

Exhibit No.:
Issues: Rate Design
Witness: Michael S. Scheperle
Sponsoring Party: MO PSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: ER-2014-0351
Date Testimony Prepared: March 24, 2015

MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

SURREBUTTAL TESTIMONY

OF

MICHAEL S. SCHEPERLE

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2014-0351

Jefferson City, Missouri
March 2015

**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 in the)
Company's Missouri Service Area.)

Case No. ER-2014-0351

AFFIDAVIT OF MICHAEL S. SCHEPERLE

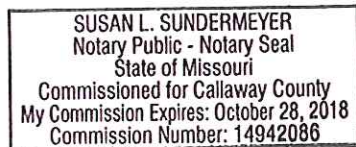
STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Michael S. Scheperle, of lawful age, on his oath states: that he has participated in the preparation of the following Surrebuttal Testimony in question and answer form, consisting of 6 pages of Surrebuttal Testimony to be presented in the above case, that the answers in the following Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.



Michael S. Scheperle

Subscribed and sworn to before me this 24th day of March, 2015.





Notary Public

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THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2014-0351

13 Q. Please state your name and business address.

14 A. My name is Michael S. Scheperle and my business address is Missouri Public
15 Service Commission, P. O. Box 360, Jefferson City, Missouri 65102.

16 Q. Are you the same Michael S. Scheperle who filed, on February 11, 2015, direct
17 testimony in question and answer format and as part of the Missouri Public Service
18 Commission's Staff's ("Staff") Rate Design and Class Cost-of-Service Report ("CCOS
19 Report")?

20 A. Yes.

21 Q. What is the purpose of your Surrebuttal testimony?

22 A. My testimony responds to Mr. H. Edwin Overcast rebuttal testimony on behalf
23 of The Empire District Electric Company ("Empire") and the rebuttal testimony of Mr. David
24 E. Dismukes on behalf of the Office of Public Counsel ("OPC") concerning rate design
25 proposals.

Response to Mr. Overcast

26 Q. What is your understanding of the residential customer charge rate design
27 increase proposal by Mr. Overcast on behalf of Empire?

Surrebuttal Testimony of
Michael S. Scheperle

1 A. Empire is proposing to increase the residential customer charge from \$12.52
2 per month to \$18.75 per month, a 49.8% increase. Mr. Overcast states¹ that the issue of
3 affordability is not significant, since the proposed customer charge increase is only \$0.20 per
4 day. Mr. Overcast further states² that affordability should be addressed directly for only those
5 customers who would require assistance in affording electric service. .

6 Q. Does Staff support Empire’s recommended customer charge increase?

7 A. No. Staff believes the approximate 50% increase requested by Empire is
8 significant for each of the 126,000 residential customers in Empire’s territory especially when
9 no additional kWh energy may be consumed or a customer is implementing energy efficiency
10 measures. Currently, Empire has the highest residential customer charge³ in the state for
11 investor owned utilities (IOU’s).

12 Q. What is Staff’s recommendation for the residential customer charge?

13 A. Staff recommends that based on class cost-of-service (“CCOS”) results and
14 policy considerations, the residential customer charge be increased by the average increase for
15 that class. Based on Staff’s direct revenue requirement recommendation, the increase would
16 be a modest 2.18% relative to the 49.8% increase as requested by Empire.

17 **Response to Mr. Dismukes**

18 Q. Does Mr. Dismukes representing OPC agree with Staff’s rate design
19 recommendation?

¹ Rebuttal testimony of Mr. Overcast, page 19.

² Rebuttal testimony of Mr. Overcast, page 20.

³ Currently, Ameren Missouri residential customer charge is \$8.00, Kansas City Power & Light residential customer charge is \$9.00, KCP&L Greater Missouri Operations has two rate districts. MPS rate district residential customer charge is \$10.43 and the L&P rate district residential customer charge is \$9.54.

Surrebuttal Testimony of
Michael S. Scheperle

1 A. No. Mr. Dismukes believes⁴ it is more appropriate to assign some increases to
2 all classes when the utility is requesting an increase. This recommendation affects not only
3 Staff's recommendation, but also specific overall rate design recommendations by other
4 parties. Furthermore, Mr. Dismukes, recommends⁵ that the Commission reject Midwest
5 Energy Consumers Group's ("MECG") proposed revenue distribution as the residential class
6 would see an increase of 18.6%, whereas Special Transmission class and Large Power class
7 would experience a decrease of 7.7% and 1.3%, respectively.

