Exhibit No.:
Issues: SPP Tracker, Economic Development Rider, Rate Case Expense, Tornado AAO Cost Recovery, Residential Lighting, Tariff Changes-Low Income, and True-up
Witness: W. Scott Keith
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Empire District Electric
Case No. ER-2012-0345
Date Testimony Prepared: February 2013

Before the Public Service Commission

of the State of Missouri

Surrebuttal Testimony

of

W. Scott Keith

February 2013

SERVICES YOU COUNT ON

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THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2012-0345

SURREBUTTAL TESTIMONY
OF
W. SCOTT KEITH
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INTRODUCTION

Q. STATE YOUR NAME AND ADDRESS PLEASE.

A. My name is W. Scott Keith and my business address is 602 South Joplin Avenue, Joplin, Missouri.

POSITION

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by The Empire District Electric Company ("Empire" or "the Company") as the Director of Planning and Regulatory. I have held this position since August 1, 2005.

Q. ARE YOU THE SAME W. SCOTT KEITH THAT EARLIER PREPARED AND FILED DIRECT, REBUTTAL AND SUPPLEMENTAL REBUTTAL TESTIMONY IN THIS RATE CASE BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION ("COMMISSION") ON BEHALF OF EMPIRE?

A. Yes.

PURPOSE

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. My surrebuttal testimony will address several issues related to the Empire rate case brought forth by the Commission Staff ("Staff"), the Missouri Department of

Natural Resources ("MDNR") and the Office of the Public Counsel ("OPC") in this rate case through their rebuttal testimonies. More specifically, my surrebuttal testimony will address the following:

- The SPP tracker positions taken by Staff and OPC;
- The Staff's recommendation related to the treatment of Economic Development Rider discounts in future rate cases;
- The Staff's and OPC's proposals concerning rate case expenses;
- The Staff's proposed changes in Empire's Low Income Weatherization tariff;
- The Staff's True-up proposal as it relates to the cost of vegetation management, remediation and ongoing operation and maintenance expense;
- The OPC's position with respect to the recovery of deferred Tornado AAO costs; and
- The MDNR's comments regarding the residential lighting program included in Empire's 2012 MEEIA filing.

<u>SPP TRACKER MECHANISM</u>

Q. HAS EMPIRE MODIFIED ITS POSITION WITH RESPECT TO THE RECOVERY OF TRANSMISSION COSTS, INCLUDING SPP CHARGES, IN THIS CASE?

A. Yes. The Staff's initial filing in this case recommended several modifications to Empire's Fuel Adjustment Clause ("FAC") to make it more consistent with the FACs used by other electric utilities in Missouri, including the addition of a transmission cost component to Empire's FAC. As I mentioned in my rebuttal testimony, the change in transmission cost recovery would make Empire's FAC more consistent with the Ameren FAC, which includes the recovery of MISO transmission charges, and would enable Empire to reflect the changes in SPP's transmission charges in its FAC. If SPP transmission costs are included as a cost component in Empire's FAC, Empire's request for an SPP cost tracker would be withdrawn.

Q. IF EMPIRE'S FAC IS NOT MODIFIED TO INCLUDE SPP TRANSMISSION COST RECOVERY, WOULD EMPIRE RENEW ITS REQUEST FOR THE SPP COST TRACKING MECHANISM?

A. Yes. If SPP transmission costs are not included as a component of Empire's FAC in this case, Empire would renew its request for a cost tracking mechanism. The implementation of a cost tracking mechanism for these costs, which are substantial and uncertain, would not be unusual or unprecedented in Missouri, the tracker would protect both Empire and Empire's customers from an under or over recovery of SPP transmission charges, and could reduce the number and frequency of future rate cases for Empire.

Q. PLEASE DESCRIBE THE STAFF'S AND OPC'S POSITIONS ON THE SPP TRACKER MECHANISM PROPOSED BY EMPIRE IN ITS INITIAL FILING.

A. The Staff and OPC are opposed to the implementation of the SPP tracker for Empire.

Q. ARE THE SPP TRANSMISSION COSTS EMPIRE INCURS FINANCIALLY SIGNIFICANT?

A. Yes. During the test year, SPP, through its various FERC approved rates, charged

Empire around $3.5 million for Schedule 1a and Schedule 11 services. The charges for these components of SPP services increased to an annual level of $5.2 million by the end of 2012, and they are currently projected to increase to over $8 million per year by 2013 and to over $12 million per year by 2014. These charges already are financially significant to Empire, and the cost of these two SPP services is forecast to increase over 300 percent in the next two years.

Q. DOES STAFF WITNESS OLIGSCHLAEGER RECOMMEND A SERIES OF CONDITIONS BE IMPOSED UPON EMPIRE IN THE EVENT THAT THE COMMISSION APPROVES EMPIRE'S REQUEST FOR THE SPP COST TRACKER?

