

Exhibit No. 35

Empire District Electric Company – Exhibit 35
Testimony of Timothy S. Lyons
Rebuttal
File No. ER-2024-0261

Exhibit No.: _____
Issue(s): Billing Determinants, Revenue, Class Cost
of Service Study and Rate Design
Witness: Timothy S. Lyons
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: The Empire District Electric
Company d/b/a Liberty
Case No.: ER-2024-0261
Date Testimony Prepared: August 2025

**Before the Public Service Commission
of the State of Missouri**

Rebuttal Testimony

of

Timothy S. Lyons

on behalf of

The Empire District Electric Company d/b/a Liberty

August 18, 2025



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THE EMPIRE DISTRICT ELECTRIC COMPANY D/B/A LIBERTY
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2024-0261

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REBUTTAL TESTIMONY OF TIMOTHY S. LYONS
THE EMPIRE DISTRICT ELECTRIC COMPANY D/B/A LIBERTY
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2024-0261

1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Timothy S. Lyons. My business address is 1 Speen Street, Suite 150,
4 Framingham, Massachusetts 01701.

5 **Q. Are you the same Timothy S. Lyons that filed direct testimony in this proceeding?**

6 A. Yes.

7 **Q. On whose behalf are you submitting this testimony before the Missouri Public**
8 **Service Commission (“Commission”)?**

9 A. I am testifying on behalf of The Empire District Electric Company d/b/a Liberty
10 (“Liberty” or “Company”).

11 **Q. What is the purpose of your rebuttal testimony?**

12 A. The purpose of my rebuttal testimony is to sponsor the Company’s response to
13 recommendations by Kim Cox on behalf of the Staff of the Commission (the “Staff”),
14 recommendations by Hari K. Poudel, PhD, on behalf of Staff, recommendations by
15 Marina Gonzales on behalf of Staff, recommendations by Sarah L.K. Lange on behalf
16 of Staff, recommendations by Caroline Palmer of Synapse Energy Economics, Inc.
17 (“Synapse”) on behalf of Consumers Council of Missouri (“CCM”), and
18 recommendations by Kavita Maini of KM Energy Consulting, LLC on behalf of
19 Midwest Energy Consumers Group (“MECG”).

1 **II. SUMMARY OF RECOMMENDATIONS**

2 **Q. What are Staff witness Cox’s recommendations?**

3 A. Staff witness Cox’s recommendations from direct testimony are summarized below:

- 4 • Utilize Staff’s adjusted revenues to derive the Company’s revenue requirement
5 as well as Staff’s adjusted billing determinants to design the Company’s rates.¹
6 • Staff made various adjustments including: (1) update the billing data for the
7 period 12-months ending September 30, 2024, (2) adjust for additional billing
8 data provided by the Company, (3) adjust for customers who have switched
9 rates, (4) adjust for normal weather and 365 billing days, (5) adjust for energy
10 savings related to the Missouri Energy Efficiency Investment Act (“MEEIA”)
11 program, (6) adjust for customer growth, (7) adjust for community solar
12 program revenues, and (8) adjust for Energy Efficiency Cost Recovery
13 (“EECR”).²

14 **Q. What are Staff witness Poudel’s recommendations?**

15 A. Staff witness Poudel’s recommendations from direct testimony are summarized below:

- 16 • Modify the production demand allocator from Average and Excess (“A&E”)
17 8-Noncoincident Peak (“NCP”) to A&E 2-NCP.³
18 • Rely on the basic customer approach to value the residential customer charge.⁴
19 • Maintain current residential customer charge of \$13.00 per month.⁵

¹ Direct Testimony of Kim Cox, pp. 1-5.

² Id.

³ Direct Testimony of Hari K. Poudel, PhD, pp. 4-5.

⁴ Id., pp. 5-6.

⁵ Id.

- 1 • Increase residential energy kWh charges on an equal percentage basis to
- 2 recover the residential revenue requirement not recovered in the customer
- 3 charge.”⁶
- 4 • Maintain the current residential off-peak kWh credit.⁷
- 5 • Modify the definition of Tail Block Rate in Tariff Sheet No. 21C to reflect net
- 6 fuel costs.⁸

7 **Q. What are Staff witness Gonzales’ recommendations?**

8 A. Staff witness Gonzales’ recommendations from direct testimony are summarized

9 below:

- 10 • Functionalize production plant into two functions.⁹
 - 11 ○ Production 1: Generation plants whose costs vary with energy
 - 12 production, such as State Line. Functionalize plant investment and
 - 13 fixed O&M expenses as Production 1 and variable O&M, fuel costs,
 - 14 and value received for the generated energy as energy.
 - 15 ○ Production 2: Generation plants whose costs do not vary with energy
 - 16 production, such as Elk River. Functionalize plant investment and
 - 17 O&M expenses as Production 2 and the value received for the
 - 18 generated energy as energy.
- 19 • Increase non-residential charges on an equal percentage basis to recover the
- 20 revenue increase for each rate class.¹⁰

21 **Q. What are Staff witness Lange’s recommendations?**

⁶ Id., p. 6.

