

Exhibit No.:
Issues: Regulatory Plan
Amortizations
Witness: Mark L. Oligschlaeger
Sponsoring Party: MoPSC Staff
Type of Exhibit: Responsive Testimony
Case No.: ER-2008-0093
Date Testimony Prepared: May 9, 2008

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

RESPONSIVE TESTIMONY

OF

MARK L. OLIGSCHLAEGER

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2008-0093

*Jefferson City, Missouri
May, 2008*

~~STAFF~~ Exhibit No. 221
Case No(s) ER-2008-0093
Date 5-12-08 Rptr. KF



1 | issue, the Staff is filing this responsive testimony in order to have an opportunity to address
2 | the Company's arguments in prefiled testimony.

3 | Q. What ice storm costs are at issue in the context of the Staff's RPA calculation?

4 | A. The costs at issue here are recovery and repair costs associated with two
5 | different ice storm events that struck Empire's service territory, the first in January 2007 and
6 | the second in December 2007.

7 | Q. Did Empire seek recovery of these ice storm costs in its direct filing?

8 | A. Empire sought a five-year amortization to expense of the January 2007 ice
9 | storm costs, with rate base treatment given to the unamortized balance of costs. Since the
10 | Company filed this rate case on October 1, 2007, the December 2007 additional ice storm
11 | costs were not anticipated in its direct filing. Although Empire proposed an amortization of
12 | the January 2007 ice storm costs, Empire did not reflect its requested amortization of
13 | January 2007 ice storm costs as additional cash flow in the RPA calculation attached to the
14 | direct testimony of Empire witness, Robert W. Sager.

15 | Q. Please describe what ice storm costs are included in the Staff's direct case and
16 | in its direct case RPA calculations.

17 | A. The Company's January 2007 ice storm is reflected in the Staff's direct filing
18 | revenue requirement recommendation through a five-year amortization to expense, with no
19 | rate base treatment for the unamortized balance. This amortization is also reflected in the
20 | Staff's direct case RPA calculation. No December 2007 ice storm costs were recognized in
21 | the Staff's direct filing.

22 | Q. Where are the January 2007 ice storm costs reflected in the RPA calculation
23 | attached to Appendix 6 to the Staff's COSR?

1 A. These costs are included in Line 35 of Appendix 6, "Amortization." The
2 amount shown on Line 35 includes other elements of what Staff believes is proper recognition
3 of Empire's amortization expense besides the January 2007 ice storm amortization, including
4 amortizations associated with equity issuance costs and customer demand programs.

5 Q. Is the Staff now recognizing December 2007 ice storm costs in its case?

6 A. Yes. A *Partial Stipulation and Agreement* filed with the Commission on
7 April 4, 2008, called in concept for inclusion in Empire's revenue requirement of a five-year
8 amortization with no rate base treatment for the recovery costs for the December 2007 ice
9 storm as well. Since that agreement was filed, the amount of the five-year amortization to
10 expense has been quantified and agreed to by the Staff, and Empire, and included in their
11 respective revenue requirement recommendations. Consistent with its treatment of the
12 January 2007 ice storm amortization within the RPA calculation, the Staff has also reflected
13 the December 2007 ice storm amortization in its current RPA calculation.

14 Q. Is the Staff's current RPA calculation included in this testimony?

15 A. Yes, as Schedule 1. The amount shown in Schedule 1 at Line 35,
16 "Amortization," includes both the January 2007 and December 2007 ice storm amortizations.

17 Q. Why are the ice storm amortizations properly includable in the RPA
18 calculation?

19 A. They should be included because they affect the Company's cash flow. As
20 previously discussed in Staff testimony filed in this case, the RPA mechanism's basic purpose
21 is to safeguard Empire's current investment grade credit ratings by attempting to ensure that
22 the Company's cash flow, resulting from the ratemaking process, is sufficient to sustain its
23 current investment grade credit ratings.

1 Q. How does the RPA calculation measure the Company's cash flow?

2 A. One of the key components of Empire's RPA calculation is a measurement of
3 its "funds from operations" (FFO), another term for cash flow. Like all cash flow
4 measurements involving regulated utilities that I am aware of, the FFO calculation within the
5 RPA uses as a starting point the Company's operating income result, shown on Line 31 of
6 Schedule 1, assuming full traditional rate relief. (What is entitled "operating income" in the
7 RPA calculation on Schedule 1 is sometimes referred to as "net operating income," or NOI, in
8 utility ratemaking. I will refer to it in this testimony as operating income.) Then, interest
9 expense (Line 33) is subtracted from operating income, as interest payments are a cash outlay
10 by a utility that are not recognized as an expense to derive the operating income amount.
11 Finally, depreciation expense, amortization expense and deferred income tax expense (Lines
12 34-36) are all added to operating income as these items are reflected as a reduction to income
13 in the operating income calculation, but these charges do not require an associated cash
14 outlay. The net result is Empire's FFO amount, shown on Line 37 of Schedule 1.

