Exhibit No.:
Witness: Emil Mosora
Type of Exhibit: Rebuttal Testimony
Issue: Intervenor Issues; Business Issues; Competitive Impact
Sponsoring Party: Praxair, Inc.
Case No.: ER-2004-0570

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY DIVISION

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2004-0570

PREPARED REBUTTAL TESTIMONY OF

EMIL MOSORA

November 4, 2004

62605.1

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of the Application of The Empire District Electric Company for authority to file tariffs reflecting increased charges for electric service within its Missouri service area	)))))	ER-2004-0570

AFFIDAVIT OF EMIL MOSORA

STATE OF INDIANA)
) ss
COUNTY OF LAKE)

Emil Mosora, of lawful age, on his oath states: That he has reviewed the attached written testimony in question and answer form, all to be presented in the above case, that the answers in the attached written testimony were given by him; that he has knowledge of the matters set forth in such answers; that such matters are true to the best of his knowledge, information and belief.

Emil Mosora

Subscribed and sworn to before me this 3rd day of November, 2004.

Notary Public
Christine Toth

[SEAL]

My Commission expires: 10/21/06

62605.1

PREPARED DIRECT TESTIMONY OF
EMIL MOSORA

Q. Please state your name and business address.

A. Emil Mosora Jr., 4400 Kennedy Ave., East Chicago, Indiana 46312.

Q. What is your professional employment?

A. I am a regional energy manager at Praxair, Inc.

Q. What is your educational background?

A. I graduated from Purdue University Calumet Campus, Hammond, Indiana, in 1975 with a Bachelor of Science degree in Mathematics.

Q. What is your prior experience?

A. In 1977 I joined Praxair, known then as the Linde Division of Union Carbide Corporation, as a pipeline controller in the Calumet Area Pipeline Operation Center (CAPOC) located in Gary, Indiana. The CAPOC system at the time consisted of approximately 12 customers along 110 miles of pipeline fed by four production facilities. My primary responsibility was to ensure the pipeline customers along the 110 miles of pipeline, received the product they required as cost effectively as possible for Praxair. In 1979 I joined the computer

department and worked on control systems to monitor and optimize the pipeline system as well as administer the utility contracts. In 1981 I went into supervision and became the CAPOC manager overseeing the dispatch center and computer group. For several years in the 1990's, I also had added duties as plant manager for the Gary and Whiting production facilities. In 2001, I became an energy manager with responsibilities for management of electricity use and procurement in Missouri, Illinois, Indiana, Wisconsin, Minnesota, Ohio, and Michigan. In that capacity, I am involved in seeking appropriate electricity pricing and the development of innovative power supply agreements. I am also involved in optimizing plant tactical and operating strategies to minimize electricity costs.

Q. What is the purpose of this rebuttal testimony?

A. I want to respond from a business perspective to the cost allocation proposals that have been made by witnesses for the Commission Staff and the Missouri Office of the Public Counsel. Along with Explorer Pipeline, we are sponsoring testimony and analysis from Maurice Brubaker on the technical aspects of these proposals. I believe that these proposals would detrimentally impact our operations in Missouri and in the Empire District service territory from a business

management and competitive point of view. To do that I also feel I need to provide the Commission with some information about my company and the nature of its operations including those in Empire's service territory.

Q. Who is Praxair?

A. Praxair is the largest industrial gases company in North and South America, and one of the largest worldwide, with 2003 sales of $5.6 billion. The company produces, sells and distributes atmospheric, process and specialty gases, and high-performance surface coatings. Praxair products, services and technologies bring productivity and environmental benefits to a wide variety of industries, including aerospace, chemicals, food and beverage, electronics, energy, healthcare, manufacturing, metals and others.

