

Exhibit No.:

Issues: Rate Design

Witness: Janice Pyatte

Sponsoring Party: MO PSC Staff

Type of Exhibit: Surrebuttal Testimony

Case No.: ER-2004-0570

Date Testimony Prepared: November 24, 2004

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY OPERATIONS DIVISION**

**SURREBUTTAL TESTIMONY**

**OF**

**JANICE PYATTE**

**THE EMPIRE DISTRICT ELECTRIC COMPANY**

**CASE NO. ER-2004-0570**

**Jefferson City, Missouri**

**November 2004**

**FILED**

DEC 28 2004

Missouri Public  
Service Commission

Exhibit No. 70  
Case No(s). ER-2004-0570  
Date 12-06-04 Rptr KF

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

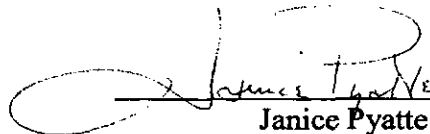
In the Matter of the tariff filing of The )  
Empire District Electric Company to )  
implement a general rate increase for retail )  
electric service provided to customers in )  
its Missouri service area )

Case No. ER-2004-0570

**AFFIDAVIT OF JANICE PYATTE**

STATE OF MISSOURI     )  
                                      ) ss  
COUNTY OF COLE        )

Janice Pyatte, of lawful age, on her oath states: that she has participated in the preparation of the following Surrebuttal Testimony in question and answer form, consisting of 6 pages of Surrebuttal Testimony to be presented in the above case, that the answers in the following Surrebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true to the best of her knowledge and belief.

  
Janice Pyatte

Subscribed and sworn to before me this 23<sup>rd</sup> day of November, 2004.

  
Notary Public

DANIEL HANE  
Notary Public - State of Missouri  
County of Cole  
My commission expires Jan 8, 2005

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A. My name is Janice Pyatte and my business address is Missouri Public  
e Commission, P. O. Box 360, Jefferson City, Missouri 65102.

A. Yes, I am. I filed direct testimony on the issue of Revenues on September 04, direct testimony on the issue of Rate Design on October 4, 2004, and rebuttal testimony on the issue of Rate Design on November 4, 2004.

A. My surrebuttal testimony responds to the rebuttal testimony of The Empire  
Electric Company ("EDE") witness William G. Eichman.

A. The issue being addressed is: What is the appropriate ratemaking  
ent of customers receiving service at a non-standard voltage level?

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1 service under the Special Transmission ("ST") rate schedule, both accounts have opted to  
2 be served on the Large Power ("LP") rate schedule, which currently does not provide a  
3 discount for service at higher-than-primary voltage levels.

4 Q. What is the Explorer/Praxair position on this issue?

5 A. In his direct rate design testimony, Explorer/Praxair witness Maurice  
6 Brubaker proposed that the Large Power rate schedule be modified to accommodate the  
7 two Explorer accounts that take service at a transmission voltage level. His proposed  
8 modification was that Explorer be provided with a \$1.50 per-kW-per-month discount to  
9 the LP demand charge that accounts for "...the fact that it [Explorer] allows Empire to  
10 avoid distribution system costs..." [page 10, lines 15-16].

11 Q. What is the Staff position on this issue?

12 A. My rebuttal testimony to Mr. Brubaker explained in considerable detail  
13 how EDE's existing rate structure uses discounts and adders to account for providing  
14 service to customers at non-standard voltage levels. I recommended that the LP rate  
15 schedule be modified so that Explorer and similarly situated customers would be  
16 provided a 30 cents-per-kW-per-month discount plus a 0.35% adjustment to metered  
17 units to account for substation losses. I also recommended that the level of the discount  
18 for transmission service on a primary rate schedule should be equivalent, in absolute  
19 value, to the level of the adder for primary service on a transmission rate schedule, even  
20 in the situation where the Commission was to adopt Mr. Brubaker's \$1.50  
21 recommendation.

22 Q. What is EDE's position on modifying the LP rate schedule to provide a  
23 discount for Explorer?

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1           A.     In his rebuttal testimony, Mr. Eichman argues that a discount for Explorer  
2 and similarly situated customers on the LP rate schedule is warranted.

3           Q.     Did Mr. Eichman propose a specific cents-per-kW amount for the discount  
4 to Explorer?

5           A.     He stated that the specific amount cannot be calculated until the overall  
6 revenue requirement from this case is known.

7           Q.     Did Mr. Eichman propose a methodology to be used to calculate the  
8 discount to Explorer?

9           A.     Mr. Eichman stated that Mr. Brubaker's approach to determine a demand-  
10 based distribution credit for Explorer that recognizes "...the **avoided** distribution  
11 investment and associated O&M costs..." [page 3, lines 10-11] [emphasis added] is the  
12 correct one.

13          Q.     Do you agree that the approach advocated by Mr. Eichman and  
14 Mr. Brubaker is the proper methodology?

