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Case No: ER-2004-0570
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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

REBUTTAL TESTIMONY
OF
WILLIAM G. EICHMAN

NOVEMBER 2004

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THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
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Q. Please state your name and business address.

A. My name is William G. Eichman. My business address is: P.O. Box 127, Joplin, Missouri, 64802.

Q. Please describe your educational background, experience, and qualifications.

A. I received a bachelor's degree in Engineering Operations from Iowa State University in 1978. The Engineering Operations program at Iowa State combined two engineering disciplines with a core group of business classes. The two engineering disciplines for my program were Electrical Engineering and Industrial Engineering.

Following graduation from Iowa State in 1978, I was hired by The Empire District Electric Company ("Empire") as an Industrial Engineer. My job responsibilities were (and continue to be) to provide the Customer Service link between Empire and its largest Industrial customers. This includes analyzing customers' electricity needs, performing rate analysis, preparing contracts, coordinating extensions to new and/or expanding Industrial customers, and performing other customer service activities. In 1995, I was promoted to Manager of the Wholesale and Industrial Sales department. In 2001, my job title changed to Manager of Industrial and Commercial Energy Services and our

departmental responsibilities were expanded to include some commercial and residential customer service activities as well.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of this testimony is to respond to the testimony of Staff witness Janice Pyatte and Intervener witness Maurice Brubaker and to endorse the concept of modifying the LP rate schedule to compensate customers taking service at a Transmission voltage level as was suggested in their testimonies.

Q. Is there a need for this modification?

A. Yes. As was discussed in Mr. Brubaker's testimony, there are currently two LP customers taking service at three individual delivery points (billed as three separate accounts) that currently take service at 69,000 volts (which is a level of transmission service). Since these customers built, own, operate, and maintain all of the distribution facilities below the transmission voltage level (except metering), Empire's distribution investment (and associated O&M costs) to serve these customers is minimal compared to the typical LP customers. In essence, Empire is providing no distribution facilities for these transmission voltage LP customers other than metering.

Q. Which FERC distribution accounts are included in the LP rate category?

A. Portions of FERC accounts 360, 361, and 362 (which include distribution substation structures, equipment, and land) and portions of FERC accounts 364, 365, 366, and 367 (which include distribution poles, conductors, conduits, and other distribution equipment and devices located beyond the substations) are allocated to the LP rate class based on non-coincident demand. In addition, a

portion of FERC account 370 (metering) is also allocated to the LP rate and collected on a "per customer" basis through the "Customer Charge".

Q. What portion of the distribution equipment described above is utilized to serve LP customers taking service at Transmission Voltage?

A. The only distribution equipment owned and maintained by Empire to serve transmission voltage LP customers is the metering (FERC account 370). This metering is more expensive than the metering for the typical LP customer and the method(s) of addressing these costs are discussed later in this testimony.

Q. How would you characterize the method proposed by Mr. Brubaker to determine a demand-based "Distribution Credit" to recognize the avoided distribution investment and associated O&M costs?

A. It is appropriate. Empire has reviewed Mr. Brubaker's proposal and concurs that the methodology is reasonable, but Empire does NOT at this time endorse any "adjustments" to the calculation that are based on "assumptions" that may "imply" acceptance of a lower level of rate relief than was requested in this case. We do concur, however, that some type of "true-up" adjustment to Mr. Brubaker's calculations may eventually be appropriate, but not until AFTER the total actual revenue requirements associated with this case (and the LP class) are determined.

Q. Is the methodology used by Mr. Brubaker to calculate the proposed "Distribution Credit" on the LP rate the same as the methodology previously used to calculate the "Substation Charge" on the SC tariff?

A. No.

Q. What are the differences?

A. The methodology used in 1995 to determine the "Substation Charge" on the SC tariff is different than the methodology being proposed for the "Distribution Credit" on the LP rate.

The current "Substation Charge" indicated on the SC tariff was derived using a "direct assignment" type of methodology. In theory, the "Substation Charge" on the SC tariff, represents Empire's actual costs of owning, operating, and maintaining the specific substation serving the specific SC customer. Since the SC tariff has no allocations of Empire's "common", distribution facilities, the "Substation Charge" on the SC tariff is necessary to insure that Empire is compensated for its actual substation investment. Empire provides no distribution facilities beyond the substation at the SC customer's location.

