Exhibit No.:	_____
Issue(s):	Rate Design
Witness/Type of Exhibit:	Meisenheimer/Direct
Sponsoring Party:	Public Counsel
Case No.:	ER-2006-0315

DIRECT TESTIMONY

OF

BARBARA A. MEISENHEIMER

Submitted on Behalf of the Office of the Public Counsel

EMPIRE DISTRICT ELECTRIC COMPANY
(RATE DESIGN)

CASE NO. ER-2006-0315

June 30, 2006

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 BARBARA A. MEISENHEIMER

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Barbara A. Meisenheimer, of lawful age and being first duly sworn, deposes and states:

1. My name is Barbara A. Meisenheimer. I am Chief Utility Economist for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony consisting of pages 1 thru 8 and Schedule BAM RD1.

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.

/s/ Barbara A. Meisenheimer

Barbara A. Meisenheimer

Subscribed and sworn to me this 30th day of June 2006.

/s/ Jerene A. Buckman

Jerene A. Buckman
Notary Public

My Commission expires August 10, 2009.

DIRECT TESTIMONY

OF

BARBARA A. MEISENHEIMER

EMPIRE DISTRICT ELECTRIC COMPANY
(RATE DESIGN)

CASE NO. ER-2006-0315

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

A. Barbara A. Meisenheimer, Chief Utility Economist, Office of the Public Counsel, P. O. Box 2230, Jefferson City, Missouri 65102.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS CASE?

A. Yes. I filed direct testimony on revenue requirement issues on June 23, 2006.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The primary purpose of my direct rate design testimony is to propose methods for determining customer class revenue requirements based on any increase that the Commission approves as a result of this case.

My revenue requirement testimony filed on June 23, 2006, reviewed the conditions to which Empire District Electric Company (Empire or Company) and Public Counsel agreed to be bound in the Stipulation in Case ER-2004-0570. When the Commission approved the Stipulation, it approved specific levels of revenue that would be recovered in base rates and in the Interim Energy Charge (IEC). While the IEC is in effect, the Stipulation prohibits the Company from requesting alternative fuel recovery mechanisms, to rebase rates or to adjust the IEC rate in order to recover additional fuel and purchased power expenses. It is Public

Counsel's position that the Company's recovery of fuel and purchased power expense in this case should be limited to an annual recovery in base rates of $102,994,356 and an additional amount of $8,249,000 recovered through the IEC. If the Commission enforces the previous agreement by limiting the Company to these levels of fuel and purchased power (F&PP) recovery, Public Counsel recommends that any increase should be distributed among the various customer classes based on an equal percent of current class revenues excluding the proportion of variable fuel cost reflected in current revenues. If the Commission eliminates the IEC and allows the Company to recover additional fuel cost in this case despite Public Counsel's recommendation, then Public Counsel recommends basing the class increases on a composite of a variable fuel related adjustment and a non variable fuel related adjustment. I believe that these methods will be reasonable and best preserve the balance struck between classes in the Stipulation & Agreement in ER-2004-0570.

My direct rate design testimony will also address Public Counsel's proposal to reduce the Residential and Commercial customer charges consistent with the reduction in Experimental Low Income Program funding that I proposed in my direct revenue requirement testimony.

Q. WHAT LEVEL OF WEAHTER NORMALIZED REVENUE DOES THE COMPANY CURRENTLY RECOVER IN BASE RATES?

A. According to Staff witness Curt Wells direct revenue requirement testimony, the Company collects $284,423,930 in base rates.

Q. WHAT MAGNITUDE OF INCREASE HAS THE COMPANY REQUESTED IN THIS CASE?

A. The Company seeks a net rate increase of approximately $29.5 million, of which approximately two thirds is associated with variable fuel and purchased power expense. In addition, eliminating the IEC would shift more than an additional $8 million in variable fuel expense from the IEC rider into base rates.

Q. WHAT IS PUBLIC COUNSEL'S PRIMARY RECOMMENDATION IN THIS CASE?

A. Public Counsel's primary recommendation is that the Commission deny any increase in fuel and purchase power cost recovery. Under this scenario any increase would be allocated based on equal percent of current revenue.

Q. IN THE EVENT THE COMMISSION DOES NOT FOLLOW PUBLIC COUNSEL'S PRIMARY RECOMMENDATION AND INSTEAD ACCEPTS A RECOMMENDATION THAT ALLOWS AN INCREASE IN VARIABLE FUEL COSTS AND ELIMINATION OF THE IEC WOULD YOU SUPPORT APPLYING AN EQUAL PERCENT INCREASE ON CURRENT RATES TO GENERATE THE ADDITIONAL NET REVENUE INCREASE AND $8 MILLION IEC REVENUE SHIFT?

