EXHIBIT

Exhibit No.:
Issue(s): Fuel & purchase power expense/ Stipulated Discounts/ Experimental Low-Income Program/ Other need based & energy programs
Witness/Type of Exhibit: Meisenheimer/Direct
Sponsoring Party: Public Counsel
Case No.: ER-2006-0315

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Missouri Public Service Commission

DIRECT TESTIMONY

OF

BARBARA A. MEISENHEIMER

Submitted on Behalf of the Office of the Public Counsel

EMPIRE DISTRICT ELECTRIC COMPANY (REVENUE REQUIREMENT)

CASE NO. ER-2006-0315

June 23, 2006

Public Counsel Exhibit No. 75
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 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. 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 through 20.

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.

Barbara A. Meisenheimer

Barbara A. Meisenheimer

Subscribed and sworn to me this 23rd day of June 2006.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

JERENE A. BUCKMAN
My Commission Expires
August 10, 2009
Cole County
Commission #05754036

Jerene A. Buckman

Jerene A. Buckman
Notary Public

My Commission expires August 10, 2009.

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DIRECT TESTIMONY

OF

BARBARA A. MEISENHEIMER

EMPIRE DISTRICT ELECTRIC COMPANY
(REVENUE REQUIREMENT)

CASE NO. ER-2006-0315

I. SUMMARY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The primary purpose of my direct revenue requirement testimony is to review the conditions to which Empire District Electric Company (Empire or Company) and Public Counsel agreed to in the Stipulation in Case No. ER-2004-0570. As an element of the Stipulation, the Commission 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. 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. As set forth in the Stipulation in Case No. ER-2004-0570, IEC revenues should be subject to true-up and refund under the conditions of the Stipulation. Based on the Company's requested increase, I believe this issue is worth a minimum of $19 million and represents approximately two thirds of the Company's requested increase in rates.

My testimony also addresses the experimental low-income rate discount program and energy efficiency programs offered by the Company (Empire or Company). Public Counsel is not proposing any new low-income rate initiatives or additional low-income weatherization or energy efficiency programs in this case. Our primary interest is (1) to ensure that the Company has met its contribution commitments and to make a downward adjustment to its revenue if it has not, (2) to determine if a reduction in the rate adder that funds the low-income rate discount program is appropriate and (3) to ensure that any excess funding from programs that either terminate or transition as a result of the collaborative be disbursed in the manner intended.

Finally, I will address the Company's line extension policies.

II. INTRODUCTION

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

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

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND EMPLOYMENT BACKGROUND.

A. I hold a Bachelor of Science degree in Mathematics from the University of Missouri-Columbia (UMC) and have completed the comprehensive exams for a Ph.D. in Economics from the same institution. My two fields of study are Quantitative Economics and Industrial Organization. My outside field of study is Statistics.

I have been with the Office of the Public Counsel (Public Counsel) since January 1996. I have testified on economic issues and policy issues in the areas of telecommunications, gas, electric, water and sewer.

Over the past 10 years have also taught courses for the following institutions: University of Missouri-Columbia, William Woods University, and Lincoln University. I currently teach undergraduate and graduate level economics courses and undergraduate statistics for William Woods University.

Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THIS COMMISSION?

A. Yes, I have testified regularly before the Missouri Public Service Commission. (PSC or Commission).

III. FUEL AND PURCHASED POWER EXPENSE

Q. WHAT LEVEL OF FUEL AND PURCHASED POWER EXPENSE IS CURRENTLY ACCOUNTED FOR IN RATES?

A. In Case ER-2004-0570, Empire, Praxair and Public Counsel agreed to the annual recovery of fixed and variable fuel and purchased power costs in Missouri base rates of $102,994,356, of which $85,064,873 represents variable costs. Further, the parties agreed the IEC would collect an additional amount of $8,249,000 in variable fuel and purchased power costs which would be subject to true-up and refund.

