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Class Cost-of-Service
Witness: Robin Kliethermes
Sponsoring Party: MO PSC Staff
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MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

REBUTTAL TESTIMONY

OF

ROBIN KLIETHERMES

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2014-0351

*Jefferson City, Missouri
March 2015*

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Q. Please state your name and business address.

A. Robin Kliethermes, 200 Madison Street, Jefferson City, MO 65102.

Q. By whom are you employed and in what capacity?

A. I am employed by the Missouri Public Service Commission (“Commission”) as a Regulatory Economist II.

Q. Are you the same Robin Kliethermes who has previously filed testimony in Staff’s Revenue Requirement Cost of Service Report and Staff’s Rate Design and Class Cost-of-Service Report in this case?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the Company’s requested residential customer charge of \$18.75, an increase of \$6.23 per month. Additionally, I provide a revised summary of the results of Staff’s Class Cost-of-Service (“CCOS”) study that incorporates revisions/updates Staff made to its direct filed case.

Q. What is your recommended Residential Customer charge?

A. Staff recommends the Commission consider the off-setting policy objectives of encouraging and rewarding energy conservation and sending accurate price signals. Given cost justification, Staff recommends that the residential customer charge increase by the same

1 percentage that all other residential service class rate elements increase as a reasonable
2 compromise of these objectives.¹

3 **Response to Empire Regarding Residential Customer Charge**

4 Q. What is Empire's recommendation for the residential customer charge?

5 A. Empire witness W. Scott Keith's recommendation is to increase the residential
6 customer charge from \$12.52 to \$18.75.

7 Q. Does Staff agree with this recommendation?

8 A. No. Although, Staff's CCOS study indicated a residential customer charge
9 cost-of-service of approximately \$18.36, Staff recommends the increase to the customer
10 charge be limited in recognition of the principles of rate shock and conservation policy
11 guidance provided by the Commission. At this time, an equal percent increase to all
12 residential rate class elements would result in an approximate increase of \$0.43 in the
13 residential customer charge from \$12.52 to \$12.95.

14 Q. How does the magnitude of Empire's requested customer charge relate to the
15 magnitude of Empire's overall rate increase request?

16 A. The revenue Empire requests to collect through the residential customer charge
17 in this case is approximately \$28.3² million as compared to \$18.9 million that is currently
18 collected through the residential customer charge. This is an increase of approximately \$9.4
19 million in revenue just from the increase in the residential customer charge. The overall
20 increase requested by Empire is \$23.7³ million and the overall increase Empire is requesting

¹ Based on Staff's updates to its direct Class Cost-of-Service and Rate Design report the increase to the residential class is approximately 3.45%, resulting in an increase to the customer charge of approximately \$0.43. Staff's CCOS indicated a residential customer charge cost of service of approximately \$18.36.

² Annualized number of residential customers is 125,988 *12*\$18.75 = \$28,347,300.

³ Excluding pre-MEEIA revenue

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Robin Kliethermes

1 to recover from the residential class is \$15.5⁴ million. In other words, Mr. Keith is
2 recommending that Empire collect 40% of its entire increase and 61% of its increase to the
3 residential customer class through the residential customer charge.⁵

4 Q. Did Dr. Overcast and Mr. Keith acknowledge recent guidance from this
5 Commission regarding conservation policy as it relates to the residential customer charge?

6 A. No. In Case No. ER-2012-0166⁶, the Commission found that there were
7 strong public policy considerations in favor of not increasing the customer charges,
8 particularly, that a lower customer charge enables customers to see greater impact from
9 conservation efforts and therefore encourages customers to engage in conservation efforts. In
10 that case, the Commission rejected a proposed increase to the residential customer charge,
11 noting that increasing the customer charge would send exactly the wrong message to
12 customers and would discourage efforts to conserve electricity.

13 Q. Setting aside the conservation policy issue, is Staff concerned with the
14 magnitude of the increase to the residential customer charge requested by Empire?

