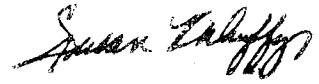


BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS

JAN 29 2010



In the Matter of the Application of The Empire District )  
Electric Company for Approval to Implement its Portfolio )  
of Energy Efficiency and Demand Response Programs for )  
its Kansas Customers, to Provide for Program Cost )  
Recovery and Lost Revenues Through a Rider Mechanism, )  
to Obtain any Necessary Waivers from the Commission, )  
and for Appropriate Accounting Authority to Defer )  
Expenses and Revenues Associated with the Filing. )

Docket No. 10-EPDE-497 -TAR

**APPLICATION**

COMES NOW The Empire District Electric Company ("Empire" or "Applicant"), and files this Application for approval of the following: (1) a portfolio of energy efficiency and demand response programs for its Kansas customers established in conjunction with Docket Nos. 08-GIMX-441-GIV ("441 Docket") and 08-GIMX-442-GIV ("442 Docket"); (2) cost recovery, including a Demand Side Management Cost Recovery Rider ("Rider") to recover the cost associated with its portfolio of energy efficiency and demand response programs and to recognize changes in customer consumption as identified by the Commission in its Final Order in Docket 441; (3) to obtain any necessary waivers of the requirements set forth by the Commission in the 441 Docket and 442 Docket; and (4) specific Commission authority to defer all program costs and accrued revenue pursuant to the proposed Rider. This request is necessary to properly account for the items requested to be recovered from ratepayers as further described within this application and testimony. In support of the application, Empire states:

I. **INTRODUCTION**

1. Applicant is a corporation duly organized and existing under the laws of the State of Kansas and is engaged in doing business in said state and has heretofore duly qualified to do and is

doing business in the states of Missouri, Arkansas and Oklahoma. Applicant owns and operates an electric utility system located in contiguous portions of the states of Kansas, Missouri, Oklahoma and Arkansas with its executive offices at 602 S. Joplin Avenue, Joplin, Missouri 64801. Applicant is the holder of a certificate from the State of Kansas confirming its right to conduct the business of an electric utility pursuant to K.S.A. 66-101, *et seq.*, and by reason thereof has the duty and responsibility to provide and maintain an adequate supply of electric service for its existing and prospective customers located within its defined service area in Cherokee and Labette Counties, Kansas.

2. All communications and correspondence to Empire, including service of all notices and orders of the Commission herein, are requested to be sent to the following named individuals:

Kelly S. Walters  
Vice President of Regulatory and Services  
The Empire District Electric Company  
602 S. Joplin Avenue, P. O. Box 127  
Joplin, Missouri 64802

Sherrill L. McCormack  
Energy Efficiency Coordinator  
The Empire District Electric Company  
602 S. Joplin Avenue, P. O. Box 127  
Joplin, Missouri 64802

James G. Flaherty  
Anderson & Byrd, LLP  
216 S. Hickory, P. O. Box 17  
Ottawa, Kansas 66067

3. The Commission indicated its preference for working with utilities in a collaborative way to permit voluntary efforts to implement energy efficiency and demand response programs consistent with the objectives and goals set forth in the orders issued in the 442 Docket. The Commission stressed the need to pursue energy efficiency and demand response in a comprehensive manner, while making cost-effective expenditures for energy efficiency. The Commission also

indicated a need to provide an array of energy efficiency and demand response programs that would benefit all customer classes, including low income customers. The Commission stressed a need for customer education.

4. On April 13, 2009, the Commission issued an order in the 442 Docket to establish guidelines and procedures for reviewing energy efficiency programs. In the order, the Commission adopted the use of the California Standard Practice Manual and the five benefit-cost tests for evaluating programs. The Commission determined certain values and components to be used in the test formulas and placed reliance on the California Database for Energy Efficiency Resources (DEER) source document for measurement values in the absence of Kansas baseline data. The Commission also addressed educational programs and the objective of informing customers about energy efficiency. According to the Commission, educational programs do not need to meet any particular benefit-cost test.