Q. WHAT IS THE TERM OF THE FUEL AND PURCHASED POWER AGREEMENT?

A. The term is for three-years unless the IEC is terminated by the Commission.

Q. HAS THE COMMISSION TERMINATED THE IEC?

A. No.

Q. DID THE COMMISSION APPROVE A THREE YEAR IEC?

A. Yes. In its Report and Order, effective March 27, 2005, the Commission approved the Stipulation and Agreement including the provision for a three year IEC and specifically directed the parties to comply with the terms of the February 22, 2004, Stipulation and Agreement. Specifically, the Commission found "That the Nonunanimous Stipulation and Agreement Regarding Fuel and Purchased Power Expense, filed on February 22, 2005, and deemed to be unanimous by operation of Commission Rule, is hereby approved. The parties shall comply with the terms of the Stipulation and Agreement."

Q. WOULD PUBLIC COUNSEL HAVE VOLUNTARILY AGREED TO AN IEC ABSENT SIGNIFICANT CONCESSIONS BY THE COMPANY?

A. No. Public Counsel argued in ER-2004-0570, that an IEC was unlawful absent the unanimous consent of the affected parties.

Q. WHAT CONCESSIONS DID EMPIRE AGREE TO IN EXCHANGE FOR THE IEC MECHANISM?

A. The Stipulation in ER-2004-0570 clearly prohibits Empire from requesting the recovery of additional variable fuel costs for the duration of the Commission approved IEC period.

Section 4 of the Stipulation states that:

> In consideration of the implementation of the IEC in this case and the agreement of the Parties to waive their respective rights to judicial review or to otherwise challenge a Commission order in this case authorizing and approving the subject IEC, for the duration of the IEC approved in this case Empire agrees to forego any right it may have to request the use of, or to use, any other procedure or remedy, available under current Missouri statute or subsequently enacted Missouri statute, in the form of a fuel adjustment clause, a natural gas cost recovery mechanism, or other energy related adjustment mechanism to which the Company would otherwise be entitled. <u>Empire also agrees not to request an</u> Accounting Authority Order or <u>other regulatory mechanism</u> to accumulate and or <u>recover any amount of variable fuel and purchased power cost that exceeds the IEC ceiling.</u> (Emphasis added)

Q. WHY SHOULD EMPIRE BE REQUIRED TO HONOR THE COMMITMENTS MADE IN THE STIPULATIONS IN CASE NOS. ER-2004-0570 AND EO-2005-0263?

A. Allowing Empire to deviate from the approved Stipulation in ER-2004-0570 by altering base rates to recover additional variable fuel and purchased power costs would likely cost consumers tens of millions of dollars. Ignoring the prescribed treatment of contract customer discounts addressed in ER-2004-0570 and EO-2005-0263 would allow the Company excess recovery and adversely affect residential consumers, small business consumers as well as other larger retail customers.

Allowing Empire to deviate from the approved stipulations will also impact the level to which Public Counsel, and I would expect other parties, are willing to rely on negotiated agreements with Empire as an effective means to protect their interests in future cases. On a broader scale, if one Company is allowed to circumvent its commitments and strip away protections for which other parties already made concessions, it may erode the perceived value of stipulations as a fair and reliable means of settling contested issues in other cases before the Commission.

Q. IS IT CLEAR THAT IN CASE NO. ER-2004-0570 THE COMMISSION APPROVED SPECIFIC LEVELS OF FUEL AND PURCHASED POWER COST TO BE RECOVERED IN BASE RATES AND THE IEC AS OPPOSED TO ONLY APPROVING A LEVEL OF IEC REVENUE?