8 Q. Does Staff support Mr. Dismukes' recommendation that it is more appropriate
9 to assign some increase to all classes when the utility is requesting an increase?

10 A. No. In this case, based on Staff CCOS results, Staff recommends that the feed
11 mill/grain elevator ("PFM") class and combined lighting classes receive no retail increase as
12 existing revenues received from those classes are providing more revenue to Empire than
13 Empire's cost to serve. These two customer classes are more than 18%⁶ above Empire's cost
14 (investment and expenses) to serve them and should receive no increase in this case. Staff
15 does support the concept that as class revenues move towards class cost of service, that no
16 class receive an overall reduction in its rate revenues while another class receives an overall
17 increase in its rate revenues on a total company basis.

18 Q. Do you agree with Mr. Dismukes' statement that the Commission reject
19 MECG's proposed revenue distribution as the residential class would see an increase of
20 18.6%, while the Special Transmission class and Large Power class would experience a
21 decrease of 7.7% and 1.3% respectively?

⁴ Rebuttal Testimony of David E. Dismukes, page 7.

⁵ Rebuttal Testimony of David. E. Dismukes, page 8.

⁶ Staff Rate Design and CCOS Report, page 6.

Surrebuttal Testimony of
Michael S. Scheperle

1 A. Yes. Mr. Dismukes is correct that under MCEG's recommendation over \$37
2 million in revenue will be shifted to the Residential class before including any other revenue
3 increase in this proceeding. Mr. Dismukes is correct that the residential class would see an
4 increase of 18.6% under the first step and this leads to the possibility of rate shock. Staff does
5 support the concept that as class revenues move towards class cost of service, that no class
6 receive an overall reduction in its rate revenues while another class receives an overall
7 increase in its rate revenues on a total company basis.

8 Q. Have you calculated and summarized the different class recommendations by
9 each party?

10 A. Yes, based on Staff's understanding. This calculation is summarized on
11 Schedule MSS-S1.

12 Q. Please discuss Schedule MSS-S1.

13 A. Schedule MSS-S1 is Staff's understanding of class revenue recommendations
14 in this case. It details the different parties⁷ recommendations for each class of customer.
15 Schedule MSS-S1 is segregated by Empire rate classes for (1) Staff rate design, (2) Empire
16 rate design, (3) OPC rate design, (4) MCEG rate design, and (5) Staff CCOS results.

17 Column 1 is a listing of Empire rate classes. Column 2 is Staff's rate design⁸
18 recommendation based on Staff's Direct Testimony. This incorporates Staff's
19 recommendation for each class based on an overall 1.39% increase. These percentages detail
20 Staff's five-step process incorporating revenue neutral adjustments, pre-MEEIA adjustments,

⁷ Rate Design recommendations were submitted by Empire, Staff, OPC and MCEG by class of customers. Other recommendations deal with intra-class class revenue requirements and specific rate concerns.

⁸ Based on a five-step process of (1) revenue neutral adjustments, (2) pre-MEEIA allocation, (3) Retail portion allocation, and (4) retail rate component increases.

Surrebuttal Testimony of
Michael S. Scheperle

1 and the retail portion of the increase. These revenue neutral adjustments bring each class
2 closer to their CCOS study results with no class receiving a decrease.

3 Column 2 is Empire's rate design by class based on its overall requested increase of
4 5.45%. Empire's adjustments reflect its recommendations with no class receiving a decrease.

5 Column 3 is OPC's rate design recommendations by class with footnote C describing
6 its class allocations. This is Staff's understanding of OPC's recommendation by class.

7 Column 4 is Staff's understanding of MECG's rate design recommendations by class
8 which show the change in revenue needed. This does not include the overall change in
9 revenue requirements that may be authorized by the Commission in this case.

10 Column 5 is a summary of Staff's CCOS results based on its CCOS study. These
11 percentages have varied slightly as updated and true-up amounts were received from Staff
12 accountants and auditors and revised in rebuttal and surrebuttal testimony.

