Exhibit No.:	
Issue(s):	Class Cost of Service/ Rate Design
Witness/Type of Exhibit:	Meisenheimer/Rebuttal
Sponsoring Party:	Public Counsel
Case No.:	ER-2012-0345

REBUTTAL TESTIMONY

OF

BARBARA A. MEISENHEIMER

Submitted on Behalf of the Office of the Public Counsel

Empire District Electric Company

Rate Design

CASE NO. ER-2012-0345

January 16, 2013

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of The Empire District Electric Company of Joplin, Missouri Tariffs Increasing Rates for Electric Service Provided to Customers in the Missouri Service Area of the Company	)))))	**ER-2012-0345**

AFFIDAVIT OF BARBARA A. MEISENHEIMER

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Barbara A. Meisenheimer, of lawful age and being first duly sworn, deposes and states:

1. My name is Barbara A. Meisenheimer. I am Chief Utility Economist for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

Barbara A. Meisenheimer

Subscribed and sworn to me this 16th day of January 2013.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

KENDELLE R. SEIDNER
My Commission Expires
February 4, 2015
Cole County
Commission #11004782

Kendelle R. Seidner
Notary Public

My Commission expires February 4, 2015.

Rebuttal Testimony
Of
Barbara Meisenheimer

Empire District Electric

ER-2012-0345

Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.

A. Barbara A. Meisenheimer, Chief Utility Economist, Office of the Public Counsel, P. O. 2230, Jefferson City, Missouri 65102. I am also an adjunct instructor for William Woods University.

Q. HAVE YOU TESTIFIED PREVIOUSLY IN THIS CASE?

A. Yes. I filed direct testimony on November 30, 2012.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. My rebuttal testimony responds to portions of the rebuttal testimony of the Missouri Public Service Staff witness Michael Scheperle and Empire District Electric (Empire or the Company) witness Aaron Doll on the issues of class cost of service and rate design.

Q. WHAT IS THE COMPANY'S RATE DESIGN PROPOSAL FOR THE RESIDENTIAL CLASS?

A. Company witness Mr. Doll proposes an equal percentage increase to all classes. Public Counsel agrees with this aspect of his rate design proposal. However, within

the residential service (RG) and commercial service (CB) classes he proposes to disproportionately increase the customer charge. Specifically, he proposes a 15.2% increase in the customer charge for each of these classes with the remaining 6.76% for RG and 6.66% for CB recovered through equal percentage increases on volumetric rate elements. As filed in direct, this results in a Company proposal to raise the RG customer charge from $12.52 to $14.42 and the CB customer charge from $20.00 to $23.04. Public Counsel strongly opposes any increase in the RG or CB customer charge and recommends that any increase be recovered through an equal percentage increase on volumetric rate elements.

Q. DID THE COMPANY PREPARE A CLASS COST OF SERVICE STUDY FOR THIS CASE?

A. No. The Company's support for a disproportionate increase in the customer charge is based on the class cost of service study filed in the last case by H. Edwin Overcast, a witness not testifying in this case.

Q. HAS ANY COMPANY WITNESS ADOPTED MR. OVERCAST'S TESTIMONY FOR PURPOSES OF THIS CASE OR OFFERED ALTERNATIVE COST SUPPORT FOR THE PROPOSED DISPROPORTIONATE INCREASE IN THE RG OR CB CUSTOMER CHARGE?

A. No.

Q. DO YOU AGREE WITH THE CUSTOMER CHARGE COST RESULTS FROM MR. OVERCAST'S OLD CLASS COST OF SERVICE STUDY?

A. No. In my testimony in the previous case ER-2011-0004, I explained that the Company's excess allocation of distribution costs as customer related resulted in

substantially higher costs than appropriately recovered in a customer charge. Based on my review of costs in that case, and the lack of updated information in this case, I do not believe an increase in the customer charge is supported on a cost basis.

