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Class Cost-of-Service
Witness: Michael S. Schepeler
Sponsoring Party: MO PSC Staff
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

DIRECT TESTIMONY

OF

MICHAEL S. SCHEPERLE

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2010-0130

**Jefferson City, Missouri
March 2010**

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EMPIRE DISTRICT ELECTRIC COMPANY
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1 case filings by Staff, a “report” format is being used to convey the Staff’s direct case and
2 recommendations to the Commission.

3 I also provide in this direct testimony an overview of Staff’s recommendations as
4 contained in its CCOS Report.

5 Neither the Staff nor Empire performed a Class Cost-of-Service (CCOS) study for this
6 case. Staff believes it is more appropriate to take up CCOS concerns with the next general
7 rate case, which Empire is anticipated to file soon after this proceeding to obtain treatment for
8 its share of Iatan 2, and Iatan Common Plant. In the CCOS Report, Staff recommends that
9 any increase be applied to customer rate schedules as an equal percentage for each rate
10 component, the adoption of some modifications to Empire’s Fuel and Purchase Power
11 Adjustment Clause tariff sheets and changes in tariff sheets loss factors based on Empire’s
12 recent loss study. Staff also provides information concerning Empire’s Experimental Low
13 Income Program.

14 **CCOS REPORT**

15 Q. What is the organizational format of Staff’s CCOS Report?

16 A. The CCOS Report has been organized by topic as follows:

17 I. Executive Summary

18 II. Class Cost-of-Service Study

19 III. Rate Design

20 IV. Rate Case Expense Recovery Rider

21 V. Rate Schedule Adjustments to Reflect Updated Losses

22 VI. Fuel and Purchased Power Adjustment Clause

23 VII. Experimental Low Income Program

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1 The CCOS Report has numerous sections. I am responsible for the CCOS, Rate
2 Design, Rate Case Expense Recovery Rider, and Rate Schedule Adjustments to Reflect
3 Updated Losses. Staff witness Matthew J. Barnes is responsible for the Fuel and Purchased
4 Power Adjustment Clause. Staff witness Carol Gay Fred is responsible for Staff's analysis of
5 Empire's Experimental Low Income Program (ELIP). In Staff's Cost of Service Report filed
6 February 26, 2010, Staff filed its accounting information which included Staff's estimate
7 through the update period of December 31, 2009. Consistent with that filing, this CCOS
8 Report of March 9, 2010 is based on Staff's accounting schedule numbers filed February 26,
9 2010.

10 **CLASS COST-OF-SERVICE STUDY**

11 Q. Did Staff perform a CCOS study?

12 A. No. It is anticipated that Empire will file another rate case soon after this
13 proceeding concludes, in order to obtain treatment of additional rate base investment. Iatan 2
14 is now scheduled to be fully operational and used for service in the fall of 2010. Plum Point
15 is scheduled to be fully operational and used for service prior to the operation of law date in
16 this case, September 28, 2010, although it is unknown whether Plum Point will become
17 operational for a portion of its costs to be included in the revenue requirement in this case.
18 Therefore, Staff did not perform a CCOS study in this case. Staff intends to perform a CCOS
19 study in Empire's next case to account for these significant changes to Empire's revenue
20 requirement.

21 **RATE DESIGN RECOMMENDATIONS**

22 Q. What is Staff's Rate Design recommendations detailed in the CCOS Report?

1 A. Staff recommends the following:

- 2 • No revenue-neutral shifts between rate schedules.
3 • Allocation of any allowed revenue increase among customer rate schedules as an
4 equal percentage for each rate component.
5

6 **RATE CASE EXPENSE RECOVERY RIDER**

7 Q. What is Staff's reply to Empire's recommendation of a separate line item on
8 customer's bills for a rate case expense rider?

9 A. Staff does not support the concept of having a separate line item on each
10 customer's bill for rate case expense due to the customer confusion associated with such a line
11 item. Staff is not aware of any electric utility in Missouri which has a separate line item on
12 customers' bills for rate case expense.

13 **RATE SCHEDULE ADJUSTMENTS TO REFLECT UPDATED LOSSES**

14 Q. What are Staff's Rate Schedule Adjustments for updated losses?

15 A. Empire, through Management Applications Consulting Inc., performed a new
16 system loss study. This new loss study provides updated estimates of system losses for
17 Empire's Missouri jurisdiction. In its report, Staff recommends:

- 18 • Metering adjustment factors to reflect new loss study performed by Empire.
19

20 **FUEL AND PURCHASED POWER ADJUSTMENT CLAUSE**

21 Q. What are Staff's Fuel and Purchase Power Adjustment recommendations?

22 A. Since filing Staff's Revenue Requirement Cost of Service Report, Staff
23 recommends additional changes it desires to improve the clarity and efficiency of the FAC.

