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June 5, 2001

FILED[2]
JUN 5 2001
Missouri Public
Service Commission

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

RE: Case No. ER-2001-299

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of **SUGGESTIONS IN SUPPORT OF UNANIMOUS STIPULATION AND AGREEMENT REGARDING FUEL AND PURCHASED POWER EXPENSE AND CLASS COST OF SERVICE AND RATE DESIGN.**

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

Dennis L. Frey

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DLF:ccl
Enclosure
cc: Counsel of Record

FILED[2]
JUN 5 2001
Missouri Public
Service Commission

BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

In the matter of The Empire District Electric Company's Tariff Sheets Designed to Implement a General Rate Increase for Retail Electric Service Provided to Customers in the Missouri Service Area of the Company	)))))	Case No. ER-2001-299

SUGGESTIONS IN SUPPORT OF UNANIMOUS STIPULATION AND AGREEMENT REGARDING FUEL AND PURCHASED POWER EXPENSE AND CLASS COST OF SERVICE AND RATE DESIGN

COMES NOW the Staff of the Missouri Public Service Commission ("Staff") and for its Suggestions in Support of the Unanimous Stipulation and Agreement Regarding Fuel and Purchased Power Expense and Class Cost of Service and Rate Design, respectfully states as follows:

1. On November 3, 2000, The Empire District Electric Company ("Empire" or "Company") submitted to the Missouri Public Service Commission ("Commission"): (1) proposed tariff sheets that would increase rates for electric service provided to its Missouri customers and (2) testimony supporting the proposed rate increases. The proposed tariff sheets bear an effective date of December 3, 2000 and were designed to produce an annual increase of $41,467,926.00 (approximately 19.3%) in Empire's electric revenues.

2. On November 16, 2000, the Commission suspended the proposed tariffs for a period of 120 days plus an additional six months beyond the proposed effective date.

3. On December 22, 2000, the Commission granted Praxair, Inc.'s application to intervene.

4. During the week of April 16, 2001, and in accordance with the procedural schedule adopted by the Commission in an Order issued January 4, 2001, the four parties—Empire, Staff, the Office of the Public Counsel and Praxair, Inc. ("Praxair")—met for the

80

purpose of clarifying, narrowing, and exploring settlement possibilities for the numerous issues raised in the case. As a result of these meetings and subsequent negotiations, the parties reached an agreement regarding both the appropriate amount of fuel and purchased power expense to be included in the Company's revenue requirement, and the appropriate rate design treatment of any revenue requirement increase ordered by the Commission (respectively, issues number 7 and 4 in the Revised List of Issues, filed on June 4, 2001). Accordingly, the parties filed their Unanimous Stipulation and Agreement Regarding Fuel and Purchased Power Expense and Class Cost of Service and Rate Design ("Agreement") on June 4, 2001.

Fuel & Purchased Power

5. The basic agreement among the parties as to fuel and purchased power is identical to the Staff's Interim Energy Charge ("IEC") recommendation, which is described and supported in the supplemental testimonies of Staff witnesses Cary G. Featherstone (Exhibit 109) and James C. Watkins (Exhibit 111) and in the revised surrebuttal testimony of Mr. Featherstone (Exhibit 107), all of which were filed on June 1, 2001. The specifics of the recommendation are set forth in Schedule 1, attached to Mr. Watkins' supplemental testimony. The Staff made no movement from its June 1 filed position to accomplish this agreement. It should be noted that the Staff initially filed its "change of position" in a document filed on May 14, 2001.

As noted in the above-referenced testimonies, Staff was of the opinion that in light of the extraordinarily high natural gas prices and the extreme volatility of the natural gas and wholesale electricity markets during much of the latter part of year 2000 and the early part of 2001, the traditional approach to determining fuel prices, which is based on historical data, would be inadequate. An alternative approach was thought necessary in order to address this unusual situation.

A further contributing factor to the decision to depart from exclusive use of historical costs to determine the basis of the fuel prices used for fuel expense was the plant addition of State Line Combined Cycle Unit, which was expected to be in service as of June 1, 2001, and which, because the unit will burn only natural gas, will significantly increase Empire's exposure to higher natural gas prices. Indeed, even prior to the addition of the new State Line facility, Empire produced a considerably larger percentage of its generation from natural gas than did any of the other electric utilities operating in the state of Missouri.

Under these circumstances, the effect, for both the Company and its customers, of a wrong projection as to the future direction of fuel and purchased power costs could be dramatic. For example, if rates are set based on historical costs and it turns out that actual costs are at the forecasted level, Empire's entire net operating income for the year could be wiped out. If, on the other hand, rates are set based on forecasted costs and it turns out that actual costs are at historical levels, Empire's net operating income could double, thereby creating a windfall for the Company, at the ratepayers' expense. Clearly, it is desirable to have a mechanism in place to mitigate these risks. The Interim Energy Charge is such a mechanism and will result in the establishment of just and reasonable rates. The rates will recover at least the level of costs based on historical prices, and at most the level of costs based on a conservative upward forecast of prices. It is intended that, within this range, the Interim Energy Charge will recover exactly Empire's prudently incurred actual fuel and purchased power costs. The true-up audit provision of the Agreement requires a refund of any over-collection of fuel and purchased power costs. Thus, this approach shares the burden of the price risk between Empire and its customers in such a way as to greatly reduce the risk to both Empire and its customers.

Rate Design

6. The Agreement results in relative overall increases to the various customer classes that are qualitatively the results recommended by the Staff in the direct testimony (filed April 10, 2001) of Staff witness Janice Pyatte (Exhibit 70), which are based on the results of Staff's class cost-of-service study presented in the direct testimony (filed April 10, 2001) of Staff witness Anne Ross (Exhibit 73); i.e., the overall increases to the residential and large general service classes are close to the system average increase, the overall increase to the small general service class is less than the system average increase, and the overall increases to Praxair and the large power class are above the system average increase.

