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Affordability of Rates
Witness: Richard Nelson
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Case No.: ER-2016-0023
Date Testimony Prepared: May 16, 2016

**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**

)
)
)
) **File No. ER-2016-0023**
) **Tariff No. YE-2016-0104**
)
)

Rebuttal Testimony of

**Richard Nelson
Praxair, Inc.**

On behalf of

MIDWEST ENERGY CONSUMERS GROUP

May 16, 2016

*** _____ *** Designates "Highly Confidential"
Information Has Been Removed.

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

In the Matter of The Empire District Electric)
Company for Authority to File Tariffs Increasing)
Rates for Electric Service Provided to Customers) Case No. ER-2016-0023
In the Company's Missouri Service Area)

STATE OF ILLINOIS)
) SS
COUNTY OF COOK)

AFFIDAVIT OF RICHARD NELSON

Richard Nelson, being first duly sworn, on his oath states:

1. My name is Richard Nelson. I am employed by Praxair, Inc. as Energy Manager – Central / North Region. My principal place of business is East Chicago, Indiana.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony which was prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2016-0023
3. I hereby swear and affirm that the testimony is true and correct and that it shows the matters and things that it purports to show.

Richard Nelson

Subscribed and sworn to before me this ____ day of May, 2016

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) **File No. ER-2016-0023**
Rates for Electric Service Provided to) **Tariff No. YE-2016-0104**
Customers in the Missouri Service)
Area of the Company)

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**BEFORE THE PUBLIC SERVICE
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In the Matter of The Empire District)
Electric Company of Joplin, Missouri for)
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for Electric Service Provided to) Tariff No. YE-2016-0104
Customers in the Missouri Service Area of)
The Company)
)

Surrebuttal Testimony of Rick Nelson

1 **I. INTRODUCTION**

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

3 A. My name is Richard Nelson. I am employed by Praxair, Inc. as the Energy Manager for
4 the Central / North region of the company's U.S. industrial gases division. In this role, I
5 have been involved in energy management and utility regulation issues for six years and
6 am responsible for procurement of over \$200 million per year of electric power in the
7 Midwest and Great Plains. In the ten years prior to assuming the Energy Manager
8 position, I held various business and management positions with Praxair, including Sales
9 Manager for the geography that includes Missouri. I am very familiar with Praxair's
10 business in Missouri, including the challenges posed by significant and nearly annual
11 increases in electric power costs at our Neosho, Missouri production facility over the last
12 five years. Additionally, I am Chairman of the Executive Committee for the Indiana
13 Industrial Energy Consumers (INDIEC) and am active in industrial groups in a number
14 of other states, including Michigan, Minnesota and Missouri.

15

1 **Q. PLEASE STATE YOUR BUSINESS ADDRESS.**

2 A. My office is located at 4400 Kennedy Avenue in East Chicago, Indiana.

3

4 **Q. PLEASE PROVIDE YOUR EDUCATIONAL BACKGROUND.**

5 A. Bachelor's of Science – Chemistry, Illinois College (Jacksonville, IL)

6 Masters of Business Administration – Finance, DePaul University (Chicago, IL)

7 Business Energy Professional Certification (Association of Energy Professionals)

8 Certified Energy Manager Certification (Association of Energy Professionals)

9

10 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI**
11 **COMMISSION?**

12 A. No. While Praxair has been involved in numerous dockets involving KCP&L and
13 Empire, I have never testified before the Missouri Public Service Commission.
14 However, other Praxair energy managers testified in past proceedings before the
15 Missouri Public Service Commission.

16

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

18 A. The purpose of my surrebuttal testimony is to respond to positions advanced by Staff and
19 the Office of the Public Counsel (“OPC”) in the context of their rebuttal testimony.
20 Specifically, I will: (1) respond to OPC testimony regarding the competitiveness of
21 Empire’s industrial rates; (2) comment on OPC and Staff positions regarding the
22 allocation of any revenue increase in this case; and (3) address OPC and Staff’s positions
23 regarding Empire’s recovery of interruptible credits.