⁷ Id.

⁸ Id., pp. 6-7.

⁹ Direct Testimony of Marina Gonzales, pp. 2-3.

¹⁰ Id. p. 2.

1 A. Staff witness Lange's recommendations are summarized below:

- 2 • Allocate the overall revenue increase to each rate class on an equal percentage
3 basis prior to consideration of Staff witness Busch's recommended Customer
4 First disallowance, which Staff proposes to be applied entirely to the
5 residential class.¹¹
- 6 • If Staff's recommendation is not adopted, then use the results of Staff's Class
7 Cost of Service stud ("COSS") as a guide to allocate the overall revenue
8 increase.¹²
- 9 • Eliminate Optional Time of Use rate plan, which currently has no customers.¹³
- 10 • Utilize coincident peak ("CP") demands for non-residential demand charges
11 based on a defined period of time, such as 6:00 AM to 9:00 PM, as opposed to
12 customer's NCP demands.¹⁴
 - 13 ○ Staff raised concern regarding the reasonableness of demand
14 determinants for billing demands due to challenges in reconciling
15 customer level and class level data.¹⁵
- 16 • Evaluate whether the Company's billing system has the capabilities to assess
17 charges at different voltage levels for: (1) transmission, (2) sub-transmission,
18 (3) primary voltage, and (4) secondary voltage.¹⁶
- 19 • Propose the following rate design changes in the Company's next rate case:¹⁷
 - 20 ○ Implement reactive demand charges

¹¹ Direct Testimony of Sarah L.K. Lange, p. 3.

¹² Id., p. 4.

¹³ Id., p. 55.

¹⁴ Id.

¹⁵ Id., p. 57.

¹⁶ Id., p. 56.

¹⁷ Id.

- 1 ○ Design consistent charges across voltages
- 2 ○ Phase out of hours use billing
- 3 ○ Develop subdivisions of winter billing into spring and fall seasons

4 **Q. What are CCM witness Palmer's recommendations?**

5 A. CCM witness Palmer's recommendations are summarized below:

- 6 • Adopt the Basic Customer Method for classifying distribution costs.¹⁸
 - 7 ○ Disaggregate plant accounting data for sub-transmission, trunkline,
 - 8 upstream or backbone primary feeders from the rest of plant.
 - 9 ○ Apply a 'hybrid' method if Basic Customer Method is not approved by
 - 10 Commission. The hybrid method would include applying minimum
 - 11 size or zero intercept methodologies to secondary distribution plant
 - 12 only and applying a 1.5 kW per customer capacity adjustment to reflect
 - 13 load carrying capability of minimum system.¹⁹
- 14 • Classify AMI meters as customer (50.00 percent), demand (25.00 percent), and
- 15 energy (25.00 percent) based on their relative benefits.²⁰
- 16 • Allocate the revenue requirement to each rate class based on a COSS that
- 17 reflects the Basic Customer Method.²¹
- 18 • Maintain the current residential customer charge of \$13.00 per month and
- 19 increase the energy charges to reflect the increase in the residential revenue
- 20 requirement.²²

21 **Q. What are MCEG witness Maini's recommendations?**

¹⁸ Direct Testimony of Caroline Palmer, pp. 3-4.

¹⁹ Id., pp. 15-18.

²⁰ Id., p. 4.

²¹ Id.

²² Id.

A. MECG witness Maini's recommendations are summarized below:

- Modify the production demand allocator from A&E 8 NCP to A&E 4 NCP.²³
- Adopt MECG's revenue allocation multipliers.²⁴
- Adopt MECG's proposed NS LG rate changes:²⁵
 - No increase in tail block rates;
 - Increase billed demand charge by amount that would have been recovered in the tail block rates; and
 - Any reduction in revenue allocation directed toward reducing energy charges.
- Adopt MECG's proposed LP rate changes:²⁶
 - Increase percentage share of billed demand charge;
 - Increase facility charges; and
 - Recover remaining amount in first energy block, leaving tail block rates unchanged.
- Increase interruptible credit for Schedule TS from \$4.01 per kW-month to \$6.00 per kW-month.

III. COMPANY RESPONSE TO STAFF WITNESS COX

Q. Does the Company agree with Staff witness Cox's overall adjustments to rate revenues and billing determinants?

A. Yes. The Company generally agrees with Staff's overall adjustments to rate revenues and billing determinants. While there are differences in methodologies, assumptions,

²³ Direct Testimony of Kavita Maini, p. 6.

²⁴ Id., p. 24.

²⁵ Id., pp. 26-27.