A. Yes. The Commission's Order approving the Stipulation also clearly delineates agreed to levels of revenue requirement for both base rates and the IEC:

> On February 22, 2005, Empire, the Public Counsel, Praxair, Inc., and Explorer Pipeline Company jointly filed a Nonunanimous Stipulation and Agreement Regarding Fuel and Purchased Power Expense. No party filed a timely objection or request for hearing with respect to this Nonunanimous Stipulation and Agreement. The Stipulation and Agreement provides that a certain specified amount of Revenue Requirement shall be collected in Empire's permanent rates with respect to its Missouri jurisdictional fixed and variable fuel and purchased power costs and that an additional specified amount of Revenue Requirement for such costs shall be collected on an interim basis, subject to true-up and refund, through a surcharge referred to as an Interim Energy Charge ("IEC"). The IEC shall be in effect for three years. The amount of Revenue Requirement to be included in Empire's permanent rates is $102,994,356; the additional amount to be collected through the IEC is $8,249,000. The actual cents-per-kilowatt-hour IEC to be collected from each customer class is set out in Appendix B to the Stipulation and Agreement. The amount collected by the IEC is intended to include only the on-system Missouri

> retail variable costs collected in FERC accounts 501, 547 and 555. Net revenues from capacity release and gas sales shall be a credit against expenses in the true up. The fixed costs in FERC accounts 501, 547 and 555 shall be collected in permanent rates. The Stipulation and Agreement sets out other details and provisions governing the operation of the IEC, the true up, and any refunds.

Q. BY REQUESTING AN INCREASE IN BASE RATES TO RECOVER ADDITIONAL FUEL AND PURCHASED POWER COSTS, IS EMPIRE VIOLATING ITS COMMITMENT?

A. Yes, as shown above in the excerpt from the Commission approved Stipulation and Agreement in Case No. ER-2004-0570, Empire, for the three-year term of the IEC, agreed not to request a regulatory mechanism to recover any amount of variable fuel and purchased power cost that exceeds the IEC ceiling. However, Empire's requesting a rate increase to recover additional variable fuel cost in this case constitutes requesting a regulatory mechanism that would allow recovery in excess of the IEC ceiling.

Q. WHY DID PUBLIC COUNSEL JOIN IN THE STIPULATION AND AGREEMENT IN CASE NO. ER-2004-0570?

A. In large part, Public Counsel joined in the Stipulation in ER-2004-0570 because the terms of the Stipulation cap until 2008, at specific dollar levels, the exposure to upward price volatility that consumers face associated with fuel and purchased power costs. In addition, the provisions of the Stipulation allow for downward but not upward rate adjustments based on true-up and prohibit Empire from requesting an AAO or other regulatory mechanism to accumulate and or recover amounts in excess of the IEC ceiling. In joining as a signatory party, Public Counsel believed that these three elements of the Stipulation and Agreement would provide consumers with price protection and price certainty.

If the Commission allows Empire to increase base rates to recover additional fuel and purchased power expenses, consumers could be exposed to increases of at least 19 million dollars annually. Public Counsel urges the Commission to enforce the protections that it afforded consumers in approving the Stipulation and Agreement by rejecting any increase in fuel and purchased power costs.

Q. GIVEN THE CURRENT VOLATILITY IN FUEL PRICES, IS IT FAIR TO REQUIRE THE COMPANY AND ITS SHAREHOLDERS TO HONOR THE STIPULATION AND AGREEMENT?

A. Absolutely. Empire benefited from concessions gained from consumers through the Stipulation and Agreement. Those concessions can not easily, if ever, be retracted. In addition to the IEC going into effect and generating additional revenues sooner than it might have otherwise, Empire avoided the expense and uncertainty of litigation by securing Public Counsel's waiver of its right to judicial review or to otherwise challenge a Commission order approving the IEC.

At the time the Stipulation was inked, it was no secret that natural gas prices might be subject to substantial volatility. The Stipulation in ER-2004-0570 was submitted on February 22, 2005, following four years of volatile natural gas prices. Empire could have conditioned acceptance of the Stipulation and Agreement on numerous options for addressing the potential volatility of natural gas prices at the time the agreement was negotiated. This would have allowed Public Counsel and other parties to the case the option of accepting or rejecting the total agreement in light of the concessions Empire might later seek from customers and the potential detriment customers might face.