5. Empire currently has energy efficiency and demand response programs ("DSM Portfolio") available in both Missouri and Arkansas. Empire's Missouri DSM Portfolio consists of six residential energy efficiency programs, two Commercial and Industrial ("C&I") energy efficiency programs and one C&I demand response program.

6. The current Arkansas DSM Portfolio consists of two statewide programs and two Empire specific programs. The statewide programs cover customer education and training and improvements to severely energy-inefficient homes. The Empire specific programs consist of an air conditioning program for residential and small commercial customers and a prescriptive program for C&I customers.

7. In addition to the above programs, the Oklahoma Corporation Commission has recently approved a DSM Portfolio for Empire, which consists of an assortment of energy efficiency and

demand response programs for residential and commercial customers.

## II. THE PURPOSE AND SUMMARY OF THE CONTENT OF THIS FILING

8. Based on the legislative and regulatory development outlined above, Empire has elected to seek authority to implement energy efficiency and demand response programs and to request recovery of the cost of said programs and recovery of lost revenues through the Rider. The purpose of this filing is to allow Empire to implement a portfolio of energy efficiency and demand response programs pursuant to the guidelines set forth by the Commission in its orders issued in the 441 Docket and 442 Docket.

9. Empire is proposing the following DSM Portfolio for its Kansas customers. The first program is a Low-Income Weatherization program which follows the DOE LIWAP guidelines and is administered by the CAP agency in Empire's service territory. Similar to Empire's Missouri program, up to \$200 may be spent toward the purchase of an ENERGY STAR® rated refrigerator and up to \$100 toward the purchase of ENERGY STAR® rated compact fluorescent bulbs ("CFL") and lighting fixtures. When the CAP agency does replace a refrigerator under the LIWAP guidelines, they are required to remove and properly dispose of the original appliance. However, due to the federal stimulus money that has been provided for the DOE LIWAP, Empire requests that this program not be implemented until April 2011 so that program participation levels will not be directly affected by the federal program.

10. The second program Empire is proposing is the Residential High Efficiency Central Air Conditioner Program. The program is comprised of three parts: 1) incentives for the installation of new central air conditioner systems, including heat pumps, with a minimum Seasonal Energy Efficiency Ratio ("SEER") of 15; 2) incentives available every third year for spring inspection and tune-up of a central air conditioning or heat pump system; and 3) incentives for electronic

programmable set-back thermostats if installed at the same time as the new cooling system is installed or tune-up is performed. The incentives available under the program for the installation of a new system include both replacement and new construction. The first year budget for this program is \$16,820, including administrative and marketing costs. The first year estimated demand savings are 20kW and estimated energy savings are 48,054 kWh. Additional details on these programs are included in Ms. McCormack's direct testimony and Schedule SLM-1 which are being filed in support of this Application and are incorporated herein by reference. The proposed tariffs for said program are also attached as Schedule SLM-2 and Schedule SLM-3 to Ms. McCormack's direct testimony.

11. All commercial and industrial customers will be eligible to participate in the C&I Rebate Program which includes an audit rebate, prescriptive rebate, and the custom rebate. This program design is similar to a program Empire has in place in Missouri. The audit component of the program will offer rebates to cover a portion of the cost of the energy audit, providing 50% of the audit cost up to \$300 for customers with facilities less than 25,000 square feet and up to \$500 for customers with facilities over 25,000 square feet. The prescriptive component of the program provides specific rebates to the participating customer for lighting, cooling, and motors. The custom component provides rebates to the participating customer for energy efficiency projects that fall outside of the parameters of the prescriptive component of the program. The maximum incentive per participating customer per program year is \$5,000. As explained in Ms. McCormack's direct testimony, the first year budget, including administrative and marketing costs, for this program is \$58,300 with first year estimated demand savings of 85 kW and estimated energy savings of 261,667 kWh.

12. In addition to the C&I program, Empire is proposing a Building Operator Certification ("BOC") program to provide training in efficient building operation and maintenance to building operators, managers, and consultants. Empire is planning to work with Westar Energy ("Westar") by

partnering in the sponsorship of training classes, including the rental of property, refreshments, meals, and handouts. Empire will also contribute toward the annual license fee and Westar's internal administrative costs. Additionally, Empire will offer scholarships at approximately 50% of the total registration fee. The first year budget for this program is \$8,950 with first year estimated energy savings of 60,000 kWh. No demand savings are estimated from this program.

