REBUTTAL TESTIMONY

OF

MATTHEW J. BARNES

THE EMPIRE DISTRICT ELECTRIC COMPANY

FILE NO. ER-2011-0004

Q. Please state your name and business address?

A. My name is Matthew J. Barnes and my business address is Missouri Public Service Commission, P.O. Box 360, Jefferson City, MO 65102.

Q. What is your position at the Missouri Public Service Commission ("Commission")?

A. I am a Utility Regulatory Auditor IV in the Energy Resource Analysis Section of the Energy Department of the Utility Operations Division.

Q. Are you the same Matthew J. Barnes that contributed to Staff's Revenue Requirement Cost of Service Report ("COS Report") filed on February 23, 2011 and to Staff's Class Cost of Service Rate Design Report ("CCOS Report") filed March 16, 2011?

A. Yes, I am.

Q. What is the purpose of you rebuttal testimony?

A. The purpose of my rebuttal testimony is to address The Empire District Electric Company ("Empire" or "Company") witness Mr. Todd Tarter's Fuel Adjustment Clause ("FAC") direct testimony in which he requests that the base fuel and purchased power costs used to set permanent rates and used to set the base energy cost per kWh rates in the FAC remain the same in this case as those same costs approved in File No. ER-2010-0130. I provide rebuttal testimony concerning the need to rebase the fuel and purchased power costs in this case, changes in Empire's supply-side resources, changes in natural gas and coal prices, and base fuel and purchased power costs in this case.

Changes in Supply-Side Resources

Q. What are the most significant known changes in Empire's supply-side resources since Empire's last rate case?

A. Empire's purchased power contract for power from the Jeffrey Energy Center expired May 2010; the coal-fired Plum Point power plant was confirmed by the Commission to be in-service August 13, 2010; and in File No. ER-2010-0355, the in-service date for Iatan 2 was established to be August 26, 2010.

Q. Were these changes in supply-side resources reflected in Staff's fuel run model?

A. Yes.

Changes in Natural Gas and Coal Costs

Q. Have there been changes in Empire's natural gas prices since the last rate case?

A. Yes. Since Empire's last rate case, the market price of natural gas has declined. Input to Staff's fuel run model for the weighted average price of natural gas has decreased since the last rate case from $6.02 per MMBtu to $5.65 per MMBtu in this rate case, and this change in natural gas prices has been used in the fuel run model for the Staff's direct case.

Q. Have there been changes in Empire's coal prices since the last rate case?

A. Yes. Empire's average price of coal in the Company's long-term coal contracts has increased from $31 per delivered ton in the last rate case to $36 per delivered ton in this rate case.

Q. Can you summarize Empire's changes in natural gas costs and coal costs since the last rate case as a result of the Staff's fuel run model for this rate case?

A. Yes. Since the last rate case the decline in natural gas costs is greater than the increase in coal costs. The resulting net decrease in natural gas and coal costs is the primary reason for lower fuel and purchased power costs for Empire during the updated test year in this rate case.

The Need to Rebase Fuel and Purchased Power Costs in This Case

Q. What are fuel and purchased power costs, and how are these costs incorporated in Empires permanent rates and in Empire's FAC?

A. Fuel and purchased power costs are defined in Empire's FAC and are equal to fuel and purchased power costs plus net emissions allowance costs less off-system sales revenue. The FAC is designed to collect or refund 95% of the difference between the collection of fuel and purchased power costs through the Company's permanent rates and the fuel and purchase power costs actually incurred. To properly measure this difference, a fuel and purchased power costs must be analyzed and updated in each rate case, and then the same fuel and purchased power costs must be used in the establishment of permanent rates and in the establishment of the base energy costs per kWh rates for the FAC. The base energy costs per kWh rates appear in the BASE ENERGY section of Empire's FAC tariff sheets.

Q. What is Mr. Tarter's proposal for Empire's FAC?

A. Mr. Tarter recommends the Commission continue Empire's FAC as approved in its last rate case, File No. ER-2010-0130, without rebasing the fuel and purchased power costs. Mr. Tarter contends that after Empire's modeling the fuel and purchased power costs, the average cost basis is slightly higher than the fuel and purchased power costs developed by the Staff and agreed to by the parties in File No. ER-2010-0130. As a result of its fuel run, Empire elected not to rebase fuel and purchased power costs in this case (Tarter Direct, page 4, lines 9 through 15).

Q. Based on Staff's fuel run models in its direct case, what is the change in fuel and purchased power costs for this rate case compared to Staff's fuel run model used to set rates in Empires last rate case?

A. Staff's fuel and purchased power costs in Empire's last rate case totaled $161,379,523, and this amount was used in setting both the permanent rates and the base energy cost per kWh rates in the FAC in Empire's last rate case. Staff's fuel and purchased power costs in this rate case total $146,881,476~~55,022,756~~, which is $14,498,047~~6,356,767~~ or ~~49~~ percent less than the fuel and purchased power costs used to set rates in Empire's last rate case.

Q. Why did Empire's fuel and purchased power costs decrease by $14,498,047~~6,356,767~~?

A. Empire's fuel and purchased power costs decreased by $14,498,047~~6,356,767~~ mainly due to a decrease in natural gas prices and a decrease in total fuel related costs.

~~and the inclusion of approximately $2.2 million of Southwest Power Pool Administration credits that off-set fuel and purchased power costs~~.

Q. Does Empire's FAC eliminate the need to examine the fuel and purchased power costs in each rate case?

A. No. Each rate case requires an examination of all costs and revenues of Empire to include examination of the proper levels of fuel and purchased power costs in the Company's permanent rates and in the base energy cost per kWh rates for the FAC. In Staff's direct case, the base energy cost per kWh rate reflected on Staff's exemplar FAC tariff sheets is simply the fuel and purchased power costs divided by the weather normalized sales at the generation level in this rate case. Further, it is important to update fuel and purchased power costs in each rate case so that the best price signals are being sent to customers as soon as possible following the completion of the rate case.

Q. How do Empire's current FAC base energy cost per kWh rates compare to Staff's proposed FAC base energy cost rate for this case?

A. The following table illustrates the changes in Empire's base energy cost per kWh rates from the last rate case compared to Staff's proposed base energy cost per kWh rate proposed in the current rate case:

Current FAC Base Energy Cost		Staff Proposed FAC Base Energy Cost
Summer	Non-Summer	Accumulation Period Rate
$0.03182/kWh	$0.02857/kWh	0.0270602856/kWh

Summary and Recommendation

Q. Will Staff's true-up fuel run model take into account the changes in Empire's supply-side resources and changes in natural gas and coal prices discussed above? ~~as well as Southwest Power Pool Administration credits?~~

A. Yes.

Q. What is Staff's recommendation concerning fuel and purchased power costs?

A. Staff recommends the Commission rebase Empire's fuel and purchased power costs for use in establishing permanent rates and the base energy cost per kWh rate in this case consistent with Staff's true-up fuel run model, eliminate the summer and non-

summer base energy cost per kWh rates and approve a single base energy cost per kWh rate.

Q. Does this conclude your rebuttal testimony?

A. Yes it does.