

EXHIBIT

Exhibit No.:

Issue: Energy Cost Recovery, Fuel and
Purchased Power Expense

Witness: Ralph C. Smith

Type of Exhibit: Rebuttal Testimony

Sponsoring Party: Office of Public Counsel

Case No. ER-2006-0315

Date Testimony Prepared: July 2006

BEFORE THE
PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED

SEP 29 2006

Missouri Public
Service Commission

REBUTTAL TESTIMONY OF

RALPH C. SMITH

ON BEHALF OF

THE OFFICE OF PUBLIC COUNSEL

July 28, 2006

Public
Counsel

Exhibit No. 82
Case No(s) ER-2006-0315
Date 9-05-06 Rptr PF

**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)

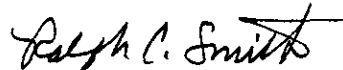
Case No. ER-2006-0315

AFFIDAVIT OF RALPH C. SMITH

STATE OF MICHIGAN)
) ss
COUNTY OF WAYNE)

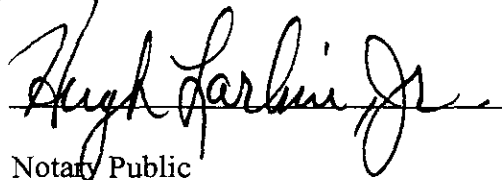
Ralph Smith, of lawful age and being first duly sworn, deposes and states:

1. My name is Ralph C. Smith. I am a Senior Regulatory Consultant at Larkin & Associates, PLLC.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony consisting of pages 1 through 7 and Schedules RCS-R1 and RCS-R2.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.



Ralph C. Smith
Senior Regulatory Consultant

Subscribed and sworn to me this 28th day of July 2006.


Notary Public

HUGH LARKIN JR.
NOTARY PUBLIC WAYNE CO., MI
MY COMMISSION EXPIRES Sep 13, 2007

My commission expires September 13, 2007.

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1 **I. INTRODUCTION**

2
3 Q. Would you please state your name?

4 A. Ralph C. Smith.

5
6 Q. Are you the same Ralph C. Smith that testified previously on behalf on the Office of the
7 Public Counsel (Public Counsel or OPC) in this proceeding?

8 A. Yes, I am.

9
10 Q. Mr. Smith, what areas will you be addressing in your rebuttal testimony?

11 A. My rebuttal testimony will update the information I submitted in my direct testimony
12 regarding natural gas prices and off-system sales with data through March 31, 2006 based
13 on the Order issued April 11, 2006 concerning test year and true-up and adopting a
14 procedural schedule. I also provide natural gas price information as of June 30, 2006 for
15 Commission's consideration in evaluating the reasonableness of using (1) EDE's actual spot
16 market purchase prices for the first quarter of 2006 and (2) March 31, 2006 NYMEX futures
17 prices as the basis for fuel model inputs for spot gas purchases.

II. FUEL AND PURCHASED POWER EXPENSE

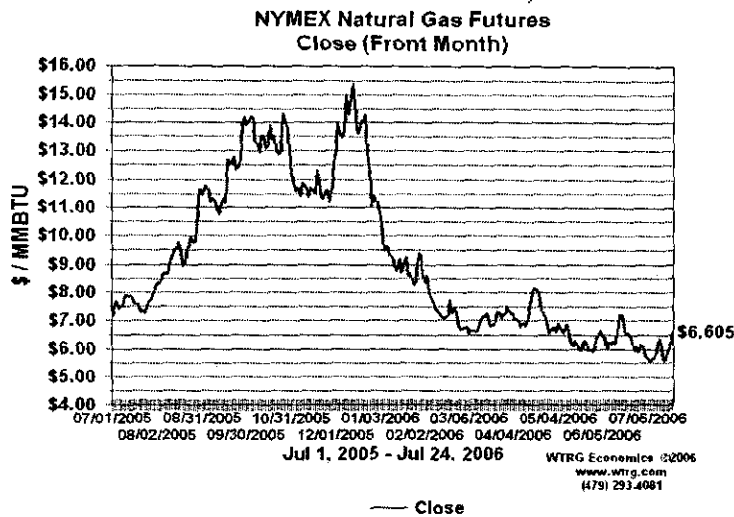
Natural Gas Price Assumptions

Q. What test year is being used in this proceeding?

A. The Commission's April 11, 2006 order accepted Empire's recommendation that the test-year be the twelve-month period ending December 31, 2005, adjusted and updated for any known and measurable changes through March 31, 2006. The Order stated the proposed test year is suitable and no party had objected to it. The Commission thus adopted the test year recommendation by Empire, updated and adjusted for known and measurable changes through March 31, 2006.