A. Yes. Beginning at page 7 line 15, Mr. Oligschlaeger recommends the Commission specify six conditions on Empire's SPP cost tracker.

Q. PLEASE DESCRIBE THE CONDITIONS RECOMMENDED BY WITNESS OLIGSCHLAEGER.

A. It is my understanding that the conditions recommended by Mr. Oligschlaeger, at pages 7 and 8 of his rebuttal testimony, are:

1. Empire's SPP tracker include both SPP expense and SPP revenue;
2. Empire must provide all parties to this case copies of the monthly SPP billing to Empire –
    a. Including monthly copies of Empire's general ledger accounting for the charges and revenue on a subaccount basis;
    b. Including copies of any internal reports used to manage Empire's ongoing transmission expense and revenue;

3. All ratemaking considerations regarding transmission revenue and expense amounts deferred by Empire pursuant to the tracker are to be reserved to Empire's next rate case, including examination of the prudence of the revenues and expenses;
4. Empire must include in its SPP tracker the level of transmission revenues earned by any transmission company affiliate related to facilities in Empire's service territory;
5. That nothing in any order authorizing Empire's use of a transmission tracker is intended to amend, modify, alter, or supersede any previous Commission order or agreement concerning Empire's involvement in SPP or treatment of SPP transmission revenue; and,
6. That deferrals under the SPP tracker cease depending upon Empire's reported return on equity –
    a. Cost deferral would cease if Empire's reported 12-month rolling return on equity equal or exceed the rate of return on equity authorized by the Commission;
    b. Once cost deferral under the SPP tracker ceases, it could only be resume on a prospective basis if Empire's reported 12-month rate of return on equity dips below the rate of return on equity authorized by the Commission.

Q. HOW DO YOU RESPOND TO MR. OLIGSCHLAEGER'S RECOMMENDATION TO INCLUDE SPP REVENUE IN THE SPP COST TRACKER?

A. Empire is not opposed to including Empire's allocated share of SPP point-to-point revenue or Empire's regional revenue as components of any SPP cost tracker authorized by the Commission.

Q. IS EMPIRE OPPOSED TO THE MONTHLY REPORTING CONDITION SPECIFIED BY MR. OLIGSCHLAEGER?

A. No. Empire would agree to report its SPP transmission revenue and expense on a monthly basis, including any internal reports related to SPP issues, if the Commission approves the use of an SPP cost tracking mechanism.

Q. IS EMPIRE OPPOSED TO AN AUDIT AND REVIEW OF THE COSTS DEFERRED IN THE SPP TRACKER IN ITS NEXT RATE CASE?

A. No.

Q. IS EMPIRE OPPOSED TO THE IMPUTATION AND INCLUSION OF THE TRANSMISSION REVENUE EARNED BY A TRANSMISSION AFFILIATE IN EMPIRE'S SPP COST TRACKING MECHANISM AS SET OUT AT PAGE 8 OF MR. OLIGSCHLAEGER'S REBUTTAL TESTIMONY?

A. Empire does not have a transmission affiliate at this time, so the condition Mr. Oligschlaeger's recommends has no impact on Empire. However, given the vagueness of Mr. Oligschlaeger's recommendation, it appears to be unworkable and contains major jurisdictional questions that Empire cannot agree with at this time.

Q. PLEASE DESCRIBE THE JURISDICTIONAL CONFLICTS ASSOCIATED WITH MR. OLIGSCHLAGER'S TRANSMISSION AFFILIATE RECOMMENDATION.

A. The Federal Energy Regulatory Commission ("FERC") has jurisdiction over the revenue requirement established in connection with the construction of transmission facilities by a transmission affiliate, not the Commission. Mr. Oligschlaeger's recommendation appears to conflict with this regulatory reality.

Q. ARE THERE OTHER AREAS OF CONCERN ASSOCIATED WITH MR. OLIGSCHLAEGER'S RECOMMENDED TRANSMISSION AFFILIATE CONDITION?

A. Yes. It is unclear what methodology Mr. Oligschlaeger is recommending be used to satisfy this condition. For example, how would the revenue requirement be established and how would this hypothetical Commission revenue requirement be reconciled with the actual revenue requirement established by the FERC and the rates approved to recover that revenue requirement? Mr. Oligschlaeger's recommendation is too vague in this area, and Empire cannot agree with it at this time.

Q. IS EMPIRE OPPOSED TO MR. OLIGSCHLAEGER'S RECOMMENDATION THAT THE COMMISSION'S ORDER ON EMPIRE'S REQUEST FOR AN SPP COST TRACKER NOT BE USED TO MODIFY THE PREVIOUS COMMISSION ORDER ON EMPIRE'S INVOLVEMENT IN THE SPP?