13. Empire is also proposing an additional budget for general management and marketing of the Kansas DSM Portfolio. This will be used to develop general marketing materials, infrastructure and the management of the overall portfolio. The first year budget for general management and marketing is \$20,000.

14. Attached to Ms. McCormack's direct testimony as Schedule SLM-1 is an in-depth analysis of each of the proposed programs. In addition, the proposed tariff sheets for each of the programs are attached to Ms. McCormack's direct testimony as Schedule SLM-4 and Schedule SLM-5.

15. The final program that Empire is proposing to implement as part of its Kansas DSM Portfolio is an Interruptible program for those customers who are able to curtail a minimum of 200 kW. As proposed, this program will be made available on a contract basis. The term of the contract will be made available for one year, three years, or five years. Contract years run from June 1 through May 31 of the following year. Under Empire's proposal, the maximum number of curtailments per year will be ten (10), with each event lasting at least two (2) hours but no more than eight (8) hours. Customers participating in this program will be provided a curtailment notice at least four (4) hours prior to the start of the event. The availability of this program will be limited to five (5) MW. The first year budget for this program is \$25,575 with first year estimated demand savings of 1,000 kW. There are no estimated energy savings from this program. The proposed tariff for the program is

attached to Ms. McCormack's direct testimony as Schedule SLM-6.

16. The overall estimate of demand and energy savings associated with Empire's DSM proposal for the first year, without the interruptible program, are estimated at 105 kW of demand savings and 369,720 kWh of energy savings. As proposed, the interruptible program increases the estimated demand savings in year 1 to 1,105 kW.

17. All of the programs, except the Low Income Weatherization program, pass the Total Resource Cost Test ("TRC"), Societal, Participant, and the Utility tests. The Societal Test was run with two discount rates, 3% and 7%. Only the Interruptible program passes the Ratepayer Impact Measure Test ("RIM"). This result is not unusual; it has been Empire's experience that only load control programs pass the RIM Test.

18. Empire also considered the cost effectiveness of the total portfolio, including the general management and marketing budget. The portfolio was analyzed with and without the Interruptible program. Without the Interruptible program, the only test that the proposed portfolio did not pass was the RIM Test. The proposed portfolio passed all five benefit cost tests when the Interruptible program was included. Specific test results for each program and for the portfolio are included in Schedule SLM-1 attached to Ms. McCormack's direct testimony.

19. To implement the programs, Empire is requesting recovery of its incremental program costs and the revenue lost due to the implementation of the energy savings measures through the Rider. Empire has prepared a budget for the costs that are anticipated to be incurred to commence and operate the programs.

20. Attached to Ms. McCormack's direct testimony as Schedule SLM-7 is a proposed tariff for the Rider. Included as part of the cost recovery are program costs, including development costs, and lost revenues. An adjustment feature has also been included to capture carrying costs and true-ups

of cost recovery. As proposed, the carrying costs will be based on the approved return on rate base in Empire's most recent Kansas rate case. As indicated on Ms. McCormack's Schedule SLM-7, the recovery factor will be based upon program budgets and an estimate of lost revenue. These will be trued-up periodically to limit cost recovery to actual program cost and actual lost revenue. As indicated by Ms. McCormack in her direct testimony, the Program Cost Factor of \$0.00054 per kWh is combined with the Lost Revenue Factor, \$0.00004 per kWh to determine the overall DSM Rate to be recovered under the Rider. The DSM Rate for the overall portfolio for 2010 is \$0.00058 per kWh.

21. Empire has proposed that the overall cost of the programs be recovered from each customer class using the same rate. This will better match potential program benefits with cost recovery.

22. The Lost Revenue Factor included in the Rider is calculated by estimating the reduction in sales that will result from the implementation of the DSM programs and multiplying the reduction in sales by the appropriate rate. This factor also includes an adjustment for Prior Period Over/Under amounts, including carrying charges. This total amount is divided by the billing units for the budget period to arrive at the Lost Revenue Factor.

