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Case No.:

Expensed Project Costs/

January 2007 Ice Storm

Robertson/Direct

Public Counsel

ER-2008-0093

DIRECT TESTIMONY

OF

TED ROBERTSON

Submitted on Behalf of the Office of the Public Counsel

EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2008-0093

February 22, 2008

OPC Exhibit No. 307
Case No(s). ER-2008-0093
Date 5-12-08 Rptr KF

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the matter of The Empire District Electric)
Company of Joplin, Missouri's application)
for authority to file tariffs increasing rates)
for electric service provided to customers in)
the Missouri service area of the Company)

Case No. ER-2008-0093

AFFIDAVIT OF TED ROBERTSON


STATE OF MISSOURI)

) ss

COUNTY OF COLE)

Ted Robertson, of lawful age and being first duly sworn, deposes and states:

1. My name is Ted Robertson. I am a Public Utility Accountant for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my direct testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

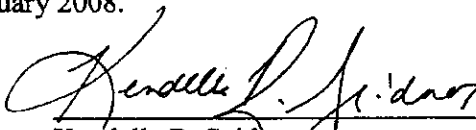


Ted Robertson, C.P.A.
Public Utility Accountant III

Subscribed and sworn to me this 22nd day of February 2008.



KENDELLE R. SEIDNER
My Commission Expires
February 4, 2011
Cole County
Commission #07004782



Kendelle R. Seidner
Notary Public

My Commission expires February 4, 2011.

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**DIRECT TESTIMONY
OF
TED ROBERTSON**

**EMPIRE DISTRICT ELECTRIC COMPANY
CASE NO. ER-2008-0093**

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Ted Robertson, PO Box 2230, Jefferson City, Missouri 65102-2230.

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

A. I am employed by the Missouri Office of the Public Counsel (OPC or Public Counsel) as a Public Utility Accountant III.

Q. WHAT IS THE NATURE OF YOUR CURRENT DUTIES AT THE OPC?

A. Under the direction of the OPC Chief Public Utility Accountant, Mr. Russell W. Trippensee, I am responsible for performing audits and examinations of the books and records of public utilities operating within the state of Missouri.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND OTHER QUALIFICATIONS.

A. I graduated in May, 1988, from Missouri State University in Springfield, Missouri, with a Bachelor of Science Degree in Accounting. In November of 1988, I passed the Uniform Certified Public Accountant Examination, and I obtained

1 Certified Public Accountant (CPA) certification from the state of Missouri in 1989.

2 My CPA license number is 2004012798.

3
4 Q. HAVE YOU RECEIVED SPECIALIZED TRAINING RELATED TO PUBLIC
5 UTILITY ACCOUNTING?

6 A. Yes. In addition to being employed by the Missouri Office of the Public Counsel
7 since July 1990, I have attended the NARUC Annual Regulatory Studies
8 Program at Michigan State University, and I have also participated in numerous
9 training seminars relating to this specific area of accounting study.

10
11 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC
12 SERVICE COMMISSION (COMMISSION OR MPSC)?

13 A. Yes, I have testified on numerous issues before this Commission. Please refer
14 to Schedule TJR-1, attached to this testimony, for a listing of cases in which I
15 have submitted testimony.

16
17 **II. PURPOSE OF TESTIMONY**

18 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

19 A. I am sponsoring the Public Counsel's positions regarding various project costs
20 written off or re-classed by Company and ratemaking treatment of the 2007 Ice
21 Storm costs.

1
2 **III. EXPENSED PROJECT COSTS**

3 Q. WHAT IS THE ISSUE?

4 A. The issue concerns costs incurred by Company to evaluate its possible participation
5 in the Sand Sage project at the Sunflower Holcomb station in Garden City,
6 Kansas, a feasibility and cost estimation study for future base load coal-fired
7 unit(s) at its Asbury power station, future wind projects and an Asbury alternative
8 rail spur.
9

10 Q. WHAT ARE THE COSTS AT ISSUE?

11 A. On or about August and December 2006, Company wrote off to an expense
12 account costs totaling \$531,467.10 which pertain to the Sand Sage project and
13 the Asbury feasibility/cost estimation study, and in September 2007 it wrote off to
14 an expense account \$834.50 related to future wind projects. In addition, in
15 September 2007, Company re-classed \$84,327.41 related to an Asbury
16 alternative rail spur to an expense account.
17

18 Q. IS COMPANY REQUESTING RECOVERY OF THE COSTS IT WROTE OFF?

19 A. Yes. After discovering that the Sand Sage and Asbury costs were written off, I
20 requested information from Company to ascertain whether it is requesting