15          A.     It is Staff's contention that the level of the discount should have been  
16 computed based upon replacement cost, rather than embedded cost, because replacement  
17 cost more closely represents the cost that EDE "avoids". This is true whether the service  
18 is provided by "old" or "new" equipment since, in the event that the particular equipment  
19 in question ceases to function, the Company is obligated to replace it at no additional cost  
20 to the customer.

21          Q.     What alternative methodology did Mr. Eichman describe?

22          A.     Mr. Eichman contrasts Mr. Brubaker's "correct" methodology with the  
23 "direct assignment" methodology (examining the depreciated cost of a specific

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1 substation) that was used in 1995 to determine the amount of the existing adder to the  
2 Special Transmission rate schedule.

3 Q. What is your response to Mr. Eichman's claim that the existing adder to  
4 the ST rate schedule was calculated using a direct assignment methodology in 1995?

5 A. Although I was not personally involved in this issue in 1995 and was  
6 unaware of the details, I have no reason to doubt Mr. Eichman's account of the origin of  
7 this charge. I agree with Mr. Eichman that the direct assignment methodology, using  
8 embedded cost, is inappropriate.

9 Q. Why is the origin of the existing adder to the Special Transmission  
10 Service-Schedule ST and Special Transmission Service Contract: Praxair-Schedule SC-P  
11 ("ST-P") rate schedules significant to this discussion?

12 A. The significance of the origin of the existing adder, which assumes that  
13 each customer provides its own transmission-to-primary transformation equipment, is  
14 that it represents the amount that Praxair is currently paying to compensate EDE for  
15 providing that equipment. Since it is Staff's contention that the only legitimate reason  
16 why the amount of the discount on the LP rate schedule should differ from the amount of  
17 the adder on the SC-P rate schedule is to reflect the difference in the assumed metering  
18 voltage, I believe that the "Explorer issue" is also a "Praxair issue".

19 Q. Please summarize why the ratemaking treatment of the Explorer situation  
20 is inextricably connected to the ratemaking treatment of Praxair.

21 A. Explorer Pipeline Company is priced on a rate schedule (Large Power)  
22 that assumes that EDE provides transmission-to-primary transformation equipment.

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1 Explorer has chosen to provide its own transmission-to-primary transformation  
2 equipment.

3 Praxair Inc. is priced on a rate schedule (Special Transmission-Praxair) that  
4 assumes that the customer provides its own transmission-to-primary transformation  
5 equipment. Praxair has chosen not to provide its own equipment, but instead to have the  
6 Company own this equipment.

7 The transmission-to-primary transformation equipment provides the same service  
8 in both situations, and the credit to a customer providing its own equipment should be  
9 equal to the charge a customer pays for not providing its own equipment.

10 Q. Does Mr. Eichman's rebuttal testimony connect the Explorer situation  
11 with the Praxair situation?

12 A. Only indirectly. In his criticism of Staff, Mr. Eichman argues that the  
13 level of the discount for transmission service on a primary rate schedule (the Explorer  
14 situation) should not be "pegged" to the amount of the adder for primary service on a  
15 transmission rate schedule (the Praxair situation) because the existing 30 cents-per-kW  
16 adder was computed using a direct assignment methodology that Mr. Eichman (and Staff)  
17 rejects. What Mr. Eichman fails to acknowledge is that, if the Commission were to adopt  
18 his "correct" methodology for valuing transmission-to-primary transformation services  
19 for Explorer Pipeline Co., the Commission must also conclude that the current charge for  
20 providing transmission-to-primary transformation services to Praxair is too low.

21 Q. Please describe the Company's second criticism of Staff's proposal for  
22 ratemaking treatment of customers receiving service on a non-standard voltage level.

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1           A.     Mr. Eichman's second criticism of Staff's proposal is that the costs of  
2 ancillary distribution facilities, as well a substation costs, needs to be included in the  
3 computation of the Explorer discount to the LP rate schedule. Presumably he is referring  
4 to primary lines.

5           Q.     What is your response to this criticism?

6           A.     The Company's primary voltage system is a series of substations and  
7 primary lines that are located throughout its service territory in such a way as to provide  
8 service to all customers collectively at the overall least cost. From a pricing perspective,  
9 whether an individual customer is served directly off a substation or through primary  
10 lines or some combination of each is irrelevant because all customers receive the same  
11 primary service from the Company. It would be incorrect to charge one customer more  
12 or less than another based upon physical proximity to a substation.

13          Q.     What is Staff's recommendation to the Commission regarding this issue?

14          A.     Staff recommends that the Commission set a discount level for  
15 transmission service on a primary rate schedule that is equivalent, in absolute value, to  
16 the level of the adder for primary service on a transmission rate schedule and which is  
17 based on the replacement cost of the equipment.

18          Q.     Does this conclude your surrebuttal testimony?

19          A.     Yes, it does.