

Exhibit No.:  
Issues: *Cash Working Capital*  
Witness: *John M. Kiebel, II*  
Sponsoring Party: *MoPSC Staff*  
Type of Exhibit: *Direct Testimony*  
Case No.: *ER-97-81*

**MISSOURI PUBLIC SERVICE COMMISSION**  
**UTILITY SERVICES DIVISION**

**DIRECT TESTIMONY**

**OF**

**JOHN M. KIEBEL, II**

**THE EMPIRE DISTRICT ELECTRIC COMPANY**

**CASE NO. ER-97-81**

*Jefferson City, Missouri*  
*February 1997*

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Direct Testimony of  
John M. Kiebel, II

1           A.     I worked for the Office of the Comptroller of the Currency in Sioux City,  
2           Iowa, from January 1980 through February 1982. I was an assistant national bank examiner,  
3           participating in the examinations of approximately 40 national banks in the northwest Iowa  
4           and northeast Nebraska. The examinations focused on a review of the banks' capital  
5           structure, quality of assets, overall opinion of management, adequacy of earnings, and the  
6           composition of the banks' liquidity.

7                     I worked for Central Bancompany, Incorporated, in Jefferson City, Missouri,  
8           from February 1982 through July 1984. I was an assistant internal auditor for a large  
9           Missouri privately-held multi-bank holding company. My responsibilities included performing  
10          operational audits in the banks' major balance sheet classifications. I also assisted the firm  
11          of Peat Marwick in its annual audit of the holding company's financial statements.

12                    I have been working for the Commission since August 1984. Most of my  
13          work has been with the Commission's Management Services Department, assessing  
14          management controls and operational efficiencies. I transferred to the Accounting  
15          Department in January 1996.

16           Q.     What has been the nature of your duties while in the employ of the Staff?

17           A.     I have conducted and jointly participated in management audits,  
18          implementation reviews, and special investigations of large electric, water, sewer, natural gas  
19          and telecommunications companies since 1984. A listing of these cases are contained on  
20          Schedule 1.

21           Q.     Have you previously filed testimony before this Commission?

22           A.     Yes. I have filed testimony in the three cases listed below:

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- Southwestern Bell Telephone, Case Nos. TC-89-14, et al.
- KPL/Gas Service, Case No. GR-90-50
- Missouri Public Service, Case Nos. ER-90-101, et al.

Q. Is this your first assignment since your transfer to the Accounting Department?

A. No. I have worked on two informal water rate cases, Schell Sanitation, Incorporated and Raytown Water Company. Both cases were filed under the Commission's Small Company Rate Increase Procedures.

Q. What are your responsibilities with the Commission?

A. I am responsible for assisting in the audits and examination of the books and records of utility companies operating within the state of Missouri.

Q. With reference to Case No. ER-97-81, have you made an examination and study of the books and records of The Empire District Electric Company (Empire or Company)?

A. Yes, with the assistance of other members of the Commission Staff (Staff).

Q. Please identify your principal area of responsibility in Case No. ER-97-81.

A. My principal area of concern is cash working capital (CWC).

Q. Please describe the Accounting Schedule you are sponsoring in this case.

A. I am sponsoring Accounting Schedule 8, Cash Working Capital.

Q. Please describe Accounting Schedule 8, CWC.

A. Accounting Schedule 8 represents the Staff's calculation of the Company's CWC requirement through the use of a lead/lag study. A lead/lag study was performed for the test year ending September 30, 1996.

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1 Q. What is CWC?

2 A. CWC is the amount of cash necessary for the Company to pay the day-to-day  
3 expenses incurred to provide electric service to the ratepayer.

4 Q. Is the method you used to calculate Empire's CWC requirement consistent  
5 with previous rate cases?

6 A. Yes, the method has been used by the Staff and adopted by the Commission  
7 in numerous rate proceedings, including the Company's two most recent rate cases (Case  
8 Nos. ER-94-174 and ER-95-279).

