

Exhibit No.:

Issues: Rate Design

Witness: James A. Busch

Sponsoring Party: MO PSC Staff

Type of Exhibit: Direct Testimony

Case No.: ER-2006-0315

Date Testimony Prepared: June 30, 2006

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

DIRECT TESTIMONY

OF

JAMES A. BUSCH

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2006-0315

Jefferson City, Missouri

June 2006

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

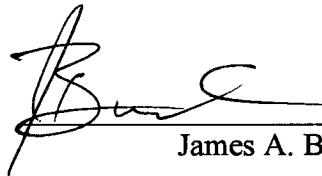
In the matter of The Empire District Company of)
Joplin, Missouri for authority to file tariffs)
increasing rates for electric service provided to)
customers in Missouri service area of the Company.)

Case No. ER-2006-0315

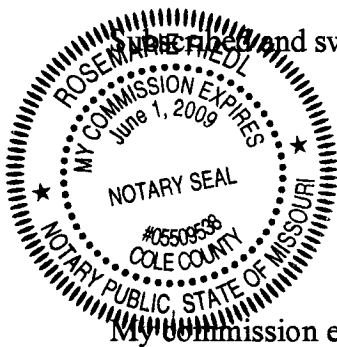
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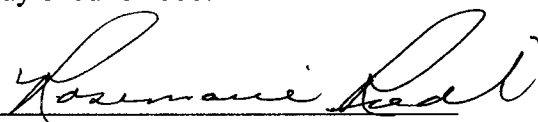
STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

James A. Busch, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 9 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.


James A. Busch

Subscribed and sworn to before me this 29th day of June 2006.




Notary Public

My commission expires June 1, 2009

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OF

JAMES A. BUSCH

THE EMPIRE DISTRICT ELECTRIC COMPANY

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DIRECT 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. By whom are you employed and in what capacity?

A. I am a Regulatory Economist III in the Economic Analysis Section of the Energy Department, Utility Operations Division of the Missouri Public Service Commission (Commission).

Q. Please describe your educational and professional background?

A. I hold Bachelor of Science and Master of Science degrees in Economics from Southern Illinois University at Edwardsville. I have been employed as a Regulatory Economist III with the Staff of the Public Service Commission (Staff) since April 2005. Previously, I worked as a Public Utility Economist with the Office of the Public Counsel (Public Counsel) from 1999 to 2005. Prior to my employment with Public Counsel, I worked as a Regulatory Economist I with the Procurement Analysis Department of the Missouri Public Service Commission from 1997 to 1999. Also, I am a member of the Adjunct Faculty of Columbia College, Jefferson City Campus. I teach both graduate and undergraduate classes in economics.

Direct Testimony of
James A. Busch

1 Q. Have you previously filed testimony before the Commission?

2 A. Yes. The cases in which I have filed testimony before the Commission are
3 listed on Schedule JAB-1.

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

5 A. The purpose of my direct testimony is to present Staff's rate design
6 recommendations in this proceeding.

7 Q. How is your testimony organized?

8 A. First, I address why Staff is not presenting a class cost of service study in
9 this case. Second, I present Staff's rate design recommendations in this proceeding.

10 **EXECUTIVE SUMMARY**

11 Q. Please summarize your testimony.

12 A. My testimony explains why Staff is not presenting a class cost of service
13 study in this case; then I present Staff's alternative rate design recommendations. Staff's
14 rate design recommendations depend on the Commission's ultimate determination of
15 Empire's currently effective Interim Energy Charge (IEC). First, if the Commission
16 decides to keep the IEC in place, Staff recommends that any increase or decrease in
17 overall permanent revenues should be distributed to customer classes in proportion to
18 each class' share of current permanent revenues. Second, if the Commission decides to
19 terminate the IEC, Staff recommends that any change in overall permanent revenues
20 should be distributed to customer classes in proportion to each class' share of current
21 total revenues (permanent revenues plus IEC revenues). Finally, any increase or decrease
22 in rate values should be reflected in all charges except each class' customer charge.

CLASS COST OF SERVICE STUDY

Q. Did the Empire District Electric Company (Empire) present a class cost of service (CCOS) study in its direct filing?

A. No.

Q. Is Staff relying upon the results of any CCOS study in making rate design recommendations in this case?

A. No.

Q. Is Staff presenting a CCOS study in this proceeding?

A. No.

Q. Why not?

A. In Empire's previous rate case, Case No. ER-2004-0570, Empire, Staff, the Office of the Public Counsel (OPC), and intervenor Praxair, Inc. and Explorer Pipeline Company all filed CCOS studies to support their proposed rate designs. Ultimately those parties entered into a Stipulation and Agreement regarding rate design that the Commission approved on March 10, 2005. That Stipulation and Agreement resulted in a re-distribution of revenues collected among customer classes, between seasons, and between fixed and variable charges. Since the conclusion of that case in March 2005, there have not been significant changes to Empire's cost of service to each of its rate classes that would warrant performing a new CCOS study. Further, the Stipulation and Agreement the Commission approved in Case No. EO-2005-0263 that established an Experimental Regulatory Plan for Empire requires Empire to conduct a complete CCOS study in conjunction with the required rate case that adds Iatan II to Empire's rate base. This should occur in the 2009/2010 timeframe.