²⁶ Id.

1 and approaches between the Company and Staff, the resulting figures fall within a
2 reasonable margin of alignment. The Company supports the types of adjustments made
3 by Staff, which are broadly consistent with those applied in the Company's own
4 analysis.²⁷ Given the complexity of normalizing billing determinants and revenues,
5 some variation is expected, but the overall outcomes are directionally aligned. The
6 Company remains open to further evaluation and refinement of these figures during
7 surrebuttal and true-up, should additional information or clarification be warranted.

8 **IV. COMPANY RESPONSE TO STAFF WITNESS POUDEL**

9 **Q. Does the Company agree with Staff witness Poudel's recommendation to modify**
10 **the production demand allocator from A&E 8-NCP to A&E 2-NCP?**

11 A. In part. The Company agrees with Staff that it is appropriate to modify its production
12 demand allocator; however, the Company believes the more appropriate production
13 demand allocator is based on the A&E 4-NCP method rather than the A&E 2-NCP
14 method. As noted by MCEG, the A&E 4-NCP method is consistent with Missouri
15 statutes. Specifically, Section 393.1620 (1), RSMo., defines the average and excess
16 method as:

17 A method for allocation of production plant costs using factors that
18 consider the classes' average demands and excess demands, determined
19 by subtracting the average demands from the noncoincident peak
20 demands, for the four months with the highest system peak loads. The
21 production plant costs are allocated using the class average and excess
22 demands proportionally based on the system load factor, where the
23 system load factor determines the percentage of production plant costs
24 allocated using the average demands, and the remainder of production
25 plant costs are allocated using the excess demands.

²⁷ The Company utilized a slightly different approach for the growth adjustment, which includes customers switching rates between NS and TC classes. Staff's approach was based on class average usage per customer, while the Company's approach was based on customer-specific usage. The Company's approach results in slightly higher rate revenues and billing determinants.

1 **Q. What is the impact of the proposed change in the production demand allocator**
2 **from A&E 8-NCP method to A&E 4-NCP method?**

3 **A.** The impact of the proposed change in the production demand allocator from the A&E
4 8-NCP method to A&E 4-NCP method is shown in Figure 1 (below).

5 **Figure 1: Comparison of Production Demand Allocators**

Rate Classes	A&E 4-NCP Class ROR	Filed Study Class ROR	Change
NS-TC RG	1.39%	1.33%	0.07%
NS-TC GS	5.37%	5.16%	0.21%
LG/SP	3.00%	3.24%	-0.24%
LP	6.13%	6.21%	-0.08%
TS	4.47%	4.56%	-0.09%
MS	13.99%	14.11%	-0.13%
SPL	1.88%	1.64%	0.23%
PL	16.40%	15.16%	1.23%
LS	-4.78%	-5.38%	0.60%
System	2.75%	2.75%	0.00%

6
7 The Figure shows the residential (RG) class's rate of return ("ROR") of 1.39 percent
8 using the A&E 4-NCP method to allocate production demand costs as compared to a
9 ROR of 1.33 percent using the A&E 8-NCP method in the filed COSS. The Figure
10 also shows the Large General (LG) class's ROR of 3.00 percent using the A&E 4-NCP
11 method to allocate production demand costs as compared to a ROR of 3.24 percent
12 using the A&E 8-NCP method in the filed COSS.

13 **Q. Does the Company agree with Staff witness Poudel's recommendation to utilize**
14 **the Basic Customer Method to value the residential customer charge?**

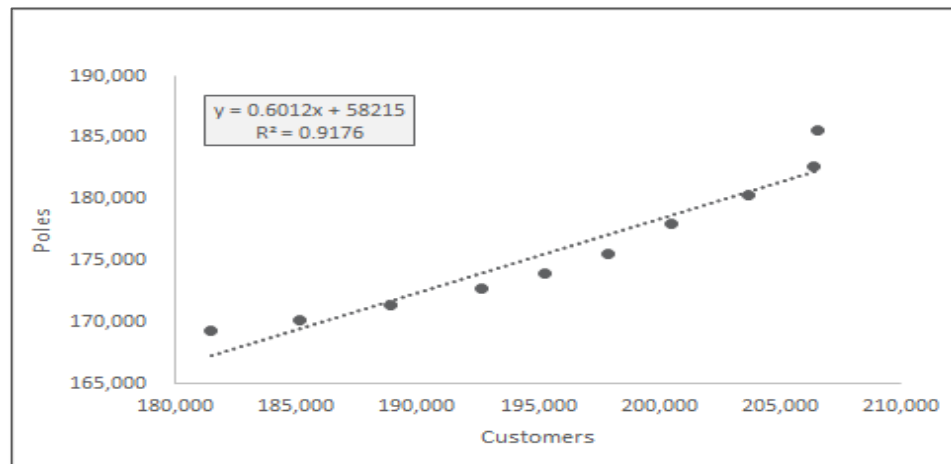
15 **A.** No. The Basic Customer Method understates residential customer costs because it does
16 not include a portion of distribution plant (Accounts 364-368) and expenses that vary
17 based on the number of customers.