Q. What is the nature of Praxair's products?

A. Praxair's major products include the products of air separation: oxygen, nitrogen and argon. These products are manufactured by separating air into its component parts. These gases are used in production and to improve efficiency, quality, and environmental compliance in a variety of industries, including steel, chemicals, metals, electronics, paper, food, glass and medical care. Customers generally receive Praxair's products

in one of three ways: 1) by truck delivery from regional bulk liquid production plants into tanks at the customer site, 2) by pipeline from large bulk production plants, or 3) from smaller "on-site" non-cryogenic production facilities dedicated to an individual customer (vacuum pressure swing adsorption plants for oxygen supply, and membrane plants for nitrogen supply). Praxair also produces and distributes carbon dioxide, hydrogen, helium and specialty gases, and operates a surface technologies business.

Q. Please describe Praxair's operations in the Empire District service area.

A. Praxair has operated a bulk production plant and distribution center in Neosho, Missouri since 1960. The plant produces liquid oxygen and nitrogen for the regional industrial gas merchant market, and has a liquid production capacity of 325 tons per day. Praxair's Neosho plant provides nitrogen and oxygen to the food processing, metal fabrication, steel, health care and petroleum industries in Missouri, Oklahoma, Arkansas and Kansas. A $6 million expansion and modernization completed in 1992 doubled plant capacity. This facility has 23 employees and an annual payroll of $1.3 million. In the state of Missouri, Praxair has a total of 293 employees and a payroll of over $13 million. In 2003, Praxair paid over

$155,000 in property taxes, collected and paid approximately $310,000 in sales and use taxes from its Missouri customers and paid an estimated $30,000 in sales and use taxes on its own purchases.

Q. What is the general nature of competition which Praxair faces in the industrial gas industry?

A. The industrial gases business is an extremely competitive business, with several large companies operating with production networks throughout North America and the world. There are also many regional companies and distributors adding to the competition in specific markets. The distribution radius of a plant is generally within a range of 250 miles. Industrial gases prices are held to competitive levels due to increased overall supply and the demands of customers, many of whom face intense and relentless competition in national and global markets. The development of alternative non-cryogenic industrial gas production technologies is providing more supply options and adding to competitive pressures.

Q. What competitive challenges does Praxair face at its Neosho plant in particular?

A. The competition is intense. There are several other industrial gas companies and facilities capable of competitively

serving the same customers as our Neosho plant. These include facilities located in Missouri, Arkansas, Oklahoma, Illinois, and Tennessee. Of great concern is the prospect of higher power prices at Neosho, higher prices that our competitors would not see because they are served by utilities that rely less on natural gas generation in their fuel mix than does Empire District.

Q. Is there potential for expansion or contraction of Praxair's business at Neosho?

A. There is potential for either expansion or contraction at Neosho, based upon the relative competitiveness of our costs and the health of the economy in the area. There is the opportunity to expand through upgrades and additions at our existing plant site if economic conditions are right. Growth and retention opportunities are dependent upon the extent that current and potential customers choose to use industrial gases, the extent they choose to use our products instead of those of our competitors, and the extent that we source our requirements from our Neosho plant.

Q. What is the significance of electricity to Praxair and how is it used in its Neosho plant?

A. The industrial gas business is extremely electricity-intensive, more so than almost any other industry. Electricity costs comprise over 70% of our operating costs. The production of liquid oxygen and nitrogen at Neosho is accomplished by the filtering, liquefaction and separation of large volumes of air, followed by liquefaction of nitrogen through a compression/expansion process. The entire process utilizes three large compressors, which are powered by large electric motors. Over 96% of the electricity at Neosho is consumed in the production process by these large motors. Since our expansion in 1992, we are Empire District Electric Company's largest customer. Nationally, we spend over $300 million per year on electricity.

Q. Are there unique aspects to your Neosho operation which relate to electricity use?

A. Our Neosho operation has been designed to operate with great flexibility in its power consumption. While capable of running at a very steady level with a very high load factor, the plant can also very quickly adjust its production output while maintaining efficiency, and change power demand by over two thousand kilowatts. Our Neosho plant has also been

designed to interrupt over 95% of its demand load on very short notice.

