Exhibit No.
Issue: Demand Side Management and Affordability Programs and ELIP
Witness: Sherrill L. McCormack
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Empire District
Case No. ER-2006-0315

Before the Public Service Commission of the State of Missouri

Rebuttal Testimony

of

Sherrill L. McCormack

July 2006

REBUTTAL TESTIMONY
OF
SHERRILL L. MCCORMACK
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2006-0315

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND ADDRESS.

A. Sherrill L. McCormack. My business address is 602 Joplin Street, Joplin, Missouri 64802.

Q. ARE YOU THE SAME SHERRILL MCCORMACK WHO PREVIOUSLY PRESENTED TESTIMONY IN THIS CASE BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION ("COMMISSION")?

A. I am.

II. EXECUTIVE SUMMARY

PURPOSE:

I will address the adjustment proposed by the Commission Staff that is related to The Empire District Electric Company's ("Empire" or "Company") Energy Efficiency Programs ("DSM"); propose an accounting methodology that combines energy efficiency and affordability programs created in Case No. ER-2004-0570 (hereafter the "2004 Rate Case"), the programs created in Case No. EO-2005-0263 (hereafter the "2005 Regulatory Plan") along with the Experimental Low Income Program

("ELIP") created in ER-2002-424; and respond to the comments of Barbara A. Meisenheimer of the Office of the Public Counsel ("OPC") concerning the Employee Purchase Plan and the changes to the ELIP.

The Regulatory Plan approved by the Commission in Case No. EO-2005-0263 addresses the incorporation of the current DSM programs into the Customer Programs Collaborative ("CPC"). I recommend that when incorporating all programs under the CPC, the accounting for each program be treated consistently. The CPC has agreed that the ELIP should be brought under its review, and I suggest that the accounting for this program be consistent with that of the DSM programs.

SUMMARY AND CONCLUSION:

In this testimony, I propose removing DSM and ELIP expenses from this case in the amount of $50,001 and $150,000, respectively to allow for consistent accounting treatment to be implemented. I also propose that the ELIP be moved to the review of the CPC and future expenses associated with the program be recorded as a regulatory asset subject to the same amortization rules agreed to as part of the 2005 Regulatory Plan. The final issue in this testimony is the response to Ms. Meisenheimer's question regarding ratepayer contribution to the Employee Purchase Plan.

Q. HAVE YOU REVIEWED THE DIRECT TESTIMONY OF AMANDA C. MCMELLEN OF THE STAFF AND BARBARA A. MEISENHEIMER OF THE OPC AS THEY RELATE TO THE EMPIRE ENERGY EFFICIENCY PROGRAMS AND ELIP?

A. Yes. Ms. McMellen has proposed an adjustment S-94.4 for $1,000 to reflect the annual amortization expense associated with the DSM programs Empire has agreed to implement in accordance with the agreement reached in the 2005 Regulatory Plan. Ms. Meisenheimer has some general recommendations concerning the Empire energy efficiency programs that are generally associated with the 2004 rate case, as well as questions relating to ELIP and the Employee Purchase Plan.

Q. DO YOU AGREE WITH THE AMORTIZATION ADJUSTMENT PROPOSED BY MS. MCMELLEN AT PAGE 22, LINE 8 OF HER DIRECT TESTIMONY?

A. No. After discussions with all the parties it was determined the adjustment proposed by Staff is somewhat incomplete and does not take into account the two different accounting methodologies that have developed from the agreements reached in Empire's 2004 rate case and the 2005 Regulatory Plan proceeding as they relate to energy efficiency programs and demand-side management. Empire's current recommendation is that the costs associated with the DSM programs resulting from the settlement reached in the 2005 Regulatory Plan case be deferred from consideration in this rate case in order to facilitate the consolidation of the two different accounting procedures currently in place. This recommendation requires a reversal of the proposed Staff adjustment of $1,000 to amortization expense and the reversal of the 2004 rate case program expense of $50,001 recorded by the Company in the test year ending December 31, 2005. Additionally, the adjustment proposed in Empire's original filing on February 1, 2006 should be eliminated in lieu of the proposal Empire is making in this rebuttal testimony.

