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November 3, 2004

FILED

NOV 03 2004

Missouri Public
Service Commission

Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Public Service Commission
Governor's Office Building
Madison & E. Capitol
Jefferson City, MO 65101

RE: *In the Matter of Empire District Electric Company's Application for Authority to File Tariffs Increasing Electric Rates for the Service Provided to Customers*, Case No. ER-2004-0570

Dear Judge Roberts:

Enclosed for filing in the above-referenced case are the original and 8 copies of the rebuttal testimony of Anita Randolph, with affidavit, submitted on behalf of the Missouri Department of Natural Resources' Outreach and Assistance Center, Missouri Energy Center. Thank you for your attention to this matter.

Sincerely,

JEREMIAH W. (JAY) NIXON
Attorney General

Ronald Molteni
Assistant Attorney General

Enclosures

cc: All Parties on the Service List

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Missouri Public
Service Commission

Exhibit No.:

Issues:

Commitment to Provide Low or No
Cost Weatherization Assistance to
Empire District Electric Low-Income
Customers, Energy Efficiency Services
to Residential and Commercial
Customers and Wind Energy
Assessments.

Witness:

Sponsoring Party:

Anita C. Randolph
Missouri Department of Natural
Resources' Outreach and Assistance
Center, Missouri Energy Center

Type of Exhibit:

Case No.:

Rebuttal Testimony

ER-2004-0570

EMPIRE DISTRICT ELECTRIC COMPANY ELECTRIC RATE CASE

REBUTTAL TESTIMONY

OF

ANITA C. RANDOLPH

MISSOURI DEPARTMENT OF NATURAL RESOURCES

ENERGY CENTER

November 4, 2004

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

TESTIMONY OF

ANITA C. RANDOLPH

DIRECTOR

MISSOURI DEPARTMENT OF NATURAL RESOURCES

ENERGY CENTER

CASE NO. ER-2004-0570

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

2 A. My name is Anita C. Randolph. My business address is Missouri Department of Natural
3 Resources, Energy Center, 1659 East Elm Street, P.O. Box 176, Jefferson City, Missouri
4 65102-0176.

5 **Q. Have you previously filed testimony in this case?**

6 A. Yes. On September 17, 2004, I filed direct testimony in this case on behalf of the Missouri
7 Department of Natural Resources (hereinafter "MDNR").

8 **Q. On whose behalf are you presenting rebuttal testimony in this case?**

9 A. Like my direct testimony, I am testifying on behalf of the MDNR.

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

11 A. The purpose of my rebuttal testimony is to respond to the direct testimony of William L.
12 Gipson, President and Chief Executive Officer, Empire District Electric Company (hereafter
13 "Empire"), filed before the Public Service Commission by letter dated April 30, 2004.
14 Mr. Gipson's direct testimony presents the basis of Empire's request for a rate increase,
15 which includes "higher fuel costs". (Direct Testimony, William L. Gipson, page 4, line 15-
16 16)
17 Mr. Gipson notes that "Empire is operating in an increasingly complex and volatile industry
18 while responding to increased customer demands. Empire faces the need to make significant
19 capital investments over the next several years in order to continue to support our customers'
20 power demand and provide reliable, high-quality service." (Direct Testimony, William L.
21 Gipson, page 4, line 18-21)

1 The MDNR does not oppose Empire's effort to recover utility related expenses that have
2 been incurred in a responsible and prudent manner. However, Empire continues to address
3 current and future energy needs of their customers through "significant capital investments"
4 in the form of additional construction of fossil fueled power plants rather than examine
5 alternative electric generation resources and opportunities to reduce capacity needs through a
6 reduction in customer demand. Energy efficiency and wind energy resource development
7 may help Empire meet its customers' energy needs while providing a more diverse energy
8 resource base for the company.

9 **Q. Please elaborate on Empire's higher fuel costs.**

10 A. Mr. Gipson notes in direct testimony, "thirty percent of the energy during the test year was
11 generated from Empire's natural gas-fired units or purchased on the spot market. In recent
12 years, the wholesale natural gas market has seen a substantial increase in prices. While less
13 an issue during the last couple of years due to Empire's success in locking in low prices, the
14 current long-term trend in gas prices would create substantial credit pressure if left
15 unaddressed." (Direct Testimony, William L. Gipson, page 6, line 5-11)
16 Empire's reliance on natural gas-based electric generation has grown, resulting in higher
17 operating costs to the company and its customers. As of December 31, 2003, Empire
18 reported that Empire electric generation by natural gas was 704 MW or 55.7 percent of the
19 company's total intermediate/peaking capacity, nearly double that reported during the test
20 year. (Data Request, MDNR-24, Todd Tarter, Empire District Electric Company, August
21 10, 2004)
22 Mr. Gipson also references a July 2, 2002, comment by Standard & Poor's in which
23 Empire's "markedly increased dependence on natural gas" is noted. (Direct Testimony,