1 **II. NATURE OF PRAXAIR'S OPERATIONS**

2 **Q. WOULD YOU DESCRIBE PRAXAIR'S OPERATIONS?**

3 A. Praxair is the largest industrial gas supplier in North and South America, is growing in
4 Asia, and has strong, well-established businesses in Europe. Praxair's primary products
5 in its industrial gases business are atmospheric gases (oxygen, nitrogen, argon, and rare
6 gases) and process gases (carbon dioxide, helium, hydrogen, electronic gases, specialty
7 gases, and acetylene). The company also designs, engineers, builds and operates
8 equipment that produces industrial gases.

9

10 **Q. PLEASE DESCRIBE HOW PRAXAIR PRODUCES ATMOSPHERIC GASES.**

11 A. Atmospheric gases are the highest volume products produced by Praxair. Using air as its
12 raw material, Praxair produces oxygen, nitrogen and argon through several air separation
13 processes of which cryogenic air separation is the most prevalent. Cryogenic air
14 separation requires that the temperature of the air used be brought down to approximately
15 minus 300 degrees Fahrenheit and attaining those temperatures requires large amounts of
16 electricity. As a pioneer in the industrial gases industry, Praxair is a leader in developing
17 a wide range of proprietary and patented applications and supply systems technologies.
18 Praxair has also invested heavily in equipment and processes that allow it to quickly and
19 easily modify its power usage and shed its electric load within sixty (60) minutes or less
20 of a call to do so. Praxair also led the development and commercialization of non-
21 cryogenic air separation technologies for the production of industrial gases.

22

23

1 **Q. PLEASE DESCRIBE HOW PRAXAIR PRODUCES PROCESS GASES.**

2 A. Process gases, including carbon dioxide, hydrogen, carbon monoxide, helium, specialty
3 gases and acetylene are produced by methods other than air separation. Most carbon
4 dioxide is purchased from by-product sources, including chemical plants, refineries and
5 industrial processes and is recovered from carbon dioxide wells. Carbon dioxide is
6 processed in Praxair's plants to produce commercial and food-grade carbon dioxide.
7 Hydrogen and carbon monoxide are produced by either steam methane reforming of
8 natural gas or by purifying by-product sources obtained from the chemical and
9 petrochemical industries. Most of the helium sold by Praxair is sourced from certain
10 helium-rich natural gas streams in the United States, with additional supplies being
11 acquired from outside the United States. Acetylene is typically produced as a chemical
12 by-product.

13
14 **Q. WOULD YOU DESCRIBE PRAXAIR'S CUSTOMERS?**

15 A. Praxair's customers utilize its industrial gases to improve the efficiency, productivity,
16 quality, and environmental performance of their own operations. Praxair's customers
17 served from its Neosho, Missouri plant are in a wide range of industries including
18 aerospace, automotive, healthcare, chemicals, metal fabrication and food processing. In
19 addition, Praxair industrial gases are also used in many other industries including
20 transportation; energy; beverage; glass; metals; pharmaceutical & biotechnology; pulp &
21 paper; refining; water & wastewater treatment; and welding. A complete description of
22 the gases produced by Praxair and the industries that utilize those gases can be found at
23 the Praxair website: www.praxair.com.

1 Q. **HOW DOES PRAXAIR DELIVER INDUSTRIAL GASES TO ITS CUSTOMERS?**

2 A. There are three basic distribution methods for industrial gases: (i) on-site; (ii) merchant
3 or bulk liquid; and (iii) packaged or cylinder gases. These distribution methods are often
4 integrated, with products from all three supply modes coming from the same plant. The
5 method of supply is generally determined by the lowest cost means of meeting the
6 customer's needs, depending upon factors such as volume requirements, purity, pattern
7 of usage, and the form in which the product is used (as a gas or as a cryogenic liquid).

8 ► On-site: Customers that require the largest volumes of product (typically oxygen,
9 nitrogen and hydrogen) and that have a relatively constant demand pattern are supplied
10 by cryogenic and process gas on-site plants. Praxair constructs plants on or adjacent to
11 these customers' sites and supplies the product directly to customers by pipeline.

