

LAW OFFICES
BRYDON, SWEARENGEN & ENGLAND
PROFESSIONAL CORPORATION

DAVID V.G. BRYDON
JAMES C. SWEARENGEN
WILLIAM R. ENGLAND, III
JOHNNY K. RICHARDSON
GARY W. DUFFY
PAUL A. BOUDREAU
SONDRA B. MORGAN
CHARLES E. SMARR

312 EAST CAPITOL AVENUE
P.O. BOX 456
JEFFERSON CITY, MISSOURI 65102-0456
TELEPHONE (573) 635-7166
FACSIMILE (573) 635-0427

DEAN L. COOPER
MARK G. ANDERSON
GREGORY C. MITCHELL
BRIAN T. MCCARTNEY
DIANA C. FARR
JANET E. WHEELER

OF COUNSEL
RICHARD T. CIOTONE

October 16, 2002

Mr. Dale Hardy Roberts
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102

FILED³
OCT 16 2002

**Re: The Empire District Electric Company
Case No. ER-2002-424**

Missouri Public
Service Commission

Dear Mr. Roberts:

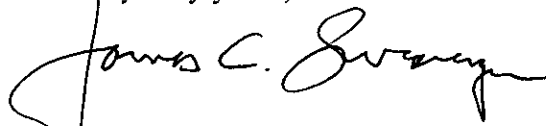
On behalf of The Empire District Electric Company ("Empire"), I deliver herewith for filing with the Missouri Public Service Commission in the referenced matter an original and eight (8) copies of the surrebuttal testimony and schedules of Empire witnesses Brad P. Beecher, Kelly S. Walters, and Donald A. Murry.

Copies of this filing will be provided this date to all parties of record.

Would you please bring this filing to the attention of the appropriate Commission personnel.

Thank you very much for your assistance.

Very truly yours,


James C. Swearengen

JCS/lar

Enclosures

cc: Denny Frey
John Coffman
Stuart Conrad

Exhibit No.
Issue: Fuel & Purchased Power Expense
Witness: Brad P. Beecher
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Empire District
Case No.: ER-2002-424
Date Testimony Prepared: 10/16/02

**Before the Public Service Commission
of the State of Missouri**

FILED³

OCT 16 2002

**Missouri Public
Service Commission**

Surrebuttal Testimony

Of

Brad P. Beecher

October 16, 2002

SURREBUTTAL TESTIMONY
OF
BRAD P. BEECHER
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2002-424

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. Brad P. Beecher. My business address is 602 Joplin Street, Joplin, Missouri.

3 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

4 A. The Empire District Electric Company ("Empire" or "Company"). I am Vice President -
5 Energy Supply.

6 Q. DID YOU FILE DIRECT, SUPPLEMENTAL DIRECT, AND REBUTTAL TESTIMONY
7 IN THIS CASE?

8 A. Yes, I did.

9 Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?

10 A. The purpose of this testimony is two-fold. First, I will respond to the rebuttal testimony of
11 Staff witness David Elliott. Second, I will respond to positions taken by Praxair Inc. in its
12 Statement of Position, dated October 4, 2002.

13 Q. WHAT IS YOUR CONCERN WITH MR. ELLIOTT'S REBUTTAL TESTIMONY?

14 A. On Page 2, Mr. Elliott describes a change he makes to the operating characteristics of units
15 7 & 8. This is the same item that I described in my rebuttal testimony. Unfortunately, as
16 borne out by Mr. Elliott's rebuttal testimony, he didn't perform a reality check on his new
17 results. Following is an excerpt from my rebuttal testimony: "The Real Time model was
18 allowed to simulate Empire's system and produce the *most economical* (emphasis added)
19 output. This output included the cycling of units 7 & 8. When Staff forced an uneconomic
20 constraint, making unit 7 & 8 must run, on the model, the predicted expenses 'reduced'

1 \$811,000. This is completely illogical since the model could have chosen to make unit 7 & 8
2 must run on its own."

3 Because of this model behavior, we asked the Staff to check with the developers of Real
4 Time and look for a potential error. We have verbally been told that no problem was found.