1 Therefore, given that Empire has not filed a CCOS study, the lack of change in
2 costs to serve customers that would warrant a CCOS study and that Empire will be filing
3 a CCOS study in the relatively near future, it is Staff's opinion that Staff does not need a
4 new CCOS study to design rates for Empire at this time.

5 Q. Are there other Staff witnesses filing testimony in the rate design phase of
6 this case?

7 A. Yes. Staff witness David Roos illustrates in his direct testimony the
8 application of Staff's rate design recommendations to Staff's revenue requirement results
9 filed in this case on June 23, 2006. In addition, Staff witness William L. McDuffey is
10 filing testimony that discusses certain tariff issues.

11 **STAFF'S RATE DESIGN RECOMMENDATIONS**

12 Q. What is the one main rate design-related issue before the Commission in
13 this case?

14 A. The one main issue is whether or not to terminate Empire's currently
15 effective IEC the Commission approved in Case No. ER-2004-0570. Empire has
16 requested that the Commission terminate the IEC in this proceeding and utilize the
17 traditional, single point estimate for fuel and purchased power expense in establishing
18 permanent rates. OPC, Praxair, Inc., and Explorer Pipeline Company are opposing
19 Empire's request asserting it violates the Stipulation and Agreement Empire signed in
20 Case No. ER-2004-0570.

21 Q. Why does this issue affect Staff's rate design recommendations in this
22 case?

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1 A. IEC revenues are currently collected on a cents-per-kilowatt-hour basis;
2 however, Empire's current permanent rates were designed to collect the costs associated
3 with Empire's entire cost to serve its customers, aside from the fuel and purchased power
4 costs collected through the IEC, and are reflected through customer, demand, and energy
5 charges. Because IEC revenues are collected on a different basis than revenue collected
6 through permanent rates, Staff proposes different rate designs based on whether the IEC
7 continues or terminates.

8 Q. What is Staff's rate design recommendation if the Commission decides to
9 keep the IEC in place?

10 A. If the Commission decides that the IEC should not be terminated in this
11 proceeding, Staff recommends that the revenues collected through permanent rates
12 increase or decrease based on each class' percentage of current permanent revenues.
13 Please see the direct testimony of Staff witness Roos for the appropriate calculation of
14 this scenario. In Mr. Roos' testimony, he calculates the result of Staff's rate design
15 recommendation based on Staff's filed case of an approximate \$23 million decrease
16 under the scenario that the IEC is not terminated by the Commission. The IEC will
17 continue to collect approximately \$8.7 million a year. See the direct testimony of Staff
18 witness Mark L. Oligschlaeger filed June 23, 2006, for a description of Staff's revenue
19 requirement recommendations.

20 The Staff's revenue requirement numbers referenced in this testimony under both
21 the IEC continuation and IEC termination scenarios do not reflect the possible effect of
22 any amortizations that may be included in rates pursuant to the Stipulation and

1 Agreement in Case No. EO-2005-0263. Please refer to the direct testimony of Staff
2 witness Oligschlaeger for a discussion of these amortizations.

3 Q. What is Staff's rate design recommendation if the Commission decides to
4 terminate the IEC?

5 A. Under Staff's Accounting Schedules, filed on June 23, 2006, if the
6 Commission decides that the IEC can be terminated, Empire's permanent rates will
7 increase by approximately \$4 million. If the Commission terminates the IEC, it is Staff's
8 position that class revenues be changed in proportion to each class' current share of total
9 rate revenues. The amount of total revenues includes both the revenues collected through
10 current permanent rates and the revenues collected through the current IEC. Please see
11 the testimony of Staff witness Roos for the appropriate calculations.

12 The Staff's revenue requirement numbers referenced in this testimony under both
13 the IEC continuation and IEC termination scenarios do not reflect the possible effect of
14 any amortizations that may be included in rates pursuant to the Stipulation and
15 Agreement in Case No. EO-2005-0263. Please refer to the direct testimony of Staff
16 witness Oligschlaeger for a discussion of these amortizations.

17 Q. What is Staff's reasoning for recommending that any proposed change to
18 overall revenues be assigned to customer classes in this manner?

19 A. It is Staff's belief that the current distribution of total revenues is
20 appropriate for collecting any additional revenues from the appropriate classes. Total
21 revenues include both the revenues from permanent rates and the IEC revenues. The IEC
22 revenues are currently collected on a cents-per-kilowatt-hour basis. IEC revenues were
23 designed to collect a portion of total fuel costs, whereas permanent rates were designed to

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1 collect the costs associated with the entire cost to serve for Empire. Since the revenue
2 increase being contemplated in this case is driven in large part by increases in fuel and
3 purchased power costs, Staff believes it is appropriate to recognize those revenues
4 already being collected for fuel in the calculation of new permanent rates. Staff's method
5 accomplishes this.