15 Q. Why is amortization expense considered to increase cash flow, or FFO, in the
16 RPA calculation?

17 A. Amortization expense is a ratable charging to expense of a past cost over a
18 period of time. In the ratemaking context, amortizations occur when a utility incurs a cost in
19 one year, and then is allowed to recover those costs in rates in equal annual amounts over a
20 subsequent multi-year period. During the period of rate recovery, amortizations will mean
21 increased cash flow to a utility, as its cash revenues will grow on account of the inclusion of
22 amortization expense in rates, but it will incur no cash outlay in relation to its booked
23 amortization expense.

1 Q. Was Empire's amortization expense reflected in the Staff's RPA calculation in
2 its last rate proceeding, Case No. ER-2006-0315?

3 A. Yes. This included amortization expense recorded by Empire in relation to
4 equity issuance costs, prior Asbury station "relocation" costs, and customer demand program
5 costs. Empire did not challenge in any way the Staff's treatment of amortization costs in the
6 RPA calculation in the 2006 rate case. Amortization expense has also been included in the
7 RPA calculations for the last two KCPL rate proceedings, Case Nos. ER-2007-0291 and
8 ER-2006-0314.

9 Q. In his surrebuttal testimony, Mr. Sager objects to inclusion of ice storm
10 amortization costs in the RPA calculation on the grounds that the unamortized portion of ice
11 storm costs are not included in rate base. Do you agree with this criticism?

12 A. No. The RPA mechanism is intended as a measure of cash flow, and recovery
13 of amortization expenses in rates is a positive impact on utility cash flow, whether the costs
14 that give rise to the amortization are included in rate base or not. Moreover, Mr. Sager is not
15 consistent in his criticism with other components of amortization expense included in the
16 RPA calculation. For example, the Staff has reflected amortization expense in this case and in
17 the Company's prior rate case (Case No. ER-2006-0315) relating to Empire's past equity
18 issuance costs, and has included that amortization expense in the Company's RPA
19 calculations in both cases. Notwithstanding the fact that the Staff did not include the
20 unamortized balance of debt issuance costs in its rate base in either case, Empire did not
21 object to the inclusion of amortization expense associated with the debt issuances component
22 in the RPA calculations in this case or the 2006 rate case.

Responsive Testimony of
Mark L. Oligschlaeger

1 Q. Has Mr. Sager presented any evidence that Standard & Poors' and other credit
2 rating agencies do not analyze Empire's cash flow in the same manner as depicted in the
3 Staff's RPA calculations, including its treatment of the ice storm amortizations?

4 A. No, he has not. To the best of the Staff's knowledge, the Staff's position of
5 including ice storm amortizations in the RPA calculations as an enhancement to cash flow
6 would be consistent with how the credit rating agencies would view this matter.

7 Q. Does this conclude your responsive testimony?

8 A. Yes, it does.

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) Case No. ER-2008-0093
Electric Service Provided to Customers in the)
Missouri Service Area of the Company)

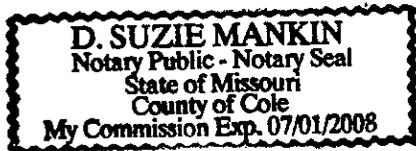
AFFIDAVIT OF MARK L. OLIGSCHLAEGER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Mark L. Oligschlaeger, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Responsive Testimony in question and answer form, consisting of 6 pages to be presented in the above case; that the answers in the foregoing Responsive Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Mark L. Oligschlaeger
Mark L. Oligschlaeger

Subscribed and sworn to before me this 9th day of May, 2008.



D. Suzie Mankin
Notary Public

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Calculation of Amortization to meet Financial Ratio Targets
Case No. ER-2008-0093, Empire District Electric