Q. How is Praxair dealing with its competitive challenges?

A. By getting to know our customers as best we can and doing our best to meet their needs. The demands of our customers are often unique and varied, and if we do not adapt to accommodate them, someone else will. One general theme we see is that virtually all customers want options and choices. No customer likes to be told by a supplier: "This is what we have - take it or leave it".

One of the customer's needs is low prices, which requires that a key Praxair strategy be cost minimization. Reliability and quality is a given, otherwise one would not even be allowed to bid on business. Low costs are thus imperative to success in the industrial gas industry and we therefore focus attention to the reduction of costs in all areas. Corporate-wide we have instituted a breakthrough strategy called Six Sigma. Six Sigma teaches us to identify what is most important to the customer and then use meaningful data and measurements to systematically drive meaningful improvements in our performance against those criteria. We have many on-going Six Sigma teams reviewing and refining processes in order to

prevent defects from occurring. Other world class companies using Six Sigma include GE, Motorola and Honeywell.

Many supplier agreements have been renegotiated with lower pricing and better terms. Competitive bidding is actively employed. Electricity is the one major cost input in our business which can not be competitively sourced in most areas, Missouri being one of those areas. For other commodities, competition has assured us wide choices of products and services at attractive pricing. Competitive marketplaces have also resulted in a great deal of useful innovation on the part of suppliers. This has always been the case in true competitive markets. With regard to our substantial natural gas and long-distance telephone usage, we now enjoy much greater customer focus and innovation on the part of suppliers.

Q. What is the role of electricity in Praxair's strategy for addressing its competitive challenges?

A. Being the largest operating expense, it is of utmost importance that we manage our electric purchases and use. High energy efficiencies and low priced power are essential for us to compete. Improving the efficiencies of our equipment,

processes, and technologies is an ongoing process. With regard to power sourcing, our strategies include:

1) Work with utilities to develop innovative rates and contracts. Examples are interruptible rates and economic development incentives.

2) Locate and expand plants based upon electricity considerations.

3) Economic dispatch among plants based on production and delivery costs to minimize total supply costs to serve our customers. Even small power price changes affect the distribution radius. The equivalent of over 7 million kwh per day are distributed by truck in North America and centrally dispatched from our National Logistics Center in Tonawanda, New York.

4) Actively participate in RTO formation where applicable.

5) Actively participate in state/regional Industrial Users Groups.

Q. Please elaborate on the participation in state/regional industrial users groups.

A. Although not identical, the needs of industrial customers in general are similar to each other but different from the needs of residential and commercial customers. The residential customers have a state advocate but there are usually no formal groups looking out for the interests of the industrial users.

In general, the mission of industrial users groups is to work with government, utilities, and other stakeholders to assure consumers have access to reliable, inexpensive energy. All the stakeholders are in this together. To succeed the utilities must make a fair return on their equity and their industrial and commercial customers must be able to do the same. It is becoming more and more important for each customer class to pay its "fair share" and no more due to rate skewing and class subsidization.

A common area of contention between utilities and industrial customers is in the allocation of costs. I am not a cost of service nor rate design expert by any means but in general my experience has been that when costs are allocated strictly on a kwh basis, high load factor customers, such as Praxair, end

up paying more than their 'fair share.' Being a very steady, very high load factor industrial customer, Praxair must be vigilant to prevent this from happening as best it can.

Q. What would Praxair like to see happen with regard to its electricity supply at Neosho?

A. The regional industrial gas marketplace demands that Praxair's cost of electricity at Neosho be as low as possible. We encourage Empire District to continue to work diligently to hold down/reduce costs and to work with their customers to develop more creative rates that better fit both their needs and the needs of their commercial and industrial customers.

Q. Does that complete your testimony at this time?

A. Yes, it does. I thank the Commission for the opportunity to present these comments.