A. Generally, Empire is not opposed to this condition. However, Mr. Oligschlaeger's recommended condition contains language that refers to previous Commission orders related to the treatment of SPP transmission revenue. I am not aware of any previous Commission orders that pertain to Empire and the treatment of SPP revenue. If there has been a Commission order involving Empire's SPP revenue, Empire would need to review the order to determine if the Commission's order authorizing an SPP cost tracker has any impact on it before it could absolutely agree with this condition.

Q. IS EMPIRE OPPOSED TO MR. OLIGSCHLAEGER'S RECOMMENDATION CONCERNING THE LIMITATION OF SPP COST DEFERRALS WHEN EMPIRE'S ACTUAL EARNED RATE OF RETURN EQUALS OR EXCEEDS THE RATE OF RETURN AUTHORIZED BY THE COMMISSION IN THIS CASE?

A. No. In a general sense, Empire does not oppose this condition. However, since Empire's periodic reporting under the FAC rule reflects Empire's actual earnings, a more precise definition of this condition should be outlined so there is no confusion concerning the calculation and what Empire would be agreeing to do.

Q. DOES STAFF WITNESS BECK OPPOSE EMPIRE'S SPP COST TRACKER REQUEST?

A. Yes.

Q. WHY?

A. It is unclear. His testimony at page 3 implies that the delay or cancelation of multiple Notices to Construct ("NTC") in the Joplin area may lower future SPP charges to Empire. In addition, like Staff witness Oligschlaeger, Staff witness Beck recommends that if the Commission grants Empires request for an SPP tracker, that the SPP revenues that Empire receives also be included in the SPP cost tracker.

Q. WHAT IS YOUR RESPONSE?

A. Any delay in the construction of transmission facilities in the vicinity of Joplin will have very little impact on the overall rates that SPP charges Empire. The construction of transmission facilities in the vicinity of Joplin is not a significant factor driving increased transmission costs in the SPP. For example, SPP's members are scheduled to add around $6.7 billion in new transmission facilities during the next construction phase. By contrast, it is my understanding that the NTCs that have been recommended for withdrawal only involve around $81 million in transmission investment. If anything, Mr. Beck's remarks concerning future SPP transmission charges and how the withdrawal of projects influences future SPP transmission rates supports Empire's position that the exact level of SPP's transmission charges cannot be forecast with a high degree of certainty, supporting the need for the implementation of a cost tracker. As I mentioned earlier in response to the SPP tracker conditions recommended by Mr. Oligschlaeger, Empire is not opposed to including the SPP revenue it earns on SPP point-to-point service and SPP regional projects in the SPP cost tracker as an offset to SPP transmission charges.

Q. WHAT IS OPC WITNESS ROBERTSON'S RECOMMENDATION REGARDING THE SPP COST TRACKER?

A. Mr. Robertson is opposed to Empire's request for a SPP cost tracking mechanism.

Q. WHAT SUPPORT DOES MR. ROBERTSON OFFER FOR THIS POSITION?

A. He simply refers to the Commission's recent orders in Case No. ER-2012-0174 and

Case No. ER-2012-0175.

Q. WHAT IS YOUR RESPONSE?

A. The Commission has employed various forms of cost tracking in the past to address cost recovery issues associated with specific cost components that are financially significant and whose normalized cost levels cannot be forecast with certainty. These cost characteristics seem to fit the circumstances Empire faces with respect to SPP transmission charges.

ECONOMIC DEVELOPMENT RIDER

Q. WHAT IS THE STAFF RECOMMENDATION WITH RESPECT TO EMPIRE'S REQUEST TO IMPLEMENT AN ECONOMIC DEVELOPMENT RIDER?

A. Staff witness Tom Imhoff recommends at page 2, lines 16 through 20, of his rebuttal testimony that the Economic Development Rider ("EDR") tariff sheet be modified to make it clear that any discounts granted to customers under the EDR will not be paid for by other non-participating customers. In addition, Mr. Imhoff, at that same point in his rebuttal testimony, recommends that in future rate cases the revenue from participating EDR customers be adjusted – in this case, increased– to eliminate any discounts granted from the full tariff rate as a result of the EDR. This adjustment process will eliminate the recovery of EDR discounts from other Empire customers.

Q. WHAT IS EMPIRE'S RESPONSE TO MR. IMHOFF'S RECOMMENDATION ON EDR DISCOUNTS IN FUTURE RATE CASES?

A. Empire can agree with Mr. Imhoff's recommendation in this area. In future cases, Empire would be willing to adjust its revenue for rate case purposes to eliminate the impact of any EDR discounts.