Ultimately, Public Counsel agreed to a Stipulation because it contained no "catastrophic" out clause to cover unexpected or anomalous changes in the natural gas commodity market, no upward rate adjustment based on true-up and no provision to rebase, at a later time, the level of fuel and purchased power recovered in base rates or through the IEC. It would be patently unfair to consumers to now allow Empire to unilaterally override the terms of the Stipulation and Agreement by allowing any such additional recovery during the 3 year period covered by the IEC.

Q. DOES PUBLIC COUNSEL AGREE THAT THE COMMISSION HAS THE AUTHORITY TO TERMINATE THE IEC?

A. Yes, but there is no reason to do so.

Q. IS IT SIGNIFICANT THAT THE STIPULATION AND AGREEMENT APPROVED BY THE COMMISSION STATES THAT THE IEC TARIFF WILL EXPIRE NO LATER THAN 12:01 A.M. ON THE DATE THAT IS THREE YEARS AFTER THE ORIGINAL EFFECTIVE DATE OF THE REVISED TARIFF SHEETS UNLESS EARLIER TERMINATED BY ORDER OF THE COMMISSION?

A. No. This provision of the Stipulation and Agreement simply recognizes that the Commission can not be bound by a previous decision. It is relevant to note that language in the approved Stipulation and Agreement also states that the IEC shall be in effect for three years.

Q. WOULD REVISITING THE FUEL AND PURCHASED POWER RECOVERY, AT THIS TIME, ON THE COMMISSION'S OWN MOTION LIKELY RESULT IN LITIGATION?

A. Yes. Empire's Application and supporting testimony requesting elimination of the IEC, or in the alternative, requesting an increase in base rates to recover additional fuel and purchased power costs have tainted the process by which the Commission, on its own motion, might choose to review Empire's fuel and purchased power expense recovery. Arguably, Public Counsel would be derelict in not considering the degree to which Empire's inappropriate filings might have precipitated such a review and could ultimately lead to an increase in rates in excess of 19 million dollars. Empire has placed the Commission in a precarious situation and should not be rewarded for it.

Q. DOES THE STIPULATION AND AGREEMENT IN EO-2005-0263, ADDRESSING THE EXPERIMENTAL REGULATORY PLAN MOOT THE FUEL AND PURCHASED POWER PROVISIONS CONTAINED IN THE STIPULATION AND AGREEMENT IN ER-2004-0570?

A. No. The provisions of the Stipulation in Case No. EO-2005-0263 are fully consistent with continuation of the three year IEC and other fuel and purchased power recovery provisions agreed to in Case No. ER-2004-0570. The Stipulation and Agreement in Case No. EO-

2005-0263 addresses in relevant part, the terms and conditions under which Empire will seek recovery of costs associated with Iatan 2 or other base load generation plant. The Agreement recognizes that Empire may file a rate case prior to the expiration of the Agreement but must file a rate case related to the Iatan 2 investment no sooner than 2009. Under the terms of the Stipulation in EO-2005-0263, if Empire chooses to initiate a rate case during the 5 year term of the agreement, then Empire must comply with four conditions addressing (a) the treatment of special contracts, (b) affordability, demand response, and efficiency programs, (c) intervention without application by signatory parties to the Stipulation and (d) mandatory data to be provided to certain parties. None of the four conditions address fuel or purchased power or in any way affect Empire's prior commitment to refrain from requesting additional fuel and purchased power expense.