23. Empire was able to follow most of the guidelines as laid out in the Commission's June 2, 2008, Order and the April 13, 2009, Order in the 442 Docket. However, Empire is seeking a waiver of a few of the Commission's guidelines. Empire requests that the Commission approve its usage of the Deemed Savings developed for use in Arkansas, instead of the DEER deemed savings. Empire believes that the climate and associated efficiencies used in the Arkansas study are more appropriate for use in southeast Kansas than those developed for California.

24. Empire also requests that the Commission waive the requirements related to the CO2 regulatory cost levels of \$10/ton, \$25/ton and \$40/ton. Empire is in the midst of a new Integrated



Resource Plan ("IRP") which is to be completed by September 2010. During this process, Empire will review a variety of CO2 cost levels. Empire proposes that the Commission allow Empire to use the environmental cost levels from Empire's upcoming IRP in future benefit cost analysis. The primary driver for this waiver request is the high cost of this analysis and the small number of customers Empire serves in southeast Kansas. The range of CO2 cost levels specified by the Commission would impact Empire's entire generation mix, including fuel mix and outage schedules. This would cause the development of multiple model runs and with the size of Empire's Kansas operations, the cost per customer for this analysis, if performed outside of Empire's normal IRP process, would be very high.

25. Empire has coordinated its filing with Staff and incorporated feedback from Staff into the proposal. As a result of its preliminary work with the Staff, Empire has proposed that the Commission approve these programs on an expedited basis, in this case by April 15, 2010, or 76 days from the date of initial filing. This effective date will allow time for some air conditioner tune-ups to be performed prior to the summer cooling season, and it will allow contracts to be signed for the interruptible program prior to the June 1 start date for the 2010 contract year.

26. To the extent such authority may be required, Empire is requesting expressed accounting authority to permit it to defer monthly its actual program costs and to recognize monthly lost revenues consistent with Generally Accepted Accounting Principles ("GAAP"). This would allow Empire to account for actual program costs and lost revenues used to calculate the Rider. At the time of its annual filing, the program cost deferred and lost revenues recognized will be included in the calculation of the surcharge and billed to applicable customers. Each year the surcharge would be reconciled to balance with the amount of revenue to cover program costs and lost revenues.

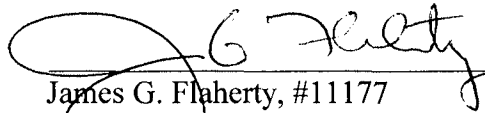
27. Consistent with the 442 Docket, Empire proposes to make semi-annual interim reports for its energy efficiency and demand response programs. Empire will report participation levels and

energy savings, together with comparisons to the expected goals.

### III. CONCLUSION

28. This Application presents Empire's proposal to implement a comprehensive set of the energy efficiency and demand response programs. These programs address the energy efficiency and conservation goals of the Commission in the 442 Docket and the cost recovery components set out in the 441 Docket.

WHEREFORE, Empire prays that its Application be granted and for such further relief as the Commission deems appropriate.



James G. Flaherty, #11177

**ANDERSON & BYRD, LLP**

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Ottawa, Kansas 66067

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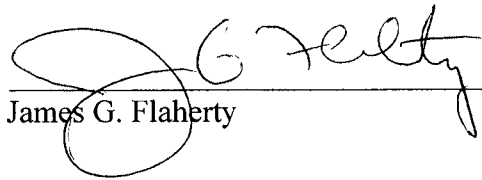
Attorneys for The Empire District Electric Company

**VERIFICATION**

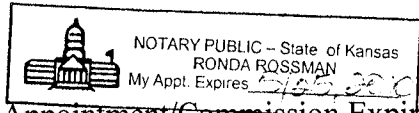
STATE OF KANSAS            )  
  )ss:  
FRANKLIN COUNTY         )

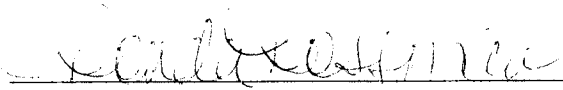
James G. Flaherty, of lawful age, being first duly sworn on oath, states:

That he is an attorney for The Empire District Electric Company; that he has read the above and foregoing Application, knows the contents thereof; and that the statements contained therein are true.