1 The Company's classification study shows a portion of distribution plant
2 (Accounts 364-368) and expenses vary by customer based on the results of its
3 classification study utilizing both the minimum system and zero-intercept methods.

4 **Q. Why does the Company believe a portion of distribution plant (Accounts 364-368)**
5 **and expenses vary by the number of customers?**

6 A. The Company believes a portion of distribution plant and expenses vary by the number
7 of customers because there is a statistically significant relationship between the
8 Company's poles and its number of customers, as shown in Figure 2 (below).

9 **Figure 2: Relationship between Poles and Customers**



11 The Figure shows a linear relationship between the number of poles and customers
12 between 2014 and 2023. The linear relationship is supported by regression analysis,
13 which measures the extent to which changes in a dependent variable (in this case, the
14 number of poles) can be explained by changes in independent variables (in this case,
15 the number of customers). Specifically, the regression analysis produced an r-square
16 of 0.9176, which indicates 91.76 percent of changes in poles can be explained by
17 changes in the number of customers.

18 **Q. What is the Company's response to concerns regarding the load carrying capacity**
19 **related to utilizing the minimum system method?**

1 A. First, it is important to note that more than 40.00 percent of the Company's
2 classification of distribution plant and expenses was based on the zero-intercept
3 method, which reflects no load carrying capacity. Specifically, the Company's
4 classification of poles (Account 364) and related expenses and conduit (Account 366)
5 and related expenses are based on the zero-intercept method, representing more than
6 40.00 percent of distribution plant (Accounts 364-368).

7 While the National Association of Regulatory Utility Commissioners
8 ("NARUC") Electric Utility Cost Allocation Manual raises awareness of the load
9 carrying capacity of the minimum system method, the NARUC Manual does not
10 oppose use of the minimum system method nor require necessarily adjustment to the
11 minimum system method to reflect the load carrying capacity. In fact, the NARUC
12 Manual notes the load carrying capacity issue is not necessarily a concern shared by
13 all, stating:

14 "...some cost analysts will argue that some customer classes can receive
15 a disproportionate share of demand costs. Their rationale is that
16 customers are allocated a share of distribution costs classified as
17 demand-related."²⁸

18 **Q. Does utilizing the zero-intercept or minimum-intercept method raise similar load**
19 **carrying concerns?**

20 A. No. The NARUC Manual notes:

21 Advocates of the minimum-intercept method contend that this problem
22 [of load carrying capacity utilizing the minimum system method] does
23 not exist when using their method. The reason is that the customer cost
24 derived from the minimum-intercept method is based on the zero-load
25 intercept of the cost curve. Thus, the customer cost of a particular piece
26 of equipment has no demand cost in it whatsoever.²⁹

²⁸ NARUC Manual, p. 95, *emphasis added*.

²⁹ Id.

1 **Q. Does utilizing the zero-intercept or minimum-intercept method substantially**
2 **change the results of the classification study?**

3 A. No. If the Company were to classify distribution plant (Accounts 364-368) and
4 expenses based only on the zero-intercept method, the results would be similar.

5 For example, the residential (TC-RG) customer cost that reflects classification
6 of distribution plant and expenses based only on the zero-intercept method is \$45.55
7 per month. By comparison, the residential (TC-RG) customer cost based on the
8 Company's filed COSS that reflects classification of distribution plant and expenses
9 based on the minimum system and zero-intercept methods is \$48.59 per month.

10 **Q. Did the Company review the zero-intercept and minimum system studies**
11 **prepared by Staff?**

12 A. Yes. The Company reviewed the studies prepared by Staff and identified certain
13 notable differences. For example, Staff's studies do not apply a Handy-Whitman Index
14 ("HWI") adjustment, which updates facility costs to current-year dollars to ensure an
15 apples-to-apples comparison.

16 In addition, Staff's studies exclude certain data. For example, the Account 364
17 study excludes poles taller than 65 feet. The studies also omit supporting facility costs,
18 such as guys, anchors, and fixtures.

19 **Q. What is the Company's recommendation?**

20 A. The Company continues to recommend classification of distribution plant (Accounts
21 364-368) and expenses as customer and demand based on the results of its classification
22 study in the filed COSS based on the minimum system and zero intercept methods.

23 **Q. Does the Company agree with Staff witness Poudel's recommendation to maintain**
24 **the current customer charge of \$13.00 per month?**

1 A. No. The Company continues to support its proposed customer charge of \$16.00 per
2 month to show at least some progress toward the residential customer cost, which is
3 \$48.59 per month based on the Company's analysis.