9 Q. How does a lead/lag study calculate the amount of CWC provided by  
10 shareholders and ratepayers?

11 A. A lead/lag study determines the amount of cash necessary on a day-to-day  
12 basis for the Company to provide electric service to the ratepayers. An analysis is performed  
13 of the cash flows related to the payments received by the Company from its customers for the  
14 provision of electric service and the disbursements made by the Company to its vendors.

15 These cash flows are typically stated in number of days. A lead/lag analysis  
16 compares the number of days the Company is allowed to make payments after receiving  
17 goods or services from a vendor, with the number of days it takes the Company to receive  
18 payment for the electric service provided to its customers. The lead/lag study also determines  
19 who provides CWC.

20 Q. What are the sources of CWC?

21 A. Ratepayers and shareholders are the sources of CWC.

22 Q. How does the shareholder supply CWC?

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1           A.     When the Company spends cash for an expense before the cash is provided by  
2     the ratepayer, then that cash must be provided by the shareholder. This cash represents a  
3     portion of the shareholder's total investment in the Company. The shareholder is  
4     compensated for the CWC funds by including these funds in rate base, thereby providing a  
5     return on the shareholder's investment.

6           Q.     How does the ratepayer supply CWC?

7           A.     The ratepayer supplies CWC when customer payments for electric service are  
8     received before the Company pays for the expenses incurred to provide that service. The  
9     ratepayer is compensated for the CWC provided through a reduction to rate base by the  
10    amount of CWC provided by the ratepayer.

11          Q.     How has the Staff determined the amount of CWC provided by both  
12    ratepayers and shareholders?

13          A.     This was determined by performing a lead/lag study.

14          Q.     How are the results from a lead/lag study interpreted?

15          A.     A positive CWC requirement indicates that the shareholder has provided the  
16    CWC in the aggregate during the test year. This means that the Company must pay, on  
17    average, for the expense incurred to provide electric service before cash is provided by the  
18    ratepayer.

19                A negative CWC requirement indicates that the ratepayer has provided the  
20    CWC in the aggregate during the test year. This means that the ratepayer has provided the  
21    necessary cash, on average, before the Company paid for the expense incurred to provide that  
22    service.

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1           Q.     Please explain the components of the Staff's calculation of CWC which appear  
2 on Accounting Schedule 8 (Columns A through G).

3           A.     The components of the Staff's calculation are as follows:

- 4                 •     Column A: lists the types of expenses which the Company pays on a  
5                         day-to-day basis.
- 6                 •     Column B (Test Year Expenses): the amount of annualized expense  
7                         included in the cost of service. It shows the dollars associated with  
8                         the items listed in Column A on an adjusted Missouri jurisdictional  
9                         basis.
- 10                •     Column C (Revenue Lag): the number of days between the midpoint  
11                       of the provision of electric service by the Company, and the payment  
12                       for that service by the ratepayer. The revenue lag addressed in this  
13                       case is explained further on pages 7 through 9 of this direct testimony.
- 14                •     Column D (Expense Lag): the number of days between the receipt of  
15                       and payment for the goods and services (i.e., cash expenditures) used  
16                       to provide electric service to the ratepayer. The expense lags  
17                       addressed in this case are explained further on pages 11 through 18 of  
18                       this direct testimony.
- 19                •     Column E (Net Lag): results from the subtraction of the Expense Lag  
20                       (Column D) from the Revenue Lag (Column C).
- 21                •     Column F (CWC factor): expresses the CWC lag in days as a fraction  
22                       of the total days in the test year. This is accomplished by dividing the  
23                       Net Lags in Column E by 365.
- 24                •     Column G (CWC Requirement): the average amount of cash  
25                       necessary to provide electric service to the ratepayer. This is  
26                       computed by multiplying the Test Year Expenses (Column B) by the  
27                       CWC factor (Column C).
- 28                •     Column G (CWC Requirement): the average amount of cash  
29                       necessary to provide electric service to the ratepayer. This is  
30                       computed by multiplying the Test Year Expenses (Column B) by the  
31                       CWC factor (Column C).
- 32                •     Column G (CWC Requirement): the average amount of cash  
33                       necessary to provide electric service to the ratepayer. This is  
34                       computed by multiplying the Test Year Expenses (Column B) by the  
35                       CWC factor (Column C).