RATE CASE EXPENSE

Q. DO YOU AGREE WITH THE STAFF AND OPC RECOMMENDATIONS CONCERNING THE RECOVERY OF EMPIRE'S RATE CASE COSTS?

A. No.

Q. WHY DOES THE STAFF RECOMMEND ELIMINATING THE COST ASSOCIATED WITH EMPIRE'S PRIOR RATE CASE?

A. Staff recommends eliminating the amortization of prior rate case costs from Empire's cost of service and revenue requirement in this case. To support this position, Staff witness Kimberly Bolin cited three factors at page 5 of her rebuttal testimony:

- The Staff did not recommend an amortization period for the rate case expenses Empire incurred in connection with Case No. ER-2011-0004;
- The Commission did not specify an amortization period for Empire's rate case expenses in its order on Case No. ER-2011-0004; and
- The settlement agreement reached between the parties in Case No. ER-2011-0004 did not specify an amortization period for rate case expense.

Q. WHAT IS THE BASIS OF THE OPC'S ELIMINATION OF PRIOR RATE CASE COSTS FROM EMPIRE'S REVENUE REQUIREMENT IN THIS CASE?

A. OPC witness Keri Roth does not specifically indicate why the OPC has excluded the cost of Empire's prior rate case from the revenue requirement in her rebuttal testimony.

Q. WHAT IS YOUR RESPONSE TO THE STAFF ELIMINATION OF EMPIRE'S UNAMORTIZED RATE CASE COST FROM EMPIRE'S REVENUE REQUIREMENT IN THIS CASE?

A. First, I disagree with witness Bolin's statement that Staff did not recommend an amortization period for Empire's rate case expense in Case No. ER-2011-0004. In ER-2011-0004, Staff specifically recommended a four-year amortization period for rate case expenses (see the Staff Cost of Service Report at page 72, lines 28 and 29 in ER-2011-0004). This was the same rate case expense amortization period recommended by Empire and OPC in Case No. ER-2011-0004. Each of the parties presenting testimony and exhibits on this issue in the current case previously recommended amortizing Empire's prudent rate case costs over four years.

Q. WAS THERE A DISPUTE OVER THE RATE CASE EXPENSE AMORTIZATION PERIOD IN CASE NO. ER-2011-0004?

A. No. All of the parties presenting views on this issue recommended that rate case expenses were to be amortized over four years. The overall level of rate case expenses may have been an issue between the various parties, but there was a consensus between Empire, Staff and OPC concerning the period of time over which rate case expenses were to be amortized. It was four years.

Q. WAS THE RATE CASE EXPENSE AMORITIZATION PERIOD SPECIFIED AS PART OF THE SETTLEMENT AGREEMENT REACHED IN CASE NO. ER-2011-0004?

A. No. Since there was no dispute between the parties concerning the rate case expense amortization period, nothing was specified in the agreement.

Q. DID THE COMMISSION'S ORDER APPROVING THE SETTLEMENT IN CASE NO. ER-2011-0004 SPECIFY THE RATE CASE EXPENSE AMORTIZATION PERIOD?

A. No.

Q. WHAT IS EMPIRE'S POSITION ON THE RECOVERY OF THE UNAMORTIZED BALANCE OF RATE CASE COSTS FROM CASE NO. ER-2011-0004?

A. The unamortized balance of rate case costs associated with Case No. ER-2011-0004 should be included as a component of rate case expense in this case and amortized over two years. I recommend that the unamortized balance at December 31, 2012 be used as a component of overall rate case costs in the current case and that all rate case costs be amortized over twenty-four months. This approach will also annualize rate case costs for purposes of this case and give Empire an opportunity to recover the rate case expenses it has incurred.

Q. WHY USE TWENTY FOUR MONTHS?

A. Based upon the early 2015 in service date of the environmental improvements at Empire's Asbury unit, the rates coming out of this case will only be in place around two years.

<u>LOW INCOME WEATHERIZATION</u>

Q. PLEASE DESCRIBE THE STAFF'S RECOMMENDED WORDING CHANGES IN EMPIRE'S LOW INCOME WEATHERIZATION TARIFF.

A. Staff witness Dr. Henry Warren attached a "redline" version of recommended changes as Schedule HEW-1 to his rebuttal testimony. Dr. Warren's major changes involve removing the references to the average and maximum expenditures per customer that exist in the current Empire tariff, and Dr. Warren recommends the elimination of the existing term of the tariff of five years.

Q. HOW DO YOU RESPOND?

A. Empire agrees with Dr. Warren's recommendation to eliminate the references to average and maximum expenditures per customer under the program. We disagree with Dr. Warren's complete elimination of the program's term. In addition, we disagree with some of the other wording changes proposed by Dr. Warren in the first paragraph of the Low Income Weatherization tariff. I have attached a redline and clean version of the Low Income Weatherization tariff that includes Empire's recommended Low Income Weatherization wording changes as Surrebuttal Schedule WSK-1.