Q. WHAT IS YOUR RESPONSE TO MS. MEISENHEIMER'S TESTIMONY

REGARDING ELIP?

A. I propose that ELIP be transferred to the CPC, which includes a representative from the OPC, for additional evaluation and possible revision to the way it is implemented. This future discussion would include decisions regarding the funds contributed by ratepayers but not utilized by the program and the potential contribution to Project Help. As part of this transfer, I suggest that the accounting for ELIP be made consistent with the other DSM accounting. This process would involve removing the expense of $150,000 from this case and future expenditures related to this program would be recorded to the CPC regulatory asset. The movement of ELIP to the CPC would also end the shareholder annual match of $150,000.

Q. WHAT WOULD BE THE TOTAL IMPACT TO THIS CASE OF THESE TWO SUGGESTIONS?

A. These changes would reduce Empire’s annual revenue requirement by $200,001.

Q. IN ADDITION TO ELIP, WHAT DSM OR EFFICIENCY PROGRAMS DOES THE EMPIRE ACCOUNTING PROPOSAL INCLUDE?

A. The Empire accounting proposal includes the programs from the 2004 rate case and the authorized programs associated with the 2005 Regulatory Plan case. Those programs associated with the 2004 rate case and their annual funding levels are:

- Change a Light, $20,000
- Low Income Weatherization, $155,000
- Commercial Energy Audits, $25,000
- Residential Appliance and HVAC Program, $100,000

Only three of the eight CPC authorized DSM programs related to the agreement reached in the 2005 Regulatory Plan are projected to be implemented during 2006.

The first year spending levels associated with these 2005 Regulatory Plan DSM programs are:

- Low Income Efficiency, $194,750
- Low Income New Home, $12,500
- Change a Light, $40,000

In addition to the projected 2005 Regulatory Plan DSM program costs, Empire has, with the approval of the CPC, retained and paid for a consultant to evaluate and recommend several DSM programs. As of June 30, 2006, Empire had paid $49,498 for this consulting work.

Q. HOW ARE THE DSM PROGRAMS FROM THE 2004 RATE CASE ACCOUNTED FOR ON THE BOOKS AND RECORDS OF EMPIRE?

A. The Low Income Weatherization program was established in October 2005 by setting up an accounts payable and related deferred asset for $155,000. The funds were transferred that same month to three agencies involved with the implementation of the program.

The costs associated with the Change a Light program were established in October 2005 by setting up the payable and related deferred asset. The program used $14,167 of the $20,000 established for the 2005 campaign year.

The Commercial Audit program was established in October 2005 with an accrual of $25,000 then an additional $25,000 again in May 2006.

The authorized Residential Appliance and HVAC program has not yet been developed. The Company has recorded a payable and expensed $100,000 of HVAC program costs through June 30, 2006 even though the development of a tariff and formal program have been deferred to the CPC.

The final DSM program introduced as a result of the 2004 rate case was the Wind Assessment program. This program was fully funded in January 2006 for $80,000.

Q. ARE THE 2005 REGULATORY PLAN DSM PROGRAMS ACCOUNTED FOR IN THE SAME MANNER AS THE 2004 RATE CASE DSM PROGRAMS?

A. No. Instead of being recorded as a deferred asset and expensed over twelve months, the programs created and authorized by the 2005 Regulatory Plan will be recorded as a regulatory asset and amortized to expense over ten years in accordance with the 2005 Regulatory Plan. Due to the proposed accounting consolidation of the 2004 Rate Case customer programs and the 2005 Regulatory Plan customer programs, we suggest that the amortization of the consolidated programs be addressed by the CPC in a future meeting and presented to the Commission at a later date.