1 recovery of the costs from ratepayers in the instant case. Company's response
2 to OPC Data Request No. 1017 states:

3
4 These costs are included in the requested cost recovery. Details
5 are as follows:

6	923045	\$100,338.91	Write Off SandSage Project
7	923045	163,439.26	MP8868C-ASB Future Coal Invest
8	923045	19,017.16	MP9242C-Site Surv RFP Fut Coal
9	923045	<u>198,671.77</u>	MP9244C-Air Permit Fut Coal
10	Total	\$481,467.10	

11
12
13
14 Subsequent to its first response to OPC Data Request No 1017, Company provided
15 the following e-mail prepared by Empire employee, Mr. Blake Mertens:

16
17 **From:** Blake Mertens
18 **Sent:** Friday, February 15, 2008 3:10 PM
19 **To:** Jayna Long
20 **Subject:** RE: Case No. ER-2008-0093 (OPC DR 1017)

21 Sandsage Project – Feasibility and due diligence related to participation in
22 the Sand Sage project at the Sunflower Holcomb station.

23
24 ASB Future Coal Investment – Feasibility and cost estimation study for
25 future base load coal-fired unit(s) at the Asbury power station.

26
27 Site Survey RFP Future Coal Project – Site surveying to allow for
28 conceptual layout of possible future coal unit(s) at Asbury.

29
30 Air Permit For The Future Coal Project – Air monitoring equipment and
31 consulting charges related to pre-filing activities for an air permit
32 application for possible future Asbury coal-fired unit(s).

33
34 Let me know if further details are required.
35

Blake Mertens

1
2
3
4 Q. DID THE COMPANY'S RESPONSE TO OPC DATA REQUEST NO. 1017
5 IDENTIFY ALL THE COSTS RELATED TO THE CANCELLED SAND SAGE AND
6 ASBURY PROJECTS?

7 A. No. My review of the Company's general ledger indicates that an additional
8 \$50,000 related to the Sand Sage project was written off to Uniform System of
9 Accounts (USOA) Account 921102. Thus, the total actual Sand Sage and Asbury
10 costs written off to expense approximates \$531,467.10. Furthermore, my review of
11 USOA Account 183000 indicates that \$114,160.56 of additional costs incurred for
12 the cancelled Asbury project (i.e., job order MP9241C-Air Mon Fut Coal Gener) still
13 reside in the account. Though not yet written off to an expense account the
14 \$114,160.56 should ultimately be treated the same for regulatory ratemaking as the
15 costs already identified in OPC Data Request No. 1017.

16
17 Q. HAS THE PUBLIC COUNSEL REQUESTED THAT THE COMPANY EXPLAIN ITS
18 RATIONALE FOR SEEKING COST OF SERVICE EXPENSE TREATMENT OF
19 THE SAND SAGE AND ASBURY WRITE OFF FROM RATEPAYERS?

20 A Yes. OPC issued Data Request No. 1018 which seeks Company's rationale for
21 including in its requested rate recovery the projects costs along with authoritative

1 accounting literature and Commission orders which support that position. The
2 Company response to OPC Data Request No. 1018 is currently outstanding.
3

4 Q. HAS THE PUBLIC COUNSEL REQUESTED THAT THE COMPANY EXPLAIN ITS
5 RATIONALE FOR SEEKING COST OF SERVICE EXPENSE TREATMENT OF
6 THE FUTURE WIND PROJECTS WRITE OFF FROM RATEPAYERS?

7 A Yes. These costs were discovered subsequent to those associated with the Sand
8 Sage and Asbury projects; however, OPC has recently issued a data request to the
9 Company seeking the same type of information for this write off as requested in
10 OPC Data Request Nos. 1017 and 1018. The Company response to the OPC
11 data request is currently outstanding.
12

13 Q. WHAT IS PUBLIC COUNSEL'S CONCERN WITH THE ASBURY ALT RAIL
14 SPUR RECLASSIFICATION?

15 A. Public Counsel is concerned that these costs may actually be a rate base item
16 associated with the recent Riverton Unit 12 construction project. If that is the
17 case, these costs should not be treated as an expense, as proposed by the
18 utility, in the determination of the utility's rates.
19

1 Q. HAS THE PUBLIC COUNSEL REQUESTED THAT THE COMPANY EXPLAIN ITS
2 RATIONALE FOR SEEKING COST OF SERVICE EXPENSE TREATMENT OF
3 THE ALT RAIL SPUR RECLASSIFICATION FROM RATEPAYERS?

