

**Exhibit No.:**

**Issue(s):** Response to Cost of Service Studies

**Witness/Type of Exhibit:** Meisenheimer/Rebuttal

**Sponsoring Party:** Public Counsel

**Case No.:** ER-2004-0570

**REBUTTAL TESTIMONY**

FILED

NOV 04 2004

**OF**

Missouri Public  
Service Commission

**BARBARA A. MEISENHEIMER**

Submitted on Behalf of the Office of the Public Counsel

**THE EMPIRE DISTRICT ELECTRIC COMPANY  
CASE NO. ER-2004-0570**

November 4, 2004

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of the tariff filing of The Empire       )  
District Electric Company to implement a               )  
general rate increase for retail electric service       )  
provided to customers in its Missouri service area.    )

Case No. ER-2004-0570

**AFFIDAVIT OF BARBARA A. MEISENHEIMER**

STATE OF MISSOURI    )  
                                      ) ss  
COUNTY OF COLE     )

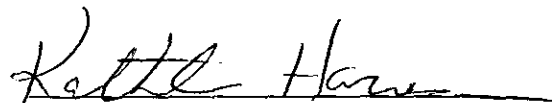
Barbara A. Meisenheimer, of lawful age and being first duly sworn, deposes and states:

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 consisting of pages 1 through 6.
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 4th day of November 2004.

KATHLEEN HARRISON  
Notary Public - State of Missouri  
County of Cole  
My Commission Expires Jan. 31, 2006

  
Kathleen Harrison  
Notary Public

My Commission expires January 31, 2006.

**REBUTTAL TESTIMONY  
OF  
BARBARA MEISENHEIMER  
  
EMPIRE DISTRICT ELECTRIC COMPANY**

**CASE NO. ER-2004-0570**

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

2       A.     Barbara A. Meisenheimer, Chief Utility Economist, Office of the Public Counsel,  
3       P. O. 2230, Jefferson City, Missouri 65102.

4       **Q.     HAVE YOU TESTIFIED PREVIOUSLY IN THIS CASE?**

5       A.     Yes, I submitted direct testimony on the issue of revenue requirement on  
6       September 20, 2004 and initial direct testimony on cost of service and rate design  
7       issues on September 27, 2004. On October 4, 2004, I submitted updated cost of  
8       service studies.

9       **Q.     WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

10      A.     The purpose of my rebuttal testimony is to respond to the cost of service studies  
11      submitted in the direct testimony by Empire District Electric Company (Empire or  
12      Company), the Public Service Commission Staff (Staff) and the industrial  
13      intervenors Explorer Pipeline Company and Praxair, Inc. (Explorer and Praxair).

**I. CLASS COST OF SERVICE STUDY RESULTS**

**Q. PLEASE COMPARE THE RESULTS OF CCOS STUDIES FROM DIFFERENT PARTIES.**

A. My updated CCOS study results appear on Schedule BAM DIR-2.1 and Schedule BAM DIR-2.1. The Company's results appear on page 1, Section N, Schedule 1 of Kelly Walters' direct testimony. Navigator and Praxair rely on the Company's CCOS study results as shown on Schedule 3 of Maurice Brubaker's direct testimony. The Staff's CCOS results appear on Schedule 2 of Hong Hu's direct testimony.

All parties found that the small general service class including commercial, small heating and feed mill are contributing more revenues than their class cost of service on a revenue neutral basis. OPC's results show that the residential class is approximately 1.5% above cost of service. The Staff's and Company's results indicated that the residential class is contributing less than the cost of service but within 5%. Both OPC's study and the Staff's study indicate that the special contract class is paying significantly below cost of service while only OPC's study indicates that the large power class is significantly below cost of service.

**Q. TO WHAT ARE DIFFERENCES IN THE PARTIES' COST OF SERVICE STUDY RESULTS ATTRIBUTABLE?**

A. As pointed out by Company witness Dr. Overcast on page 7 of his direct testimony, "... the calculation of the precise cost of service is not possible where joint and common costs must be allocated to customer classes. For this reason alone, the regulatory process produces multiple cost of service outcomes based on the assumptions regarding the allocation of joint and common costs." Differences

1 in the methods used to allocate joint production and transmission plant are  
2 generally the most significant factor contributing to differences in parties' class  
3 cost of service results.

4 **Q. WHAT THEORETICAL MODEL DO YOU BELIEVE IS MOST REASONABLE IN**  
5 **ALLOCATING PRODUCTION AND TRANSMISSION COSTS?**

6 A. Optimally, conducting an hourly time of use (TOU) study would best identify  
7 each class's use of capacity/running cost by summing costs over all hours. Due to  
8 data limitations, I utilized a 12 NCP Average and Peak method that produces a  
9 reasonable approximation of the more extensive TOU method.

