

Exhibit No.:  
Issues: Rate Design  
Witness: Michael S. Scheperle  
Sponsoring Party: MO PSC Staff  
Type of Exhibit: Surrebuttal Testimony  
Case No.: ER-2014-0351  
Date Testimony Prepared: March 24, 2015

**MISSOURI PUBLIC SERVICE COMMISSION**

**REGULATORY REVIEW DIVISION**

**SURREBUTTAL TESTIMONY**

**OF**

**MICHAEL S. SCHEPERLE**

**THE EMPIRE DISTRICT ELECTRIC COMPANY**

**CASE NO. ER-2014-0351**

*Jefferson City, Missouri  
March 2015*

~~Staff~~ Exhibit No. 285  
Date 4-14-15 Reporter XF  
File No. ER-2014-0351



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**CASE NO. ER-2014-0351**

13 Q. Please state your name and business address.

14 A. My name is Michael S. Scheperle and my business address is Missouri Public  
15 Service Commission, P. O. Box 360, Jefferson City, Missouri 65102.

16 Q. Are you the same Michael S. Scheperle who filed, on February 11, 2015, direct  
17 testimony in question and answer format and as part of the Missouri Public Service  
18 Commission's Staff's ("Staff") Rate Design and Class Cost-of-Service Report ("CCOS  
19 Report")?

20 A. Yes.

21 Q. What is the purpose of your Surrebuttal testimony?

22 A. My testimony responds to Mr. H. Edwin Overcast rebuttal testimony on behalf  
23 of The Empire District Electric Company ("Empire") and the rebuttal testimony of Mr. David  
24 E. Dismukes on behalf of the Office of Public Counsel ("OPC") concerning rate design  
25 proposals.

**Response to Mr. Overcast**

26 Q. What is your understanding of the residential customer charge rate design  
27 increase proposal by Mr. Overcast on behalf of Empire?

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1           A.     Empire is proposing to increase the residential customer charge from \$12.52  
2 per month to \$18.75 per month, a 49.8% increase. Mr. Overcast states<sup>1</sup> that the issue of  
3 affordability is not significant, since the proposed customer charge increase is only \$0.20 per  
4 day. Mr. Overcast further states<sup>2</sup> that affordability should be addressed directly for only those  
5 customers who would require assistance in affording electric service. .

6           Q.     Does Staff support Empire's recommended customer charge increase?

7           A.     No. Staff believes the approximate 50% increase requested by Empire is  
8 significant for each of the 126,000 residential customers in Empire's territory especially when  
9 no additional kWh energy may be consumed or a customer is implementing energy efficiency  
10 measures. Currently, Empire has the highest residential customer charge<sup>3</sup> in the state for  
11 investor owned utilities (IOU's).

12          Q.     What is Staff's recommendation for the residential customer charge?

13          A.     Staff recommends that based on class cost-of-service ("CCOS") results and  
14 policy considerations, the residential customer charge be increased by the average increase for  
15 that class. Based on Staff's direct revenue requirement recommendation, the increase would  
16 be a modest 2.18% relative to the 49.8% increase as requested by Empire.

17          **Response to Mr. Dismukes**

18          Q.     Does Mr. Dismukes representing OPC agree with Staff's rate design  
19 recommendation?

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<sup>1</sup> Rebuttal testimony of Mr. Overcast, page 19.

<sup>2</sup> Rebuttal testimony of Mr. Overcast, page 20.

<sup>3</sup> Currently, Ameren Missouri residential customer charge is \$8.00, Kansas City Power & Light residential customer charge is \$9.00, KCP&L Greater Missouri Operations has two rate districts. MPS rate district residential customer charge is \$10.43 and the L&P rate district residential customer charge is \$9.54.

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1           A.     No. Mr. Dismukes believes<sup>4</sup> it is more appropriate to assign some increases to  
2 all classes when the utility is requesting an increase. This recommendation affects not only  
3 Staff's recommendation, but also specific overall rate design recommendations by other  
4 parties. Furthermore, Mr. Dismukes, recommends<sup>5</sup> that the Commission reject Midwest  
5 Energy Consumers Group's ("MECG") proposed revenue distribution as the residential class  
6 would see an increase of 18.6%, whereas Special Transmission class and Large Power class  
7 would experience a decrease of 7.7% and 1.3%, respectively.

8           Q.     Does Staff support Mr. Dismukes' recommendation that it is more appropriate  
9 to assign some increase to all classes when the utility is requesting an increase?