Q. PLEASE DESCRIBE EMPIRE'S RECOMMENDED WORDING CHANGES TO THE FIRST PARAGRAPH OF THE LOW INCOME WEATHERIZATON TARIFF.

A. As indicated on Surrebuttal Schedule WSK-1, Empire is recommending elimination of the reference to the advisory group.

Q. WHY?

A. The advisory group does not have the voting powers that the previous collaborative group had, and Dr. Warren's recommended revisions to paragraph 1 indicate that the current advisory group has the same power as the previous collaborative, which is not accurate.

Q. DOES THE DEMAND-SIDE ADVISORY GROUP HAVE APPROVAL POWER?

A. No. It functions as an advisory group with no voting rights or power of approval. Therefore, the references to the advisory group in the first paragraph should be eliminated. In the very least, Dr. Warren's recommended wording should be revised to eliminate any reference to the power of approval.

Q. PLEASE DESCRIBE THE OTHER MAJOR DIFFERENCE BETWEEN EMPIRE'S RECOMMENDED TARIFF WORDING AND THE TARIFF WORDING RECOMMENDED BY STAFF.

A. Empire recommends that the Low Income Weatherization tariff have a term of four years. This represents a decrease from the five year term in the existing Low Income Weatherization tariff. Empire's recommended four-year term is compatible with the periodic filing requirements in the Commission's integrated resource planning and demand-side management rules. Dr. Warren's recommended wording eliminated any reference to the life of the program. An unlimited program term is at odds with the Commission's rule governing the periodic filings of integrated resource plans and energy efficiency.

<u>TRUE-UP</u>

Q. PLEASE DESCRIBE THE STAFF POSITION ON TRUE-UP.

A. Staff witness Kimberly Bolin does not agree with Empire's recommendation that the true-up process in this case include operation and maintenance expenses associated with Empire's investment in new operating systems, vegetation management, and the amortization of the Riverton depreciation reserve deficiency.

Q. DO YOU AGREE?

A. Only as to one item. There is no reason to exclude the latest information available on operation and maintenance on Empire new systems from the true-up process. The Staff case updated some of Empire's financial information through June 30, 2012, and there is no reason to exclude the latest financial information available with respect to the new operating systems. Similarly, the true-up process should include the latest financial information associated with vegetation management costs so that the level of vegetation cost amortization included in Empire's rate is based upon information through the true-up period. The Riverton reserve deficiency is an issue in this case, and if the Commission finds that reserve deficiency amortization is required it should be included in Empire's revenue requirement. I would agree with Ms. Bolin that the Riverton depreciation reserve issue in not a true-up issue, but a typical rate case issue.

Q. COULD THE TRUE-UP PROCESS BE USED TO CORRECT ERRORS THAT SURFACE?

A. Yes. For example, Empire has become aware of a potential correction to the Staff's adjustment related to the normalization of operation and maintenance at Empire's State Line unit. The Staff's adjustment improperly used Westar's partial ownership share in the derivation of its normalization adjustment. The result was an understatement of normalized operation and maintenance expenses in Staff's case of $426,216, on a total company basis, and an understatement of operation and maintenance expense at State Line of $353,631, on a Missouri jurisdictional basis.

Q. MS. BOLIN'S REBUTTAL TESTIMONY INCLUDED FIVE ADDITIONAL

TRUE-UP ITEMS AT PAGE 7, LINES THROUGH 12. DOES EMPIRE AGREE WITH MS. BOLIN'S RECOMMENDATION THAT THESE ITEMS SHOULD BE INCLUDED IN THE TRUE-UP PROCESS IN THIS CASE?

A. Yes. The additional items specified by Ms. Bolin at page 7, should be taken into account in the true-up process in this case.

Q. PLEASE DESCRIBE THE COMPONENTS OF THE CURRENT COST TRACKERS THAT NEED TO BE SPECIFIED AS PART OF TRUE-UP.

A. The major components, such as base costs and amortization levels should be specified. The following table includes the components of the current cost tracking mechanisms that need to be specified.

Description	Amortization	Cost in Rates	Amort. Period
FAS 87 Pension	$667,546	$7,678,726	5 years
FAS 106 OPEB	(257,412)	1,732,080	5 years
Plum Point/Iatan	644,215	5,337,123	3 years
Vegetation Management	1,503,719	$12,000,000	5 years

<u>TORNADO COST RECOVERY</u>

Q. WHAT IS OPC'S POSITION REGARDING DEFERRED TORNADO COST RECOVERY?

A. OPC witness Ted Robertson indicates in his rebuttal testimony at pages 3 through 8 that OPC agrees with the Staff recommendation that Empire's deferred tornado costs be amortized over ten years and that Empire's deferred tornado costs be excluded from rate base. The main concern OPC has with respect to Empire's tornado cost and resulting amortization is related to the potential for over recovery of tornado amortization when the timing of Empire's future rate cases does not coincide with the expiration of tornado cost amortization.