To the extent that the Commission does consider the cost basis for potential changes to the customer charge, the customer charge calculation should include only costs related to services, meters and customer accounts expenses such as the return on rate base for the relevant plant accounts, distribution operation and maintenance expenses associated with services, and meters, plus the depreciation expense, payroll benefits, and property taxes associated with services and meters. Page 20 of the NARUC Manual defines customer related cost as costs directly related to the number of customers. I believe the costs associated with Accounts 369 (Service) and 370 (Meters) reasonably satisfy this definition and should be treated as customer related. However, the distribution costs in Accounts 364-368 do not reasonably satisfy this definition. Many of the distribution costs associated with providing service to electric utility customers are not directly associated with or reasonably assignable to a particular class with precision. For example, with the exception of service drops and meters, most of the facilities between the utility customer's point-of-service and the distribution substation are shared facilities. Since no portion of such facilities is directly related to the number of customers, the associated costs are best classified as demand related, rather than customer related. When a new customer premise is connected to the system, customer density may change but the system may not need any new poles, conduits, conductors or transformers to serve the customer.

In other words, unlike meters that increase directly with the number of customers, the addition of a new customer will not necessarily cause new or proportional investment in poles, conduits, conductors or even transformers. Second, the more removed facilities are from the customer the more diverse they are likely to be in serving the demand of different customers and the less appropriate it is to characterize the associated cost as customer related.

Q. IN ADDITION TO EXCESSIVELY ALLOCATING DISTRIBUTION PLANT ACCOUNTS AS CUSTOMER RELATED DO YOU DISAGREE WITH OTHER ASPECTS OF THE COMPANY'S OLD CUSTOMER COST CALCULATION?

A. Yes. The distribution costs in Mr. Overcast's study were also disproportionately assigned to residential and small commercial customers because the Company allocated customer related costs on the basis of unweighted customer numbers. The Company allocates the customer portion of poles, overhead and underground conductors and conduit in a manner that results in each residential customer being allocated the same customer related cost as a large industrial customer even though the large industrial customer likely is served by poles that span a larger lot or can sustain heavier lines and by higher capacity conductors. This customer allocation too heavily assigns costs to small low use customers.

Q. IS EMPIRE'S PROPOSED CUSTOMER CHARGE REASONABLE?

A. No. The Company has not presented cost evidence in this case that supports its proposal to increase the customer charge. In addition to imposing an unavoidable additional burden on consumers during tough economic times, the customer charge should not be increased because doing so diminishes conservation incentives,

discourages subscription and disproportionately impacts certain customer groups including low use and low-income households. To the extent that the company seeks to recover demand related costs through the customer charge, a higher customer charge would also be unfair to residential customers that use gas heat. While from Empire's perspective a higher customer charge may be desirable in ensuring a steady stream of revenue, high customer charges are not the norm in competitive markets and are not necessary to achieve an efficient allocation or distribution of resources. To the contrary, relatively higher customer charges diminish the price signal that encourages energy conservation leading to unnecessary additional generation.

Q. DO CUSTOMERS GENERALLY PERCEIVE HIGHER CUSTOMER CHARGES AS A BENEFIT?

A. No. In my experience, customers do not consider higher customer charges as fair or beneficial. It is generally accepted that those who use more should pay more. Keeping customer charges low provides customers a less prohibitive price for being on the system and promotes greater economies of scale and more ubiquitous service.

Q. PLEASE COMMENT ON THE STRAIGHT FIXED VARIABLE RATE DESIGN DISCUSSION INCLUDED ON PAGE 12 OF MR. DOLL'S DIRECT TESTIMONY.

A. Public Counsel opposes implementing a straight fixed variable (SFV) rate design for many reasons. Public Counsel strongly opposed the Commission's decision to implement a SFV rate design for the Atmos and MGE gas distribution rates based on evidence that a SFV rate design was not cost based because a large portion of

costs are demand related costs and appropriately recovered through volumetric rates. Application of a SFV method in designing electric rates is even more inappropriate for designing electric rates since in addition to distribution costs, an electric company generally controls the cost of production and transmission.