12 ► Merchant: The merchant business is generally associated with distributable liquid
13 oxygen, nitrogen, argon, carbon dioxide, hydrogen and helium. The deliveries generally
14 are made from Praxair's plants by tanker trucks to storage containers at the customer's
15 site which are owned and maintained by Praxair and installed at the customer's site for its
16 use. Due to distribution cost, merchant oxygen and nitrogen is generally limited to a 250
17 mile distribution radius from the plants at which they are produced. Merchant argon and
18 certain process gases such as hydrogen and helium can be shipped much longer
19 distances. Praxair operates merchant production facilities in Neosho and Kansas City,
20 Missouri and employs approximately 50 people in engineering, distribution, operations
21 and sales.

22 ► Packaged Gases: Customers requiring small volumes are supplied products in metal
23 containers called cylinders, under medium to high pressure. Packaged gases include

1 atmospheric gases, carbon dioxide, hydrogen, helium, acetylene and related products.
2 Praxair also produces and distributes in cylinders a wide range of specialty gases and
3 mixtures. Cylinders may be delivered to the customer's site or picked up by the
4 customer at a packaging facility or retail store. Praxair operates twelve packaged gases
5 stores in Missouri under the name Praxair Distribution and employs approximately 100
6 people in distribution, management operations and sales. Notably, following the tornado
7 that struck Joplin in 2011, Praxair Distribution maintained the supply of key medical
8 gases to the main hospital; supporting its efforts to provide healthcare to victims in need.

9
10 **Q. IS THE INDUSTRIAL GAS BUSINESS COMPETITIVE?**

11 A. Yes. Praxair operates within a highly competitive environment. Praxair is the largest
12 industrial gas company in North America. Competition is based on price, product
13 quality, delivery, reliability, technology and service to customers. Major competitors in
14 the industrial gases industry both in the United States and worldwide include Air
15 Products and Chemicals, Inc.; Airgas Inc.; L'Air Liquide S.A.; and Linde AG. There are
16 also numerous regional competitors in the United States including Matheson-Trigas, Inc.
17 All of these competitors produce products in adjacent or nearby states and truck them
18 into Missouri. Many of these competitors, particularly those operating in Arkansas,
19 Iowa, Oklahoma and Texas, are enjoying significantly lower electric power costs and in
20 concert with low transportation fuel costs are able to competitively truck product into the
21 Missouri market.

1 **Q. IS PRAXAIR'S PRESENCE IMPORTANT TO A LOCAL / REGIONAL**
2 **ECONOMY?**

3 A. Yes. Industrial gases are critical to the safe and reliable operation of a wide variety of
4 manufacturing processes. Having local industrial gas production facilities is a favorable
5 driver of local manufacturing activity.

6 Praxair gases facilitate customer efforts in increased productivity, decreased
7 energy consumption, higher product quality and cost-effective achievement of
8 environmental and safety standards. For example, nitrogen and carbon dioxide are used
9 for emergency fire suppression systems required by law for the safety of employees.
10 Those products are also commonly used in food processing for chilling and freezing.
11 Oxygen is used in healthcare and certain chemical production processes. In short,
12 Missouri's industry needs a reliable supply of gases such as those Praxair provides.

13

14 **Q. ARE PRAXAIR'S OPERATIONS ENERGY INTENSIVE?**

15 A. Yes. Energy is the single largest cost item in the production and distribution of industrial
16 gases. Electric costs comprise 50-75% of Praxair's overall production costs depending
17 on the industrial gas to be produced. Because electric power is such a substantial portion
18 of Praxair's costs, competitively priced electric power is essential to Praxair being able to
19 offer its products to customers at competitive prices. Higher electric power costs will be
20 reflected in Praxair product prices. This puts Missouri manufacturers, who are already
21 struggling with high electric power costs of their own, at yet a further disadvantage.
22 Competitive power costs are critical to Praxair's ability to competitively supply

1 customers and successfully compete for regional industrial gases business against
2 competitors outside the Empire footprint and indeed outside of Missouri.