4 As discussed earlier, Staff witness Poudel's recommendation to maintain the
5 current customer charge of \$13.00 per month is based on utilizing the Basic Customer
6 Method to calculate the residential customer cost. The Company believes the Basic
7 Customer Method does not accurately reflect residential customer costs since it
8 excludes a portion of distribution plant (Accounts 364-368) and expenses that vary with
9 the number of customers.

10 **Q. Does the Company's proposal to increase the residential customer charge**
11 **substantially reduce a residential customer's incentive to conserve energy?**

12 A. No. While the Company agrees that higher customer charges and lower energy kWh
13 charges, all other things remaining the same, reduce a customer's incentive to conserve
14 energy, it is important to note that even with the proposed increase in the residential
15 customer charge, a significant portion of the residential customer bill continues to be
16 based on energy kWh charges that fluctuates with changes in energy. Specifically,
17 under the Company's proposed rate design, more than 90.00 percent of an average
18 residential bill is based on energy kWh charges; consequently, there continues to be
19 significant incentive for customers to save energy even with the Company's proposed
20 increase in the customer charges.

1 **Q. Did the Company only consider price signals when designing the proposed rates?**

2 A. No. While price signals were an important consideration when designing the proposed
3 rates, the Company considered other rate design principles, such as establishing fair
4 and equitable rates.

5 If, for example, the Company considered a rate design that maximized only a
6 customer's incentive to conserve, then the Company would have proposed customer
7 charges set at the lowest possible level and energy kWh charges set at the highest
8 possible levels.

9 Such a rate design, however, would not be fair and equitable because there
10 would be a misalignment between a customer's rate and its underlying cost of service
11 due to inequities between low-use and high-use customers. Specifically, the
12 Company's COSS shows a residential customer cost of \$48.59 per month. To the
13 extent the residential customer charge is substantially less than the customer cost, as
14 would be the case if the rate design were to maximize a customer's incentive to
15 conserve, then the remaining amount would be recovered in energy kWh charges.
16 Consequently, recovery of customer costs would be transferred from the customer
17 charge to energy kWh charges, resulting in a shift in cost recovery from low-use
18 customers to high-use customers.

19 The Company's proposed increase in the customer charge helps address such
20 intra-class inequities between low-use and high-use customers.

21 **Q. Do increases in the customer charge yield more stable revenues and customer**
22 **bills?**

23 A. Yes. Increases in the customer charge yield more stable revenues and customer bills
24 since a higher portion of the customer bill does not change with changes in usage, such

1 as when weather is colder than normal in the winter months and warmer than normal
2 in the summer months.

3 **Q. Does the Company agree with Staff witness Poudel's recommendation to maintain**
4 **the current residential off-peak credit of \$0.02 per kWh?**

5 A. Yes. The Company believes the current credit is working well.

6 **Q. Does the Company agree with Staff witness Poudel's recommendation to increase**
7 **the residential energy charges on an equal basis to recover the revenue**
8 **requirement not recovered in the customer charge?**

9 A. No. The Company continues to support its proposed approach to recover in the head
10 block charge the customer costs not recovered in the customer charge. The proposed
11 approach reduces volatility in the Company's revenues and customer bills related to
12 changes in customer usage since head block usage represents the more inelastic portion
13 of the rate blocks — the portion that is less sensitive to changes in weather.

14 **Q. Does the Company agree with Staff witness Poudel's recommendation to modify**
15 **the definition of Tail Block Rate in Tariff Sheet No. 21C to reflect net fuel costs?**

16 A. Yes.

17 **V. COMPANY RESPONSE TO STAFF WITNESS GONZALES**

18 **Q. Does the Company agree with Staff witness Gonzales' recommendation to**
19 **separate the production allocator into two functions: (1) generation plants whose**
20 **costs vary with energy production and (2) generation plants whose costs do not**
21 **vary with energy production?**

22 A. No. The Company recommends the A&E 4-NCP allocator for the referenced two types
23 of generation plants: (1) those generation plants whose costs vary with energy

1 production and (2) those generation plants whose costs do not vary with energy
2 production.

3 Both types of generating plants are designed to meet demand and energy
4 requirements and the production demand allocator based on the A&E 4-NCP method
5 allocates costs based on customer demand and energy requirements.

6 Specifically, under the A&E 4-NCP method, average demands are weighted by
7 45.90 percent and excess demands are weighted by 54.10 percent. Thus, average
8 demands are substantially reflected in the production allocator under the A&E 4-NCP
9 method.

10 **Q. Does the Company agree with Staff witness Gonzales' recommendation to**
11 **increase non-residential charges on an equal basis to recover the revenue increase**
12 **for each rate class?**

13 A. In part. The Company agrees with Staff to increase non-residential charges for
14 certain rate classes based on an equal percentage increase. The Company notes,
15 however, the issues raised by MECG regarding alignment between demand charge
16 revenues and costs, as discussed further below.