35           Q.     Please explain the revenue lag.

36           A.     The revenue lag is defined as the amount of time between the provision of  
37 electric service by the Company, and the receipt of the payment for that service from

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ratepayers. The revenue lag was calculated by the Staff to be **36.91** days, and it is the sum of three subcomponent lags. The three sub-component lags which comprise the revenue lag are defined as follows:

- Usage Lag: The midpoint of average time elapsed from the beginning of the first day of a service period through the last day of that service period.
- Billing Lag: The amount of time it takes the Company to prepare and mail the bill. It includes the period between the end of the last day of service period and the day the bill is placed in the mail by the Company.
- Collection Lag: The period of time between the day the bill is placed in the mail by the Company and the day the Company receives payment from the ratepayer.

Q. Did the Company use the same three subcomponent lags discussed above in developing its total revenue lag?

A. Yes. The total revenue lags calculated by the Company and the Staff are based on test year data and filed in this proceeding are illustrated below:

	<u>Company</u>	<u>Staff</u>
Usage Lag	<b>15.21</b> days	<b>15.21</b> days
Billing Lag	<b>4.56</b> days	<b>4.28</b> days
Collection Lag	<b>17.42</b> days	<b>17.42</b> days
Total	<b><u>37.19</u></b> days	<b><u>36.91</u></b> days

Source: Company and Staff workpapers

Q. Please explain how you derived the values for each of the three revenue requirement components listed above.

A. As previously indicated, the revenue lag is the summation of the usage, billing and collection lags. The usage lag was developed by dividing the number of days in a typical



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1 year (365) by the number of months in a year (12) to yield the average number of days in a  
2 month (30.42). This result was then divided by two to yield the average usage lag of **15.21**  
3 days. Since the Company is on a monthly billing cycle basis, the service delivered to the  
4 customer each month is assumed to be provided evenly throughout the month. Therefore,  
5 the average number of days in a month was divided in half to obtain the usage lag.

6 The billing lag was determined by analyzing the number of days between the  
7 end of the service period and the day that the bill was mailed. The billing lag was calculated  
8 from the cycle bill reading scheduled supplied by the Company. The analysis revealed that  
9 the average time to process and mail the bill was **4.28** days. Automated meter reading  
10 technologies have allowed the Company to improve its billing lag since the last rate case. The  
11 method to calculate this is similar to what was utilized in the Company's two previous rate  
12 cases.

13 The Staff adopted the collection lag calculated by the Company in the case.  
14 The Company's collection lag was based on an accounts receivable (A/R) turnover calculation  
15 performed for Case No. ER-95-279. An A/R turnover is the ratio of sales to average  
16 accounts receivables, and it measures the average time the Company takes to collect its  
17 receivables. An A/R turnover calculation generally provides an estimate of the average  
18 number of collection lag days. The collection lag was determined by the Company to be  
19 **17.42** days in Case No. ER-95-279, and was also adopted by the Company in this rate case.  
20 As a result, the total revenue lag used by the Staff is **36.91** days.

21 Q. How has the total revenue lag of **36.91** days compared with the Staff's  
22 recommendation in the Company's previous rate case?

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A. There has been no change in the usage lag or collection lag, and only minor changes in the billing lag from the previous case.

