) and inclusion of demand-related costs in an FAC would burden high load factor customers because they would be required to pay a disproportionately large share of such costs. It is preferable, and more typical, to include these costs in base rates.

Q CAN YOU PROVIDE ANY EXAMPLES OF OTHER COMMISSION LIMITING THE RECOVERY OF CHARGES THROUGH THE FAC?

A Yes. No doubt there are many orders, rules and fuel clauses that address this subject or implement such provisions. One order that I believe is reasonably typical is the General Order of the Louisiana Public Service Commission styled in Re:

Development of Standards Governing the Treatment and Allocation of Fuel Costs by Electric Utility Companies, decided October 1, 1997.

At pages 8 and 9 of the Order, the Commission stated that the following costs would not be included in the FAC:

> D. Excludable Costs.
>
> - Nonfuel operation and maintenance costs such as accounting and other administrative costs.
> - Procurement costs such as salaries, wages, and overheads for personnel in fuel purchasing department.
> - ***Fuel handling and testing costs such as personnel, equipment, and other overhead costs related to coal inventory at plant site.***
> - Cost (net of sales revenues) of byproduct disposal such as hauling costs for bottom ash disposal.
> - Property taxes including ad valorem taxes such as property taxes on railroad cars and other equipment owned or leased by utility.
> - Depreciation and amortization costs (other than nuclear fuel) such as depreciation of ***railroad cars*** and other equipment owned by utility.
> - Lease expense (other than nuclear fuel) such as lease expense for ***railroad cars*** and other equipment.
> - Interest expense or carrying charges (other than Commission authorized return on under and over recoveries and interest on leased nuclear fuel) on capital investments and inventories such as interest due on capital investment in gas storage facility.
> - Purchased power ***demand***, capacity, or facilities charges whether explicitly identified or subsumed within an energy charge, regardless of whether affiliated or nonaffiliated parties such as purchased power demand charge based upon Mw commitment of supplier.
> - Cost of and revenues from transmission for affiliated parties such as payment for transmission services under FERC open access tariff to affiliated company for pool energy purchases.
> - Firm sales revenue for demands, capacity or facilities whether explicitly identified or subsumed within an energy charge, regardless of whether made to affiliated or nonaffiliated parties such as revenues received from purchaser for demand charge based upon Mw commitment from utility.

Q DID MR. KEITH PROVIDE ANY OTHER REASONS WHY HE DISAGREED WITH YOUR EXCLUSIONS?

A Yes. On page 7 of his testimony he basically raised an issue of administrative complication, complaining that having to separate these costs would be difficult.

Q DO YOU BELIEVE MR. KEITH'S OBJECTIONS OF ADMINISTRATIVE DIFFICULTY ARE VALID?

A No, I do not. I find that the points raised by Mr. Keith are extremely minor. I do not believe that the exclusions which I have proposed, which Aquila apparently is able to handle, should pose difficulties for Empire.

Q AT PAGES 6 THROUGH 8 OF HIS TESTIMONY, AT VARIOUS POINTS, DR. OVERCAST ARGUES THAT BECAUSE IT IS EXPECTED THAT FUEL COSTS WILL RISE IN THE NEAR TERM, THE SHARING MECHANISM IN THE FAC THAT YOU HAVE PROPOSED IS NOT SYMMETRICAL. DO YOU AGREE WITH DR. OVERCAST?

A No, I do not. Dr. Overcast has chosen to focus on a single element of the cost equation – namely the unit cost of fuel. He has ignored several things. First, it is not only the cost of fuel that determines the level of fuel costs. As previously mentioned, there are many other factors that determine the overall level of fuel and purchased power costs that the utility incurs. He has not addressed any of these.

In addition, he has taken a short-term view in assuming that the direction of fuel cost changes is continuously upward. This has not been the case in the past, and it likely will not be the case in the future. In the recent past, we have seen both increases and decreases in the level of both coal and natural gas costs. Thus, it is entirely possible that during the course of the existence of the FAC there will be some decrease in fuel costs.

Furthermore, my proposed sharing mechanism allows the utility to retain the benefits of decreases in the average cost of fuel and purchased power, as well as requires it to participate in absorbing costs associated with increases in the cost of fuel and purchased power, the clause which I have proposed is symmetrical.

Finally, to the extent that Dr. Overcast's criticism that my proposal is asymmetrical, that criticism is equally applicable to the fuel adjustment clause proposal advanced by Empire.

Response to Commission Staff

Q HAVE YOU REVIEWED THE REBUTTAL TESTIMONY OF STAFF WITNESS LENA MANTLE WITH RESPECT TO YOUR FAC TESTIMONY?

A Yes.

Q AT PAGE 8 OF HER TESTIMONY, LINE 8, SHE INDICATES THAT UNDER YOUR PROPOSAL AFTER COSTS WOULD INCREASE MORE THAN 11%, EMPIRE RECOVERS "…ALL COSTS FROM THE RATEPAYERS." IS THIS AN ACCURATE STATEMENT?

A I believe I understand what Ms. Mantle is saying. However, to be clear, I think a more precise statement would be that Empire recovers "…all <u>additional</u> costs from the ratepayers, above that level." In other words, Empire cannot go back and recapture all cost increases. It must absorb the $3 million of increases up to that point.

Q MS. MANTLE GOES ON TO SAY THAT ABOVE THAT LEVEL OR CAP THAT EMPIRE HAS NO INCENTIVE TO MANAGE ITS COSTS SINCE ALL ADDITIONAL COSTS WOULD BE PASSED ON TO THE RATEPAYERS. DO YOU AGREE?

