

Exhibit No.:

Issues: IEC Rate Design

Witness: James C. Watkins

Sponsoring Party: MO PSC Staff

Type of Exhibit: Direct Testimony

Case No.: ER-2004-0570

Date Testimony Prepared: October 4, 2004

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY OPERATIONS DIVISION**

**FILED**

**DIRECT TESTIMONY**

**DEC 28 2004**

**OF**

**Missouri Public  
Service Commission**

**JAMES C. WATKINS**

**THE EMPIRE DISTRICT ELECTRIC COMPANY**

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

**Jefferson City, Missouri**

**October 2004**

Exhibit No. 75  
Case No(s) ER-2004-0570  
Date 2-06-01 Rptr 45

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

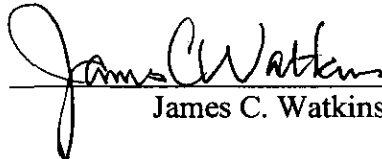
In The Matter Of The Tariff Filing Of The )  
Empire District Electric Company To )  
Implement A General Rate Increase For )  
Retail Electric Service Provided To )  
Customers In Its Missouri Service Area )

Case No. ER-2004-0570

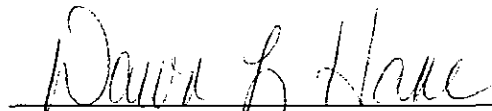
**AFFIDAVIT OF JAMES C. WATKINS**

STATE OF MISSOURI     )  
                                      ) ss  
COUNTY OF COLE     )

James C. Watkins, of lawful age, on his oath states: that he has participated in the preparation of the following Direct Testimony in question and answer form, consisting of 3 pages of Direct Testimony to be presented in the above case, that the answers in the following Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.

  
James C. Watkins

Subscribed and sworn to before me this 1<sup>st</sup> day of October, 2004.

  
Notary Public

**DAWN L. HAKE**  
Notary Public - State of Missouri  
County of Cole  
My commission expires Jan 9, 2005

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**DIRECT TESTIMONY  
OF  
JAMES C. WATKINS**

**THE EMPIRE DISTRICT ELECTRIC COMPANY**

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

Q. Please state your name and business address.

A. My name is James C. Watkins and my business address is Missouri Public Service Commission, 200 Madison Street, P. O. Box 360, Jefferson City, Missouri 65102.

Q. Are you the same James C. Watkins who filed direct testimony on September 27, 2004, on behalf of the Staff of the Missouri Public Service Commission (Commission)?

A. Yes.

Q. What is the purpose of this testimony?

A. The purpose of my testimony is to recommend the appropriate rate for the Interim Energy Charge (IEC) proposed by the Staff. The IEC rate will collect the portion of variable fuel and purchased power expense that is subject to true-up and refund.

**Rate Design**

Q. What rate do you recommend?

A. I recommend that all customers pay an IEC rate of \$0.0050 / kWh, subject to true-up and refund.

Q. How did you determine this rate?

A. I calculated this rate based on the Staff's variable fuel and purchased power costs and Missouri retail sales. The system fuel and purchased power costs were

Direct Testimony of  
James C. Watkins

1 developed by Staff witness Leon C. Bender and can be found in his direct testimony filed  
2 on September 20, 2004. The Missouri retail sales were developed by Staff witness Janice  
3 Pyatte and are described in her direct testimony filed on September 20, 2004. My  
4 calculation is shown in Schedule 1.

5 Q. Why are you recommending an IEC rate that will recover the portion of  
6 variable fuel and purchased power expense that is subject to true-up and refund on an  
7 equal-\$/kWh basis for all classes.

8 A. First, this rate design is consistent with sound cost allocation principles.  
9 The cost of energy (variable fuel and purchased power) varies directly with usage (sales)  
10 and should be allocated to customer classes on that basis. This is one cost allocation  
11 principle that is almost universally accepted. In fact, all of the class cost-of-service  
12 studies filed in this case have allocated energy costs on the basis of sales. The effect of  
13 this method of cost allocation is that the energy costs allocated to every class are equal,  
14 on a \$/kWh basis.

15 Second, expressing the rate in this fashion allows the "base" and "ceiling of the  
16 variable fuel and purchased costs to be expressed in the same manner. This is extremely  
17 important because the "base" and "ceiling" amounts are not fixed in terms of dollars, they  
18 are only fixed on a \$/kWh basis. Thus, as load grows, additional costs will be incurred,  
19 even if fuel prices are unchanged. Rather than the entire cost increase being above a  
20 fixed-dollar "base," a portion of this cost increase will be in "base" costs and will be  
21 recovered in permanent rates, and a portion of the cost increase will be above the "base"  
22 costs and will be recovered in the IEC rate, subject to true-up and refund.

Direct Testimony of  
James C. Watkins

1           Third, having only one rate that is the same for every customer makes the true-up  
2 and refund process much simpler and less prone to error.

3           Finally, because this is the way Empire's previous IEC was set up, the Company  
4 has all of the required infrastructure in place for billing, monthly reporting, record  
5 retention, and refunding any over collections. This infrastructure has been tested and  
6 proven. No additional costs will be incurred to develop new infrastructure.

7           Q.     Does this conclude your testimony?

8           A.     Yes, it does.

### CALCULATION OF IEC RATE

"Ceiling" Run Bender	Schedule 2-2	\$109,770,669.86	
"Base" Run Bender	Schedule 2-1	- \$86,319,146.03	
		<u>\$23,451,523.83</u>	
Staff Accounting	Schedule 9	x 82.49%	
		<u>\$19,345,162.01</u>	
MO Retail Sales Pyatte*	Schedule 3-1	<u>3,879,584,897</u>	= \$0.0050 / kWh

*Pyatte	Schedule 3-1	3,879,580,994
+ Cogeneration Purchases		+ 3,903
	MO Retail Sales	<u>3,879,584,897</u>

*References are to the Staff's Direct Testimony filed September 20, 2004.*