3
4 **III. PRAXAIR'S MIDWEST OPERATIONS**

5 **Q. WOULD YOU DESCRIBE PRAXAIR'S OPERATIONS IN THE EMPIRE**
6 **SERVICE AREA?**

7 A. Yes. Empire's primary industrial gas facility in the Empire service area is located in
8 Neosho, Missouri. The Neosho facility was built in 1961 and has continuously produced
9 argon, nitrogen and oxygen for customers in and around Missouri. In order to effectively
10 minimize the utility's cost to serve us, Praxair has used non-firm (interruptible) power for
11 over twenty years. Praxair regularly adjusts production at various plants in the Midwest
12 so that it makes the most product at the plants with the lowest costs. When electricity
13 costs are high at the Neosho plant, less product is produced there. In short, Praxair is
14 operating its Neosho, Missouri facility at reduced production levels. Intermittent
15 shutdowns are possible because electric power rates at other nearby sites are lower,
16 resulting in better production economics at those sites. If this situation persists in the
17 long term, Praxair could be forced to shut down production at Neosho in favor of
18 increasing production at sites in other states with lower electricity costs.

19
20 **Q. WOULD YOU DESCRIBE PRAXAIR'S FACILITIES WITHIN 250 MILES OF**
21 **NEOSHO?**

22 A. Yes. In addition to the Neosho facility, Praxair operates an industrial gas production
23 facility in Kansas City, Missouri. The electric power costs for our Kansas City facility

1 are similar to those at Neosho. Additionally, Praxair has production facilities in
2 Tennessee and Texas that have significantly lower electric power costs than Empire.
3 Even with transportation costs, these facilities in other states have lower overall customer
4 supply costs than the Neosho, Missouri facility. The result is that energy usage is being
5 “dislocated” from Missouri utilities to utilities in adjacent and nearby states to the
6 detriment of Missouri businesses and ratepayers.

7
8 **IV. COMPETITIVENESS OF EMPIRE’S INDUSTRIAL RATES**

9 **Q. IN HIS REBUTTAL TESTIMONY (PAGES 33-37), OPC WITNESS MARKE**
10 **ARGUES AGAINST THE COMMISSION’S USE OF EEI DATA WHICH**
11 **SHOWS THAT EMPIRE’S INDUSTRIAL RATES ARE NOT COMPETITIVE**
12 **WITH THE REGIONAL AND NATIONAL AVERAGE COST OF**
13 **ELECTRICITY. DO YOU AGREE WITH DR. MARKE’S CONCLUSIONS?**

14 A. No. As demonstrated by MECG witness Maini’s surrebuttal testimony, Empire’s
15 industrial rate is 18.65% above the national average industrial rate. Meanwhile, Empire’s
16 residential rate is 2.32% below the national average.¹ The Commission relied upon this
17 information in the last case in deciding to take steps to eliminate a portion of the
18 residential subsidy. This disparity extends beyond a comparison to the national average.
19 For instance, Empire’s industrial rate is 31.27% above the regional average industrial rate
20 while its residential rate is only 9.62% above the regional average residential rate. Still

¹ The competitiveness of Empire’s residential and industrial rates has changed very little relative to the national average since the last case. Specifically, in the last case, the EEI data showed that Empire’s industrial rate was 16% above the national average, while the residential rate was 3.5% below the national average. See, *Report and Order*, Case No. ER-2014-0351, issued June 24, 2015, at page 17.

1 again, Empire's industrial rate is 38.06% above the state average industrial rate while its
2 residential rate is only 12.44% above the state average residential rate.

3 In addition to the EEI data summarized above, Praxair has comparison data from
4 twenty-six states and provinces in the United States and Canada in which Praxair
5 operates production plants. Of those twenty-six places, just one – California – has higher
6 rates than Empire for electric power supplied by regulated utilities.

7
8 **Q. DO YOU BELIEVE THAT THE CONCLUSIONS PRESENTED BY THE EEI**
9 **DATA PRESENT AN ACCURATE DEPICTION OF THE COMPETITIVENESS**
10 **OF EMPIRE'S INDUSTRIAL RATE?**

11 A. Yes. The uncompetitive nature of Empire's industrial rate, as depicted in the EEI data, is
12 consistent with the real life costs that Praxair pays, day in, day out. Specifically, when
13 compared to other regional utilities, Empire's industrial rate is not competitive with other
14 service areas.