4 A. Yes. Similar to the future wind projects cost write off, these costs were discovered
5 in the audit subsequent to those associated with the Sand Sage and Asbury
6 projects; however, OPC has recently issued a data request to the Company seeking
7 the same type of information for this re-classification as requested in OPC Data
8 Request Nos. 1017 and 1018. The Company response to the OPC data request
9 is currently outstanding.
10

11 Q. DOES PUBLIC COUNSEL BELIEVE THAT COMPANY'S POSITIONS ON
12 RECOVERY OF THE PROJECT COSTS WRITTEN OFF AND RECLASSIFIED IS
13 APPROPRIATE?

14 A. No. Public Counsel believes that the costs associated with the cancelled projects
15 should not be recovered from ratepayers as proposed by the utility. These costs
16 are not representative of normal ongoing operating expenses. They are costs
17 associated with the development of potential future investment and had the projects
18 been pursued most likely would have been capitalized as part of the investment's
19 total costs. However, since the projects were cancelled, and no used and useful
20 investment to rate base actually occurred, the costs should be disallowed.
21 Whereas, the Asbury Alt Rail Spur Reclassification may be a cost more appropriate

1 for inclusion in the utility's rate base if it is in fact an appropriate cost to include in the
2 determination of Company future rates.

3
4 **IV. JANUARY 2007 ICE STORM**

5 Q. WHAT IS THE ISSUE?

6 A. In Mid-January 2007 winter ice storms passed through the Company's service area
7 causing significant damage to its distribution and transmission systems. According
8 to the Company, the restoration efforts, which were completed on or about January
9 26, 2007, forced it to incur substantial extraordinary costs.

10
11 Q. WHAT ARE THE COSTS AT ISSUE?

12 A. Company's response to MPSC Data Request No. 200 shows that the costs incurred
13 to restore the systems to proper operation totaled approximately \$31,913,677.
14 Company assigned approximately \$19,163,129 of the costs incurred to capital and
15 removal items. After adjustment by the utility for normal period costs, the remaining
16 \$11,512,485 has been defined by the utility as expense related.

17
18 Q. DOES THE PUBLIC COUNSEL OPPOSE THE COMPANY'S PROPOSED
19 RECOVERY OF THE COSTS ASSOCIATED WITH THE CAPITAL AND
20 REMOVAL ITEMS IT BOOKED?

21 A. No.

1
2 Q. DOES THE PUBLIC COUNSEL BELIEVE THAT THE COMPANY SHOULD BE
3 ALLOWED RATEMAKING RECOVERY OF THE EXPENSE-RELATED COSTS IT
4 HAS IDENTIFIED?

5 A. Yes.

6
7 Q. HOW DOES THE PUBLIC COUNSEL PROPOSE THAT THE EXPENSE-
8 RELATED COSTS BE RECOVERED BY THE COMPANY?

9 A. Public Counsel recommends that the utility be allowed to amortize the costs to rates
10 over a period of five years beginning in the month following the month that the ice
11 storms actually occurred.

12 Q. WHAT AMOUNT OF EXPENSE-RELATED COSTS DOES PUBLIC COUNSEL
13 RECOMMEND BE INCLUDED IN THE DETERMINATION OF COMPANY'S
14 RATES FOR THE INSTANT CASE?

15 A. Amortizing the \$11,512,485 over five years yields an annual operating expense of
16 approximately \$2,302,497. Since the Company actually booked ice storm costs of
17 \$5,124,812 to expense during calendar year 2007, an adjustment is required to
18 reduce the recorded expenses by approximately (\$2,822,315). Commission
19 adoption of the Public Counsel's recommendation will result in a remaining
20 unamortized balance, at December 31, 2007, of approximately \$9,401,863. The

1 amortization of this balance would occur ratably over a period ending January 31,
2 2012.
3

4 Q. WHY HAS THE PUBLIC COUNSEL RECOMMENDED THAT THE COMPANY BE
5 AUTHORIZED TO BEGIN AMORTIZING THE EXPENSES IN THE MONTH
6 AFTER THE ICE STORM OCCURRED?