10 **Q. PLEASE EXPLAIN WHY YOU BELIEVE THAT THE TOU METHOD APPROXIMATED**  
11 **BY THE 12NCP AVERAGE AND PEAK METHOD ARE APPROPRIATE FOR**  
12 **ALLOCATING PRODUCTION AND TRANSMISSION PLANT IN THIS CASE?**

13 A. A TOU methodology allocates total system costs in accordance with the hour-by-  
14 hour use of the system by the different customer classes. This kind of allocation  
15 methodology is equitable because every customer receives exactly the same cost  
16 allocation as every other customer taking service in the same time period. The  
17 Commission has identified the TOU method as a reasonable method for allocating  
18 the production costs of serving the various classes and has accepted proxies for a  
19 TOU study where detailed hourly information is not available.

20 Both the Staff and OPC allocated the production and transmission plant allocators  
21 based on a 12 NCP Average and Peak method. This method allocates production  
22 and transmission costs to all months in accordance with the monthly system of  
23 relative usage by different customer classes. In addition, an annual energy usage

1 factor is also used to account for the energy supply need in addition to the monthly  
2 peak demand need. The allocators are calculated as each class's share of annual  
3 energy use and incremental monthly NCP demand. The Company's study, on  
4 the other hand, uses an Average and Excess (A&E) method calculated as each  
5 classes' share of monthly energy usage and a proportion of the average annual  
6 difference between NCP demands and average demand. While discretion allows  
7 for some variation in an acceptable apportionment of the allocation of the joint  
8 cost of production, the method used by OPC and Staff is preferable to the  
9 Company's method because it takes into account that usage is not uniform across  
10 all months in a year. By incorporating the additional consideration that peak  
11 demand varies by month, the OPC and Staff allocators better target the cost  
12 associated with peak demand in proportion to usage during all periods.

13 **Q. ON PAGE 6 OF HIS DIRECT TESTIMONY, EDWIN OVERCAST ARGUES THAT THE**  
14 **VALUE OF SERVICE ACTS AS A PRICE CEILING AND MARGINAL COST ACTS AS A**  
15 **PRICE FLOOR IN SETTING APPROPRIATE RATES FOR SERVICES. DO YOU AGREE**  
16 **THAT THESE CONSTITUTE THE BOUNDS THE COMMISSION SHOULD ADHERE TO IN**  
17 **APPROVING PRICES FOR REGULATED SERVICES?**

18 **A.** I agree that marginal cost acts as a lower bound in setting unsubsidized rates for  
19 service and that generally, the Commission should price services no lower than  
20 marginal cost. I also agree that value of service acts as a possible upper bound for  
21 service prices. However, with respect to setting rates for a monopoly provider of  
22 electric service to captive customers, as is true in this case, the value of service  
23 provides little if any meaningful guidance to the Commission in determining  
24 appropriate levels of service rates. This is because customers faced with a single  
25 source for obtaining a "necessary" service such as electric service will likely place

1 a value on the service at a rate substantially above the cost of service. Since the  
2 standard for setting utility rates in Missouri is that rates shall be just and  
3 reasonable, the cost of service is the more relevant upper bound in determining  
4 appropriate service rates.

5 **Q. DR. OVERCAST RECOMMENDS A SIGNIFICANT INCREASE IN THE CUSTOMER**  
6 **CHARGE, FROM \$8.75 PER MONTH TO AT LEAST \$12 PER MONTH FOR**  
7 **RESIDENTIAL CUSTOMERS AND AN INCREASE TO \$20 FOR THE COMMERCIAL**  
8 **CLASS. IN SUPPORT OF HIS ASSERTION, HE SUGGESTS THAT IN SOME MANNER**  
9 **EFFICIENCY REQUIRES A SUBSTANTIALLY LARGER PROPORTION OF FIXED COST**  
10 **SHOULD BE RECOVERED THROUGH THE CUSTOMER CHARGE. DO YOU AGREE**  
11 **WITH HIM?**

12 **A. No.**

13 **Q. DO YOU BELIEVE THAT A \$1.00 INCREASE IN THE CUSTOMER CHARGE IS**  
14 **REASONABLE IN THIS CASE?**  
15

16 **A.** I believe that a proportional increase up to a \$1.00 increase in the customer charge  
17 is reasonable. The Commission should not to feel compelled to substantially  
18 increase the recovery of fixed costs through fixed charges on consumers' bills.  
19 The primary type of "efficiency" created by increased customer charges is that it  
20 creates a more predictable revenue stream for the Company. Consumers' on the  
21 other hand, face another inescapable charge. Flat rate recovery of fixed costs is  
22 not a requirement for robust competition or a requirement in reasonably  
23 simulating it. Consider the last time you stopped at a fast food restaurant on

Rebuttal Testimony of  
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1           Missouri Boulevard. Although the restaurant probably pays fixed charges for the  
2           building and land, you likely did not have to pay a flat fee to enter the parking lot.

3           **Q.     DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

4           **A.     Yes.**