Section D(6) of the Stipulation and Agreement in EO-2005-0263 does address fuel and purchase power with respect to rate cases but it is not inconsistent with the three year IEC. Section D(6) reflects Empire's intent to seek an ECR mechanism and the parties' agreement to not address the issue in the Stipulation. It does not reflect an agreement by the parties in ER-2004-0570 to release Empire from its obligation under the previous Stipulation. Agreeing to not address an issue should not be viewed as a Public Counsel concession to dismantle the previous Stipulation and Agreement in ER-2004-0570. Further, Section D(6) can not be interpreted as a Commission order terminating the IEC approved in ER-2004-

0570. Empire continued to charge the IEC after the Stipulation and Agreement in EO-2005-0263 became effective.

Unless the Commission terminates the IEC, it will run until 2008, after which Public Counsel acknowledges that Empire is free for the remaining portion of the 5 year term of the EO-2005-0263 agreement to request an ECR provided that Empire does not sign away that right in the interim.

Q. **IF, CONTRARY TO PUBLIC COUNSEL'S POSITION, THE COMMISSION ALLOWS THE COMPANY TO RECOVER ADDITIONAL FUEL COST, HOW SHOULD THE FUEL AND PURCHASED POWER EXPENSE BE SET?**

A. Public Counsel has retained the consulting firm of Larkin & Associates, PLLC to address fuel and purchased power expense. Please refer to the testimony of Ralph C. Smith.

IV. STIPULATED DISCOUNTS

Q. **IN CASE ER-2004-0570, DID EMPIRE COMMIT THAT SOME DISCOUNTS GRANTED TO PRAXAIR AND EXPLORER WOULD NOT BE RECOVERED FROM OTHER CUSTOMERS?**

A. Yes. Empire agreed to hold other retail customer classes harmless with respect to two increased credits provided for in the Stipulation and Agreement in Case ER-2004-0570. The first credit, originally valued at $100,000 annually through October 2008 was granted to Praxair. The second credit, originally valued at $45,000 annually was granted to Explorer.

Q. HAS EMPIRE MADE ADDITIONAL CONCESSIONS RELATED TO THE TREATMENT OF NEW SPECIAL CONTRACTS WHEN DETERMINING THE COMPANY'S REVENUE REQUIREMENT?

A. Yes. In the Experimental Regulatory Plan Stipulation and Agreement in Case No. EO-2005-0263, Empire agreed that for ratemaking determinations, New Special Contracts, defined as those entered into following the filing of the Application of the Experimental Regulatory Plan, will be treated as if customers taking service under the New Special Contracts were paying the full generally applicable tariff rates for service from Empire.

Q. HOW SHOULD THE DISCOUNTS DESCRIBED ABOVE BE ACCOUNTED FOR IN DETERMINING ANY TOTAL NET INCREASE OR DECREASE IN THIS CASE?

A. The $100,000 discount granted to Praxair and the $45,000 discount to Explorer should be reflected as an upward adjustment to current revenues. In response to an OPC data request, Empire indicated that currently it has entered in to no New Special Contracts, however, the issue should be reviewed as a true-up item in this case.

V. EXPERIMENTAL LOW-INCOME PROGRAM (ELIP)

Q. PLEASE DESCRIBE THE EXPERIMENTAL LOW-INCOME RATE INITIATIVE DESIGNED TO ASSIST EMPIRE'S CUSTOMERS?

A. The Commission approved a Unanimous Stipulation & Agreement in Case No. ER-2002-424 that established a collaborative process to develop and implement an experimental low-income rate discount program targeted to low-income customers in Empire's Joplin service area. After a successful collaborative with the interested parties, a program was developed, and on April 24, 2003, the Commission approved tariff sheets establishing the program consistent with the collaborative's recommendations. Qualifying low-income program recipients with a household income of up to 50% of the Federal Poverty level (Group A) receive bill discounts of $40. Program recipients with a household income of 51% to 100% of the Federal Poverty level (Group B) receive bill discounts of $20. The discounts are available for up to 24 months under the current tariff.