10          A.     No. In this case, based on Staff CCOS results, Staff recommends that the feed  
11 mill/grain elevator ("PFM") class and combined lighting classes receive no retail increase as  
12 existing revenues received from those classes are providing more revenue to Empire than  
13 Empire's cost to serve. These two customer classes are more than 18%<sup>6</sup> above Empire's cost  
14 (investment and expenses) to serve them and should receive no increase in this case. Staff  
15 does support the concept that as class revenues move towards class cost of service, that no  
16 class receive an overall reduction in its rate revenues while another class receives an overall  
17 increase in its rate revenues on a total company basis.

18          Q.     Do you agree with Mr. Dismukes' statement that the Commission reject  
19 MECG's proposed revenue distribution as the residential class would see an increase of  
20 18.6%, while the Special Transmission class and Large Power class would experience a  
21 decrease of 7.7% and 1.3% respectively?

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<sup>4</sup> Rebuttal Testimony of David E. Dismukes, page 7.

<sup>5</sup> Rebuttal Testimony of David. E. Dismukes, page 8.

<sup>6</sup> Staff Rate Design and CCOS Report, page 6.

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1           A.     Yes. Mr. Dismukes is correct that under MECG's recommendation over \$37  
2 million in revenue will be shifted to the Residential class before including any other revenue  
3 increase in this proceeding. Mr. Dismukes is correct that the residential class would see an  
4 increase of 18.6% under the first step and this leads to the possibility of rate shock. Staff does  
5 support the concept that as class revenues move towards class cost of service, that no class  
6 receive an overall reduction in its rate revenues while another class receives an overall  
7 increase in its rate revenues on a total company basis.

8           Q.     Have you calculated and summarized the different class recommendations by  
9 each party?

10          A.     Yes, based on Staff's understanding. This calculation is summarized on  
11 Schedule MSS-S1.

12          Q.     Please discuss Schedule MSS-S1.

13          A.     Schedule MSS-S1 is Staff's understanding of class revenue recommendations  
14 in this case. It details the different parties<sup>7</sup> recommendations for each class of customer.  
15 Schedule MSS-S1 is segregated by Empire rate classes for (1) Staff rate design, (2) Empire  
16 rate design, (3) OPC rate design, (4) MECG rate design, and (5) Staff CCOS results.

17          Column 1 is a listing of Empire rate classes. Column 2 is Staff's rate design<sup>8</sup>  
18 recommendation based on Staff's Direct Testimony. This incorporates Staff's  
19 recommendation for each class based on an overall 1.39% increase. These percentages detail  
20 Staff's five-step process incorporating revenue neutral adjustments, pre-MEEIA adjustments,

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<sup>7</sup> Rate Design recommendations were submitted by Empire, Staff, OPC and MECG by class of customers. Other recommendations deal with intra-class class revenue requirements and specific rate concerns.

<sup>8</sup> Based on a five-step process of (1) revenue neutral adjustments, (2) pre-MEEIA allocation, (3) Retail portion allocation, and (4) retail rate component increases.



1 and the retail portion of the increase. These revenue neutral adjustments bring each class  
2 closer to their CCOS study results with no class receiving a decrease.

3 Column 2 is Empire's rate design by class based on its overall requested increase of  
4 5.45%. Empire's adjustments reflect its recommendations with no class receiving a decrease.

5 Column 3 is OPC's rate design recommendations by class with footnote C describing  
6 its class allocations. This is Staff's understanding of OPC's recommendation by class.

7 Column 4 is Staff's understanding of MCEG's rate design recommendations by class  
8 which show the change in revenue needed. This does not include the overall change in  
9 revenue requirements that may be authorized by the Commission in this case.

10 Column 5 is a summary of Staff's CCOS results based on its CCOS study. These  
11 percentages have varied slightly as updated and true-up amounts were received from Staff  
12 accountants and auditors and revised in rebuttal and surrebuttal testimony.

13 Q. Please review Staff's rate design recommendation in this case.

14 A. Staff recommends that the allocation of any rate increase for Empire will be  
15 accomplished with a five-step process:

- 16 1. Based on CCOS results, Staff recommends to increase/decrease the current base retail  
17 revenue on a revenue-neutral basis to various classes of customers. Specifically, Staff  
18 recommends the RG class receive a positive 0.75% adjustment; and the TEB, GP, and  
19 LP classes of customers receive a negative adjustment of approximately 0.85%.
- 20 2. Staff directly assigns to applicable customer classes the portion of the revenue  
21 increase/decrease that is attributable to energy efficiency ("EE") programs from Pre-  
22 MEEIA ("Missouri Energy Efficiency Investment Act") program costs.
- 23 24  
25 3. Staff determined the amount of revenue increase awarded to Empire not associated  
26 with the EE revenue from Pre-MEEIA revenue requirement assigned in Step 2, by  
27 subtracting the total amount in Step 2 from the total increase awarded to Empire. Staff  
28 recommends allocating this amount to various customer classes as an equal percent of  
29 current base revenues after making the adjustment in Step 1. Based on CCOS results,  
30 Staff recommends that the PFM and combined lighting classes receive no retail

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1 increase as existing revenues received from these classes are providing more revenue  
2 to Empire than Empire's cost to serve.