15 A. Yes. Empire requests essentially a 50% increase to the residential customer
16 charge, amounting to approximately \$75 per year per customer.⁷ This increase is
17 substantially above the system average increase in this or prior rate cases.

18 Q. Does Dr. Overcast calculate a much larger cost basis for the residential
19 customer charge?

⁴ Page 14 of W. Scott Keith's Direct Testimony

⁵ If the Commission's approved revenue requirement in this case is less than Empire's and closer to Staff's recommended revenue requirement than an increase in the residential customer charge of \$ 6.23 would actually decrease residential volumetric rates.

⁶ A general rate case proceeding by Union Electric Company d/b/a Ameren Missouri

⁷ This is just the increase to the customer resulting from the increase in the customer charge, under the Company's proposal there was still a slight increase in the energy charge as well.

1 A. Yes. In Dr. Overcast's calculation of the residential customer charge he
2 includes the portion of FERC accounts 364-368 that were allocated to rate classes based on
3 the number of customers in the class.⁸ These resources typically serve more than one
4 customer, as opposed to FERC accounts 369 and 370, which are service lines and meters and
5 are more specific to one customer. Both Staff and Empire include FERC accounts 369 and
6 370 in the customer charge cost calculation. By including the additional distribution system
7 costs in the calculation of the customer charge, Dr. Overcast assumes that the addition of a
8 residential customer would cause Empire's distribution system costs to increase by \$460.92⁹
9 on an annual basis. That assumption creates too large of an increase for the residential
10 customer charge.

11 Q. How does Staff avoid such a large increase?

12 A. While Staff does find that there is a reasonable relationship between the
13 number of customers in a class and the percent of Empire's distribution system that is related
14 to serving that class, Staff does not conclude that those costs belong in the customer charge.

15 **Staff's Recommended residential customer charge**

16 Q. What is Staff's recommended residential customer charge?

17 A. Based on concerns for rate shock and the guidance the Commission provided
18 in Case No. ER-2012-0166 concerning maximizing the benefits of energy conservation
19 efforts, Staff recommends that the residential customer charge increase by the same
20 percentage as all other rate elements of the residential service class to provide a reasonable
21 compromise between the benefits of energy conservation and sending accurate price signals.

⁸ These accounts include the costs of poles, overhead conductors and devices, underground conduit, underground conductors and devices, and line transformers.

⁹ Using Dr. Overcast's direct filed testimony, an additional customer would increase distribution system expenses \$240.60 (\$460.92 - \$220.32) more than Staff's position of \$220.32 or approximately \$18.36 per month.

Staff's Revised CCOS Study Results

Q. Did any revisions/updates that Staff made to its direct filed case, as summarized in the rebuttal testimony of Staff witness Kim Bolin, impact the results of Staff's direct filed Class Cost-of-Service study ("CCOS")?

A. Yes. Table 1, below, summarizes the results of Staff's revised CCOS.

Table 1 (Revised)

Results of Staff's CCOS Study - Empire District Electric Company

Customer Class	Revenue Deficiency	CCOS % Increase
Residential	\$22,014,612	10.70%
Commercial Building	\$118,105	0.27%
Commercial Space Heating	\$13,104	0.12%
General Power	\$(4,484,350)	-5.26%
Special Transmission Service Contract: Praxair	\$199,813	5.32%
Total Electric Building	\$(1,548,885)	-4.07%
Feed Mill and Grain Elevator	\$(40,577)	-35.43%
Large Power	\$(3,381,708)	-5.71%
Lighting and Miscellaneous (Street, Private, Special, Miscellaneous)	\$(1,295,350)	-16.52%
Total (Rounding)	\$(11,594,763)	2.64%

Q. Did the revised results change Staff's direct filed rate design recommendations?

A. No. Staff's revised/updated results changed the overall recommendation from a 1.39% increase to a 2.64% increase (as noted in Table 1). This percent change does not change Staff's overall rate design recommendation.

Q. Does this conclude your testimony?

A. Yes.