5 Q. IS REAL TIME AN INDUSTRY ACCEPTED MODEL?

6 A. We do not know. As of this time, we can find no other user of the Real Time model in the
7 United States other than the Commission Staff. We have sent a data request to Staff to
8 provide this information, and they responded that they did not have access to such
9 information. We contacted the vendor (the Emelar Group), who refuses to supply a user list
10 because it is working for the Commission Staff. In short, we suspect there are very few, and
11 possibly only one user of Real Time in the entire country, potentially because of these types
12 of erratic results.

13 Q. WHAT OTHER CONCERNS DO YOU HAVE ABOUT MR. ELLIOTT'S REBUTTAL?

14 A. Schedule 2 and Schedule 3 of Mr. Elliott's testimony are graphs that purport to show the
15 differences between Staff's and Empire's spot purchase inputs. I would like to point out a
16 couple of flaws to consider when viewing the graphs. First, the x-axis is labeled cumulative
17 probability. By sorting from low to high the graphs do not properly present hourly
18 variations, or the fact that Mr. Elliott has the most spot purchased power available during the
19 hot on-peak periods; the time when spot market energy is least available. This is equivalent
20 to suggesting that the average temperature will be warmer in December than July. Second,
21 you cannot look at price or quantity without considering the other. For example, the last
22 point on the right side of the power price graph might relate to a middle point on the
23 availability graph. As pointed out in Ms. Tietjens rebuttal testimony, Mr. Elliott's spot
24 purchased power methodology is seriously flawed and therefore, these graphs present
25 information that should not be relied upon.

1 Q. IT IS UNUSUAL FOR A WITNESS TO RESPOND TO A STATEMENT OF POSITION.
2 WHY IS IT IMPORTANT THAT YOU ADDRESS CERTAIN OF PRAXAIR'S
3 POSITIONS IN YOUR SURREBUTTAL TESTIMONY?

4 A. While Praxair has presented no testimony in this case regarding the appropriate price for
5 natural gas, or the availability and price of non-contract purchased power, its Position
6 Statement suggests a remedy and concern for consideration by the Commission. Thus, in
7 order for the Commission to properly assess Praxair's position, it is important for some
8 evidence to be included in the case. Additionally, I would like to take the opportunity to
9 point out that Praxair incorrectly quotes Empire in Praxair's Position Statement concerning
10 the Interim Energy Charge.

11 Q. LET'S TAKE THESE ONE AT A TIME. WHAT IS THE ISSUE CONCERNING
12 PRAXAIR'S POSITION ON THE APPROPRIATE PRICE FOR NATURAL GAS?

13 A. In its Position Statement, Praxair states, "Generally, Praxair believes that costs for natural
14 gas should be projected on a basis that protects ratepayers from price excursions and
15 provides a strong incentive for the utility to minimize these costs".

16 It is generally the intent of rate regulation that Empire be allowed to recover its prudently
17 incurred expenses, to include natural gas, through its rates. Praxair seems to support a
18 "projected" cost of natural gas as opposed to the actual hedged cost of gas outlined in my
19 rebuttal testimony.

20 Q. WHAT IS YOUR CONCERN WITH PRAXAIR'S STATEMENT REGARDING THE
21 AVAILABILITY AND COST OF PURCHASED POWER?

22 A. The question as posed in the list of issues was straightforward. Praxair, however, provided a
23 response completely unrelated to the issue. The response instead is related to a current
24 contractual disagreement between Praxair and Empire. In its statement, Praxair says:
25 "Praxair is, however, concerned that its interruptible contract be properly used to allow the

1 utility to forestall or defer installation of peak generating equipment and should not be used
2 to allow the utility to make opportunity sales of energy or capacity that exceed tariff rates."

3 Q. WHAT IS THE NATURE OF THE CONTRACTUAL DISAGREEMENT BETWEEN
4 PRAXAIR AND EMPIRE?

5 A. The disagreement surrounds the circumstances under which the contract between the parties
6 allows Empire to interrupt the Praxair facility. Empire contends that the contract language is
7 very clear. It states that Empire has the right to interrupt Praxair on any day, at any time.
8 Following is an excerpt from the Special Conditions of Service on the tariff sheet P.S.C.
9 Mo. No. 5, which covers Praxair:

10 a. "3. The Company will not request more than 400 hours of demand reduction over each 12
11 month period...."