5/6/2008

		Total Company	Juris Alloc
Additional Net Balance Sheet Investment	(numeric value for this case only)		94,500,000
Rate Base	Staff Acct. Schedule 2 *		680,270,235
Jurisdictional Allocation for Capital			0.837404
Total Capital	L5+L6		774,770,235
Equity	Barnes Workpapers	0.5082	393,738,233
Trust Preferred	Barnes Workpapers	0.0458	35,484,477
Long-term Debt	Barnes Workpapers	0.4461	345,625,002
Cost of Debt	Barnes Workpapers		6.80%
Interest Expense	L12 * L13 (+\$2,125,000 (TOPRs))		25,627,500
Electric Sales Revenue	Staff Acct. Schedule 9, L.1-2; + Rate Increase		363,022,485
Other Electric Operating Revenue	Staff Acct. Schedule 9, L.3		3,010,138
Water Revenue			
Operating Revenue	L16 + L17		366,032,623
Operating and Maintenance Expense	Staff Acct. Schedule 9, L.94 (less cust deposits)		220,775,963
Depreciation	Staff Acct. Schedule 9, L.97		34,764,791
Amortization	Staff Acct. Schedule 9, L.99-100		15,619,601
Interest on Customer Deposits	Staff Acct. Schedule 10, Adj. S-82.1		527,165
Taxes Other than Income Taxes	Staff Acct. Schedule 9, L.101		12,477,212
Federal and State Income Taxes	Staff Acct. Schedule 9, L.112 (plus rate incr. impact)		23,024,516
Gains on Disposition of Plant			
Total Water Operating Expenses			
Total Electric/Water Operating Exp	Sum of L. 21-28		307,189,248
Operating Income - Electric	L19 - L29		58,843,375
Operating Income - Water			
less: Interest Expense	L14		-25,627,500
Depreciation	L22		34,764,791
Amortization			15,619,601
Deferred Taxes	Staff Acct. Schedule 9, L111		-2,884,453
Funds from Operations (FFO)	Sum of L31-36		80,715,814
Additional Financial Information Needed for Calculation of Ratios			
Capitalized Lease Obligations	EDE Accounts 227 + 243	479,951	401,913
Short-term Debt Balance	EDE Form 10-Q, p. 8	33,040,000	27,667,828
Short-term Debt Interest	EDE Accounts 417.891 + 431.400	2,940,317	2,462,233
Cash Interest Paid	Information Supplied by EDE	31,049,437	26,000,923
AFUDC Debt (capitalized interest)	EDE Form 10-Q, p. 4	550,469	460,965
Imputed PPA Debt Amortization		4,679,375	3,918,527
Adjustments Made by Rating Agencies for Off-Balance Sheet Obligations			
Debt Adj for Off-Balance Sheet Obligs			
Operating Lease Debt Equivalent	Information Supplied by EDE	2,937,000	2,459,456
Purchase Power Debt Equivalent	Information Supplied by EDE	63,373,585	53,069,294
Total OSB Debt Adjustment	L52 + I53	66,310,585	55,528,749
Operating Lease Deprec Adjustment	Information Supplied by EDE	1,255,000	1,050,942
Interest Adjustments for Off-Balance Sheet Obligations			
Present Value of Operating Leases	L52 * 6.8%	199,716	167,243
Purchase Power Debt Equivalent	L53 * 6.8%	4,309,404	3,608,712
Total OSB Interest Adjustment	L59 + L60	4,509,120	3,775,955

62			
63		Ratio Calculations	
64	Adjusted Interest Expense	$L14 + L46 + L61$	31,865,688
65	Adjusted Total Debt 12/31/07	$(L11/2) + L12 + L44 + L45 + L54$	446,965,730
66	Adjusted Total Debt 12/31/06	Same as L65, but for prior year	443,934,000
67	Adjusted Total Capital	$L9 + L44 + L45 + L54$	858,368,725
68			
69	Adj. FFO Interest Coverage	$(L37 + L56 + L64 + L49)/L64$	3.69
70	Adj. FFO as a % of Average Total Debt	$(L37 + L56 + L49)/L65$	0.1917
71	Adj. Total Debt to Total Capital	$L65/L67$	0.5207
72			
73		Changes Required to Meet Ratio Targets	
74	Adj. FFO Interest Coverage Target		3.20
75	FFO Adjustment to Meet Target	$(L74 - L69) * L64$	-15,580,769
76	Interest Adjustment to Meet Target	$L37 * (1/L74 - 1) - 1/L69 - 1)$	6,671,425
77			
78	Adj. FFO as a % of Average Total Debt		0.195
79	FFO Adjustment to Meet Target	$(L78 - L70) * L65$	1,473,034
80	Debt Adjustment to Meet Target	$L37 * (1/L78 - 1/L70)$	-7,115,913
81			
82	Adj. Total Debt to Total Capital Target		56.50%
83	Debt Adjustment to Meet Target	$(L82 - L71) * L67$	38,012,599
84	Total Capital Adjustment to Meet Target	$L65/L82 - L67$	-67,278,937
85			
86		Amortization and Revenue Needed to Meet Targeted Ratios	
87	FFO Adj Needed to Meet Target Ratios	Maximum of L75, L79 or zero	1,473,034
88	Effective Income Tax Rate		0.3839
89	Deferred Income Taxes	$L87 * L88 / (1 - L88)$	-917,867
90	Total Amortization Req for FFO Adj	$L87 - L89$	2,390,901
91			
92	* All references to Staff Acct. Schedules tie to schedules supporting amounts reflected in the		
93	Accounting Schedules dated 5/5/08		