Q. What natural gas futures prices were used in EDE's filing and addressed in your direct testimony?

A. EDE used prices as of November 1, 2005. My direct testimony included a graph on page 8 and updated price information on page 9 through June 20, 2006, which demonstrates the steep decline in natural gas prices that has occurred since November-December, 2005. This decline is further demonstrated by the following graph which shows NYMEX natural gas futures prices through July 24, 2006:



Q. What are natural gas futures prices as of March 31, 2006 and how do they compare with the prices EDE used in its filing?

A. Natural gas futures prices as of March 31, 2006 are consistently lower than these prices (as of November 1, 2005) that EDE used in its filing. The following table shows this information:

Delivery Month		NYMEX Price 11/1/2005	NYMEX Price 3/31/2006	Difference Amount	Difference Percent
		(A)	(B)	(C)	(D)
April	2006	\$ 10.466	\$ 7.233	\$ 3.233	44.7%
May	2006	\$ 10.226	\$ 7.210	\$ 3.016	41.8%
June	2006	\$ 10.256	\$ 7.420	\$ 2.836	38.2%
July	2006	\$ 10.304	\$ 7.625	\$ 2.679	35.1%
Aug	2006	\$ 10.349	\$ 7.770	\$ 2.579	33.2%
Sep	2006	\$ 10.331	\$ 7.890	\$ 2.441	30.9%
Oct	2006	\$ 10.376	\$ 8.060	\$ 2.316	28.7%
Nov	2006	\$ 10.836	\$ 9.125	\$ 1.711	18.8%
Dec	2006	\$ 11.276	\$ 10.065	\$ 1.211	12.0%
Source:					
(A) Tarter direct testimony, page 23					
(B) Barron's April 3, 2006. NYMEX Price for April 2006 is as of 3/29/06, Wall Street Journal, March 30, 2006.					
(C) Col. A less Col. B					
(D) Col. C / Col. B					

Q. How should the Commission utilize this updated information?

A. The Commission should require the parties presenting fuel model results in testimony to re-run their fuel models for the updated test year using (1) EDE's actual spot market purchase prices for the first quarter of 2006 and (2) the March 31, 2006 NYMEX futures prices in the above table (less appropriate basis differences) as the fuel model input values for EDE's spot gas purchases in the respective months. Since the March 31, 2006 NYMEX prices are lower than the November 1, 2005 NYMEX prices EDE had used, this re-run should result in reduced fuel and purchased power costs.

Q. Is additional NYMEX natural gas price information now available through June 30, 2006?

A. Yes. NYMEX natural gas price information is now available through June 30, 2006 and is presented in the following table (which follows the same format used above):

Delivery Month		NYMEX Price 11/1/2005	NYMEX Price 3/31/2006	NYMEX Price 6/30/2006	Difference Amount	Difference Percent
		(A)	(B-1)	(B)	(C)	(D)
Aug	2006	\$ 10.349	\$ 7.770	\$ 6.104	\$ 4.245	69.5%
Sep	2006	\$ 10.331	\$ 7.890	\$ 6.369	\$ 3.962	62.2%
Oct	2006	\$ 10.376	\$ 8.060	\$ 6.734	\$ 3.642	54.1%
Nov	2006	\$ 10.836	\$ 9.125	\$ 8.139	\$ 2.697	33.1%
Dec	2006	\$ 11.276	\$ 10.065	\$ 9.689	\$ 1.587	16.4%
Source:						
(A)		Tarter direct testimony, page 23				
(B-1)		Barron's April 3, 2006				
(B)		Barron's July 3, 2006.				
(C)		Col. A less Col. B				
(D)		Col. C / Col. B				

1 Q. Are you recommending that Empire's fuel cost be further updated to reflect the June 30,
2 2006 NYMEX natural gas price information?