Q. HOW DOES EMPIRE RESPOND TO OPC'S CONCERN REGARDING THE POTENTIAL OVER-RECOVERY OF TORNADO COSTS?

A. Mr. Robertson's concerns in this area are premature. Given the extended amortization period associated with Empire's deferred tornado costs – ten years – the potential for over recovery of tornado amortization is not an issue for this case or the next rate case. However, Empire is committed to working with the parties in this case and future cases to establish a mechanism or protocol that enables Empire to recover its actual deferred tornado amortization cost with no under or over recovery.

Q. DOES EMPIRE AGREE WITH STAFF'S AND OPC'S POSITION THAT EMPIRE'S DEFERRED TORNADO COSTS SHOULD NOT BE INCLUDED IN RATE BASE?

A. No. As I mentioned in my rebuttal testimony, Empire does not agree with the Staff's position that the exclusion of Empire's deferred tornado costs from rate base creates a sharing of the risk of natural disasters between customers and shareholders. Empire will have absorbed the financial impact associated with the reduction in customer levels for more than two years before new rates are established in this case. The adverse financial impact associated with this reduction in electric sales can never be recouped.

The exclusion of the deferred tornado costs from rate base will deny Empire the recovery of the costs associated with carrying the deferred costs on its balance sheet for an extended period of time, ten years in this instance. A portion of this carrying cost is related to debt, not return on equity, and this interest cost, if not recovered from Empire's customers, will have a negative impact on Empire's overall earnings. Thus, the Staff and OPC position on rate base exclusion will deny Empire the recovery of the interest costs associated with carrying this investment over a ten year period. This is not risk sharing, but the denial of cost recovery, which will adversely affect Empire's ability and opportunity to earn the return on equity authorized by the Commission in this case.

<u>RESIDENTIAL LIGHTING ENERGY EFFICIENCY PROGRAM</u>

Q. HAVE YOU REVIEWED THE REBUTTAL TESTIMONY OF MDNR WITNESS BICKFORD WITH RESPECT TO THE AGREEMENT REACHED IN CASE NO. ER-2011-0004?

A. Yes.

Q. DO YOU AGREE WITH HIS STATEMENT, AT PAGE 2 LINE 4, THAT EMPIRE DID NOT PRESENT A REDESIGNED RESIDENTIAL LIGHTING PROGRAM TO THE DSM ADVISORY GROUP?

A. No, I do not.

Q. WHY?

A. When the agreement was reached in Case No. ER-2011-0004, Empire did not have an active residential lighting program. There was no existing residential lighting program to redesign.

Q. DID EMPIRE PRESENT A NEW RESIDENTIAL LIGHTING PROGRAM TO THE DSM ADVISORY GROUP AS A RESULT OF THE AGREEMENT REACHED IN CASE NO. ER-2011-0004 AND A PREVIOUS AGREEMENT

REACHED IN EMPIRE'S LAST INTEGRATED RESOURCE PLANNING CASE?

A. Yes. Empire presented a new residential lighting program to the DSM advisory group and sought Commission approval of the program as part of Case No. EO-2012-0206. Empire's efforts in this area were in compliance with the agreements Empire reached in the Integrated Resource Plan and in Case No. ER-2011-0004. The residential lighting program filed in EO-2012-0206 was not simply the continuation of an existing residential lighting program, as implied by Mr. Bickford. It was a new program, as there was no residential lighting program in existence at the time of the filing in EO-2012-0206.

Q. DID MR. BICKFORD RAISE ANY CONCERNS ABOUT EMPIRE'S PROPOSED RESIDENTIAL LIGHTING PROGRAM AT ANY DSM ADVISORY MEETINGS?

A. I do not recall Mr. Bickford raising an objection to the composition of Empire's residential lighting program at any of the advisory meetings leading up to Empire's filing in Case No. EO-2012-0206 or during the several months that Case No. EO-2012-0206 was under consideration at the Commission. There are a number of different residential lighting programs that can be designed, but I do not recall the specific composition of Empire's proposed residential lighting program as being an issue within the DSM Advisory Group or MDNR in particular.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.