13 Q. Please review Staff's rate design recommendation in this case.

14 A. Staff recommends that the allocation of any rate increase for Empire will be
15 accomplished with a five-step process:

- 16 1. Based on CCOS results, Staff recommends to increase/decrease the current base retail
17 revenue on a revenue-neutral basis to various classes of customers. Specifically, Staff
18 recommends the RG class receive a positive 0.75% adjustment; and the TEB, GP, and
19 LP classes of customers receive a negative adjustment of approximately 0.85%.
- 20 2. Staff directly assigns to applicable customer classes the portion of the revenue
21 increase/decrease that is attributable to energy efficiency ("EE") programs from Pre-
22 MEEIA ("Missouri Energy Efficiency Investment Act") program costs.
- 23 24
25 3. Staff determined the amount of revenue increase awarded to Empire not associated
26 with the EE revenue from Pre-MEEIA revenue requirement assigned in Step 2, by
27 subtracting the total amount in Step 2 from the total increase awarded to Empire. Staff
28 recommends allocating this amount to various customer classes as an equal percent of
29 current base revenues after making the adjustment in Step1. Based on CCOS results,
30 Staff recommends that the PFM and combined lighting classes receive no retail

Surrebuttal Testimony of
Michael S. Scheperle

1 increase as existing revenues received from these classes are providing more revenue
2 to Empire than Empire's cost to serve.
3

4 4. Staff recommends that each rate component of each class be increased across-the-
5 board for each class on an equal percentage basis after consideration of steps 1
6 through 3 above. Included in this recommendation, Staff recommends that, based on
7 CCOS results and policy considerations, the residential and all customer charges be
8 increased by the system average increase for each applicable class.
9

10 5. Adopt Rider Fuel and Purchased Power Adjustment Clause ("FAC") tariff sheets
11 consistent with Staff testimony.
12

13 Q. Does this conclude your surrebuttal testimony?

14 A. Yes, it does.

Missouri Public Service Commission
Case No. ER-2014-0351
Rate Design Recommendations

(1)	(2)	(3)	(4)	(5) MECG	(6)
Rate Classes	Staff Rate Design (A)	Empire Rate Design (B)	OPC Rate Design (C)	Revenue Neutral Rate Design (D)	Staff CCOS (E)
Residential (RG)	2.18%	7.65%	System Average times 1.10	18.60%	10.37%
Commercial Building (CB)	1.41%	6.89%		-2.00%	-1.91%
Small Heating (SH)	1.42%	6.97%		-0.09%	-0.02%
Total Electric Building (TEB)	0.57%	1.36%		-19.30%	-4.54%
General Power (GP)	0.57%	1.36%		-33.10%	-7.24%
Large Power (LP)	0.55%	5.79%	System Average times 1.10	-1.30%	-8.84%
Special Transmission (SC-P)	1.31%	1.39%	System Average times 1.10	-7.70%	3.62%
Feed Mill and Grain Elevator (PFM)	0.07%	1.35%		-23.20%	-37.50%
Miscellaneous Services (MS) - lighting	0.00%	0.00%	System Average times 1.10	50.60%	Combined lighting 18.43%
Street Lights (SPL)	0.00%	0.00%	System Average times 1.10	29.30%	Combined lighting 18.43%
Private Lights (PL)	0.00%	0.00%		-61.20%	Combined lighting 18.43%
Special Lights (LS)	0.00%	0.00%	System Average times 1.10	335.10%	Combined lighting 18.43%
Total	1.39%	5.45%	See Footnote (C)	See Footnote (D)	1.39%

(A) Based on Staff Direct Revenue Requirement (Staff Rate Design and CCOS Report, Schedule BJF-D1)

(B) Empire Direct Testimony. Scott Keith Direct Testimony - page 14.

(C) Revenue responsibility allocated using a two-step methodology. In the first step, the under-earning classes receive 1.10 times the system average increase. In the second step, any remaining revenue deficiency is allocated to the other rate classes in relation to their current test year revenues. According to Staff's understanding, this means the RG class, SC-P class, LP class, and SPL class would receive 1.10 times the system average increase.

(D) Direct Testimony of Kavita Maini. In order to have equity amongst classes, I recommend that adjustments first be made on a revenue neutral basis such that the relative rates of return of each class are 1.00. using this approach, I recommend that adjustments first be made on a revenue neutral basis of a decrease of 7.7% to the SC-P class and a 1.3% decrease to the LP class. After making these recommended revenue neutral adjustments at present rates, any overall change in revenue requirements can be applied across the board to the classes on an equal percentage basis. Also, an adjustment for Pre-MEEIA are excluded from increase to retail portion.

(E) Based On Staff Rate Design and CCOS Report. For rate design and CCOS purposes, Staff treated interruptible customers as firm in terms of capacity and revenue. This is consistent with past practice in prior Empire rate cases and with Empire's operational history of only calling for very limited interruptions in previous years. (Staff Rate Design and CCOS Report, page 5).