3 A. No, not at this time. The updates to test year information should be coordinated, and should
4 be consistent through the same date. The date that has been approved by the Commission is
5 for known and measurable changes through March 31, 2006. Because the June 30, 2006
6 information is beyond that point, at this time, I am not recommending that Empire's fuel
7 cost be further updated to reflect the June 30, 2006 NYMEX natural gas price information.
8

9 Q. How would you recommend that the June 30, 2006 NYMEX natural gas price information
10 be used?

11 A. The June 30, 2006 NYMEX natural gas price information can be used as an overall
12 reasonableness check on the March 31, 2006 information. Although the June 30 NYMEX
13 prices for corresponding delivery months are somewhat lower than the comparable March
14 31, 2006 prices, I believe this information, as well as the price graph, confirms that the
15 March 31 futures prices are more representative and appropriate for establishing adjusted
16 test year fuel cost than December 31, 2005 futures prices, or the November 1, 2005 futures
17 prices used by Empire in its filing.

1 **Off System Sales Margin**

2 Q. Have you performed any additional analysis regarding off-system sales?

3 A. Yes, using information that was provided in EDE's response to OPC data request 5041, I
4 calculated updated averages of EDE's actual off-system sales margins based on the five
5 years ending December 31, 2005 and based on the five years ending March 31, 2006 of
6 \$2,827,911 and \$2,862,416, respectively. Schedules RCS-R1 and R2, respectively, show
7 my calculations and proposed adjustments under both scenarios. These new five year
8 average calculations use the same methodology described in my direct testimony and
9 incorporate the additional off system sales data from EDE's response to OPC DR No. 5041.

10
11 **Summary of Recommendations**

12 Q. Please summarize the recommendations you have made in your rebuttal testimony.

13 A. My rebuttal testimony recommends the following adjustments to the Missouri jurisdictional
14 revenue requirement requested by Empire in its application and testimony:

- 15 • The Commission should order the parties presenting fuel model results in testimony to
16 use (1) EDE's actual spot market purchase prices for the first quarter of 2006 and (2)
17 March 31, 2006 NYMEX natural gas futures prices (less an appropriate basis
18 difference) as the input in their fuel models and to re-run the models using such prices
19 for spot purchases in the respective months.

1 • An appropriate normalized amount for off-system sales margin should be used. Public
2 Counsel recommends using a five-year average through March 31, 2006 which results
3 in \$2,862,416 of off-system sales margin as shown on line 1 in Schedule RCS-R2,
4 attached to this testimony. This is \$1,384,202 more than EDE's proposed amount of
5 \$1,478,214. After applying an estimated Missouri retail allocation of 82.21%, the
6 estimated Missouri jurisdictional impact of this adjustment is \$1,137,952.

7

8 Q. Does this complete your rebuttal testimony at this time?

9 A. Yes, it does.

The Empire District Electric Company
Adjustment for Off System Sales Margin

Schedule RCS-R1

<u>Line</u>	<u>Description</u>	<u>Amount</u>	<u>Reference</u>
1	Five Year Average (Calendar Year)	\$ 2,827,911	See below
2	Empire proposed amount	\$ 1,478,214	Empire Revenue Adj 15 W/P B1
3	Adjustment	\$ 1,349,697	
4	Estimated Missouri retail allocation	82.21%	Staff Accounting Schedule 9 & Staff/Empire Reconciliation Workpaper
5	Estimated Missouri jurisdictional impact	\$ 1,109,586	

Notes

See table on page 15 of my direct testimony for additional comparisons supporting the reasonableness of using a five year average

Y/E Dec 31	
2001	832,654
2002	5,100,371
2003	3,016,914
2004	1,687,447
2005	3,502,169
Average	2,827,911

Source. Empire Response to OPC Data Request 5041

The Empire District Electric Company
Adjustment for Off System Sales Margin

Schedule RCS-R2

Line	Description	Amount	Reference
1	Five Year Average (Y/E March 31)	\$ 2,862,416	See below
2	Empire proposed amount	\$ 1,478,214	Empire Revenue Adj 15 W/P B1
3	Adjustment	\$ 1,384,202	
4	Estimated Missouri retail allocation	82.21%	Staff Accounting Schedule 9 & Staff/Empire Reconciliation Workpaper
5	Estimated Missouri jurisdictional impact	<u>\$ 1,137,952</u>	

Notes

See table on page 15 of my direct testimony for additional comparisons supporting the reasonableness of using a five year average

Y/E March 31	
2002	970,712
2003	5,808,338
2004	2,436,791
2005	2,085,222
2006	3,011,017
Average	<u>2,862,416</u>

Source: Empire Response to OPC Data Request 5041