THE EMPIRE DISTRICT ELECTRIC COMPANY

P.S.C. Mo. No.	5	Sec.	4	4th	Revised Sheet No.	8c
Cancelling P.S.C. Mo. No.	5	Sec.	4	3rd	Revised Sheet No.	8c

For ALL TERRITORY

PROMOTIONAL PRACTICES
SCHEDULE PRO

E. Weatherization Program

APPLICATION:

The Residential Weatherization Program (Program) is designed to provide energy education and weatherization assistance, primarily for lower income customers. This Program is intended to assist customers through conservation, education and weatherization in reducing their use of energy and to reduce the level of bad debts experienced by The Empire District Electric Company (Company). The Company's participation in such financial incentives is limited to the funds allocated for that purpose and approved by the Missouri Public Service Commission (Commission) in Case No. ER-2012-0345.

ADMINISTRATION:

The program will be administered by the Economic Security Corporation, the Ozark Area Communty Action Corporation and the West Central Missouri Community Action Agency, also known in this tariff as Social Agencies, in accordance to an established formula. This formula, calculated by Missouri Department of Natural Resources, Energy Division (MDNR), allocates the dollars between the Social Agencies based on the total Empire accounts enrolled with Social Agency and the percentage of households in poverty within the Social Agency's service region. The formula is: (% of total Empire accounts by Social Agency times % of the annual funds available to the Social Agencies) plus (% of estimated poverty households accounts by Social Agency times % of the annual funds available to the Social Agencies).

TERMS & CONDITIONS:

1. The program will offer grants for weatherization services to eligible customers. Customer eligibility will be determined by federal low income weatherization guidelines administered by the MDNR. The program will be primarly directed to lower income customers.

2. The total amount of grants offered to a customer will be determined by the federal low income weatherization guidelines administered by the MDNR. . These funds will focus on measures that reduce electricity usage associated with electric heat, air conditioning, refrigeration, lighting, etc. Of the total funds allocated, the Social Agencies may spend up to $200 toward the purchase of an Energy Star® rated refrigerator and $100 toward the purchase of Energy Star® compact fluorescent lights (CFL) and lighting fixtures per home.

3. Program funds made available to the Social Agencies cannot be used for administrative costs except those incurred by the Social Agencies that are directly related to qualifying and assisting customers under this program. The amount of reimbursable administrative costs per participating household shall not exceed 15% of the total expenditures for each participating household.

4. Social Agencies and Company agree to consult with Staff, Public Counsel, MDNR, and other members of the DSM advisory group during the term of the Program.

5. This Program will continue for four years from the effective date of this tariff, unless otherwise ordered by the Commission. With the assistance of Social Agencies, the Company shall submit a report on the Program to the DSM advisory group on or before April 16, 2014 and on the same date for each succeeding year in which the Program continues. Each report will address the progress of the Program, and provide an accounting of the funds received and spent on the Program during the preceding calendar year. The report will include the following information with breakdowns for each of the participating social agencies:
   a. Program funds provided by Company.
   b. Amount of Program funds, if any, rolled over from previous year.
   c. Amount of administrative funds retained by the social agency.
   d. Number of weatherization jobs completed and total cost (excluding administrative funds) of jobs completed.
   e. Number of weatherization jobs "in progress" at the end of the calendar year.
   f. Number, type and total cost of baseload measures (non-heating) installed.

The report shall be subject to audit by the Commission Staff and Public Counsel.

PROGRAM FUNDING:

To the extent that the annual funds contributed exceeds the total cost expended on the Program, the amount of the excess shall be "rolled over" to be utilized for the Weatherization Program in the succeeding year. Annual funding of $226,430 is available to the Social Agencies for this Program.

If one of the Social Agencies Is unable to place the total dollars allocated, the unspent funds may be reallocated among the remaining Social Agencies.

DATE OF ISSUE ____________________
ISSUED BY Kelly S. Walters, Vice President, Joplin, MO

DATE EFFECTIVE ____________________

FILED
~~Missouri Public~~
Service Commission
ER-2012-0345; YE-2011-0615

THE EMPIRE DISTRICT ELECTRIC COMPANY

P.S.C. Mo. No.	5	Sec.	4	4th	Revised Sheet No. 8c
Cancelling P.S.C. Mo. No.	5	Sec.	4	3rd	Revised Sheet No. 8c

For ALL TERRITORY

PROMOTIONAL PRACTICES
SCHEDULE PRO

E. Weatherization Program

APPLICATION:

The Residential Weatherization Program (Program) is designed to provide energy education and weatherization assistance, primarily for lower income customers. This Program is intended to assist customers through conservation, education and weatherization in reducing their use of energy and to reduce the level of bad debts experienced by The Empire District Electric Company (Company). The Company's participation in such financial incentives is limited to the funds allocated for that purpose and approved ~~by the Demand Side Management advisory group~~ (DSM advisory group)~~Customer Program Collaborative (CPC) pursuant to the Stipulation and Agreement approved~~ by the Missouri Public Service Commission (Commission) in Case No. ER-2012-0345~~EO-2005-0263~~.