  
\_\_\_\_\_  
James G. Flaherty

SUBSCRIBED AND SWORN to before me this 28<sup>th</sup> day of January, 2010.

  
NOTARY PUBLIC - State of Kansas  
RONDA ROSSMAN  
My Appt. Expires 6/25/2010

  
\_\_\_\_\_  
Notary Public

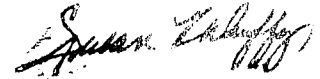
~~Appointment/Commission Expires:~~

DIRECT TESTIMONY  
OF  
SHERRILL L. MCCORMACK  
THE EMPIRE DISTRICT ELECTRIC COMPANY  
BEFORE THE  
KANSAS CORPORATION COMMISSION  
DOCKET NO.  
10-EPDE-497-TAR

2010.01.29 12:52:35  
Kansas Corporation Commission  
/S/ Susan K. Duffy

STATE CORPORATION COMMISSION

JAN 29 2010



**INTRODUCTION**

**Q. PLEASE STATE YOUR NAME AND ADDRESS.**

A. My name is Sherrill L. McCormack, and my business address is 602 S. Joplin Avenue, Joplin, Missouri 64801.

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

A. I am currently employed by The Empire District Electric Company (“Company” or “Empire”) as the Energy Efficiency Coordinator.

**Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.**

A. I hold a Bachelor of Science degree in Business Administration with a major in finance from Mississippi State University. I also earned a Masters Degree in Business Administration from Pittsburg State University. Prior to joining Empire, I held various positions in banking and investments from 1978 to 1989 in Mississippi and Texas, followed by two years as an adjunct business instructor at Labette County Community College in Kansas and nine years as a business instructor with Crowder College in Missouri. In August 2001, I was employed by Empire as a Planning Analyst. I worked with long-range financial forecasting and generation planning until November 2005. With the renewed interest in energy efficiency programs, my primary responsibilities have shifted to coordinating the implementation of demand side management and energy efficiency programs that have been authorized by the

various regulatory commissions that regulate Empire's electric and gas operations. In 2008 I became the Energy Efficiency Coordinator. I also participate in Empire's integrated resource planning.

**Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE KANSAS CORPORATION COMMISSION ("COMMISSION")?**

A. No. I have, however, testified before the Arkansas Public Service Commission, the Missouri Public Service Commission, and the Oklahoma Corporation Commission.

**Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?**

A. The purpose of this testimony is to describe Empire's Demand Side Management ("DSM") activity in its other jurisdictions, to recommend a portfolio of energy efficiency and demand response programs for Empire's Kansas customers and recommend a cost recovery mechanism for Empire's Kansas energy efficiency and demand response programs.

**Q. HAS EMPIRE IMPLEMENTED DSM PROGRAMS IN ANY OF ITS OTHER JURISDICTIONS?**

A. Yes. Empire currently has energy efficiency and demand response programs available in both Missouri and Arkansas. Empire's Missouri DSM portfolio consists of six residential energy efficiency programs, two commercial and industrial ("C&I") energy efficiency programs, and one C&I demand response program.

The current Arkansas DSM portfolio consists of two statewide programs and two Empire specific programs. The statewide programs cover customer education and training and improvements to severely energy-inefficiency homes. The Empire specific programs consist of an air conditioning program for residential and small commercial customers and a prescriptive program for Commercial & Industrial customers.

In addition to the above programs, the Oklahoma Corporation Commission has recently approved an energy efficiency and demand response portfolio for Empire, which consists of an assortment of energy efficiency and demand response programs for residential and commercial customers.