Q. HOW IS THE EXPERIMENTAL LOW-INCOME PROGRAM FUNDED?

A. The Unanimous Stipulation & Agreement in Case No. ER-2002-424, and subsequent agreement of the collaborative participants, provides a total of $300,000 annually for the program. Of this amount, shareholders contribute $150,000 annually. The adder for the $150,000 ratepayer contribution is 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). Any excess funding that remains upon termination of the program is to be distributed as a contribution to ProjectHelp for use in assisting with emergency energy-related expenses of elderly and disabled residents in Empire's service area.

Q. PLEASE COMPARE THE ANNUAL PROGRAM FUNDING LEVELS TO ACTUAL EXPENDITURES.

A. The following table illustrates the ELIP funding levels and actual expenditures reported by the Company for the period ending April 2006.

Year	Funding Level	Actual Expense[a]	Excess
2002	$25,000		$25,000
2003	$300,000[b]	$ 40,062	$259,938
2004	$300,000	$147,877	$152,123
2005	$300,000	$126,896	$173,104
2006	$100,000[c]	$ 14,740	$ 85,260
			$670,425
	Less Evaluation Expense		-$ 15,000
	Balance		$655,425

(a) The actual expenses include administrative costs paid to ESC and OACAC.

(b) Rates funding the ELIP program began effective December 1, 2002.

(c) The funding level reflects 4 months ending April 30, 2006.

Q. DO YOU SUPPORT CONTINUATION OF THE PROGRAM?

A. Yes, with modifications.

Q. PLEASE DISCUSS THE FIRST MODIFICATION YOU PROPOSE.

A. The program was designed to collect $150,000 annually from customers through rates, matched dollar for dollar, by an additional $150,000, by shareholders. However, the program costs in each year have fallen far short of the total $300,000 annual allotment, never exceeding $150,000. The total discounts applied appear to have fallen dramatically in the first quarter of 2006 to less than $15,000. The program funding level should be reduced and steps should be taken to increase customer participation.

Q. **WHAT STEPS DO YOU RECOMMEND TO INCREASE PARTICIPATION?**

A. Currently, customer participation is limited to a 24 month period. This may be the primary reason that participation has fallen so dramatically in the first quarter of 2006. Those customers who enrolled in the initial months of the program may no longer be qualified to participate. The program should be modified to extend participation beyond 24 months. I expect that extending the length of participation would serve primarily to maintain the previous level of annual expenditures rather than increasing the rate of participation.

Earmarking $2,000 annually for outreach might also lead to increased participation. The Commission should direct the collaborative group, formed to address affordability, conservation and energy efficiency following approval of Empire's Experimental Regulatory Plan, to develop recommendations on extending the length of participation and potential outreach.

Q. **WOULD YOU SUPPORT INCREASING THE BILL CREDITS BY $10 PER MONTH FOR PARTICIPANTS WITH HOUSHOLD INCOMES AT OR BELOW 50% OF THE FEDERAL POVERTY LEVEL?**

A. Yes. A modest increase in the credit to these participants is consistent with recommendations made in the recently completed evaluation of the first two years of the program performed by Roger Colton.

Q. **WOULD YOU SUPPORT INCREASING THE MAXIMUM QUALIFYING HOUSEHOLD INCOME TO 125% OF THE FEDERAL POVERTY LEVEL?**

A. Yes. Although Mr. Colton did not specifically propose increasing the threshold in his evaluation, doing so would be consistent with recommendations that Mr. Colton has made in designing other low income programs.

Q. **WOULD YOU SUPPORT ADDING AN EXPERIMENTAL ARREARAGE REPAYMENT INCENTIVE TO THE PROGRAM?**

A. Yes, provided that it is flexible, simple for participants to understand and is likely to benefit Empire's entire customer base by encouraging a greater level of arrears repayment than is currently being achieved. Adding an arrears repayment incentive is consistent with recommendations made by Roger Colton in the evaluation.

