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Exhibit No.:

Issue: Off-System Sales

Witness: Janis E. Fischer

Sponsoring Party: MoPSC Staff

Type of Exhibit: Rebuttal Testimony

Case No.: ER-2006-0315

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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

JANIS E. FISCHER

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2006-0315

Jefferson City, Missouri
July 2006

**** Denotes Highly Confidential Information ****

NP

STAFF Exhibit No. 40 NP
Case No(s). ER-2006-0315
Date 9-25-06 Rptr PE

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of The Empire District Company of)
Joplin, Missouri for authority to file tariffs)
increasing rates for electric service provided to)
customers in Missouri service area of the Company.)

Case No. ER-2006-0315

AFFIDAVIT OF JANIS E. FISCHER

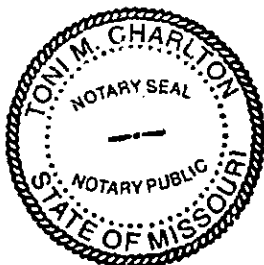
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Janis E. Fischer, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 7 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.

Janis E. Fischer
Janis E. Fischer

Subscribed and sworn to before me this 27th day of July 2006.

Toni M. Charlton



TONI M. CHARLTON
Notary Public - State of Missouri
My Commission Expires December 28, 2008
Cole County
Commission #04474301

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REBUTTAL TESTIMONY OF

JANIS E. FISCHER

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2006-0315

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1 American Electric Power (AEP) transactions are eliminated from the average. OPC's
2 adjustment is also based on a five-year normalization of off-system sales margins,
3 without adjustment for the AEP transactions. In contrast, the Staff's methodology is to
4 use the off-system sales margin for the 12 months ending March 31, 2006, in this case.

5 **OFF-SYSTEM SALES POSITIONS**

6 Q. What is the Staff's position regarding off-system sales in this proceeding?

7 A. The Staff reviewed seven years of off-system sales data and determined
8 that the twelve months ending March 31, 2006, level of off-system sales was
9 representative of a reasonable level of off-system sales on an ongoing basis.
10 March 31, 2006, is the end of the Commission-ordered test year update period in this
11 case.

12 Q. What is Empire's position in this case regarding off-system sales?

13 A. Empire has made an adjustment (Empire Revenue Adjustment 15, W/P
14 C1) to "normalize" off-system margin to an "adjusted" five-year average. Empire
15 analyzed off-system sales costs, revenues and margins for the twelve months ending
16 September 30 for the years 2001 through 2005. As part of Empire's analysis of
17 off-system sales, the costs, revenues and margins associated with transactions with AEP
18 were eliminated from the off-system sales totals for 2002 and 2003 because Empire
19 classified these transactions as abnormal. These AEP transactions occurred from
20 December 2001 through June 2003. The total AEP margins from December 2001
21 through June 2003 amounted to \$6.3 million, and their elimination from Empire's
22 analysis resulted in a \$1.27 million reduction in the five-year average off-system sales
23 margin.

24 Q. What is OPC's position in this case regarding off-system sales?

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1 A. OPC witness Smith also normalizes Empire off-system sales by
2 calculating a five-year average, but he did not remove the effect of the AEP transactions
3 that were removed by Empire in determining their average. Mr. Smith calculates his
4 adjustment by comparing it to the Empire off-system sales adjustment included in their
5 initial filing.

6 Q. What is the Staff's view of Empire's approach to normalizing off-system
7 sales?

8 A. The Staff asked Empire in Staff Data Request No. 230, to list all the
9 reasons why the elimination of the AEP transactions from off-system sales was
10 appropriate in its five-year analysis to normalize off-system sales margins. Empire's
11 response to Staff Data Request No. 230 states:

12 This was a single purchase transaction that took place from 12/1/01
13 to 6/30/03 generating approximately \$6.4 million in gross profit
14 within just a short timeframe. From 2001 to 2003 Empire's total
15 off-system sales activity only generated gross profits of \$8.9
16 million. The single non-asset backed purchased [sic] produced
17 over 71 percent of the gross profit on off-system sales. Empire has
18 not seen this type of transaction occur again.

19 The Staff does not consider the AEP transactions to be abnormal events. These
20 transactions were of a large dollar magnitude, yet to remove these transactions from the
21 calculation of the off-system sales margin percentage for the twelve months ending
22 September 2002 and 2003 creates an unreasonable result. (See Fischer Highly
23 Confidential Schedule 1) For example, the off-system sales margin percentages of
24 margin to revenue for 2002 and 2003 without inclusion of the AEP transactions drop to
25 ** _____ ** and ** _____ ** respectively. Of the eighty-seven months included in
26 the Staff's analysis of off-system sales, these off-system sales margin percentages were
27 exceeded in all but three months. This would indicate that the exclusion of the AEP

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1 transactions would result in off-system sales margin levels below what is normally
2 experienced by Empire.