Q. Did the Staff attempt to calculate a collection lag expense in this case?

A. Yes.

Q. What audit procedures did you perform to calculate the collection lag?

A. I performed an informal A/R turnover calculation for the test year. The Staff examined balances from Account 142.1 (Customer Accounts Receivable - Electric and Water). Total test year operating revenues were almost \$207 million. The sum of daily A/R balances for the test year was approximately \$5.49 billion. This amount was divided by 366 days to arrive at a daily average A/R balance of about \$15 million for the test year. To calculate the net daily A/R balance, the Company's actual bad debt loss per day of \$1,889 per day was subtracted from the daily A/R balance, leaving a net daily A/R balance of \$14.992 million. The net daily A/R balance was divided into the \$207 million in test year operating revenues to arrive at a daily A/R turnover factor of .07243. The daily A/R turnover factor was multiplied by 365 to arrive at an annual collection lag determined by the Staff to be 26.4371 days. The details of this calculation are provided below:

STAFF COLLECTION LAG CALCULATION

Sum of daily A/R balances for the test year	\$5,487,706,280.41
Daily average A/R balance (L1÷366)	14,993,733.01
Less: daily bad debt losses	(1,888.56)
Net daily A/R balance (L2-L3)	14,991,844.45
Test year operating revenues	206,982,730.70
Daily A/R turnover (L4÷L5)	.07243
Collection lag (L6*365)	26.4371

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1           Q.     What impact would the Staff's calculated collection lag have on the total  
2 revenue lag?

3           A.     The revenue lag would increase from 36.91 to 45.93 days, an increase of  
4 slightly more than nine days.

5           Q.     Why did the Staff forgo the use of the collection lag of 26.44 days that the  
6 Staff calculated in its audit?

7           A.     The Company's tariff allows the customer 21 days to pay their bill before  
8 being considered past due or delinquent. It seemed illogical that the average Empire customer  
9 would pay their bill five days after the bill was due.

10                   The Staff considered performing a random sample of all customer classes to  
11 determine the lag time associated with the collection of an average revenue dollar. Resource  
12 constraints did not permit such a random sample during this case.

13                   The Staff performed such a random sample in Case No. ER-94-174. This  
14 random sample calculated the collection lag at 16.25 days. This lag is within 10% of the  
15 Company's calculated collection lag of 17.42 days used both in this case and the previous  
16 case. As a result, the Staff believes it is appropriate to continue to use the Company's  
17 calculation of the collection lag in this case.

18           Q.     What was the scope of the calculation of expense lags used by the Staff in this  
19 case?

20           A.     The Staff attempted to calculate expense lags in areas where significant  
21 expense dollars were involved, or in areas where significant changes in payment patterns  
22 occurred.

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1 Q. What expense lags did the Staff calculate?

2 A. The Staff calculated the following expense lag in this audit:

- 3 • coal
- 4 • gas
- 5 • oil
- 6 • purchased power
- 7 • payroll expense
- 8 • Federal withholding taxes
- 9 • State withholding taxes
- 10 • Federal Insurance Contribution Act (FICA), both employee and
- 11 employer paid
- 12 • Employee 401K withholding
- 13 • Federal Unemployment Taxes (FUTA)
- 14 • State Unemployment Taxes (SUTA)

15 Q. What expense lags calculated by the Company did the Staff accept because

16 there have been no known statutory or payment date changes since the previous rate case?

17 A. The following expense lags were accepted by the Staff because there have

18 been no statutory or payment date changes:

- 19 • medical
- 20 • employer 401K matching
- 21 • property taxes
- 22 • gross receipts taxes
- 23 • sales and use taxes

24 Q. What expense lag calculated by the Company did the Staff accept because of

25 resource constraints?

26 A. The cash vouchers expense lag was accepted by the Staff because of resource

27 constraints.

28 Q. Please describe the expense lag for Cash Vouchers as found on Accounting

29 Schedule 8.

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1           A.     Cash vouchers are miscellaneous expenditures which do not coincide with  
2     other operations and maintenance (O&M) expense items, and were not specifically examined  
3     elsewhere in the CWC analysis study (e.g., payroll, fuel, etc.). The Staff accepted the  
4     Company's calculation of a cash voucher expense lag of **33.0649** days. This amount is  
5     consistent with the expense lag of 33.07 days used in the previous two cases.

