

Exhibit No.:
Issue: Demand Side Management
Witness: Sherrill L. McCormack
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Empire District Electric
Case No. ER-2011-0004
Date Testimony Prepared: April 2011

**Before the Public Service Commission
of the State of Missouri**

Surrebuttal Testimony

of

Sherrill L. McCormack

April 2011

TABLE OF CONTENTS
OF
SHERRILL L MCCORMACK
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION

| <u>SUBJECT</u> | <u>PAGE</u> |
|--------------------|-------------|
| INTRODUCTION | 1 |
| DSM..... | 2 |

SURREBUTTAL TESTIMONY
OF
SHERRILL L. MCCORMACK
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2011-0004

1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

3 A. My name is Sherrill L. McCormack, and my business address is 602 S. Joplin Avenue,
4 Joplin, Missouri 64801.

5 **Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR JOB TITLE?**

6 A. I am currently employed by The Empire District Electric Company (“Company” or
7 “Empire”) as the Energy Efficiency Coordinator.

8 **Q. ARE YOU THE SAME SHERRILL MCCORMACK WHO PREVIOUSLY**
9 **PROVIDED TESTIMONY IN THIS CASE BEFORE THE PUBLIC SERVICE**
10 **COMMISSION (“COMMISSION”)?**

11 A. I am.

12 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

13 A. I will reply to the rebuttal testimony of Commission Staff witness John Rogers, Missouri
14 Department of Natural Resources (“MDNR”) witness Adam Bickford, Office of the Public
15 Counsel (“OPC”) witness Ryan Kind, and Enbridge Energy LP, Explorer Pipeline Company,
16 and Praxair, Inc. (“Industrials”) witness Maurice Brubaker as they relate to Demand Side
17 Management (“DSM”). I will also address a rate base adjustment relating to DSM presented
18 by Staff witness Amanda McMellen.

1 DSM

2 **Q. PLEASE COMMENT ON THE DSM ADJUSTMENT TO RATE BASE PRESENTED**
3 **BY STAFF WITNESS MCMELLEN.**

4 A. In reviewing the Staff's amortization adjustment for DSM costs, I noted that Staff applied the
5 Missouri jurisdictional allocation factor to the total of the rate base and expense adjustment
6 calculation. In this instance the DSM regulatory asset account is used exclusively for
7 Empire's Missouri electric DSM expenditures. The allocation factor should not be used in
8 this instance.

9 **Q. WHAT WOULD BE THE CORRECT AMORTIZATION ADJUSTMENT FOR DSM**
10 **COSTS?**

11 A. The DSM amortization adjustment should be based on the total balance of the regulatory
12 asset account, plus the cost of the DSM potential study. The total of the regulatory asset
13 account as of November 30, 2010, the date used in the Staff's Cost of Service Report, was
14 \$2,101,099, and the cost of the potential study through the same date totaled \$365,640. The
15 adjustment equals the amount of the potential study, or \$365,640, since this was not included
16 in the balance of the regulatory asset account.

17 **Q. WHAT COMMENTS DO YOU HAVE RELATING TO STAFF WITNESS JOHN**
18 **ROGER'S REBUTTAL TESTIMONY?**

19 A. Mr. Rogers' rebuttal testimony continues to request that Empire be punished for not meeting
20 its estimates of DSM participation levels. Empire does not agree with Staff's position that
21 Empire should be punished for not meeting estimates of DSM participation levels, especially
22 during a span of time that included a strong economic recession, which undoubtedly
23 impacted customer participation, and when Empire's largest customers were not allowed to

1 participate in the DSM programs (other than the Interruptible program). This exclusion of
2 large power customers was due to the terms and conditions included in Empire's
3 Experimental Regulatory Plan ("Regulatory Plan") approved in Case No. EO-2005-0263.

4 **Q. DO YOU HAVE ADDITIONAL CONCERNS RELATING TO STAFF'S**
5 **TESTIMONY AS TO COST RECOVERY?**

6 A. Yes. Staff witness Rogers not only recommends that the Commission not shorten the
7 amortization period from ten (10) years, apparently to punish Empire for what Staff considers
8 to be poor performance, but he also states that a shortened DSM recovery period "will not
9 create the necessary financial incentives for Empire to comply with MEEIA..." (Rogers
10 Rebuttal, p.4, lines 19-20 and p. 5, lines 6-10) As I stated on page 3, lines 14-19 of my
11 Rebuttal Testimony, "low levels of customer participation at the time of a major economic
12 recession is not a valid reason to deny Empire an improvement in the DSM cost recovery
13 mechanism. Since approval of the Regulatory Agreement, Empire has worked diligently, in
14 good faith, and in conjunction with the CPC to implement the DSM programs approved by
15 the Commission. Empire continues to believe that a reduction in the DSM amortization
16 timeline is appropriate and requests Commission approval of a three-year DSM amortization
17 period."

18 Also in my Rebuttal Testimony, I indicated that Empire plans to file under MEEIA. Empire
19 is simply requesting that the Commission bridge the gap between the Regulatory Plan and the
20 availability of a DSM filing by Empire under MEEIA. It will take time to develop the details
21 of the DSM programs and recovery plan to be presented under MEEIA, move these items
22 through the advisory group and file the DSM programs with the Commission.

