

Exhibit No.:

Issues: Hedging

Witness: James A. Busch

Sponsoring Party: MO PSC Staff

Type of Exhibit: Surrebuttal Testimony

Case No.: ER-2006-0315

Date Testimony Prepared: August 18, 2006

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

SURREBUTTAL TESTIMONY

OF

JAMES A. BUSCH

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2006-0315

Jefferson City, Missouri

August 2006

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

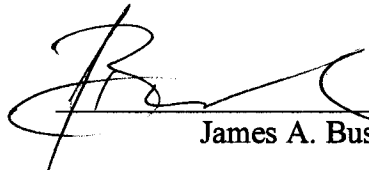
In the matter of The Empire District)
Electric Company of Joplin, Missouri for)
authority to file tariffs increasing rates for)
electric service provided to customers in)
the Missouri service area of the Company.)

Case No. ER-2006-0315

AFFIDAVIT OF JAMES A. BUSCH

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

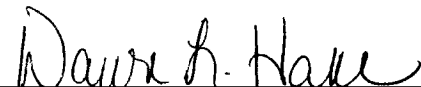
James A. Busch, of lawful age, on his oath states: that he has participated in the preparation of the following Surrebuttal Testimony in question and answer form, consisting of 4 pages of Surrebuttal Testimony to be presented in the above case, that the answers in the following Surrebuttal Testimony 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.



James A. Busch

Subscribed and sworn to before me this 17th day of August, 2006.





DAWN L. HAKE Notary Public
My Commission Expires
March 16, 2009
Cole County
Commission #05407643

My commission expires _____

SURREBUTTAL TESTIMONY

OF

JAMES A. BUSCH

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2006-0315

Q. Please state your name and business address.

A. My name is James A. Busch and my business address is P. O. Box 360, Jefferson City, Missouri 65102.

Q. Are you the same James A. Busch that filed direct, supplemental direct, and rebuttal testimony in this proceeding?

A. Yes I am.

Q. What is the purpose of your surrebuttal testimony in this case?

A. The purpose of my surrebuttal testimony in this case is to respond to the supplemental direct testimony of The Empire District Electric Company's (Empire) witnesses Steven M. Fetter and William L. Gipson.

Mr. Fetter's Testimony

Q. What was the purpose of Mr. Fetter's supplemental direct testimony?

A. Mr. Fetter's stated purpose of his testimony was to respond to question five of the questions posed by the Commission on June 20, 2006. Question five basically asked if there was any other relevant information any party wanted to provide to the Commission.

Q. What additional information did Mr. Fetter provide?

A. Mr. Fetter's entire supplemental direct testimony is basically a discussion of the benefits of the Fuel Adjustment Clause (FAC) to electric utilities.

Surrebuttal Testimony of
James A. Busch

1 Q. What is your response to Mr. Fetter's supplemental direct testimony?

2 A. Staff fails to see the relevance of Mr. Fetter's supplemental direct testimony
3 to this case. On May 2, 2006, the Commission issued an Order in this proceeding that
4 precludes Empire from requesting the implementation of a FAC in this case. Therefore, Mr.
5 Fetter's comments are completely irrelevant to this case. Since Empire cannot request a FAC
6 in this case, Staff will not respond further to Mr. Fetter's comments at this time.

7 Q. Please summarize Mr. Fetter's rebuttal testimony.

8 A. In his rebuttal testimony, Mr. Fetter describes how a FAC mechanism is a
9 better approach for maintaining "Empire's weak corporate credit rating" (Fetter rebuttal, pg.
10 2, lines 5-6) than the amortization mechanism agreed to by in the Empire Regulatory Plan
11 Stipulation and Agreement in Case No. EO-2005-0263 (Fetter rebuttal, pg. 2, lines 10-22).

12 Q. What is Staff's response to Mr. Fetter's position?

13 A. I will not get into the benefits of one method of maintaining financial ratings
14 over another. Again, the Commission has already issued an order in this case denying
15 Empire the ability to ask for a FAC. However, I would point out to the Commission that the
16 Regulatory Plan Stipulation and Agreement does not prevent the use of the amortization
17 mechanism if the FAC is used or vice versa. The agreement allows for both. It is the
18 Stipulation and Agreement from Empire's last rate case (Case No. ER-2004-0570) that
19 precludes Empire from requesting the FAC in this case.

Mr. Gipson's Testimony

Q. Do you have any comments regarding Mr. Gipson's supplemental direct testimony?

A. Yes. Mr. Gipson, on page 7, lines 1 – 22 of his supplemental direct testimony, asks the Commission to read certain sections of "Staff's" report from Case No. GW-2006-0110. First, it was not a Staff report, but was a Joint Report on Natural Gas Market Conditions, PGA Rates, Customer Bills & Hedging Efforts on Missouri's Natural Gas Local Distribution Companies (LDCs). This included the Staff, Office of the Public Counsel, and all Missouri LDCs. Second, it was not intended to address the electric industry in the State of Missouri.

Mr. Gipson quotes from page 28 which discusses the PGA (Purchased Gas Adjustment) mechanism for LDCs. There are differences between the PGA and a FAC that Mr. Gipson did not discuss in his testimony. The major difference is that, unlike the natural gas industry, an electric utility has the ability to purchase various inputs in the production of its final output which it will sell to its customers. A LDC simply purchases a commodity and resells it to its customers. An electric utility purchases various fuels (e.g., coal, natural gas, oil) in the most economical manner to create its commodity, electricity. Electric utilities also have the ability to purchase (and sell) their commodity from other generators. This adds a layer of complexity to the FAC that does not exist for a natural gas utility with a PGA. Thus, the use of a PGA clause in the natural gas industry is not the same as some sort of fuel mechanism would be in the electric industry.

Finally, Mr. Gipson quotes from page 36 which discusses attempts to ameliorate for end-use customers circumstances in the natural gas market that are beyond the control of the

Surrebuttal Testimony of
James A. Busch

1 customer. Under Empire's current recovery mode for fuel and purchased power, Empire's
2 customers are protected against upward fuel and purchased power costs and the fluctuations
3 in fuel prices. As noted in the testimony of Mr. Gipson and Mr. Fetter, one of the reasons for
4 the FAC is to protect Empire's shareholders from rising fuel and purchased power costs. A
5 FAC simply moves the risk away from the company, which has some control over the prices
6 paid for fuel, to the consumers who have no control over the prices paid. FACs also subject
7 the consumers to the very fluctuations in fuel prices that various natural gas task forces have
8 been looking to mitigate.

9 Q. Does this conclude your surrebuttal testimony?

10 A. Yes.