The Staff moved slightly from its position, filed by Ms. Pyatte on June 1, 2001 (Exhibit 110), in order to accommodate the Interim Energy Charge in a way that would approximate the impact on Praxair and the large power class that would result from the adoption of the Staff's original (April 10, 2001) rate design proposal. The attached Appendix A shows, for an assumed $30 million overall revenue increase, the revenue increase to each customer class that would result from this agreement compared to the Staff's original rate design proposal in its direct testimony, as well as to Staff's surrebuttal proposal.

Other Items

7. Paragraph 6 of the Agreement reflects Empire's agreement to increase Praxair's interruptible credit by $100,000 annually for a period of five years. The Staff has no objection to this provision because the resultant corresponding decrease in Praxair's bill will be borne solely by the Company. It will not, at any time, be reflected in increased rates to, or recovered from, Empire's other Missouri ratepayers.

8. Paragraph 11 of the Agreement states, in part, that "Empire agrees to voluntarily forego any right it may have to request the use of, or to use, any other procedure or remedy, available under current Missouri statute or subsequently enacted Missouri statute, in the form of a fuel adjustment cost, a natural gas cost recovery mechanism, or other energy related adjustment mechanism to which Empire would otherwise be entitled." Empire witness Brad P. Beecher reiterated this agreement in his supplemental testimony (Exhibit 106, pp. 8-9).

In response to the Commission's Order Directing Filing, issued May 24, 2001, wherein the parties were directed to address in their opening statements "the effect, if any, of the passage of SCS/SB 387 on this case," counsel for the Company stated Empire's intention to utilize the IEC mechanism proposed in the Agreement. Furthermore, in their opening statements, the Staff, the Company and the Office of the Public Counsel expressed the view of that this mechanism is superior to the one embodied in SCS/SB 387.

WHEREFORE, the Staff recommends that the Commission issue an order approving the Unanimous Stipulation and Agreement Regarding Fuel and Purchased Power Expense and Class Cost of Service and Rate Design, filed on June 4, 2001.

Respectfully submitted,

DANA K. JOYCE
General Counsel

Dennis L. Frey

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Missouri Bar No. 44697

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 5th day of June 2001.

Dennis L. Frey

EXAMPLE CALCULATION OF RATE INCREASES
AND COMPARISON TO THE STAFF'S RATE DESIGN PROPOSALS
(ASSUMED $30 MILLION OVERALL INCREASE)

Cost of Service Class/Tariff	Current Revenues	% Change to Rate Schedules	$ Change to Rate Schedules	Current kWh Sales	$ to Refundable **$0.0054** Fuel Charge	% Change due to Refundable Fuel Charge	Overall $ Increase	**Settlement Overall % Increase**	**Staff Direct Rate Design Proposal**	**Staff Surrebuttal Rate Design Proposal**
RESIDENTIAL	$93,046,756	4.96%	$4,610,931	1,458,495,987	$7,875,878	8.46%	$12,486,810	**13.42%**	**14.62%**	**13.4%**
SMALL GENERAL SERVICE:										
Commercial Service	$22,974,537	4.96%	$1,138,503	320,897,158	$1,732,845	7.54%	$2,871,348	12.50%		
Small Heating	$5,532,323	4.96%	$274,154	94,106,265	$508,174	9.19%	$782,328	14.14%		
Feed Mills	$117,329	4.96%	$5,814	1,291,512	$6,974	5.94%	$12,788	10.90%		
Traffic Signals	$24,170	4.96%	$1,198	456,549	$2,465	10.20%	$3,663	15.16%		
Total Small GS	$28,648,358		$1,419,669	416,751,484	$2,250,458	7.86%	$3,670,127	**12.81%**	**10.68%**	**10.3%**
LARGE GENERAL SERVICE:										
Total Electric Buildings	$15,657,174	4.96%	$775,891	307,262,102	$1,659,215	10.60%	$2,435,106	15.55%		
General Power	$37,337,264	4.96%	$1,850,248	750,116,735	$4,050,630	10.85%	$5,900,878	15.80%		
Total Large GS	$52,994,438		$2,626,139	1,057,378,836	$5,709,846	10.77%	$8,335,985	**15.73%**	**14.62%**	**15.7%**
LARGE POWER	$24,792,524	4.96%	$1,228,593	648,098,300	$3,499,731	14.12%	$4,728,324	**19.07%**	**18.84%**	**21.7%**
SPECIAL CONTRACTS	$1,868,004	4.96%	$92,569	55,098,173	$297,530	15.93%	$390,099	**20.88%**	**18.84%**	**23.5%**
ELECTRIC FURNACE	$94,693	4.96%	$4,693	2,081,160	$11,238	11.87%	$15,931	**16.82%**	**14.62%**	**16.8%**
LIGHTING										
Street Lighting	$904,535	4.96%	$44,824	15,350,916	$82,895	9.16%	$127,719	14.12%		
Private Lighting	$2,770,142	4.96%	$137,274	17,149,283	$92,606	3.34%	$229,880	8.30%		
Special Lighting	$132,482	4.96%	$6,565	1,585,158	$8,560	6.46%	$15,125	11.42%		
Total Lighting	$3,807,158		$188,664	34,085,357	$184,061	4.83%	$372,725	**9.79%**	**14.62%**	**9.8%**
TOTAL MO RETAIL	$205,251,931	**4.96%**	**$10,171,258**	3,671,989,297	**$19,828,742**	**9.66%**	**$30,000,000**	**14.62%**	**14.62%**	**14.6%**

Appendix A

Service List for
Case No. ER-2001-299
Verified: June 4, 2001 (ccl)

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