12 b. "4. The number of hours of demand reduction per day are not limited."

13 c. "5. The Company may request a demand reduction on any day."

14 Q. HOW DO YOU BELIEVE PRAXAIR VIEWS THE CONTRACT?

15 A. It is my understanding from the Praxair Statement that Praxair contends Empire should only
16 interrupt "to allow the utility to forestall or defer installation of peak generating equipment"
17 and that it should not be used to "allow the utility to make opportunity sales of energy or
18 capacity that exceed tariff rate."

19 Q. WHAT OTHER REASONS ARE THERE TO INTERRUPT?

20 A. To fully answer this question, it is important to reflect on the reasons for interruptible
21 contracts. As Praxair properly points out, interruptible customers may be used to "forestall
22 or defer installation of peak generating equipment." An associated reason at the time the
23 contract was executed was for Empire to avoid capacity deficiency payments that may have
24 been assessed by the MOKAN Power Pool. Either way, Empire (or the remainder of its
25 customers) recognized an economic benefit roughly offsetting the lower price provided to
26 Praxair because it takes interruptible power.

1 Q. HAVE ANY CIRCUMSTANCES CHANGED SINCE THE CONTRACT WAS
2 ORIGINALLY EXECUTED?

3 Many things have changed. For one, the MOKAN Power Pool was disbanded in 1997.
4 Second, Empire has grown, and it is now questionable that Praxair's 7 MW load would by
5 itself be the deciding factor in the timing of installation of new peaking resources. Third,
6 and probably most important, the wholesale energy market has changed markedly. There are
7 no longer clear cut lines between capacity and energy. Spot market costs usually have an
8 energy cost which includes a component for energy, capacity, O&M, and profit, many times
9 resulting in spot purchased power in excess of \$30/MWh. Praxair's trailing step is currently
10 \$28.10/Mwh in the on-peak summer period and \$19.40/Mwh in the on-peak winter period.

11 In the last Missouri rate case, as part of a stipulation, Empire agreed to give Praxair an
12 additional \$100,000 credit to become a signatory to a joint agreement. This settlement,
13 combined with the ever changing wholesale marketplace resulted in Empire looking for
14 ways to recognize an economic benefit equal to the credit that was given to Praxair for
15 interrupting as we have in the past. This resulted in Empire considering interruptions of
16 Praxair for "economic" reasons as well as at times when we were at or near a peak day.

17 Q. WHAT ISSUE DO YOU HAVE WITH PRAXAIR'S QUOTE CONCERNING THE
18 INTERIM ENERGY CHARGE?

19 A. Praxair states in its Position Statement, "Gas prices have stabilized and, in fact, have
20 declined from the levels projected in the prior case. Empire witnesses have testified that they
21 have implemented a 'hedging' program that have (SIC) *removed* (emphasis added) risk from
22 their natural gas portfolio". Upon review of my Supplemental Direct Testimony in this case,
23 the Commission will find on Page 4, Line 12, a question dealing with alleviating risk, not
24 removing it in total. In addition, as of October 14, 2003, the one-year strip for 2003 is
25 trading at about \$3.80/mmbtu; well above the costs included by Staff of \$3.29/mmbtu. To

1 the extent that the Commission chooses to utilize the Staff's methodology of utilizing
2 historic prices, the risk to Empire may, in fact, be greater than ever.

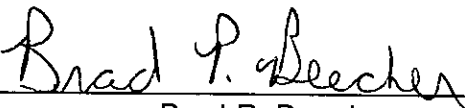
3 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

4 A. Yes, it does.

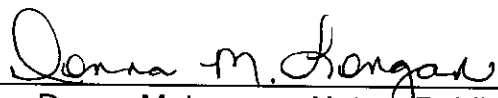
AFFIDAVIT

STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 15th day of October, 2002, before me appeared Brad P. Beecher, to me personally known, who, being by me first duly sworn, states that he is the Vice President – Energy Supply of The Empire District Electric Company and acknowledged that he has read the above and foregoing document and believes that the statements therein are true and correct to the best of his information, knowledge and belief.


Brad P. Beecher

Subscribed and sworn to before me this 15th day of October, 2002


Donna M. Longan, Notary Public

My commission expires: January 24, 2004