17 **VI. COMPANY RESPONSE TO STAFF WITNESS LANGE**

18 **Q. Does the Company agree with Staff witness Lange's recommendation to allocate**
19 **the overall revenue increase to each rate class on an equal percentage basis?**

20 A. No. The Company continues to support its proposed approach to establish the revenue
21 targets for each rate class. The Company's approach was guided by several principles
22 commonly used throughout the industry, including: (a) rates should recover the overall
23 cost of providing service, (b) rates should be fair, minimizing inter- and intra-class
24 inequities to the extent possible, and (c) rates changes should be tempered by rate

1 continuity concerns. The Company's proposed approach to establish the class revenue
2 targets reflects a balance of the three principles.

3 By comparison, Staff's proposed approach to allocate the overall revenue
4 increase to each rate class on an equal percentage basis makes no movement toward
5 the cost-based rates determined in the Company's COSS.

6 **Q. Does the Company agree with Staff witness Lange's recommendation to apply**
7 **Staff witness Busch's Customer First disallowance to only the residential class?**

8 A. No. As an initial matter, the Company opposes Staff witness Busch's Customer First
9 disallowance, as discussed in other Company witnesses' rebuttal testimony.

10 Putting aside the Company's opposition to a Customer First disallowance, the
11 Company does not agree with Staff's proposed application of a Customer First
12 disallowance.

13 The Company believes that any such Customer First disallowance should be
14 reflected in the Company's COSS and allocated to each rate class in a manner
15 consistent with how the costs were allocated. Specifically, Customer First capital costs
16 were included in intangible utility plant (Accounts 301-303) and allocated to each rate
17 class based on the total plant allocator. Customer First expenses were included in
18 administrative and general expenses and allocated to each rate class based on labor.

19 Consequently, any disallowances related to Customer First capital costs should be
20 allocated to each rate class based on total plant, consistent with how capital costs are
21 allocated in the COSS. Furthermore, any disallowances related to Customer First
22 expenses should be allocated to each rate class based on labor, consistent with how the
23 expenses are allocated in the COSS.

1 **Q. Does the Company agree with Staff witness Lange’s alternative recommendation**
2 **that the COSS should be used as a guide to allocate the overall revenue increase?**

3 A. Yes. While the Company does not agree with Staff’s adjustments to the COSS –
4 namely, the changes in the classification of distribution plant and allocation of
5 production and distribution plant and administrative and general (“A&G”) expenses –
6 the Company does agree with Staff regarding utilization of the COSS as a guide for the
7 setting the class revenue targets and rate design.

8 **Q. Does the Company agree with Staff witness Lange’s proposed allocation of**
9 **substations related to wind production based on the Production 2 allocator?**

10 A. No. Distribution substations are designed to meet the demand requirements of
11 customers served from the substations; consequently, the Company believes substation
12 plant (Account 362) should be based on the 1-NCP allocator. The NARUC Manual
13 states in pertinent part:

14 Distribution facilities, from a design and operational perspective, are
15 installed primarily to meet localized area loads. Distribution substations
16 are design to meet the maximum load from the distribution feeders
17 emanating from the substation... Consequently, customer-class
18 noncoincident demands (NCPs) and individual customer maximum
19 demands are the load characteristics that are normally used to allocate
20 the demand component of distribution facilities.³⁰

21 **Q. Does the Company agree with Staff witness Lange’s proposal to allocate demand-**
22 **related distribution facilities based on 12-CP?**

23 A. No. Distribution facilities, such as poles and conductors, are designed to meet the
24 demand requirements of customers served from the distribution facilities. Thus, the
25 Company believes the demand portion of distribution facilities should be based on 1-
26 NCP. The NARUC Manual states:

³⁰ NARUC Manual, at p. 97.

...when designing primary and secondary distribution feeders, the distribution engineer ensures that sufficient conductor and transformer capacity is available to meet the customer's loads at the primary- and secondary-distribution service levels. Local area loads are the major factors in sizing distribution equipment. Consequently, customer-class noncoincident demands (NCPs) and individual customer maximum demands are the load characteristics that are normally used to allocate the demand component of distribution facilities.³¹

Q. What is the impact of allocating distribution facilities based on the 12-CP method?

A. The impact of changing allocation of distribution demand costs from the 1-NCP method to the 12-CP method is shown in Figure 3 (below).