15
16 **Q. WOULD YOU COMPARE THE ELECTRIC RATE THAT PRAXAIR PAYS IN**
17 **THE EMPIRE SERVICE AREA TO THAT WHICH IT PAYS FOR THESE**
18 **OTHER FACILITIES?**

19 A. Yes. Attached is a highly confidential chart which compares the average cost of
20 electricity that Praxair pays in the Empire service area versus that which it pays in
21 adjacent and nearby service areas.

| Location | Utility | Electric Cost (2015) |
|-----------------------|----------------------------|-----------------------------|
| Neosho, Missouri | Empire District Electric | ** _____ ** |
| Kansas City, Missouri | KCPL | ** _____ ** |
| Garland, Texas | City of Garland | ** _____ ** |
| Memphis, Tennessee | Tennessee Valley Authority | ** _____ ** |
| Riverport, Tennessee | Tennessee Valley Authority | ** _____ ** |

1 Note: Electric costs are 2015 actual (including interruptible credits as applicable).

2 **Q. HAVE YOU REACHED ANY CONCLUSIONS REGARDING THE**
3 **COMPETITIVENESS OF EMPIRE’S INDUSTRIAL RATES?**

4 A. Yes. Empire District’s high electric power costs are creating unfavorable production
5 economics for our Neosho, Missouri facility. Given the high power cost relative to other
6 production sites, Praxair will continue to under-utilize production at this facility, and in
7 the long term may intermittently or even permanently discontinue operations at its
8 Neosho, Missouri facility.

9
10 **Q. WHAT IS THE SIGNIFICANCE OF THE 250 MILE RADIUS THAT YOU USED**
11 **FOR COMPARING PRAXAIR FACILITIES?**

12 A. As indicated previously, Praxair supplies customers in three ways: (1) on-site; (2)
13 merchant; or (3) packaged. Merchant deliveries are made through tanker trucks or
14 storage containers. Given the ability to deliver industrial gases in this way, Praxair is
15 always weighing the production economics of maintaining an on-site production facility
16 versus delivering the product by tanker truck and weighing the production economics of
17 supplying each customer at the lowest total cost even if this means trucking product in
18 from production facilities some distance away. In concert with the electric power cost
19 advantage, the low cost of transportation fuels allows us to truck product from distant

1 production locations at a lower overall total cost than that of supply from our Neosho
2 facility.

3
4 **Q. WOULD EMPIRE’S CUSTOMER BASE BE HARMED BY THE CLOSING OF**
5 **THE PRAXAIR NEOSHO FACILITY?**

6 A. ** _____
7 _____
8 _____
9 _____
10 _____
11 _____
12 _____
13 _____
14 _____
15 _____
16 _____ **

17
18 **Q. DOES PRAXAIR PROVIDE VALUE TO THE EMPIRE CUSTOMER BASE IN**
19 **OTHER WAYS?**

20 A. Yes. Given its ability to store its gas product and shift production, Praxair is capable of
21 having its energy usage interrupted by Empire. In fact, it is my understanding that
22 Praxair represents virtually all of Empire’s interruptible load.² More importantly, Praxair

² Schedule SC-P specifically provides a minimum interruptible load of 5,600 kW. In contrast, the minimum interruptible load under Empire’s Interruptible Rider (“IR”) rate schedule is only 200 kW.

1 presents interruptible features unlike any of Empire’s other interruptible customers. It is
 2 my understanding that Empire’s other interruptible customers are served under the
 3 Interruptible Rider (“IR”) rate schedule. Differences between the IR rate schedule and
 4 the SC-P schedule under which Praxair takes service also shows the unique nature of
 5 Praxair’s interruptible service compared to other customers.

| Feature | Schedule IR | Schedule SC-P |
|------------------------------|---|----------------|
| Minimum Interruptible Demand | 200 Kw | 5,600 kW |
| Notice | Four hours | Thirty minutes |
| Maximum Interruptions | 10 | 13 |
| Time Limits | Noon until 10:00 p.m. Monday through Friday | No limits |