- 3  
4 4. Staff recommends that each rate component of each class be increased across-the-  
5 board for each class on an equal percentage basis after consideration of steps 1  
6 through 3 above. Included in this recommendation, Staff recommends that, based on  
7 CCOS results and policy considerations, the residential and all customer charges be  
8 increased by the system average increase for each applicable class.  
9  
10 5. Adopt Rider Fuel and Purchased Power Adjustment Clause ("FAC") tariff sheets  
11 consistent with Staff testimony.  
12

13 Q. Does this conclude your surrebuttal testimony?

14 A. Yes, it does.



Missouri Public Service Commission  
Case No. ER-2014-0351  
Rate Design Recommendations

| (1)                                    | (2)                      | (3)                       | (4)                          | (5)  | (6)                         |
|--|--------------------------|---------------------------|------------------------------|--|-----------------------------|
| Rate Classes                           | Staff<br>Rate Design (A) | Empire<br>Rate Design (B) | OPC<br>Rate Design (C)       | MECG<br>Revenue Neutral<br>Rate Design (D) | Staff<br>CCOS (E)           |
| Residential (RG)                       | 2.18%                    | 7.65%                     | System Average<br>times 1.10 | 18.60%                                     | 10.37%                      |
| Commercial Building (CB)               | 1.41%                    | 6.89%                     |                              | -2.00%                                     | -1.91%                      |
| Small Heating (SH)                     | 1.42%                    | 6.97%                     |                              | -0.09%                                     | -0.02%                      |
| Total Electric Building (TEB)          | 0.57%                    | 1.36%                     |                              | -19.30%                                    | -4.54%                      |
| General Power (GP)                     | 0.57%                    | 1.36%                     |                              | -33.10%                                    | -7.24%                      |
| Large Power (LP)                       | 0.55%                    | 5.79%                     | System Average<br>times 1.10 | -1.30%                                     | -8.84%                      |
| Special Transmission (SC-P)            | 1.31%                    | 1.39%                     | System Average<br>times 1.10 | -7.70%                                     | 3.62%                       |
| Feed Mill and Grain Elevator (PFM)     | 0.07%                    | 1.35%                     |                              | -23.20%                                    | -37.50%                     |
| Miscellaneous Services (MS) - lighting | 0.00%                    | 0.00%                     | System Average<br>times 1.10 | 50.60%                                     | Combined lighting<br>18.43% |
| Street Lights (SPL)                    | 0.00%                    | 0.00%                     | System Average<br>times 1.10 | 29.30%                                     | Combined lighting<br>18.43% |
| Private Lights (PL)                    | 0.00%                    | 0.00%                     |                              | -61.20%                                    | Combined lighting<br>18.43% |
| Special Lights (LS)                    | 0.00%                    | 0.00%                     | System Average<br>times 1.10 | 335.10%                                    | Combined lighting<br>18.43% |
| Total                                  | 1.39%                    | 5.45%                     | See Footnote (C)             | See Footnote (D)                           | 1.39%                       |

|  |
|--|
| (A) Based on Staff Direct Revenue Requirement (Staff Rate Design and CCOS Report, Schedule BIF-D1)   |
| (B) Empire Direct Testimony. Scott Keith Direct Testimony - page 14.   |
| (C) Revenue responsibility allocated using a two-step methodology. In the first step, the under-earning classes receive 1.10 times the system average increase. In the second step, any remaining revenue deficiency is allocated to the other rate classes in relation to their current test year revenues. According to Staff's understanding, this means the RG class, SC-P class, LP class, and SPL class would receive 1.10 times the system average increase.  |
| (D) Direct Testimony of Kavita Maini. In order to have equity amongst classes, I recommend that adjustments first be made on a revenue neutral basis such that the relative rates of return of each class are 1.00. using this approach, I recommend that adjustments first be made on a revenue neutral basis of a decrease of 7.7% to the SC-P class and a 1.3% decrease to the LP class. After making these recommended revenue neutral adjustments at present rates, any overall change in revenue requirements can be applied across the board to the classes on an equal percentage basis. Also, an adjustment for Pre-MEEIA are excluded from increase to retail portion. |
| (E) Based On Staff Rate Design and CCOS Report. For rate design and CCOS purposes, Staff treated interruptible customers as firm in terms of capacity and revenue. This is consistent with past practice in prior Empire rate cases and with Empire's operational history of only calling for very limited interruptions in previous years. (Staff Rate Design and CCOS Report, page 5).   |