Figure 3: Comparison of Distribution Demand Allocators

Rate Classes	Distribution 12-CP Class ROR	Filed Study Class ROR	Change
NS-TC RG	1.09%	1.33%	-0.23%
NS-TC GS	4.93%	5.16%	-0.23%
LG/SP	4.32%	3.24%	1.08%
LP	5.38%	6.21%	-0.83%
TS	1.83%	4.56%	-2.73%
MS	12.52%	14.11%	-1.59%
SPL	2.33%	1.64%	0.69%
PL	18.66%	15.16%	3.50%
LS	-4.83%	-5.38%	0.55%
System	2.75%	2.75%	0.00%

The Figure shows the residential (RG) class's rate of return ("ROR") of 1.09 percent using the 12-CP method to allocate distribution demand costs as compared to a ROR of 1.33 percent using the 1-NCP method in the filed COSS. The Figure also shows the Large General (LG) class's ROR of 4.32 percent using the 12-CP method to allocate distribution demand costs as compared to a ROR of 3.24 percent using the 1-NCP method in the filed COSS.

³¹ Id.

1 **Q. Does the Company agree with Staff witness Lange’s recommendation regarding**
2 **allocation of A&G expenses?**

3 A. In part. The Company agrees with Staff witness Lange’s recommendation to allocate
4 property taxes based on plant, employee benefit expenses based on labor, and income
5 taxes based on rate base. The approach is consistent with the Company’s COSS.

6 The Company does not oppose Staff witness Lange’s recommendation to
7 allocate the Commission assessment based on revenues, although the impact on class
8 RORs is negligible.

9 However, the Company opposes allocation of other A&G expenses based on
10 energy sales or revenues. The Company generally allocates other A&G expenses based
11 on labor or plant, consistent with the NARUC Manual.³² A&G expenses generally
12 vary based on labor or plant. For example, the NARUC Manual recognizes total plant
13 as a method to allocate property insurance expenses since property insurance expenses
14 vary based on total plant.³³

15 **Q. Does the Company agree with Staff witness Lange that the Optional Time of Use**
16 **rate plan should be eliminated?**

17 A. Yes. There are no customers currently served under the Optional Time of Use rate
18 plan, so it may easily be eliminated.

19 **Q. Does the Company agree with Staff witness Lange’s recommendation to utilize**
20 **CP demands rather than NCP demands for non-residential demand charges based**
21 **on the period 6:00 AM to 9:00 PM?**

³² NARUC manual, pp. 106-107.

³³ Id.

1 A. No. While the Company does not necessarily oppose evaluating a movement to non-
2 residential demand charges based on CP demands in the future, the Company does
3 oppose such a move in this rate proceeding. The proposed change requires careful
4 review and analysis of the Company's billing system to identify the requirements and
5 timeframe necessary to ensure an orderly transition to CP billing demands. The
6 Company is unable to commit to the timing of such an effort at this time given its
7 current focus on the challenges with the new billing system.

8 **Q. Has the Company performed the evaluation recommended by Staff witness Lange**
9 **as to whether the Company's billing system has the capabilities to assess charges**
10 **at different voltage levels?**

11 A. No. Similar to the Company's response regarding CP billing demands, while the
12 Company does not necessarily oppose evaluating a movement to charges at different
13 voltage levels in the future, such a change now requires careful review and analysis of
14 the Company's billing system to identify the requirements and timeframe necessary to
15 ensure an orderly transition to billing charges at different voltage levels. The Company
16 is unable to commit to the timing of such efforts at this time given its current focus on
17 the challenges with the new billing system.

18 **Q. Does the Company agree with Staff witness Lange's recommended rate design**
19 **changes for the Company's next rate case?**

20 A. Not at this time. The Company takes no position in this rate case regarding Staff
21 witness Lange's recommendations for rate design changes in the Company's next rate
22 case to implement reactive demand charges, align consistency of related charges across
23 voltages, phase out of hours use billing, and subdivision of winter billing into spring
24 and fall seasons.

1 Each recommendation requires the Company to prepare research and analysis,
2 including the objectives, rate design options, data requirements, and customer
3 implications.

4 **VII. COMPANY RESPONSE TO CCM WITNESS PALMER**

5 **Q. Does the Company agree with CCM witness Palmer's recommendation to adopt**
6 **the Basic Customer Method for classifying distribution costs?**

7 A. No. As stated earlier, there is a strong statistical relationship between number of
8 customers and miles of poles, as shown in Figure 2 (above).

9 CCM witness Palmer's concerns regarding the classification of distribution
10 costs based on the minimum system study was addressed hereinabove.

11 Similarly, CCM witness Palmer's concerns regarding load carrying capacity of
12 minimum system were also addressed earlier.

13 **Q. Does the Company agree with CCM witness Palmer's recommendation to classify**
14 **AMI meters as 50 percent customer, 25 percent demand, and 25 percent energy?**

15 A. No. As stated in my direct testimony, the classification step is designed to identify the
16 principle causes or drivers of costs related to the electric system.³⁴ The Company's
17 AMI meter costs do not vary based on changes in demand and energy; instead, the
18 Company's AMI meter costs vary based on changes in the number of customers.

