Exhibit No. 12NP
Issue: Missouri Jurisdictional Revenue, Rate Base Adjustments, Capital Structure Adjustments and Tariff Changes
Witness: Jayna R. Long
Type of Exhibit: Direct Testimony
Sponsoring Party: Empire District Electric
Case No.
Date Testimony Prepared: October 2007

Before the Public Service Commission of the State of Missouri

Direct Testimony

of

Jayna R. Long

October 2007

****Denotes Highly Confidential****

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OF
JAYNA R. LONG
ON BEHALF OF
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION

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DIRECT TESTIMONY
OF
JAYNA R. LONG
THE EMPIRE DISTRICT ELECTRIC COMPANY
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INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Jayna R. Long. My business address is 602 Joplin Street, Joplin, Missouri.

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

A. The Empire District Electric Company ("Empire" or "Company"), as a Regulatory Analyst.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND FOR THE COMMISSION.

A. I hold a Bachelor of Science degree in Business Administration with majors in accounting and marketing from Missouri Southern State University. I was employed by Leggett & Platt, Inc. immediately following my graduation in 1993 where I held various positions as an accountant at the Corporate Office and then was promoted to Division Controller. I have also served as a Plant Controller for Invensys Inc. and Controller for Clark Industries. In May 2001, I joined Empire as a Senior Internal Auditor where I remained until October 2003. At that time, I accepted my current position.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION

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("COMMISSION")?

A. My testimony will provide an explanation of the adjustments made to Empire's Missouri jurisdictional revenue for the test year which is the twelve months ending June 30, 2007. I will also describe the adjustments made to rate base for prepayments, materials and supplies, fuel inventory and depreciation reserve. Next, I will explain an adjustment made to the capital structure. Lastly, I will discuss changes to various tariffs.

REVENUE ADJUSTMENTS

Q. PLEASE IDENTIFY THE REVENUE ADJUSTMENTS THAT HAVE BEEN MADE TO MISSOURI JURISDICTIONAL REVENUE.

A. Total Company and Missouri jurisdictional revenues included in the test year have been adjusted to reflect customer growth as of June 30, 2007, normalized weather, and to reflect the rate increase authorized by the Commission in Case No. ER-2006-0315. Furthermore, kilowatt-hour ("kWh") sales and revenue were adjusted to reflect the effect of unbilled sales and revenues in order to properly match test year generation and fuel and purchased power expense. In addition, an adjustment was made to remove the stockholders' share of the Praxair credit, excess facilities revenue was annualized, city franchise taxes were eliminated, miscellaneous revenues related to the water business were removed and the gain on the disposition of allowances was reclassified to operating income.

Customer Growth Adjustment

Q. PLEASE EXPLAIN THE ADJUSTMENT RELATED TO CUSTOMER GROWTH.

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A. Missouri jurisdictional revenues have been adjusted to reflect the revenue that would have been generated if the number of Empire customers existing at June 30, 2007 had been served by the Company for the entire test year. For the residential customer class and commercial classes of CB, SH and TEB and industrial group GP, the differences between the June 30, 2007 level of customers and the average customers billed in each month of the test year were multiplied by the average weather normalized kWh per customer for that month. The resulting change in kWh sales was then multiplied by the average class weather normalized cost per kWh to obtain the revenue adjustment related to customer growth.

The industrial customer class LP was reviewed on an individual customer basis to calculate the impact of customer growth on revenue. This individual customer approach was used due to the fact that LP customers have a high usage per customer and any changes in customer load patterns due to anomalies can have a significant impact on revenue.

In total the customer growth adjustment to revenue resulted in an increase of $2,133,403 in revenue and an increase in kWh sales of 28,434,900.

Weather Normalization Adjustment

Q. WAS THE REVENUE ADJUSTED FOR THE AFFECT OF WEATHER?

A. Yes. The test year sales and revenue were adjusted to account for the impact of abnormal weather. The calculation of the weather normalized sales is presented in the direct testimony of Mr. Mark Quan of Itron, Inc.

Q. HOW WAS THE REVENUE ADJUSTMENT DUE TO WEATHER CALCULATED?

A. The historical kWh consumption for the jurisdictions was extracted from the determinant files. The data was then categorized for rates based upon the summer and winter billing steps and a monthly percentage per billing step was created using this data. Customer numbers were also extracted from the file and a historical Use-Per-Customer ("UPC") was created. A regression analysis was then performed with the UPC and the monthly billing step percentage. Next, a weather normal UPC was created using the historical customer count and the weather-normal sales provided by Metrix, a statistical model. Using the weather normal sales and the forecasted step percentage, a weather-normal sales forecast per rate block was created. The weather-normal sales forecast per rate block was then multiplied by the rates provided by the tariff and averaged monthly, to create a weather normal monthly rate by billing step.

The rates were then applied to the sales adjustment derived by Empire witness Mr. Quan. The adjustment for weather resulted in a decrease to revenue of $3,334,454 and a decrease to kWh sales of 34,316,095.