However, the LP tariff DOES HAVE an allocation of "common distribution facilities" for not only substations, but also other ancillary distribution facilities beyond the substations. Because the three Transmission customers on the LP tariff are providing all of their own distribution facilities (substations and ancillary distribution facilities), it is necessary to devise a method to "remove" the prorated "common" distribution allocations from the "base LP rate" when it is applied to transmission level customers. The "Distribution Credit" methodology proposed by Mr. Brubaker appears to effectively and appropriately accomplish this objective.

Q. How would Mr. Brubaker's proposed "Distribution Credit" be coordinated with the implementation of the "Distribution Facilities Charge" proposed by Ms. Pyatte?

A. It appears that the two concepts are similar. Although Ms. Pyatte did not provide all of the details regarding the calculation of the "Distribution Facilities Charge", she stated that the charge would be a method of collecting the "customer related" distribution costs on a "customer-specific" basis. It appears that she is proposing "removing" the distribution costs from the current "demand rate" and then adding a "Distribution Facilities Charge". If the proposed "Distribution Facilities Charge" truly represents the costs of all distribution facilities other than metering (FERC accounts 360 through 367) that are assigned to the LP rate, then it seems that it would be appropriate to "waive" the "Distribution Facilities Charge" for transmission level LP customers instead of giving them a "Distribution Credit" (or to set the "Distribution Credit" equal to the "Distribution Facilities Charge"). On the other hand, if the "Distribution Facilities Charge" only represents a portion of the distribution costs necessary to serve the LP customer class, there may need to be an additional "Distribution Credit" given to the Transmission customers in this class to insure that the Transmission LP customers are not subsidizing the distribution facilities of other LP customers.

Q. Are there any other adjustments that should be considered with respect to Transmission level customers?

A. Yes. The metering at two of the three delivery points referenced above is at the 69,000 volt level (which means that the meters are measuring the substation

losses). Since the LP rate schedule was designed on the premise that the billing determinants would be "loss-adjusted" to the Primary voltage level, an appropriate "loss adjustment factor" will need to be derived. In the 1995 Missouri rate case that included the development of the current SC tariff, a loss factor of 0.0035% was determined to approximate the losses of a substation transformer. In the case of the primary metered Special Contract (SC) tariff, the "adjusted" demand and Kwhrs are determined by "multiplying" the metered quantities by 1.0035 (to achieve the appropriate billing determinants for the SC tariff).

Using the same methodology in reverse; for "Transmission-metered" LP customers, the adjusted demand and Kwhrs would be determined by "dividing" the respective quantities by 1.0035 (to achieve the correct billing determinants for the LP class).

Two of the "Transmission" accounts on the LP rate are metered at Transmission voltage and would be entitled to a transmission metering adjustment. The third "Transmission" account is actually metered on the distribution side of the customer-owned Substation, and would therefore not be eligible for any "metering adjustments".

Q. How do the costs of Transmission Metering compare to Distribution Metering costs?

A. Every metering installation is different, but a rough estimate would indicate that Transmission Metering for LP sized loads might be on the order of ten times the cost of metering at the Distribution voltage level. The cost difference is due nearly entirely to the higher costs of transmission class CT's and PT's

Q. How was this additional metering cost addressed for the LP accounts with Transmission metering?

A. The cost of metering was not an issue for the initial Transmission LP account, since the metering is installed on the distribution voltage side of this customer's substation transformer (at a cost comparable to the "typical" metering installation for Primary metered LP customers).

However, Transmission level metering was installed for the two newest Transmission LP accounts. In these two cases, the customer provided and installed the CT's and PT's, with the understanding that these items would be conveyed to Empire at no cost. In this case, the cost of Empire's portion of these two metering installations was comparable to (or slightly less expensive than) the typical "Primary" metering installations that are installed for LP customers.

Although we are not currently aware of any other prospective Transmission customers, it will continue to be Empire's policy in the future to recover the excess costs from the individual customers requesting transmission metering. This can be accomplished with "aid-to-construction" contributions (cash or in-kind) or by implementing a monthly facilities charge using our existing Rider XC.

Q. Does this conclude your rebuttal testimony?

A. Yes.