6 Q. What is the net effect under Staff's proposal if the IEC is terminated?

7 A. Under Staff's revenue requirement results, if the IEC is terminated, the
8 actual revenues being paid by Empire's customers will decrease. This is because the
9 approximately \$8.7 million collected via the IEC will be terminated at the same time as
10 the revenues collected from permanent rates increase by approximately \$4 million. Thus
11 the net effect to consumers is a reduction of roughly \$4.7 million.

12 Q. Why is the method for calculating a change in class revenues different if
13 the IEC is terminated than if it is continued?

14 A. The difference stems from Staff's view of the appropriate way to recover
15 fuel and purchased power costs. A Commission decision to continue the IEC means that
16 fuel and purchased power expenses are, in effect, the same now as approved in Case No.
17 ER-2005-0470. Thus any increase or decrease to permanent rates has nothing to do with
18 changes in fuel costs. Under that scenario, Staff believes that the most reasonable way to
19 collect any change in revenues should be from the various customer classes in the same
20 proportion to the current revenues, per class, being collected through permanent rates
21 today.

22 The termination of the IEC will result in all fuel and purchased power costs being
23 recovered in permanent rates. Under this scenario, Staff believes that any increase to the

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1 revenues to be collected through permanent rates should reflect the additional amount of
2 fuel cost being accounted for in permanent rates. Therefore, it is Staff's position that
3 those additional revenues should be collected from the various customer classes based
4 upon each class' current share of total revenues (permanent revenues plus IEC revenues).

5 Q. How does Staff recommend that permanent rate values be calculated?

6 A. Staff recommends that all rate values on Empire's Missouri tariff sheets,
7 excluding customer charges, be increased or decreased by a uniform percentage that
8 results in Staff recommended class revenues "targets" described above.

9 Q. Why should customer charges remain at their current level if all other rate
10 values will be changed?

11 A. Since the customer charge was just changed under terms of the Stipulation
12 and Agreement approved by the Commission in Empire's previous rate case, Staff does
13 not believe it is necessary at this point in time to change the customer charge again.
14 Also, fuel costs (such as those that are recovered in the IEC) are typically not included in
15 a customer charge. Therefore, Staff is not recommending a change to the customer
16 charge at this time.

17 Q. Would you summarize Staff's rate design recommendations?

18 A. Yes. Staff is recommending that any additional revenues the Commission
19 orders in this case should be collected by customer class as follows:

20 (1) If the Commission decides to keep the current IEC in place, then any change
21 in the revenues collected through permanent rates should be assigned to each customer
22 class based on the distribution of current permanent revenues.

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1 (2) If the Commission decides to terminate the current IEC, then any change in
2 the revenues collected through permanent rates should be assigned to each customer class
3 based on the distribution of current total (permanent plus IEC) revenues.

4 Staff's recommendation for determining the rate values that result from this case
5 should be computed as a uniform percentage change, excluding customer charges, subject
6 to the overall "target" class revenues from scenarios (1) or (2) above.

7 Q. Does this conclude your direct testimony?

8 A. Yes.

Cases of Filed Testimony
James A. Busch

<u>Company</u>	<u>Case No.</u>
Union Electric Company	GR-97-393
Missouri Gas Energy	GR-98-140
Laclede Gas Company	GO-98-484
Laclede Gas Company	GR-98-374
St. Joseph Light & Power	GR-99-246
Laclede Gas Company	GT-99-303
Laclede Gas Company	GR-99-315
Fiber Four Corporation	TA-2000-23; et al.
Missouri American Water Company	WR-2000-281/SR-2000-282
Union Electric Company d/b/a AmerenUE	GR-2000-512
St. Louis County Water	WR-2000-844
Empire District Electric Company	ER-2001-299
Missouri Gas Energy	GR-2001-292
Laclede Gas Company	GT-2001-329
Laclede Gas Company	GO-2000-394
Laclede Gas Company	GR-2001-629
UtiliCorp United, Inc.	ER-2001-672
Union Electric Company d/b/a AmerenUE	EC-2001-1
Laclede Gas Company	GR-2002-356
Empire District Electric Company	ER-2002-424
Southern Union Company	GM-2003-0238
Aquila, Inc.	EF-2003-0465
Missouri American Water Company	WR-2003-0500
Union Electric Company d/b/a AmerenUE	GR-2003-0571
Aquila, Inc.	ER-2004-0034
Aquila, Inc.	GR-2004-0072
Missouri Gas Energy	GR-2004-0209
Empire District Electric Company	ER-2004-0570

<u>Company</u>	<u>Case No.</u>
Aquila, Inc.	EO-2002-0384
Aquila, Inc.	ER-2005-0436