A. No. In addition to Public Counsel's objection to any increased fuel and purchased power recovery, the net increase is heavily, and the IEC shift is entirely associated with recovering variable fuel costs that are commonly treated as energy related costs and allocated based on the class's share of total kWh.[1] Current class revenue requirements are not representative of the distribution of total kWh by class so an equal percent increase on class revenue requirements would not allocate revenue requirement appropriately to each class.

Q. PLEASE ILLUSTRATE THE DIFFERENCE IN THE DISTRIBUTION OF CURRENT REVENUES AND KWHS FOR THE COMPANY'S RATE SCHEDULES.

A. The following table illustrates the difference in each rate schedules share of normalized current revenue and normalized kWhs.

Rate Schedule	MO Normalized Revenue	**Percent of Normalized Revenue**	MO Normalized kWh	**Percent of kWh**
RG-Residential	$129,598,362	**45.57%**	1,671,031,910	**40.60%**
CB-Commercial	$28,159,955	**9.90%**	324,863,488	**7.89%**
SH-Small Heating	$6,928,204	**2.44%**	94,686,549	**2.30%**
PFM-Feed Mill/Grain Elev	$56,694	**0.02%**	480,794	**0.01%**
MS-Traffic Signals	$57,566	**0.02%**	849,529	**0.02%**
GP-General Power	$53,633,607	**18.86%**	851,132,636	**20.68%**
TEB-Total Electric Bldg	$22,573,232	**7.94%**	353,478,183	**8.59%**
LP-Large Power	$36,211,703	**12.73%**	725,513,623	**17.63%**
SC-P PRAXAIR (Firm)	$2,435,500	**0.86%**	59,710,257	**1.45%**
SPL-Municipal St Lighting	$1,242,402	**0.44%**	16,338,005	**0.40%**
PL-Private Lighting	$3,365,197	**1.18%**	16,059,575	**0.39%**

Q. WOULD RESIDENTIAL AND SMALL COMMERCIAL CUSTOMERS BE ADVERSELY AFFECTED BY USING THE EQUAL PERCENT INCREASE METHOD TO ALLOCATE ANY REVENUE REQUIREMENT INCREASE?

A. If the increase to be allocated is largely associated with increased variable fuel cost as the Company proposes in this case, residential customers and small commercial customers would shoulder more of the increase than if the revenue associated with variable fuel cost recovery was allocated appropriately based on kWhs. Conversely, if the increase were largely associated with increased costs other than variable fuel cost, large industrial customers would bear a larger proportion of the increase than would occur if the increase was allocated on an equal percent basis.

Q. WHAT PROPORTION OF BASE RATES IS ASSOCIATED WITH VARIABLE FUEL COSTS?

A. Variable fuel cost recovery is about .29907 or 29.91%.

Q. WHAT PORTION OF THE INCREASE THE COMPANY SEEKS IS ASSOCIATED WITH INCREASED COSTS OTHER THAN VARIABLE FUEL AND PURCHASED POWER COSTS?

A. Yes. Approximately $10 million, or one third, of the Company's requested increase is related to costs other than variable fuel and purchased power costs.

Q. WHAT ALLOCATION METHODS SHOULD THE COMMISSION ADOPT IN ORDER TO PROPERLY ALLOCATE OF ANY INCREASE TO THE CLASSES UNCER SCENARIO 2?

A. I would propose that an equal percentage increase apply to any requirement increase associated with non-variable fuel costs. An equal percentage increase should also apply to a

portion of any net variable fuel related revenue requirement increase. The portion of variable fuel related revenue requirement increase to be allocated on an equal percent basis should not exceed 29.91% because this is the proportion of variable fuel cost recovery currently reflected in rates. Any remaining net increase in revenue requirement associated with variable fuel and purchased power expenses should be allocated to the classes based on a factor that reflects each class's shares of total kWhs. Any increase in class base rate revenue requirements associated with the elimination of the IEC should be allocated to the classes based on kWh Currently, the IEC is recovered on a kWh basis.

Q. HAVE YOU PROVIDED AN EXAMPLE OF THESE ALLOCATION METHODS?

A. Yes. Schedule BAM RD1 illustrates the derivation of both the fuel and non fuel related factors and the resulting revenue allocations associated with a $1 million increase in revenue requirement not related to variable fuel costs and a $2 million increase associated with variable fuel costs.

Q. PLEASE DESCRIBE THE DERIVATION OF THE NON VARIABLE FACTOR AND THE RESULTING REVENUE ALLOCATIONS.

A. The Non Fuel Factor shown in column (d) of Schedule BAM RD1 distributes the $1 million increase in revenue requirement not related to variable costs based on class's share of current revenues.