A I understand Ms. Mantle's point. In my proposed FAC with the cap on the absorption of costs, and the other features, she is correct that there is no additional incentive once the cap is hit.

Q HAVE YOU PREPARED AN ALTERNATIVE SHARING STRUCTURE THAT ADDRESSES MS. MANTLE'S CONCERNS?

A Yes. MEB Schedule 1-Surrebuttal provides an alternative form of sharing mechanism which is designed to provide an incentive to Empire over a wider range of fuel cost deviations from the base. This alternative sharing mechanism maintains the same $3 million cap on absorptions by Empire of increases in cost, and retention by Empire of the benefit of decreases in costs. It differs in that I have eliminated the dead band which previously required Empire to absorb the first ± $1.2 million deviation from the base. By taking those dead band dollars and spreading them out over a broader range of cost changes, an incentive to control costs can be maintained over a much broader range.

Q PLEASE ELABORATE ON THIS ALTERNATIVE.

A As shown on MEB Schedule 1-Surrebuttal, there are two sharing bands. For the first $20 million of deviations in fuel costs from the base (representing about a 16% deviation in fuel costs from the base) the stockholder retention percentage is 5% – the same as proposed by Empire. However, beyond the initial $20 million deviation, additional deviations are shared 90% to customers and 10% to stockholders. The $3 million retention cap is hit at ± $40 million (31% from the base), rather than at ± $13.2

million (11%) from the base in the proposal contained in my March 7, 2008 direct testimony.

While other structures could be devised, I believe this structure addresses Ms. Mantle's concern, while still maintaining a cap on Empire's financial exposure.

Q DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A Yes, it does.

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The Empire District Electric Company

Alternative Sharing Structure
($ Millions)

Change in Net Cost Level from Base *	Amount in Band	Sharing Percent Customer	Sharing Percent Stockholder	Maximum Sharing Dollars in Band Customer	Maximum Sharing Dollars in Band Stockholder	Cumulative Sharing Dollars Customer	Cumulative Sharing Dollars Stockholder	Cumulative Impact on Return on Equity
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
> $40.0		100%	0%	All	None	$37.0 + [1]	$3.0	50 Basis Points
$40.0 – $30.0	$10.0	90%	10%	$9.0	$1.0	$37.0	$3.0	50 Basis Points
$30.0 – $20.0	$10.0	90%	10%	$9.0	$1.0	$28.0	$2.0	33 Basis Points
$20.0 – BASE	$20.0	95%	5%	$19.0	$1.0	$19.0	$1.0	17 Basis Points
BASE – ($20.0)	($20.0)	95%	5%	($19.0)	($1.0)	($19.0)	($1.0)	17 Basis Points
($20.0) – ($30.0)	($10.0)	90%	10%	($9.0)	($1.0)	($28.0)	($2.0)	33 Basis Points
($30.0) – ($40.0)	($10.0)	90%	10%	($9.0)	($1.0)	($37.0)	($3.0)	50 Basis Points
> ($40.0)		100%	0%	All	None	($37.0) + [2]	($3.0)	50 Basis Points

Notes:

[1] Customers are responsible for $37.0 million plus any additional costs above $40.0 million.

[2] Customers receive $37.0 million plus any additional savings above $40.0 million.

*Fuel and purchased power costs minus off-system sales revenue

The Empire District Electric Company

Impact on Company Return on Equity From Change in Recovery of Total Fuel Costs
(Based on Alternative Sharing Structure)

Line	Description	Company Requested Missouri Jurisdictional (1)		Scenario #1 (2)		Scenario #2 (3)		Scenario #3 (4)
1	Total Missouri-Retail Fuel & PP [1]		$	142,191,310	$	142,191,310	$	142,191,310
2	Less: Purchased Power Demand [1]		$	13,384,576	$	13,384,576	$	13,384,576
3	Cost of Energy Requested (L1 - L2)		$	128,806,734	$	128,806,734	$	128,806,734
4	Amount Change in Fuel & PP [2]		$	20,000,000	$	30,000,000	$	40,000,000
5	Company Cumulative Responsibility [2]		$	1,000,000	$	2,000,000	$	3,000,000
6	Income Tax Gross Up Factor [3]			1.62308		1.62308		1.62308
7	Change in Company's Operating Income (L5 / L6)		$	616,113	$	1,232,225	$	1,848,338
8	Operating Income After Fuel & PP Impact ($68,622,744 less adjustment in L7)	**$ 68,622,744** [4]	**$**	**68,006,631**	**$**	**67,390,519**	**$**	**66,774,406**
9	Jurisdictional Rate Base	$ 733,148,974 [4]	$	733,148,974	$	733,148,974	$	733,148,974
10	Rate of Return (L8 / L9)	9.36% [4]		9.28%		9.19%		9.11%
11	Calculated Return on Equity	**11.60%** [5]		**11.43%**		**11.27%**		**11.10%**
12	Basis Point Reduction			**17**		**33**		**50**

Source:
[1] Schedule WSK-2
[2] MEB Schedule 2, Page 1 of 2
[3] Direct Testimony of W. Scott Keith, Section G, Schedule 3, Page 1 of 3
[4] Direct Testimony of W. Scott Keith, Section D, Schedule 1
[5] Direct Testimony of W. Scott Keith, Section H, Schedule 1 (Confidential)