<u>Rate Increase</u>

Q. WHY DID YOU MAKE A REVENUE ADJUSTMENT RELATED TO THE RATE INCREASE AUTHORIZED BY THE COMMISSION IN CASE NO. ER-2006-0315?

A. A rate increase became effective on January 1, 2007, as a result of the Commission's decision in Case No. ER-2006-0315. The test year does not include a full year of the rate increase. Therefore an adjustment is needed to reflect the increase in revenues for the portion of the year that the rate increase was not in effect.

Q. PLEASE EXPLAIN.

A. The rate increase authorized by the Commission in Case No. ER-2006-0315 resulted in an overall increase in revenue of 9.96%. This was comprised of two components. The first component was an increase in base revenue of approximately 13.35%. This resulted in an adjustment to increase revenue of $21,129,279. The second component was related to an elimination of the Interim Energy Charge revenues. This adjustment resulted in a decrease in revenue for purposes of this case of $4,976,183.

Unbilled Revenue

Q. PLEASE DESCRIBE THE ADJUSTMENT RELATED TO UNBILLED REVENUE.

A. The revenue in the test year should equal the amount actually billed to customers and the portion of sales that were used but not billed during the test year. While the amount of revenues actually billed to customers is known, the portion not yet billed to customers is not known and therefore must be estimated. This adjustment is calculated by estimating the unbilled sales by pricing plan and then applying a rate per kWh to the net unbilled sales. The sales adjustment for the RG, CB, SH, TEB and GP pricing plans was calculated by Empire Witness Mr. Quan. Details of the calculation may be found in his direct testimony. The LP customers were computed on an individual customer basis. The rates applied to the unbilled sales adjustment were the same rates used in the weather adjustment I described earlier in this testimony.

The unbilled revenue adjustment in this rate case is comprised of two components, the calculated revenue adjustment and a reversal of the unbilled revenue adjustment recorded on Empire's financial statement. Empire made a revision to the estimate of unbilled revenues during the test year. Therefore, the level of unbilled revenue reflected in Empire's financial statements could not be used for the test year as had been the case in previous rates cases. This adjustment resulted in a decrease to rate revenue of $6,743,472.

Praxair Credit

Q. PLEASE DESCRIBE THE ADJUSTMENT DUE TO THE PRAXAIR CREDIT.

A As part of a unanimous stipulation and agreement reached in Case No. ER-2001-299, Empire agreed that it would absorb the cost related to an additional credit given to Praxair of $1.1 per KW/month. Consequently, an adjustment to increase rate revenue in the amount of $100,320 has been made for this purpose.

City Franchise Taxes

Q. PLEASE EXPLAIN THE ADJUSTMENT TO ELIMINATE CITY FRANCHISE TAXES.

A City franchise tax is not a revenue source designed to be collected through the application of a Commission-approved tariff. It is a municipal tax that Empire is obligated to collect and remit to the various municipalities where the Company provides electric service. Although there is no impact on Empire's earnings related to city franchise taxes because it is offset by an equal amount of expense, it is more appropriate for this case if Empire's revenue requirement reflects only the revenue that will be generated through the application of approved Commission tariffs and does not reflect the revenue associated with franchise taxes. The adjustment to eliminate the city franchise from revenue of $6,363,093 has been reflected as both a reduction in revenue and a reduction in taxes other than income taxes.

Other Revenue Adjustments

Q. WHAT OTHER ADJUSTMENTS WERE MADE TO REVENUE?

A There were three more adjustments made to revenue. These adjustments include the normalization of excess facilities revenue, elimination of miscellaneous revenues related to Empire's water business and a reclassification of gain on disposition of allowances.

The excess facilities revenue is related to a charge based on the Rider XC. This charge is related to the excess facilities that Empire is required to install at a customer's request. If this occurs, Empire and the customer enter into a contract for the additional charge (excess facilities) to the customer. Those amounts under contract at June 30, 2007 were annualized and compared to the excess facilities revenue actually recorded during the test year. The difference between these two amounts resulted in an adjustment of $44,308 in additional excess facilities revenue.

Forfeited discounts and return check fees related to the water business are recorded in other revenue. In order to eliminate this revenue from the electric rate case an adjustment of $10,469 has been made.

The final revenue adjustment is related to the gain on disposition of allowances. This adjustment increases operating income by $69,500. For financial statement purposes, these sales are booked below the line in non-operating income. For the rate case, an adjustment is required to reclassify these sales so that they are reflected in operating income.

RATE BASE ADJUSTMENTS

Q. PLEASE DESCRIBE THE ADJUSTMENT MADE TO PREPAYMENTS.

A Empire records a prepaid asset for the Elk River Farm wind contract. For two months during the test year, the amount recorded in the prepaid asset was not equal to the remainder of the months due to non-recurring events. The adjustment to increase prepayment by $71,481 was needed to normalize the account.