A SFV rate design will also likely have tremendously differing impacts on customers based on electric use. Mr. Doll has not attempted to quantify these customer impacts. He has not provided evidence of the impact on low use or low income households. He has not explained why it would be fair for a customer that heats with gas instead of electric to pay the same bill as a customer that heats with electric, especially given that Empire experiences significant winter peak usage.

Q. WHAT IS YOUR RECOMMENDATION REGARDING CONSIDERATION OF A STRAIGHT FIXED VARIABLE RATE DESIGN?

A. Empire is not recommending a SFV rate design in this case and has not provided information sufficient to support such a recommendation. The Commission should disregard Mr. Doll's testimony on a SFV rate design.

Q. WHAT IS THE STAFF'S RATE DESIGN PROPOSAL FOR THE RESIDENTIAL CLASS?

A. Staff witness Mr. Sheperle proposes a disproportionate increase in Residential class revenues of .5% on a revenue neutral basis and an increase in the minimum monthly charge. In direct testimony he states;

> Staff recommends adjustments be made first on a companywide revenue- neutral basis to the residential class, commercial building class and general power class. The Empire residential class should receive a positive 0.5% adjustment. The Empire commercial building class and general power class should receive a negative adjustment of approximately 0.82%. All other classes should receive the system

average increase (commercial space heating, special transmission: Praxair, total electric building, feed mill and grain elevator, large power, lighting and miscellaneous).

After having made the recommended revenue-neutral adjustments above, any overall change in revenues ordered by the Commission should be applied on an equal percentage basis to all classes. Staff further recommends that an additional constraint (revenue requirement after true-up) be placed on which class revenues are moved towards class cost-of-service to ensure no class receives an overall reduction in its rate revenues while another customer classes receives an overall increase in its rate revenues.

That the residential customer charge be increased to $13.25.

Q. DID STAFF PREPARE A CLASS COST OF SERVICE STUDY IN THIS CASE?

A. Staff did prepare a class cost of service study but based on my review of that study I do not believe the results of the study should be relied upon in establishing rates in this case. In recent cases, Public Counsel has not objected to Staff's allocation methods for certain key accounts including production, transmission, distribution poles and conductors and certain customer service accounts. However, since the Company did not prepare a study for this case so much of the data and many of allocators the Staff had available to use in its study are outdated, unreliable and prepared by an expert witness previously employed by the Company that has not filed testimony in this case. Additionally, for certain key accounts the Staff has used significantly different allocations than those it has used in previous cases but has not fully explained why those allocation methods are appropriate for use in this case. For example, the Staff has changed how it allocates production, transmission, poles and conductors and certain customer service accounts. The changes result in allocators that assign higher costs to the residential and small commercial classes

compared to the allocations the staff utilized in past cases, including among others, Empire's most recent rate case.

Q. WHAT ARE YOUR PRIMARY CONCERNS WITH THE STAFF'S CLASS COST OF SERVICE STUDY?

A. The first concern relates to Staff's use of a non-coincident peak rather than a coincident peak in allocating production costs within the Base Intermediate Peak Allocation method. Public Counsel generally agrees that the BIP method is a reasonable method of allocating production related costs, however, the use of a NCP rather than CP is not appropriate and results in the over assignment of costs to residential and small commercial customer classes. The example of a common BIP method illustrated on pages 60-63, of the NARUC Manual uses a coincident peak in assigning costs. In the past the Staff has also used a measure of CP in the calculation. Use of a coincident peak appropriately recognizes that the production facilities are shared facilities and allocates actual shared system costs to classes in proportion to each classes demand at the actual system peak. Non Coincident peak on the other hand is an artificial construct that is not designed to reflect actual shared system use. Instead it is simply the sum of each class's peak demand whenever it occurs in a particular month. When used to allocate peak costs net of average costs, residential and small commercial classes tend to receive a higher proportion of costs under NCP than CP because of their demand volatility thereby diminishing the share they receive of the cost saving associated with a shared system. Since the BIP method isolates and assigns peak system costs separately from the base and intermediate costs, it is abundantly fair that

classes which receive some peak allocation receive it in fair proportion so the CP is the preferable measure.