6

7 **Q. HOW DOES EMPIRE’S INTERRUPTIBLE CREDIT FOR SC-P COMPARE TO**
 8 **THAT OF OTHER MIDWEST UTILITIES??**

9 A. ** _____
 10 _____
 11 _____
 12 _____
 13 _____ **

| Utility | Jurisdiction | Interruptible Credit |
|--|--------------|----------------------|
| AEP Indiana Michigan Power Company ³ | Indiana | ** _____ ** |
| Northern Indiana Public Service Company ⁴ | Indiana | ** _____ ** |
| DTE Energy ⁵ | Michigan | ** _____ ** |
| Xcel Energy ⁶ | Minnesota | ** _____ ** |

14 Note: The interruptible credits summarized above are as of January 2016.

³ Tariff CS-IRP2

⁴ Rider 675 (Option D)

⁵ Rider 10. Interruptible credit is associated with avoided demand charges.

⁶ Rate A24 (Short Notice)

1 **V. REVENUE ALLOCATION**

2 **Q. DO YOU HAVE CONCERNS REGARDING STAFF'S PROPOSED**
3 **ALLOCATION OF ANY REVENUE REQUIREMENT IN THIS CASE?**

4 A. Yes. As demonstrated by the EEI rates survey as well as Praxair's own real life
5 experience, Empire's industrial rates are not competitive with the state, regional or
6 national average. This case presents another opportunity for the Commission to address
7 the uncompetitive nature of Empire's industrial rates.⁷ Specifically, in the testimony of
8 Kavita Maini, MECG has presented a class cost of service study.⁸ This study, based
9 upon the Average & Excess (4 CP) production allocator, shows that residential rates are
10 below cost of service while industrial rates (Large Power and Special Contract– Praxair)
11 are above cost of service at present revenues. Furthermore, MECG's results show that
12 Praxair is above cost of service even after including Staff's recommended rate increase.
13 As such, MECG recommends a revenue neutral decrease for the LP class and no increase
14 for Praxair.

15 In contrast, Staff presents a class cost of service based upon the BIP production
16 allocation. Staff's study, while also showing a significant residential subsidy, concludes
17 that industrial rates (Large Power and Special Contract– Praxair) are at cost of service
18 and should not see any revenue neutral change.⁹

⁷ Empire did not produce a class cost of service study in this case. Rather, given the proximity in time to its last rate case, Empire relied upon the Commission's decision in that case. Specifically, since the Commission decision in the last case sought to eliminate 25% of the residential subsidy, Empire recommended that the Commission simply eliminate another 25% of the residential subsidy. Furthermore, Empire recognized that the vast majority of the rate increase in this case was the result of fixed cost investment. Since Praxair is an interruptible customer and does not drive the need for this investment, Empire recommended that Praxair receive very little increase. MECG agrees with the logic of Empire's position and appreciates Empire's effort to address its industrial rates.

⁸ See, Maini Surrebuttal, page 12.

⁹ Revenue neutral change refers to the amount of change in rates prior to any of the allocated revenue increase.

1 Thus, through its decision regarding the appropriate class cost of service study
2 (MECG – A&E production allocator vs. Staff – BIP production allocator), the
3 Commission can address Empire’s uncompetitive industrial rates. For the reasons
4 explained in Kavita Maini’s rebuttal and surrebuttal testimony, I recommend that the
5 Commission recognize the logic of the A&E production allocator and adopt the MECG
6 class cost of service study.