1 William L. Gipson, page 9, line 22) Should the commission grant rate relief to Empire to
2 address the rising expenses related to natural gas based electric generation through a fuel
3 adjustment or interim energy charge mechanism, the MDNR urges the commission to
4 require Empire to provide energy efficiency services to its customers and to examine
5 alternative energy resource development in Missouri to help address the rising cost of
6 electric utility service provided by the company.

7 **Q. Explain, generally, the proposed programs by MDNR and the need to be a part of this**
8 **rate case.**

9 A. The issues and the proposals offered by the MDNR clearly belong in this and future rate
10 cases. A rate case is an appropriate forum to present, discuss and implement energy
11 efficiency programs – the need for efficiency programs, the cost and benefits of efficiency
12 programs and the method of any cost recovery related to the implementation of these
13 programs.

14 As presented in direct testimony, the MDNR proposes specific energy programs designed to
15 reduce electric energy use by low-income residential, residential and commercial customers
16 and to assess the potential for wind energy resource development in Missouri. Electric
17 power generation continues to be the fastest-growing demand sector for gas. The
18 disproportionate use of natural gas for peak generation, combined with the typically low
19 efficiency of peaking units, shows that saving electricity, especially at peak times, is a key to
20 reducing natural gas consumption. So reducing electricity used for cooling, heating and
21 lighting as well as generating electricity from renewable sources helps take the pressure off
22 gas-fired electric generation.

23 These proposals included:

- 1 • The implementation of a low-income residential weatherization assistance program
- 2 designed and implemented with the assistance of community action agencies in Empire's
- 3 service territory (Missouri) and consistent with the federal Weatherization Assistance
- 4 Program administered in Missouri by the MDNR;
- 5 • Empire's participation in the U.S. Environmental Protection Agency and U.S.
- 6 Department of Energy's Energy Star program – Change A Light, Change the World
- 7 campaign;
- 8 • Empire's participation in a rebate program for its residential customers to encourage the
- 9 purchase and installation of high efficiency electric appliances and/or heating and cooling
- 10 equipment that have received the ENERGY STAR rating by the U.S Department of
- 11 Energy and the U.S. Environmental Protection Agency;
- 12 • The implementation of a commercial energy audit program, including incentives for
- 13 implementing energy-efficiency recommendations presented by the audit for electric
- 14 customers served by Empire; and,
- 15 • A wind energy assessment to facilitate the development of a more diverse set of energy
- 16 sources for electric generation by Empire in Missouri.

17 **Q. How will these programs help Empire customers?**

18 A. Customers that participate in utility-based energy efficiency programs benefit by reducing

19 their consumption of electricity, which helps shield customers from significantly higher

20 utility bills and reduce the likelihood of utility billing arrearages and late payments. These

21 benefits help the company and all customers by reducing costs related to bill collection and

22 bad debt and by helping delay or avoid the need for new capacity expansions, thereby

23 shielding customers from higher rates resulting from new capital investments in generation

1 plants. In addition, recent and ongoing studies are demonstrating that by modestly reducing
2 both natural gas and electricity consumption and increasing the installation of renewable
3 energy generation, wholesale natural gas prices and availability can be positively affected.

4 **Q. Does this conclude your testimony?**

5 A. Yes. Thank you.

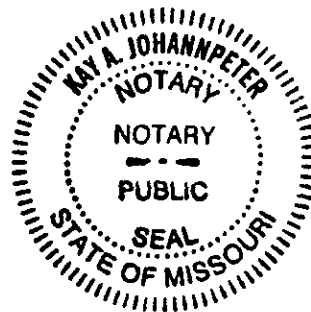
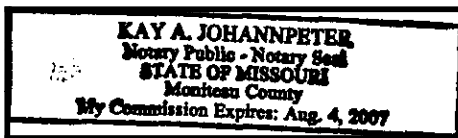
In the Matter of Empire District Electric)
Company and Its Tariff Filing to Implement) Case No. ER-2004-0570
A General Rate Increase for Electric Service)

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Anita Randolph

Kay A. Kampster

My commission expires:



Subscribed and sworn before me this, 2nd day of November, 2004.