Q. WHY WAS AN ADJUSTMENT TO MATERIALS AND SUPPLIES NEEDED?

A. The material and supplies inventory recorded on the Empire balance sheet includes inventory for both the electric and water business. These inventories are tracked separately on a manual spreadsheet. An adjustment of $34,013 was needed to reduce materials and supplies levels for the amount related to Empire's water business.

Q. WHAT ADJUSTMENT WAS MADE TO THE FUEL INVENTORY?

A. Asbury has a surplus of blend coal due to a blend coal contract terminating at the end of 2007. A replacement contract for 2008 is expected to be priced significantly higher so Empire has been acquiring as much blend coal as possible under the 2007 contract price in an effort to take advantage of a lower commodity price. In order to normalize the fuel inventory level, an adjustment of $388,914 has been made to reduce the level of the coal inventory to sixty days, a level of inventory within the Company guidelines.

Q. PLEASE EXPLAIN THE ADJUSTMENT MADE TO THE DEPRECIATION RESERVE.

A As noted in the direct testimony of Company witness Mr. Mike Palmer, the Empire electric system suffered significant damage during an ice storm in January 2007. As a result of the damage, Empire was forced to retire damaged assets. During this retirement process significant costs were incurred. The depreciation reserve at the end of the test year did not yet reflect the write-off of the original cost of all of the items retired due to the ice storm. Therefore, an adjustment to increase Depreciation Reserve by $1,887,636 total Company was needed to reflect the remaining cost of removal associated with the ice storm.

CAPITAL STRUCTURE

Q. WHAT CAPITAL STRUCTURE IS EMPIRE PROPOSING IN THIS RATE CASE?

A Empire is using the consolidated capital structure at June 30, 2007, with two adjustments.

Q. PLEASE EXPLAIN THESE ADJUSTMENTS.

A. The first adjustment eliminates short-term debt from the capital structure. The Company uses short-term debt to finance the construction work in progress. Historically, both the Commission Staff and the Company have excluded short-term debt from the capital structure if the balance of short-term debt is less than that of construction work in progress. At the end of the test year, the short-term debt balance was lower than construction work in progress and an adjustment of $49,842,000 was made to eliminate short-term debt from the capital structure.

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<u>TARIFF CHANGES</u>

Q. IS EMPIRE PROPOSING ANY CHANGES TO THE TARIFFS OR RULES AND REGULATIONS OUTSIDE OF THE FUEL ADJUSTMENT AND RATE INCREASE?

A Yes, Empire is proposing four changes. This includes a change in the General Power Service Schedule GP referencing the excess facilities charge, Chapter III, Section D of the Rules and Regulations, the addition of a late payment fee for the Special Transmission Service Contract: Praxair Schedule SC-P, and a change in the late payment fees for Schedules Large Power LP, General Power GP and Total Electric Building TEB.

Q. PLEASE PROCEED.

A. The first change Empire is requesting is to the General Power Service Schedule GP. This tariff, unlike the other tariffs does not reference the application of the

Rider XC. To be consistent among pricing plans, Empire is proposing the following verbiage be added as a new Conditions of Service: "Where the customer's use of welding, or other equipment characterized by fluctuating or severe demands, or the need for multiple or oversized transformers, necessitates the installation of additional or increased facilities (including distribution transformers, service conductors or secondaries) solely to serve such customer, the applicable provisions of Rider XC will apply in amendment to the provisions of this schedule."

Q. WHAT OTHER CHANGES IS EMPIRE RECOMMENDING?

A. The second change that Empire is proposing is in regards to the Rules and Regulations. In Chapter III – Service Specifications, the Company is requesting the addition of a 3rd item to Section D. Power Supply: "For any poly-phase services, the Customer is responsible for protecting motors and other equipment from damage in case of a single phasing condition on the Company's distribution and/or transmission systems. This removes Empire from any liability associated with "loss of phase" on the Company's distribution and/or transmission systems caused by weather, accidents, or other factors beyond the Company's control."

Q. PLEASE EXPLAIN YOUR RECOMMENDATION REGARDING THE PRAXAIR SCHEDULE SC-P.

A. Empire's proposes to add a late payment fee to the Special Transmission Service Contract: Praxair, Schedule SC-P. This tariff does not include a late payment fee as do the Company's other rate schedules. Empire is requesting that the following paragraph be added to the tariff to provide consistency: "PAYMENT: The above rate applies only if the bill is paid on or before fifteen (15) days after the date thereof. If not so paid, the above rate plus 5% then applies.

Q. WHAT IS YOUR FINAL RECOMMENDATION?

A. Empire's final proposal is a change in the late payment fee for the following three schedules: Large Power LP, General Power GP and Total Electric Power TEB. Empire request the late payment fees for these rates be structured and charged the same percent (5 %) as the Commercial CB, and Small Heating SH.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A Yes, it does.

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