7
8 **Q. WHAT IS OPC’S POSITION REGARDING REVENUE ALLOCATION?**

9 A. Not surprisingly, as the residential advocate, OPC opposes any steps that would address
10 the residential subsidy. That said, OPC does not provide a class cost of service study that
11 disproves the existence of a residential subsidy. Instead, OPC simply ignores the class
12 cost of service studies in this case which shows that residential rates are approximately
13 \$14-\$16 million below cost of service. Given this, OPC suggests that the Commission
14 should ignore these cost of service studies by noticing that both the Staff and MECG
15 recommendations “would represent over a double-digit rate increase for these
16 [residential] customers in less than a year.” It is OPC’s position “there should be no
17 revenue neutral shift and an equal percentage increase occur across classes.”¹⁰

18
19 **Q. DO YOU HAVE CONCERNS REGARDING OPC’S PROPOSED ALLOCATION**
20 **OF ANY REVENUE REQUIREMENT IN THIS CASE?**

21 A. OPC simply is seeking to preserve the current residential subsidy. Undoubtedly, if a
22 study showed that the residential class was paying rates that were above cost of service,
23 OPC would likely be asking that the Commission address the subsidy immediately. That

¹⁰ See, Marke Rebuttal, pages 37-38.

1 said, in this case, OPC asks that the Commission ignore the class cost of service studies,
2 as well as the evidence which shows that industrial rates are not competitive, and
3 recommends that current inequitable rates be perpetuated. As the Commission found in
4 the last case:

5 Competitive industrial rates are important for the retention and expansion
6 of industries within Empire's service area. If businesses leave Empire's
7 service area, Empire's remaining customers bear the burden of covering
8 the utility's fixed costs with a smaller amount of billing determinants.
9 This may result in increased rates for all of Empire's remaining
10 customers.¹¹

11
12 OPC's recommendation that the Commission maintain the current residential subsidy
13 ensures that Empire's uncompetitive industrial rates are maintained or exacerbated. In
14 doing so, OPC places a significant obstacle in the way of industrial customers expanding
15 into the Empire service area and, in fact, provides an impetus for industrial customers to
16 leave the service area. As the Commission has found, this would result in higher rates for
17 all of Empire's remaining customers. Given this, I recommend that the Commission
18 reject OPC's recommendation and address the residential subsidy.

19
20 **VI. RECOVERY OF INTERRUPTIBLE CREDITS**

21 **Q. DO YOU HAVE ANY THOUGHTS REGARDING STAFF POSITION**
22 **REGARDING EMPIRE'S RECOVERY OF THE PRAXAIR INTERRUPTIBLE**
23 **CREDITS?**

24 **A.** Yes. In its testimony, Staff recommends that the Commission not allow Empire to
25 recover the cost of the credits that it provides to Praxair for the right to interrupt its load.

¹¹ *Report and Order*, Case No. ER-2014-0351, issued June 24, 2015, at page 18.

1 Staff recommends this disallowance despite the fact that it allows for recovery of the
2 credits associated with the Interruptible Rider rate schedule.

3 I believe that the Commission should reject Staff's proposed disallowance. First,
4 the Commission has approved the interruptible credit provided by Empire to Praxair.
5 The \$4.01 / kW interruptible credit is specifically spelled out in the SC-P rate schedule
6 approved by the Commission.¹² Second, while the compensation for the Praxair
7 interruptible load is higher than the compensation for other interruptible load, Praxair
8 provides benefits that the other interruptible customers do not provide. Specifically,
9 Praxair has a much larger interruptible load, Praxair's load can be interrupted on 30
10 minutes' notice versus 4 hours' notice for the other interruptible load, and Empire can
11 interrupt the Praxair load more frequently and at any time during the week. Finally, it is
12 well established that the presence of interruptible load results in a cost savings for all
13 other customers in that Empire does not have to include such load in its IRP filings and
14 capacity additions. Given these benefits, I believe that Empire should be allowed to
15 recover these Praxair interruptible credits.

16
17 **VII. CONCLUSION**

18 **Q. WOULD YOU PROVIDE YOUR CONCLUSIONS FOR THE COMMISSION?**

19 A. Yes. It is my recommendation that the Commission: (1) recognize that Empire's
20 industrial rates are not in line with the industrial rates in the state of Missouri, regionally
21 or nationally; (2) seek to address the uncompetitive Empire industrial rates by adopting
22 the MECG class cost of service study that relies upon the A&E (4CP) production

¹² See, Schedule SC-P, Section 2, 9th Revised Sheet 9B, approved February 28, 2013.

1 allocator; and (3) allow Empire to recover the credits that it provides for the option of
2 interrupting Praxair's load.

3

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

5 A. Yes.