**Q. PLEASE DESCRIBE THE DSM PROGRAMS THAT EMPIRE IS PROPOSING TO IMPLEMENT FOR ITS KANSAS CUSTOMERS?**

A. Empire is proposing the following DSM portfolio for its Kansas customers. The first program is a Low-Income Weatherization program which follows the DOE LIWAP guidelines and is administered by the CAP agency in Empire's service territory. Similar to Empire's Missouri program, up to \$200 may be spent toward the purchase of an ENERGY STAR rated refrigerator and up to \$100 toward the purchase of ENERGY STAR rated compact fluorescent bulbs ("CFL") and lighting fixtures. When the CAP agency does replace a refrigerator under the LIWAP guidelines, they are required to remove and properly dispose of the original appliance. However, due to the federal stimulus money that has been provided for the DOE LIWAP, Empire requests that this program not be implemented until April, 2011 so that program participation levels will not be directly affected by the federal program.

The second program Empire is proposing is the Residential High Efficiency Central Air Conditioner Program. The program is comprised of three parts: 1) incentives for the installation of new central air conditioner systems, including heat pumps, with a minimum Seasonal Energy Efficiency Ratio ("SEER") of 15; 2) incentives available every third year for spring inspection and tune-up of a central air conditioning or heat pump system; 3) incentives for electronic programmable set-back thermostats if installed at the same time as

the new cooling system is installed or tune-up is performed. The incentives available under the program for the installation of a new system include both replacement and new construction. The first year budget for this program is \$16,820, including administrative and marketing costs. The first year estimated demand savings are 20kW and estimated energy savings are 48,054 kWh.

Additional details on these programs are included in Schedule SLM-1. Proposed tariffs are attached as Schedule SLM-2 and Schedule SLM-3.

**Q. PLEASE CONTINUE WITH A DESCRIPTION OF EMPIRE'S PROPOSED COMMERCIAL AND INDUSTRIAL PROGRAMS.**

A. All commercial and industrial customers will be eligible to participate in the Commercial and Industrial Rebate Program which includes an audit rebate, prescriptive rebate, and the custom rebate. This program design is similar to a program Empire has in place in Missouri. The audit component of the program will offer rebates to cover a portion of the cost of the energy audit, providing 50% of the audit cost up to \$300 for customers with facilities less than 25,000 square feet and up to \$500 for customers with facilities over 25,000 square feet. The prescriptive component of the program provides specific rebates to the participating customer for lighting, cooling, and motors. The custom component provides rebates to the participating customer for energy efficiency projects that fall outside of the parameters of the prescriptive component of the program. The maximum incentive per participating customer per program year is \$5,000. The first year budget, including administrative and marketing costs, for this program is \$58,300 with first year estimated demand savings of 85 kW and estimated energy savings of 261,667 kWh.

In addition to the C&I program, Empire is proposing a Building Operator Certification (“BOC”) program to provide training in efficient building operation and maintenance to building operators, managers, and consultants. Empire is planning to work with Westar Energy by partnering in the sponsorship of training classes, including the rental of property, refreshments, meals, and handouts. Empire will also contribute toward the annual license fee and Westar’s internal administrative costs. Additionally, Empire will offer scholarships at approximately 50% of the total registration fee. The first year budget for this program is \$8,950 with first year estimated energy savings of 60,000 kWh. No demand savings are estimated from this program.

Empire is also proposing an additional budget for general management and marketing of the DSM portfolio. This will be used to develop general marketing materials, infrastructure and the management of the overall portfolio. The first year budget for general management and marketing is \$20,000.

I have attached an in depth analysis of each of the proposed programs to my testimony as Schedule SLM-1. In addition, I have attached proposed tariff sheets for each of the programs to my testimony as Schedule SLM-4 and Schedule SLM-5.

**Q. PLEASE DESCRIBE THE PROPOSED DEMAND RESPONSE PROGRAM INCLUDED IN EMPIRE’S PORTFOLIO.**

A. The final program that Empire is proposing to implement as part of its Kansas DSM portfolio is an Interruptible program for those customers who are able to curtail a minimum of 200 kW. As proposed this program will be made available on a contract basis. The term of the Contract will be made available for one year, three years, or five years. Contract years run from June 1 through May 31 of the following year. Under Empire’s proposal, the maximum



number of curtailments per year will be ten (10), with each event lasting at least two (2) hours but no more than eight (8) hours. Customers participating in this program will be provided a curtailment notice at least four (4) hours prior to the start of the event. The availability of this program will be limited to five (5) MW. The first year budget for this program is \$25,575 with first year estimated demand savings of 1,000 kW. There are no estimated energy savings from this program. The proposed tariff is attached as Schedule SLM-6.

