

Exhibit No.:

Issue(s):

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Sponsoring Party:

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Customer Charge/

Production Allocator/

Unspent ELIP funds

Meisenheimer/Surrebuttal

Public Counsel

ER-2011-0004

SURREBUTTAL TESTIMONY

OF

BARBARA A. MEISENHEIMER

Submitted on Behalf of
the Office of the Public Counsel

Empire District Electric Company

Case No. ER-2011-0004

April 28, 2011

**Surrebuttal Testimony
Of
Barbara Meisenheimer
Empire District Electric
ER-2011-0004**

1 **Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.**

2 A. Barbara A. Meisenheimer, Chief Utility Economist, Office of the Public Counsel,
3 P. O. 2230, Jefferson City, Missouri 65102. I am also an adjunct instructor for
4 William Woods University.

5 **Q. HAVE YOU TESTIFIED PREVIOUSLY IN THIS CASE?**

6 A. Yes. I filed direct testimony on February 10, 2011, and rebuttal testimony on March
7 25, 2011.

8 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

9 A. My surrebuttal testimony responds to portions of the rebuttal testimony of Empire
10 District Electric (Empire or the Company) witnesses W. Scott Keith, Missouri
11 Industrial Energy Consumers (MIEC) witness Maurice Brubaker and Missouri
12 Public Service Commission Staff (Staff) witness Carol Gay Fred.

1 **Q. STAFF WITNESS MS. FRED RECOMMENDS THAT ANY SHAREHOLDER’S UNSPENT**
2 **DOLLARS FROM THE EXPERIMENTAL LOW-INCOME PROGRAM BE USED IN THE**
3 **COMPANY’S LOW INCOME WEATHERIZATION PROGRAMS. DO YOU AGREE?**

4 A. Yes. Public Counsel supports this recommendation provided that the funds can be
5 used in a reasonable period of time. If the funds can't be used within a year of the
6 date that new rates go into effect, then as an alternative, Public Counsel would
7 support using a portion of the funds to provide energy assistance to low-income
8 customers served by Empire.

9 **Q. MR. KEITH QUESTIONS WHETHER PUBLIC COUNSEL'S CUSTOMER CHARGE**
10 **RECOMMENDATION IS SUPPORTED BY A COST STUDY. WAS EMPIRE PROVIDED A COPY**
11 **OF THE COST STUDY SUPPORTING YOUR CUSTOMER CHARGE RECOMMENDATION?**

12 A. Yes. The customer cost calculation supporting my customer charge
13 recommendation was included in the workpapers provided to Empire following the
14 filing of direct testimony.

15 **Q. MR. KEITH COMPLAINS THAT PUBLIC COUNSEL'S CUSTOMER CHARGE**
16 **RECOMMENDATION WILL RAISE CUSTOMER BILLS DURING WEATHER THAT IS**
17 **HOTTER OR COLDER THAN NORMAL. PLEASE RESPOND.**

18 A. Correlating higher bills with higher use during peak periods when consumption
19 places higher demands on the system is consistent with cost causation. Public
20 Counsel's customer charge recommendation is also consistent with providing
21 customers a greater incentive to conserve with each additional unit of use during
22 peak periods. Additionally, during periods of low use, a lower customer charge

1 offers customers a less prohibitive price for subscribing to or retaining service,
2 promoting greater economies of scale and more ubiquitous service.

3 **Q. MR. KEITH ARGUES THAT THE EXISTENCE OF SUBSTANTIAL FIXED COSTS**
4 **JUSTIFIES A LARGE FIXED CUSTOMER CHARGE. PLEASE RESPOND.**

5 A. I disagree. From a rate design perspective, recovery of fixed costs through fixed
6 rates is a recovery method of choice for firms such as monopoly providers of utility
7 services because the services are necessities and consumers have few if any
8 substitutes for the service. In more competitive markets where firms have
9 insufficient market power to impose flat fees the existence of large fixed costs do not
10 dictate recovery through fixed charges.

11 Mr. Keith also fails to recognize that the level of fixed costs incurred
12 depends on a number of factors including usage based considerations. Once an
13 investment is made, it may be considered a fixed cost but it does not dictate the
14 manner in which the fixed cost should be recovered.