It appears that the Staff used a NCP measure in this case to reflect that some customers might not receive a fair allocation of costs if they had reduced or no demand during the coincident peak period. I do agree that free ridership could be a problem if the test year coincident peak does not reflect a normally anticipated distribution of class contributions to the peak demand measure. However, using a NCP in the calculation is not the best remedy for the difficulty with the Staff's traditional use of a CP in the calculation. If the Commission decides that costs must be examined in this case then given that Empire's system is characterized by both summer and winter peaks and has many months for which demand nears system peak, I believe the use of each class's average use during the 12 monthly coincident peaks (12CP) would be a reasonable alternative method of allocating production costs. A 12CP would diminish the potential free rider problem associated with using a CP in the BIP method in this case. Use of 12CP would reflect a somewhat reduced allocation to classes that actually experienced interruption during a test year system peak but also reflects that generally all classes' unrestricted demand is served during peak periods.

Q. WHAT IS ANOTHER OF YOUR CONCERNS WITH THE STAFF'S CLASS COST OF SERVICE STUDY?

A. My second concern also relates to the Staff's allocation of Transmission cost based on 12NCP. In past cases consistent with the example on page 79, of the NARUC manual the Staff used a 12CP to allocate transmission related costs. NCP

does not properly reflect the high level of diversity that exists at the transmission level.

Q. WHAT IS ANOTHER OF YOUR CONCERNS WITH THE STAFF'S CLASS COST OF SERVICE STUDY?

A. My third concern is that the Staff appears to have changed the method of allocation for the secondary portion of certain distribution accounts in a manner that assigns a larger proportion of costs to residential and small commercial customers. For example, in the last Empire case, Staff allocated the secondary demand portion of Account 364 (Poles, Towers, and Fixtures) and Account 365 (Overhead Conductors and Devices) based on NCP. In this case the Staff has allocated the same costs on a weighted allocator which reflects NCP and maximum daily demand (MDD). The results allocate about 4% more of these costs to the RG class. Staff changed the allocation of Account 368 (Line Transformers) in a similar manner resulting in a similar increase in the share of costs allocated to the RG class. It is unclear from the Staff testimony and CCOS Report why the Staff changed its method of allocation, why the chosen weightings are appropriate.

Q. WHAT IS ANOTHER OF YOUR CONCERNS WITH THE STAFF'S CLASS COST OF SERVICE STUDY?

A. My fourth concern is that the Staff appears to have changed the method of allocation for certain customer service related accounts. For example, Staff's allocation of Accounts 906-910 (Customer Service and Information Expenses)

increases the assignment of costs to RG from about 40% in the last case to about 84% in this case. In the last case Staff allocated 0% of Accounts 911-916 Sales Expenses) to RG. In this case the allocation is about 84%. The reason for increasing these allocations so substantially is not addressed in the Staff's CCOS Report or testimony.

Q. DO THE ISSUES YOU HAVE DISCUSSED HAVE THE POTENTIAL TO SIGNIFICANTLY IMPACT CLASS COST OF SERVICE STUDY RESULTS?

A. Yes. The allocation of production, transmission, distribution poles, conductors and line transformers and customer service expenses can have a substantial impact on class cost of service study results.

Q. BASED ON YOUR REVIEW OF THE CLASS COST OF SERVICE STUDY WHAT IS YOUR RECOMMENDATION REGARDING REVENUE NEUTRAL RATE ADJUSTMENTS OR INCREASES TO THE RESIDENTIAL AND SMALL COMMERCIAL CUSTOMER CHARGE?

A. Based on the concerns discussed above and the age of the data available, I recommend that the Commission not make revenue neutral adjustments or changes to the RG or CB customer charge in this case based on the Staff class cost of service study. The Commission should direct the Company to prepare and submit a current class cost of service study and customer charge calculation with its filing in the next rate case.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.