**Q. WHY DOES EMPIRE INCLUDE THE OPTION FOR CURTAILMENT BASED ON ECONOMIC REASONS WHEN IT HAS AN ENERGY COST ADJUSTMENT IN PLACE IN KANSAS?**

A. A situation could develop in the energy market where it would be beneficial for our customers to curtail and enable Empire to avoid producing or purchasing expensive power to meet the load requirements of our customers. In addition, each of our other jurisdictions has a similar tariff in place and each of those tariffs include this provision. The inclusion of this option in the Kansas tariff will make the program parameters consistent in each of the four jurisdictions in which Empire operates.

**Q. WHAT IS THE OVERALL ESTIMATE OF DEMAND AND ENERGY SAVINGS ASSOCIATED WITH EMPIRE'S DSM PROPOSAL?**

A. The first year demand savings without the Interruptible program are estimated at 105 kW and energy savings of 369,720 kWh. As proposed, the Interruptible program increases the estimated demand savings in year 1 to 1,105 kW.

**Q. DO THE PROPOSED DSM PROGRAMS PASS THE BENEFIT COST TESTS?**

A. All of the programs, except the Low Income Weatherization program, pass the Total Resource Cost Test (“TRC”), Societal, Participant, and the Utility tests. The Societal Test was run with two discount rates, 3% and 7%. Only the Interruptible program passes the Ratepayer Impact Measure Test (“RIM”). This result is not unusual; it has been Empire’s experience that only load control programs pass the RIM Test.

Empire also considered the cost effectiveness of the total portfolio, including the general management and marketing budget. The portfolio was analyzed with and without the Interruptible program. Without the Interruptible program, the only test that the proposed portfolio did not pass was the RIM Test. The proposed portfolio passed all five benefit cost tests when the Interruptible program was included.

Specific test results for each program and for the portfolio are included in Schedule SLM-1.

**Q. DID EMPIRE FOLLOW THE GUIDELINES AS SPECIFIED IN THE COMMISSION ORDERS TO DOCKET NO. 08-GIMX-442-GIV AS THEY RELATE TO THE INPUTS FOR THE BENEFIT COST TESTS?**

A. Empire was able to follow most of the guidelines as laid out in the June 2, 2008 Order and the April 13, 2009 Order. Empire does request that the Commission approve its usage of the Deemed Savings developed for use in Arkansas, instead of the DEER deemed savings. Empire believes that the climate and associated efficiencies used in the Arkansas study are more appropriate for use in southeast Kansas than those developed for California.

**Q. IS EMPIRE REQUESTING ANY OTHER WAIVERS FROM THE COMMISSION ORDERS IN DOCKET NO. 08-GIMX-442-GIV?**

A. Yes. Empire also requests that the Commission waive the requirements related to the CO2 regulatory cost levels of \$10/ton, \$25/ton, and \$40/ton. Empire is in the midst of a new

Integrated Resource Plan (“IRP”) which is to be completed by September, 2010. During this process, Empire will review a variety of CO2 cost levels. Empire proposes that the Commission allow Empire to use the environmental cost levels from Empire’s upcoming IRP in future benefit cost analysis. The primary driver for this waiver request is the high cost of this analysis and the small number of customers Empire serves in southeast Kansas. The range of CO2 cost levels specified by the Commission would impact Empire’s entire generation mix, including fuel mix and outage schedules. This would cause the development of multiple model runs and with the size of Empire’s Kansas operations, the cost per customer for this analysis, if performed outside of Empire’s normal IRP process, would be very high.

**Q. HAS EMPIRE PRESENTED THIS PORTFOLIO OF PROGRAMS TO COMMISSION STAFF PRIOR TO OPENING THIS DOCKET?**

A. Yes. Empire has coordinated this filing with Staff and incorporated feedback from Staff into the proposal. As a result of its preliminary work with the Staff, Empire has proposed that the Commission approve these programs on an expedited basis, in this case by April 15, 2010, or 73 days from the date of initial filing.