Q. WHAT ACCOUNTING METHODOLOGY IS EMPIRE PROPOSING AS PART OF THIS RATE CASE?

A. Empire recommends that the costs of both the 2004 and 2005 DSM programs and ELIP be deferred from consideration until Empire’s next rate case in order for Empire to consolidate the different accounting methods. Empire proposes to consolidate the accounting methodologies by using the liability established for the 2004 Rate Case programs to reduce the regulatory asset established for the 2005 Regulatory Plan related DSM programs. This consolidation can be accomplished by using the balance in each of the liability and asset accounts at December 31, 2006. This action will allow the DSM programs resulting from the 2004 rate case to still be funded and the more recent programs authorized by the CPC, which have yet to be implemented, the possibility of being implemented prior to the end of 2006.

The accounting to incorporate ELIP consists of ratepayer expenses upon the effective date of new rates from this rate case being debited to the CPC regulatory asset.

Q. DOES THIS ACCOUNTING HAVE AN IMPACT TO RATE BASE AND THE OVERALL EMPIRE REVENUE REQUIREMENT?

A. Yes. Empire is requesting that no amount be included in rate base or amortization expense at this point in time. The adjustment Empire is proposing would eliminate the 2004 program expenses recorded by the Company in the test year ending December 31, 2005 of $50,001 and the staff adjustment of $1,000 for additional amortization. Additionally, under the Empire proposal, the ELIP expenses of $150,000 would be removed from expense in this rate case. The total impact of the Empire proposal would reduce expenses and the revenue requirement by $200,001. Schedule SLM-1 provides an explanation of the proposed accounting of the programs going forward.

Q. DO YOU HAVE A RESPONSE TO MS. MEISENHEIMER'S QUESTION REGARDING THE EMPLOYEE PURCHASE PLAN?

A. Yes. Ms. Meisenheimer in her Direct Testimony, page 19, line 16, requested verification that Empire's Employee Purchase Plan is not funded by ratepayers. The Purchase Plan covers insulation and appliances as well as the complete installation of electric HVAC. The employee repays the company under an agreement with the Company which includes interest over the term of the repayment. If the employee is installing above standard levels of insulation or high efficiency HVAC systems, the

Company pays an allowance not to exceed one hundred twenty five dollars ($125) per ton toward the additional cost of installation. This allowance is charged to the Employee Allowance—Conservation expense account, which is included in operating expenses. The amount provided to employees in 2005 was an allowance of $500.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.

This schedule is meant to both summarize the booked balances for the balance sheet items of the demand programs and the ELIP expense at the end of June 2006 and December 2006.

2004 Rate Case Programs		
Weatherization	38,747	
Change A Light	4,997	
Commercial Audit	27,086	
Residential Appliance and HVAC	-	
Total Deferred Asset at June 2006		70,830
Weatherization	-	
Change A Light	5,833	
Commercial Audit	50,000	
Residential Appliance and HVAC	100,000	
Total Accounts Payable at June 2006		155,833
Balance of 2004 Programs at June 2006		(85,003)
2005 Regulatory Plans		
Missouri Residential Assessment	10,000	
CPC Consultant	49,498	
Other Expenses	2,397	
Total Regulatory Asset at June 2006		61,895
Total Recorded in Balance by Company at June 2006		(23,108)

2004 Rate Case Programs		
Weatherization	56,243	
Change A Light	4,160	
Commercial Audit	(43,743)	
Residential Appliance and HVAC	(174,993)	
Total Regulatory Asset at December 2006		(158,333)
2005 Regulatory Plans		
Missouri Residential Assessment	10,000	
CPC Consultant	49,498	
Other Expenses	2,397	
Low Income New Homes	5,000	
Total Regulatory Asset at December 2006		66,895
Total Recorded in Balance by Company at December 2006 *		(91,438)

*** All balances for July through December 2006 are estimates.**