15 Rate designs that consist of a customer charge and volumetric charge are
16 supportable based on recognizing that the value of service is both in having access to
17 electricity as well as in using electricity so cost would not be uniformly allocated to
18 customers. Recovery through a customer charge and volumetric rate is reasonable
19 and fair from both an economic and policy perspective.

1 **Q. WHAT ARE MR. BRUBAKER'S AND THE COMPANY'S CRITICISMS OF THE A&5CP**
2 **PRODUCTION ALLOCATOR?**

3 A. Mr. Brubaker and the Company criticize the OPC production allocation method
4 claiming that:

- 5 • The OPC method over-allocates costs to large high load factor customers.
- 6 • OPC's A&P method double-counts the average demand.

7 **Q. PLEASE RESPOND TO THE CLAIM THAT YOUR A&5CP AND TOU METHOD OVER-**
8 **ALLOCATE COSTS TO LARGE HIGH LOAD FACTOR CUSTOMERS.**

9 A. The OPC methods do not over-allocate costs to large high load factor customers.
10 Large high load factor customers use the system at the same time as smaller lower
11 load factor customers and benefit from the economies of scale and off-system sales
12 opportunities created by sharing production facilities with smaller lower load factor
13 customers.

14 **Q. AS PART OF HIS CLAIM THAT YOUR PRODUCTION ALLOCATION METHODS OVER-**
15 **ALLOCATE COSTS TO LARGE HIGH LOAD FACTOR CUSTOMERS, MR. BRUBAKER**
16 **SUGGESTS THAT YOUR A&5CP ALLOCATION IS NOT RELATED TO COSTS BECAUSE**
17 **IT GIVES MORE WEIGHTING TO ANNUAL ENERGY CONSUMPTION THAN TO THE**
18 **CLASS PEAKS USED IN THE ALLOCATION OF THE INVESTMENT IN GENERATION**
19 **FACILITIES. PLEASE RESPOND.**

20 A. Based on the Staff Accounting Schedules filed on February 23, 2011, the steam and
21 hydraulic production plant investments which primarily satisfy base load and
22 intermediate represent over 62% of total production plant investment. Natural Gas

1 and dual fuel production plants which primarily satisfy peaking requirements
2 represent only about 38% of production plant investment. Allocating a larger
3 portion of costs on average demand is consistent with the plant investment.

4 **Q. MR. BRUBAKER RAISE THE SPECTER OF DOUBLE COUNTING ENERGY IN**
5 **DETERMINING THE A&5CP ALLOCATOR. IS THIS A FAIR CRITICISM?**

6 A. No. The A&5CP method is intentionally designed to give weight to both the class
7 share of average demand and the class share of the system peak. This does not
8 constitute double counting but simply a different theoretical basis for the allocator
9 than is used in the Average and Excess (A&E) method. The Average and Peak
10 components of the allocator represent two distinctly different considerations. The
11 Average component reflects that a portion of demand is not sensitive to factors that
12 change throughout the year while the Peak component represents the allocation
13 associated with factors that do change throughout the year such as weather.
14 Considering the characteristics of five “like” periods, each of which is a potential
15 peak period, recognizes that the characteristics of demand may vary by class
16 depending on exactly when the peak demand occurs.

17 The cost of shared production facilities cannot be attributed with precision to
18 particular customer classes. Therefore, the goal in developing a method for
19 allocating these costs between customer classes is to assign a reasonable portion of
20 costs to classes based on cost causative considerations. The A&5CP produces an
21 allocation that assigns a reasonable portion of costs based on characteristics of
22 average energy use and a reasonable portion based on characteristics of peak use.
23 As discussed in my direct testimony, under my allocation method, the Residential

1 class would be allocated 45.29% of production costs. This is less than the 51.65%
2 share that would be allocated to the Residential class using a pure peak allocation
3 method such as the sum of the 5CP, but it is more than the 41.44% share that would
4 result from an allocation based solely on average annual energy use. In contrast, the
5 MIEC A&E allocator is heavily weighted toward assigning costs based on peak
6 which results in a disproportionate assignment of production costs to the Residential
7 class. For example, the A&E allocator assigns over 49% of production costs to the
8 Residential class. The A&5CP allocation method results in a reasonable balance in
9 cost assignment that meaningfully reflects both average energy use and peak
10 demand considerations in allocating production costs among customer classes.

11 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

12 **A. Yes.**