**Q. WHY HAS EMPIRE REQUESTED AN EFFECTIVE DATE OF APRIL 15 FOR THIS PORTFOLIO OF DEMAND SIDE MANAGEMENT PROGRAMS?**

A. This effective date will allow time for some air conditioner tune-ups to be performed prior to the summer cooling season, and it will allow Contracts to be signed for the Interruptible program prior to the June 1 start date for the 2010 contract year.

**Q. HOW DOES EMPIRE PROPOSE TO RECOVER THE COST ASSOCIATED WITH THESE PROGRAMS?**

A. Empire has proposed to recover the cost of these programs through a Demand Side Management Cost Recovery Rider (“Rider”). As proposed, this Rider will recover all of the incremental program costs and the revenue lost due to the implementation of the energy savings measures and the associated reduction in energy sales. Empire has proposed that the overall cost of the programs be recovered from each customer class using the same rate. This will better match potential program benefits with cost recovery.

**Q. PLEASE DESCRIBE THE DETAILS OF THIS DSM RIDER.**

A. I have attached to my testimony a proposed tariff for this Rider as Schedule SLM-7. Included as part of the cost recovery are program costs, including development costs, and lost revenues. An adjustment feature has also been included to capture carrying costs and true-ups of cost recovery. As proposed, the carrying costs will be based on the approved return on ratebase in Empire’s most recent Kansas rate case. As indicated on SLM-7, the recovery factor will be based upon program budgets and an estimate of lost revenue. These will be true-up periodically to limit cost recovery to actual program cost and actual lost revenue. As indicated, the Program Cost Factor of \$0.00054 per kWh is combined with the Lost Revenue Factor, \$0.00004 per kWh to determine the overall DSM Rate to be recovered under the Rider. The DSM Rate for the overall portfolio for 2010 is \$0.00058 per kWh.

**Q. PLEASE DESCRIBE HOW THE LOST REVENUE FACTOR IS CALCULATED.**

A. The Lost Revenue Factor is calculated by estimating the reduction in sales that will result from the implementation of the DSM programs and multiplying the reduction in sales by the appropriate rate. This factor also includes an adjustment for Prior Period Over/Under amounts, including carrying charges. This total amount is divided by the billing units for the budget period to arrive at the Lost Revenue Factor.

As stated previously, Empire believes that all customers benefit from the implementation of DSM programs, and therefore the cost recovery should be based upon the energy consumed by each customer.

**Q. PLEASE DESCRIBE THE IMPACT THIS PROPOSED PORTFOLIO WILL HAVE ON KANSAS CUSTOMERS.**

A. Based on the budget(s) presented with the proposed portfolio, the cost per kWh to the customer is \$0.00058. This represents \$0.00054 per kWh of program cost and \$0.00004 per kWh for lost revenues. For a residential customer using 1,000 kWh a month, the proposed DSM rate would result in a monthly increase of \$0.58.

**Q. WHY IS EMPIRE REQUESTING AN ACCOUNTING ORDER IN THIS DOCKET?**

A. Empire is requesting expressed accounting authority to allow the actual programs costs to be deferred on a monthly basis and to recognize lost revenues each month. This authorization would allow Empire to account for actual program costs and lost revenues used to calculate the DSM rate. The program costs deferred and the lost revenues recognized will be included in the true-up at the time of Empire's annual filing. The true-up process allows the surcharge to be reconciled to balance with the amount of revenue to cover program costs and lost revenues.


**Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

A. Yes.

VERIFICATION

STATE OF MISSOURI     )  
  ) ss:  
COUNTY OF JASPER     )

Sherrill L. McCormack, being first duly sworn upon her oath, deposes and says that she is Energy Efficiency Coordinator for The Empire District Electric Company; that she has read and is familiar with the foregoing testimony; and that the statements contained therein are true and correct.

  
\_\_\_\_\_  
Sherrill L. McCormack

SUBSCRIBED AND SWORN to before me this 27th day of January, 2010.

  
\_\_\_\_\_  
Notary Public

Appointment/Commission Expires:  
10-30-10