24 Staff recommends:

- 25 • Change in base cost per kWh for the summer months of June through September
26 to \$0.02979 and a change in base cost per kWh to \$0.02690 for all the other
27 months;

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- 1 • Delete entirely the section on prudence review, since the Staff, and not the
- 2 Company, is responsible for initiating and conducting the prudence review;
- 3 • Change to loss factors consistent with Empire’s loss study;
- 4 • Add a new section to describe the timing and the process for true-up of the
- 5 difference between the revenues billed and the revenues authorized for collection
- 6 during each recovery period;
- 7 • Redefine Factor F to be total cost of fuel – FERC Accounts 501 and 547 (by
- 8 deleting the words “net system input” in the current definition of factor F);
- 9 • Redefine factor O to be off-system sales revenue (and not off-system sales
- 10 margin); and
- 11 • Numerous grammatical changes.

12 **EXPERIMENTAL LOW INCOME PROGRAM**

13 Q. What are Staff’s Experimental Low Income Program (ELIP) recommendations
14 for Empire?

15 A. Based on the draft ELIP evaluation, ELIP has not been successful. Staff does
16 not recommend its continuation. If the Commission re-authorizes a program similar to ELIP,
17 or orders Empire to implement a similar low-income program, Staff recommends the
18 following:

- 19 • The Community Action Agencies (CAAs) are the appropriate partner to qualify
- 20 and enroll the participants into the program and to monitor their ongoing
- 21 qualifications.
- 22 • It would be easier for the CAAs to administer ELIP if their participant threshold
- 23 was set to match that of Low Income Home Energy Assistance Program
- 24 (LIHEAP) participants.
- 25 • Better and more education/marketing on ELIP for CAAs and participants may
- 26 better improve the level of participation and may help improve participation in all
- 27 aspects of ELIP.
- 28 • Better communications and follow through from the utility and CAAs on all
- 29 aspects of the program needs to be in place, in other words, periodic reviews in the
- 30 form of meetings or conference calls to check the status of the program should be
- 31 conducted to ensure that all parties’ requirements and needs are being met.

32 Q. Does this conclude your direct testimony?

33 A. Yes, it does.

Mike Scheperle

Testimony/Reports Filed Before The Missouri Public Service Commission:

CASE NOS:

TO-98-329, *In the Matter of an Investigation into Various Issues Related to the Missouri Universal Service Fund*

TT-2000-527/513, *Application of Allegiance Telecom of Missouri, Inc. ... for an Order Requiring Southwestern Bell Telephone Company to File a Collocation Tariff; Joint Petition of Birch Telecom of Missouri, Inc. for a Generic Proceeding to Establish a Southwestern Bell Telephone Company Collocation Tariff before the Missouri Public Service Commission*

TT-2001-139, *In the Matter of Mark Twain Rural Telephone Company's Proposed Tariff to Introduce its Wireless Termination Service*

TT-2001-298, *In the Matter of Southwestern Bell Telephone Company's Proposed Tariff PSC Mo. No. 42 Local Access Service Tariff, Regarding Physical and Virtual Collocation*

TT-2001-440, *In the Matter of the determination of Prices, Terms, and Conditions of Line-Splitting and Line-Sharing*

TO-2001-455, *In the Matter of the Application of AT&T Communications of the Southwest, Inc., TCG St. Louis, Inc., and TCG Kansas City, Inc., for Compulsory Arbitration of Unresolved Issues with Southwestern Bell Telephone Company Pursuant to Section 252(b) of the Telecommunications Act of 1996*

TC-2002-57, *In the Matter Of Northeast Missouri Rural Telephone Company's And Modern Telecommunications Company's Complaint Against Southwestern Bell Telephone Company Regarding Uncompensated Traffic Delivered by Southwestern Bell Telephone Company To Northeast Missouri Rural Telephone And Modern Telecommunications Company.*

TC-2002-190, *In the Matter Of Mid-Missouri Telephone Company vs. Southwestern Bell Telephone Company*

TC-2002-1077, *BPS Telephone Company, et al., vs. Voicestream Wireless Corporation, Western Wireless Corp., and Southwestern Bell Telephone Company*

TO-2005-0144, *In the Matter of a Request for the Modification of the Kansas City Metropolitan Calling Area Plan to Make the Greenwood Exchange Part of the Mandatory MCA Tier 2*

TO-2006-0360, *In the Matter of the Application of NuVox Communications of Missouri, Inc. for an Investigation into the Wire Centers that AT&T Missouri Asserts are Non-Impaired Under the TRRO*

IO-2007-0439, *In the Matter of Spectra Communications Group, LLC d/b/a CenturyTel's Request for Competitive Classification Pursuant to section 392.245.5 RSMo*

IO-2007-0440, *In the Matter of CenturyTel of Missouri, LLC's Request for Competitive Classification Pursuant to Section 392.245.5 RSMo*

TO-2009-0042, *In the Matter of the Review of the Deaf Relay Service and Equipment Distribution Fund Surcharge*

ER-2009-0090, *In the Matter of the Application of KCP&L Greater Missouri Operations Company for Approval to Make Certain Changes in its Charges for Electric Service*

ER-2009-0089, *In the Matter of the Application of Kansas City Power and Light Company for Approval to Make Certain Changes in its Charges for Electric Service To Continue the Implementation of Its Regulatory Plan*

ER-2010-0036, *In the Matter of Union Electric Company, d/b/a AmerenUE's Tariffs to Increase its Annual Revenues for Electric Service*