ADMINISTRATION:

The program will be administered by the Economic Security Corporation, the Ozark Area Community Action Corporation and the West Central Missouri Community Action Agency, also known in this tariff as Social Agencies, in accordance to an established formula. This formula, calculated by Missouri Department of Natural Resources, Energy Division (MDNR)~~DNR-Energy Center~~, allocates the dollars between the Social Agencies based on the total Empire accounts enrolled with Social Agency and the percentage of households in poverty within the Social Agency's service region. The formula is: (% of total Empire accounts by Social Agency times % of the annual funds available to the Social Agencies) plus (% of estimated poverty households accounts by Social Agency times % of the annual funds available to the Social Agencies).

TERMS & CONDITIONS:

1. The program will offer grants for weatherization services to eligible customers. Customer eligibility will be determined by federal low income weatherization guidelines administered by the MDNR. The program will be primarily directed to lower income customers.

2. The total amount of grants offered to a customer will be determined by the federal low income weatherization guidelines administered by the MDNR~~the agreement between the Company and the Social Agencies~~. ~~The total amount of grants to a customer is expected to average $1,200 (escalated by $50 per year) with a maximum per customer of $1,800 (escalated by $50 per year)~~. These funds will focus on measures that reduce electricity usage associated with electric heat, air conditioning, refrigeration, lighting, etc. Of the total funds allocated, the Social Agencies may spend up to $200 toward the purchase of an Energy Star® rated refrigerator and $100 toward the purchase of Energy Star® compact fluorescent lights (CFL) and lighting fixtures per home.

3. Program funds made available to the Social Agencies cannot be used for administrative costs except those incurred by the Social Agencies that are directly related to qualifying and assisting customers under this program. The amount of reimbursable administrative costs per participating household shall not exceed 15% of the total expenditures for each participating household.

4. Social Agencies and Company agree to consult with Staff, Public Counsel, MDNR~~Department of Natural Resources~~, and other members of the DSM advisory group~~CPC~~ during the term of the Program.

5. This Program will continue for ~~five~~four years from the effective date of this tariff, unless otherwise ordered by the Commission. With the assistance of Social Agencies, the Company shall submit a report on the Program to the ~~Staff, the Office of Public Counsel, the~~ MDNR Energy Division~~Department of Natural Resources Energy Center and other members of the~~ DSM advisory group~~CPC~~ on or before April 16, ~~2007~~2014 and on the same date for each succeeding year in which the Program continues. Each report will address the progress of the Program, and provide an accounting of the funds received and spent on the Program during the preceding calendar year. The report will include the following information with breakdowns for each of the participating social agencies:
   a. Program funds provided by Company.
   b. Amount of Program funds, if any, rolled over from previous year.
   c. Amount of administrative funds retained by the social agency.
   d. Number of weatherization jobs completed and total cost (excluding administrative funds) of jobs completed.
   e. Number of weatherization jobs "in progress" at the end of the calendar year.
   f. Number, type and total cost of baseload measures (non-heating) installed.

The report shall be subject to audit by the Commission Staff and Public Counsel.

PROGRAM FUNDING:

To the extent that the annual funds contributed exceeds the total cost expended on the Program, the amount of the excess shall be "rolled over" to be utilized for the Weatherization Program in the succeeding year. Annual funding of $226,430 is available to the Social Agencies for this Program. ~~are as follows:~~

~~2010~~	~~$201,300~~	~~2012~~	~~$226,430~~
~~2011~~	~~$226,430~~	~~2013~~	~~$226,430~~

If one of the Social Agencies is unable to place the total dollars allocated, the unspent funds may be reallocated among the remaining Social Agencies.

DATE OF ISSUE ~~June 3, 2011~~January xx, 2013 DATE EFFECTIVE January xx, 2013~~June 15, 2011~~
ISSUED BY Kelly S. Walters, Vice President, Joplin, MO

FILED
~~Missouri Public~~
Service Commission
ER-2012-0345~~004~~; YE-2011-0615

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AFFIDAVIT OF W. SCOTT KEITH

STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 1st day of February 2013, before me appeared W. Scott Keith, to me personally known, who, being by me first duly sworn, states that he is the Director of Planning and Regulatory of The Empire District Electric Company and acknowledges that he has read the above and foregoing document and believes that the statements therein are true and correct to the best of his information, knowledge and belief.

W. Scott Keith

W. Scott Keith

Subscribed and sworn to before me this 1st day of February, 2013.

ANGELA M. CLOVEN
Notary Public - Notary Seal
State of Missouri
Commissioned for Jasper County
My Commission Expires: November 01, 2015
Commission Number: 11262659

Angela M. Cloven

Notary Public

My commission expires: 11/01/15.