Q. **DO YOU BELIEVE THAT IT IS LIKELY THAT SUCH AN INCENTIVE WOULD HELP REDUCE ARREARS AND POTENTIALLY REDUCE UNCOLLECTIBLES?**

A. Yes. Mr. Colton reports that program participants tended to make fuller and timelier payments toward current bills but that most participants carried arrears throughout the first two years of the program. Affording participants an opportunity to reduce or eliminate arrears more quickly should increase the likelihood that they can retain service.

Q. **WHAT LEVEL OF FUNDING AND INCENTIVE STRUCTURE DO YOU RECOMMEND?**

A. I would propose allocating up to $30,000 of existing program funds, annually to an experimental arrearage repayment incentive component of the program in order to provide a matching of two customer dollars to 1 incentive dollar with a maximum annual incentive payment of $60 per customer. As opposed to a mandatory regular monthly repayment scheme, this would allow participants the flexibility to catch up on arrears as their budgets allow.

Q. IF THE ELIP IS MODIFIED IN THE WAYS YOU PROPOSE, WHAT REDUCTION DO YOU RECOMMEND IN THE OVERALL ANNUAL FUNDING?

A. I would recommend that the ratepayer contribution be reduced by $100,000 annually. Under the current program design, the shareholders contribution would also decrease by $100,000 annually. Keeping in mind that there is currently more than $655,425 in excess funding, based on a 3 year horizon and assuming increased costs associated with all the modifications described above, I believe this reduction would reduce the balance to about $300,000 at the end of the third year.

Q. IF THE PROGRAM IS NOT MODIFIED, TO WHAT LEVEL DO YOU RECOMMEND REDUCING THE FUNDING LEVEL?

A. If the program is not modified to use more of the available funding than is currently being used then the entire $150,000 annual collection from ratepayers should cease.

Q. DO YOU HAVE ADDITIONAL RECOMMENDATIONS RELATED TO THE ELIP PROGRAM?

A. Yes. I have two additional recommendations. Currently, if the program is terminated, any unused funds will be donated to ProjectHELP. Given the apparent level of excess funding, it would be appropriate to require that unused funds be returned to ratepayers when the program terminates. Finally, no interest is paid on the fund balance. Interest should be paid to ratepayers. A reasonable rate would be the 5.59% short term debt rate used in the ROE analysis prepared by Charles W. King on behalf of Public Counsel.

VI. OTHER NEED BASED AND ENERGY EFFICIENCY PROGRAMS

Q. DOES THE COMPANY OFFER OTHER NEED-BASED ASSISTANCE PROGRAMS AND ENERGY EFFICIENCY PROGRAMS IN ITS MISSOURI SERVICE AREA?

A. Yes. The Company offers:

1) Low-Income Weatherization that is funded at $155,000 annually. Upon termination unused funds may be redirected for other efficiency programs. The Company reports that the full funding allotment is being used with respect to this program.

2) A Residential Conservation Service that provides home energy audits for a first-time fee of $15 and subsequent audits for $62.00. No audits were performed in the test-year. The rate element for this program under current tariffs is set at $0.00.

3) An Employee purchase plan that provides loans to employees that purchase and install energy saving measures or appliances in their homes. I have requested that the Company verify that this program is not funded by ratepayers.

4) A Commercial Facility Energy Audit program funded at $25,000 annually. Upon termination unused funds may be redirected for other efficiency programs.

5) The Change a Light program, newly developed by the collaborative is funded at $20,000 annually. The Company reports that the full funding allotment is being used with respect to this program.

6) The Residential HVAC program, newly developed by the collaborative is funded at $100,000 annually. The Company reported no expenditures thus far.

Q. DO YOU PROPOSE ANY CHANGES IN THE FUNDING LEVEL OF THE LOW-INCOME WEATHERIZATION OR ENERGY EFFICIENCY PROGRAMS?

A. Not at this time. However, as the collaborative modifies or replaces these programs, it should ensure that any unused funds from preexisting programs are redirected as intended.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.