23 **Q. DOES EMPIRE BELIEVE THE TEN-YEAR RECOVERY IS A DISINCENTIVE?**

SHERRILL L. MCCORMACK
SURREBUTTAL TESTIMONY

1 A. Yes, especially under MEEIA. Empire notes that this was also the Commission’s finding in
2 Case No. ER-2010-0355, as indicated in the Finding of Fact number 260 of the Report and
3 Order. The Commission found that application of a ten-year amortization to DSM expenses
4 “would be a disincentive to KCP&L and GMO to invest in demand side programs.”

5 **Q. WHAT IS EMPIRE’S POSITION AS TO RECOVERY?**

6 A. Empire believes that recovery should be more closely aligned with the timing of
7 expenditures. As illustrated in the table below, Empire began its amortization in 2007 for
8 expenditures that occurred in 2005 and 2006. Then in 2008, Empire began amortizing the
9 2007 expenditures and so forth. As of March 31, 2011, Empire has amortized \$281,453 of
10 the \$3,136,265 in past DSM expenditure, or 8.97%. Of the \$281,453 amortized DSM
11 expenditures, Empire only has around \$78,000 of annual DSM amortization built into its
12 base electric rates.

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 Q1 | Totals |
|------------------------------|-----------|------------|-------------|------------|-------------|--------------|-------------|--------------|
| Total Expenditures | \$ 10,903 | \$ 115,098 | \$ 294,757 | \$ 571,927 | \$ 716,700 | \$ 1,139,387 | \$ 287,495 | \$ 3,136,265 |
| Amount amortized during year | \$ - | \$ - | \$ (12,600) | \$ (6,799) | \$ (63,991) | \$ (135,662) | \$ (62,400) | \$ (281,453) |

13
14 The parties all seem to agree that the purpose of MEEIA is to remove disincentives, and as
15 illustrated here, the ten-year amortization period is a disincentive.

16 **Q. WHAT DOES EMPIRE PROPOSE?**

17 A. Empire requests that the Commission authorize Empire’s use of regulatory asset accounting
18 for current DSM program costs, a continuation of authority to earn a return on deferred DSM
19 costs not included in rate base at Empire’s overall AFUDC rate, and approve a DSM
20 amortization period of three years for current DSM program costs. This approach will enable
21 Empire to make a cleaner transition to its DSM filing under MEEIA that is contemplated in
22 the recent Empire IRP agreement, reduces Empire’s disincentive to invest in current DSM
23 programs, and aligns current DSM expenditures and current DSM program cost recovery.

1 **Q. WHAT COMMENTS DOES EMPIRE HAVE RELATED TO THE REBUTTAL**
2 **TESTIMONY OF MDNR WITNESS BICKFORD?**

3 A. MDNR addresses the fact that Empire did not meet the budgeted levels of participation and
4 expenditures. The status of the economy certainly impacted customer participation levels as
5 did the exclusion of our largest customers from DSM participation. Additionally, a budget is
6 just that—a budget. The budget does not guarantee customer participation. Empire did see a
7 large increase in customer participation levels in 2010, and the customer participation levels
8 in the first quarter of 2011 continue to support higher levels of customer participation.
9 Empire believes the DSM programs are important, but these programs are voluntary, and
10 Empire cannot dictate customer participation.

11 **Q. DOES EMPIRE HAVE COMMENTS RELATING TO MDNR'S DISCUSSION OF**
12 **EXPANDING EMPIRE'S DSM PORTFOLIO?**

13 A. Empire is not requesting the Commission to make decisions in this rate case regarding the
14 expansion of its DSM portfolio related to its recent IRP. Empire recommends that changes in
15 its DSM portfolio be discussed and decided in Empire's future MEEIA filings, not in this rate
16 case. MDNR's discussion of future DSM programs is not relevant to the DSM request
17 Empire is making in this case, which is an extension of Empire's existing DSM portfolio and
18 an improvement in current DSM program cost recovery.

19 **Q. DOES EMPIRE AGREE WITH OPC'S RECOMMENDATION FOR A SIX-YEAR**
20 **AMORTIZATION PERIOD?**

21 A. No. Empire does recognize that a six-year cost recovery period reduces the disincentive
22 associated with the current ten-year model. However, the three-year cost recovery period

1 proposed by Empire provides for a better transition to the MEEIA rule and improves the
2 alignment of DSM expenditures and recovery.

3 **Q. WHAT COMMENTS DOES EMPIRE HAVE RELATING TO THE REBUTTAL**
4 **TESTIMONY OF THE INDUSTRIALS' WITNESS MAURICE BRUBAKER?**

5 A. Mr. Brubaker, on page 10 of his Rebuttal Testimony, suggests that the cost of the recovery
6 period be left at ten years because he believes this period of time reasonably reflects the
7 benefits of the asset. Again, Empire believes the Commission should take this opportunity to
8 remove the disincentive to DSM investment that is created by the long recovery period and
9 provide a better alignment of current DSM expenditures to their recovery. Leaving the
10 amortization period at ten years will not accomplish this goal.

11 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

12 A. Yes.