3 With the AEP transactions included, the off-system sales margin percentages for
4 2002 and 2003 are ** _____ ** and ** _____ ** respectively. These off-system
5 sales margin percentages were at the mid-point of the eighty-seven months included in
6 the Staff's analysis of off-system sales margins. This would indicate that the inclusion of
7 the AEP transactions results in more typical off-system sales margin percentages.
8 Eliminating the impact of the AEP transactions from Empire's multi-year average
9 calculation of off-system sales serves only to artificially deflate the resulting off-systems
10 sales margin number.

11 Q. What led the Staff to conclude that the update period (twelve months
12 ending March 31, 2006) level of Empire's off-system sales margin was more appropriate
13 to use than a multi-year average as an ongoing level of off-system sales margin?

14 A. The Staff reviewed monthly Empire off-system sales data going back to
15 January 1999 and found that there is considerable fluctuation over time in the sales, costs
16 and margins associated with off-system sales. While consideration of a multiple year
17 average approach is appropriate for off-system sales, in this particular case the update
18 period level of off-system sales margin appears to be the most reasonable ongoing
19 amount for inclusion in the cost-of-service. The Staff has compiled the off-system sales
20 revenues, costs and margins over the eighty-seven month analysis on charts attached as
21 Fischer Highly Confidential Schedule 2. The charts visually demonstrate the Staff's
22 position.

23 Q. Are there any other reasons that the Staff chose to include the update
24 period level of off-system sales in the cost-of-service?

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1 A. Yes. The Staff's RealTime® production cost model included for this case
2 purchase power and fuel costs replicating current costs (test year and update period and
3 2006 natural gas hedges). The use of the update period level of off-system sales provides
4 a better matching of off-system sales with all other generation related costs included in
5 the Staff's revenue requirement.

6 Q. What has been the impact of recent increased fuel and purchase power
7 costs on Empire's off-system sales?

8 A. Empire has been able to increase its off-system sales margin dollars per
9 MWH for each MWH sold for the last half of the test year and through the update period
10 ending March 2006. This is in comparison to the years 1999 through 2004 in which the
11 margin dollars per MWH, stayed at a fairly consistent level except for occasional spikes
12 in the margin dollars per MWH that lasted for a single month. This demonstrates that
13 recent increases in fuel and purchased power costs have positively impacted Empire's
14 off-system sales.

15 Q. What does the off-system sales margin dollars per MWH represent?

16 A. The off-system sales margin dollars per MWH represents the difference
17 between the average cost and sale price per MWH of off-system sales by month. When
18 you multiply the off-system sales KWHs by the margin dollars per MWH the product is
19 the profit that Empire realizes from off-system sales for the month.

20 Q. What other indications have led the Staff to believe that Empire's current
21 off-system sales levels will continue?

22 A. Empire has noted that recent coal supply constraints have increased off-
23 system sales in its March 31, 2006, Quarterly Report (10-Q) to the United States
24 Securities and Exchange Commission (SEC):

1 Revenues were higher during the twelve months ended March 31,
2 2006 as compared to 2005 primarily due to increased sales of our
3 gas-fired generation in the third and fourth quarters of 2005 due to a
4 shortage of available coal-fired generation on the open market.
5 Companies that normally would have coal-fired energy to sell in
6 the market were not doing so due to the coal shortages, pushing
7 demand onto the gas-fired units. [Page 26]

8 Empire had previously stated in its March 2006 filing of its 2005 Annual Report
9 (10-K) to the SEC on page 22, "We expect that the railroads' congestion problems and
10 resulting delivery delays will continue for an indefinite period."

11 This information also supports the Staff's position that the twelve month ending
12 March 31, 2006, off-system sales margin is appropriate for inclusion in the
13 cost-of-service in this case.

14 Q. What other factors led the Staff to conclude that the updated test year level
15 of off-system sales margin was appropriate for an ongoing basis and inclusion in the
16 Staff's cost-of-service in this case?

17 A. The analysis of 1999 through March 2006 monthly data when charted
18 clearly shows a more consistent relationship among off-system sales revenues, costs and
19 margins in the short term (January 2005 through March 2006) than in the long term
20 (1999 through March 2006). (See Fischer Highly Confidential Schedule 2.)

21 Q. What is the Staff's position on the OPC proposed multi-year average
22 methodology used to determine its adjustment to Empire's off-system sales?

23 A. The Staff, while preferring the use of update period off-system sales in
24 determining the cost-of-service in this case, would prefer OPC's methodology in
25 determining a five-year average to Empire's approach. OPC does not remove the AEP
26 transactions from its five-year analysis, and its resulting adjustment is therefore more
27 representative of the actual off-system sales activity at Empire. OPC did not, however,

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1 include the off-system sales that occurred from October 2005 through March 2006 in its
2 five-year analysis. The Staff prefers that any multiple year average analysis include the
3 update period ending March 31, 2006, rather than the September 30, 2005, ending period
4 to reflect more current conditions.

5 Q. Does that conclude your testimony?

6 A. Yes, it does.

Schedule 1 has been deemed Highly Confidential in its entirety.

Schedule 2 has been deemed Highly Confidential in its entirety.