Q. PLEASE DESCRIBE THE DERIVATION OF THE VARIABLE COST TO BE INCLUDED IN BASE RATES.

A. The allocation of new variable costs to be included in base rates are shown in column (c) of Schedule BAM DR2. I solved the following system of equations to determine the amount of variable cost that would be allocated on an equal percentage basis;

(a) Non Fuel Increase + Proportional Fuel Increase = Equal Percent Increase

(b) Proportional Fuel Increase = .2991 x Equal Percent Increase

(c) kWh Fuel Increase=Total Fuel Increase – Proportional Fuel Increase

Column (g) illustrates the remaining new variable cost that are to be allocated on the class shares of kWhs.

Finally, current IEC recovery should be blended into rates based on the class share of kWh.

Q. **WHAT DO YOU RECOMMEND WITH RESPECT TO THE ELIP PROGRAM?**

A. In my revenue requirement testimony filed on June 23, 2006 I recommended that funding for the ELIP be substantially reduced or eliminated. The ELIP is funded through an adder reflected in existing rates for residential customers on Schedule RG and nonresidential customer on Schedules Commercial Service (CB), Small Heating (SH), General Power (GP), Large Power (LP) and Total Electric Building Service (TEB). To the extent that the ELIP Program funding is reduced then the adder reflected in the customer charge should be reduced consistent with the manner in which it was collected, if the Program is eliminated the adder reflected in the customer charge should cease.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

Direct Rate Design Testimony
Barbara Meisenheimer
ER-2006-0315

Derivation of Proposed Equal Percent and kWh Revenue Allocation Factors

Example:

Rev Req Not Related To Variable Fuel Costs (R_{NV})	$	1,000,000
Rev Req Related To Variable Fuel Costs (R_V)	$	2,000,000

Row	Rate Schedule	Base Rate Current Revenue[1]	Class Percent of Revenue	Equal Increase Variable Cost Allocation[2]	Equal Increase Non Variable Cost Allocation[3]	Rate Schedule Total kWh[4]	Class Percent of kWh	kWh Variable Cost Allocation[5]
		(a)	(b)	(c)	(d)	(e)	(f)	(g)
7	RG-Residential	$129,598,362	45.57%	$194,423	$455,652	1,671,031,910	40.60%	$733,096
8	CB-Commercial	$28,159,955	9.90%	$42,245	$99,007	324,863,488	7.89%	$154,532
9	SH-Small Heating	$6,928,204	2.44%	$10,394	$24,359	94,686,549	2.30%	$45,774
10	PFM-Feed Mill/Grain Elev	$56,694	0.02%	$85	$199	480,794	0.01%	$234
11	MS-Traffic Signals	$57,566	0.02%	$86	$202	849,529	0.02%	$413
12	GP-General Power	$53,633,607	18.86%	$80,461	$188,569	851,132,636	20.68%	$396,967
13	TEB-Total Electric Bldg	$22,573,232	7.94%	$33,864	$79,365	353,478,183	8.59%	$168,864
14	LP-Large Power	$36,211,703	12.73%	$54,325	$127,316	725,513,623	17.63%	$342,986
15	SC-P PRAXAIR (Firm)	$2,435,500	0.86%	$3,654	$8,563	59,710,257	1.45%	$28,963
16	SPL-Municipal St Lighting	$1,242,402	0.44%	$1,864	$4,368	16,338,005	0.40%	$7,932
17	PL-Private Lighting	$3,365,197	1.18%	$5,048	$11,832	16,059,575	0.39%	$7,784
18	LS-Special Lighting	$161,508	0.06%	$242	$568	1,516,624	0.04%	$737
19		$284,423,930	100.00%	$426,692	$1,000,000	4,115,661,173	100.00%	$1,573,308

20 [1] Class Revenues- Curt Wells, Direct Testimony Revenue Requirement, Schedule CW-1,

21 *Note Class Revenues Exclude IEC, Excess Facilities Charges, Cogeneration Purchases and Interruptible Credits

22 [2] From Fuel & Purchase Power Stipulation ER-2004-0570 Variable Costs = $85,064,873

23 Variable Cost / Current Revenue =.2991

24 Column (c) =.2991/(1-.2991) x Requirement$_V$ x Class Percent

25 [3] Column (d) = Requirement$_{NV}$ x Class Percent

26 [4] Class kWhs-Curt Wells, Direct Testimony Revenue Requirement, Schedule CW-2

27 [5] (g) = (I_V-(c)) x Class Percent of kWh