19 While AMI meters might help facilitate benefits to the electric system, such as
20 reduction in peak demands through time-of-use rates, such benefits are not achieved
21 simply by installing AMI meters. Such benefits would likely require other actions,
22 such as changes in customer behavior.

³⁴ Direct Testimony of Timothy S. Lyons, p. 10.

1 **Q. Does the Company agree with CCM witness Palmer’s recommendation to allocate**
2 **the revenue requirement to each rate class based on a COSS that uses the Basic**
3 **Customer Method?**

4 A. No. As stated earlier, the Basic Customer Method understates residential customer
5 costs because it does include a portion of distribution plant (Accounts 364-368) and
6 expenses that vary based on the number of customers.

7 The Company’s classification study shows a portion of distribution plant
8 (Accounts 364-368) and expenses are customer-related based on the results of its
9 classification study utilizing both the minimum system and zero-intercept methods.

10 **Q. Does the Company agree with CCM witness Palmer’s recommendation to**
11 **maintain the current residential customer charge of \$13.00 per month and**
12 **increase the energy charges to reflect the increase in the residential revenue**
13 **requirement?**

14 A. No. As discussed earlier, the Company continues to support its proposed
15 customer charge of \$16.00 per month. The Basic Customer Method does not accurately
16 reflect residential customer costs since it does not include a portion of distribution plant
17 (364-368) and expenses that vary based on the number of customers.

18 **VIII. COMPANY RESPONSE TO MECG WITNESS MAINI**

19 **Q. Does the Company agree with MECG witness Maini’s recommendation to modify**
20 **the production demand allocator from A&E 8-NCP to A&E 4-NCP?**

21 A. Yes. As discussed earlier, the Company agrees with MECG witness Maini’s
22 recommendation to allocate production demand costs based on the A&E 4-NCP
23 method.

1 **Q. Does the Company agree with MECG witness Maini's recommended revenue**
2 **multipliers?**

3 A. No. The Company believes its proposal for a 10.00 percent movement to cost-based
4 rates strikes an appropriate balance between moving to cost-based rates (where each
5 rate class yields a rate of return that equals the system rate of return) and addressing
6 bill continuity considerations.

7 The Company's proposal addresses some of MECG's concerns. Under the
8 Company's proposal, rate classes whose current rates yield a rate of return lower than
9 the system rate of return should receive a higher rate increase than the system average.
10 In addition, rate classes whose current rates yield a rate of return higher than the system
11 rate of return should receive a lower rate increase than the system average.

12 **Q. Does the Company agree with MECG witness Maini's recommended rate changes**
13 **for Schedule NS LG?**

14 A. In part. The Company agrees with MECG witness Maini that the demand charges
15 recover less than demand-related costs. The Company recommends an increase in
16 demand charges by 1.25 times the overall class increase, with the remaining revenue
17 requirement not recovered in the demand charges recovered through a uniform
18 percentage increase in customer and kWh charges. The resulting rate design reflects a
19 4.00 percent movement to cost-based demand charges.

20 **Q. Does the Company agree with MECG witness Maini's recommended rate changes**
21 **for Schedule LP?**

22 A. In part. The Company agrees with MECG witness Maini that the demand charges
23 recover less than demand-related costs. The Company recommends an increase in
24 demand charges by 1.25 times the overall class increase, with the remaining revenue

1 requirement not recovered in the demand charges recovered through a uniform
2 percentage increase in the customer and kWh charges. The resulting rate design
3 reflects a 6.00 percent movement to cost-based demand charges.

4 **Q. Did the Company also consider an adjustment to the proposed demand charges**
5 **for Schedule SP?**

6 A. Yes. Similar to Schedules LG and LP, the Company recommends an increase in
7 demand charges by 1.25 the overall class increase, with the remaining revenue
8 requirement not recovered in the demand charges recovered through a uniform
9 percentage increase in the customer and kWh charges. The resulting rate design
10 reflects a 4.00 percent movement to cost-based demand charges.

11 **Q. Does the Company agree with MCEG witness Maini's recommended increase in**
12 **the interruptible credit for Schedule TS from \$4.01 per kW-month to \$6.00 per**
13 **kW-month?**

14 A. Yes. The Company is not opposed to MCEG witness Maini's recommendation to
15 increase the interruptible credit for Schedule TS from \$4.01 per kW-month to \$6.00
16 per kW-month. The increase is supported by the cost savings associated with such load
17 curtailments. Specifically, the load curtailments reduce the Company's SPP demand
18 requirements.

19 **Q. Does this conclude your rebuttal testimony at this time?**

A. Yes, it does.

VERIFICATION

I, Timothy S. Lyons, under penalty of perjury, on this 18th day of August 2025, declare that the foregoing is true and correct to the best of my knowledge and belief.

/s/ Timothy S. Lyons