7 A. In order to be consistent with Commission and utility treatment of similar costs in
8 other cases, e.g., Aquila Inc., EU-2002-1053 and EU-2008-0233, Public Counsel
9 believes that the amortization of the ice storm expenses should begin in the month
10 after the month that the ice storms occurred. Furthermore, Public Counsel believes
11 utilities should not be allowed to "manage" their earnings for financial reporting
12 purposes by delaying the start of the amortization for extraordinary costs that absent
13 deferral would be expensed in the year incurred in their entirety; thus, decreasing
14 earnings for that year. Extraordinary events are a risk of business and business risk
15 is an essential component of an authorized rate of return. To completely shield a
16 utility from the business risk of extraordinary events that negatively impact earnings
17 would obviate the need to include business risk in the rate of return determination.
18

19 Q. DOES PUBLIC COUNSEL RECOMMEND RATE BASE TREATMENT FOR ANY
20 UNAMORTIZED JANUARY 2007 ICE STORM EXPENSE?

1 A. No. Rate base represents a capital investment; whereas, the costs in this issue
2 have been defined by the utility as expense-related. These costs are not the result
3 of investment in new or old plant in service. The costs associated with those items
4 have already been included in Company's rate base and are not being challenged
5 by OPC; thus, the utility should not be allowed to earn a return on the unamortized
6 expense balance.

7
8 Q. DID THE COMPANY ALSO BOOK COSTS ASSOCIATED WITH A DECEMBER
9 2007 STORM?

10 A. Yes. Company booked approximately \$7.87 million to USOA Account 186942 and
11 approximately \$1.84 million to USOA Account 593560 during December 2007.

12
13 Q. WHAT IS THE PUBLIC COUNSEL'S RECOMMENDATION FOR THE
14 RATEMAKING TREATMENT OF THE DECEMBER 2007 STORM COSTS?

15 A. It is the Public Counsel's belief that the December 2007 storm costs should not be
16 allowed in the determination of rates for the instant case. Even though the costs
17 were incurred within the Commission authorized update period for the instant case,
18 because the storm occurred so late in the year, I believe it unlikely that all
19 associated costs have been identified and booked; thus, inclusion in rates would be
20 premature due to the fact that a complete audit of the costs has not occurred.
21 However, Public Counsel does recommend that the Commission grant the utility an

Direct Testimony of Ted Robertson
Case No. ER-2008-0093

1 ~~the~~ accounting authority order to defer the costs subject to conditions authorized in
2 similar recent accounting authority orders.
3

4 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

5 A. Yes, it does.

**CASE PARTICIPATION
OF
TED ROBERTSON**

<u>Company Name</u>	<u>Case No.</u>
Missouri Public Service Company	GR-90-198
United Telephone Company of Missouri	TR-90-273
Choctaw Telephone Company	TR-91-86
Missouri Cities Water Company	WR-91-172
United Cities Gas Company	GR-91-249
St. Louis County Water Company	WR-91-361
Missouri Cities Water Company	WR-92-207
Imperial Utility Corporation	SR-92-290
Expanded Calling Scopes	TO-92-306
United Cities Gas Company	GR-93-47
Missouri Public Service Company	GR-93-172
Southwestern Bell Telephone Company	TO-93-192
Missouri-American Water Company	WR-93-212
Southwestern Bell Telephone Company	TC-93-224
Imperial Utility Corporation	SR-94-16
St. Joseph Light & Power Company	ER-94-163
Raytown Water Company	WR-94-211
Capital City Water Company	WR-94-297
Raytown Water Company	WR-94-300
St. Louis County Water Company	WR-95-145
United Cities Gas Company	GR-95-160
Missouri-American Water Company	WR-95-205
Laclede Gas Company	GR-96-193
Imperial Utility Corporation	SC-96-427
Missouri Gas Energy	GR-96-285
Union Electric Company	EO-96-14
Union Electric Company	EM-96-149
Missouri-American Water Company	WR-97-237
St. Louis County Water Company	WR-97-382
Union Electric Company	GR-97-393
Missouri Gas Energy	GR-98-140
Laclede Gas Company	GR-98-374
United Water Missouri Inc.	WR-99-326
Laclede Gas Company	GR-99-315
Missouri Gas Energy	GO-99-258
Missouri-American Water Company	WM-2000-222
Atmos Energy Corporation	WM-2000-312
UtiliCorp/St. Joseph Merger	EM-2000-292
UtiliCorp/Empire Merger	EM-2000-369
Union Electric Company	GR-2000-512
St. Louis County Water Company	WR-2000-844
Missouri Gas Energy	GR-2001-292
UtiliCorp United, Inc.	ER-2001-672
Union Electric Company	EC-2002-1
Empire District Electric Company	ER-2002-424

Schedule TJR-1.1