6           Q.     Please explain the expense lag for Coal as found on Accounting Schedule 8.

7           A.     The coal expense lag is the time lapse between the date the coal and/or freight  
8     services were received, and the date the Company paid for these goods and/or services. The  
9     coal expense lag was calculated to be **25.4354** days. This lag is approximately 3.62 days  
10    higher than in the previous two cases, and is primarily due to the Staff's calculated 32-day lag  
11    on coal payments to Kansas City Power & Light (KCPL). These payments relate to Empire's  
12    share of the Iatan generating unit, for which KCPL is the operating partner.

13          Q.     Please explain the expense lag for Gas as found on Accounting Schedule 8.

14          A.     The gas expense lag is the difference in days between the midpoint of the  
15    period when the Company received gas from its suppliers, and the date when gas deliveries  
16    are paid. The gas expense lag was calculated to be **52.6847** days, which is comparable to the  
17    52.64 lag used in the previous two cases.

18          Q.     Please explain the expense lag for Oil as found on Accounting Schedule 8.

19          A.     The oil expense lag is the difference in days between the midpoint of the period  
20    when the Company received oil from its suppliers, and the date when oil deliveries are paid.  
21    The oil expense lag was calculated to be **22.5223** days, which is more than six days lower

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1 than the 28.79 used in the previous two cases. The primary reason for the increase is the  
2 faster billing of the Company by one of its oil suppliers.

3 Q. Please explain the Purchased Power expense lag as found on Accounting  
4 Schedule 8.

5 A. The purchased power expense lag is the difference in days between the  
6 midpoint of the period when the Company received the purchased power, and the date the  
7 Company paid for the power. The purchased power expense lag was determined to be  
8 **33.9296** days, which is consistent with the 33.4 days used in the previous two cases.

9 Q. Please explain the Base Payroll expense lag calculation as found on  
10 Accounting Schedule 8.

11 A. The base payroll expense lag is the time lapse between the midpoint of the  
12 period in which wages were earned by employees, and the date wages were paid by the  
13 Company. The Company pays all employees on the Friday following the two-week pay  
14 period which ended on the previous Sunday. The base payroll expense lag was calculated to  
15 be **12.0000** days. This represents seven days as the midpoint of the 14-day pay period, plus  
16 five days between the end of the pay period and the Friday pay date. The expense lag for  
17 payroll has been reduced approximately three days since the last rate case, as management  
18 employees are no longer paid on a monthly basis.

19 Q. Please explain the expense lag for FICA and Federal Income Withholding  
20 Taxes as found on Accounting Schedule 8.

21 A. The expense lag for FICA and federal income withholding taxes is the period  
22 of time between the midpoint of the pay period for which the taxes were withheld, and the

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1 date the tax withholdings must be turned over to the taxing authorities. Payments for the  
2 employee's portion of FICA taxes and employers portion of FICA taxes are made at the same  
3 time.

4 An employer must typically deposit the income tax withheld and the FICA  
5 taxes with an authorized commercial bank depository or Federal Reserve Bank on the  
6 Monday following the previous Friday payday. The FICA and federal withholdings tax lag  
7 was calculated to be **15.0962** days. This includes the 12-day payroll expense lag, plus the  
8 weekend and Monday holidays. These expense lags have been reduced by more than three  
9 days since the last rate case, as management employees are no longer paid on a monthly basis.

10 Q. Please describe the expense lag for State Withholding Taxes as found on  
11 Accounting Schedule 8.

12 A. The expense lag for the state withholding taxes (Missouri, Oklahoma, Kansas  
13 and Arkansas) is the period of time between the midpoint of the pay period for which the  
14 taxes were withheld, and the date that the tax withholdings must be turned over to the taxing  
15 authorities. The lag for state withholding taxes was calculated to be **19.7037** days. This  
16 expense lag has been reduced significantly since the last rate case, as management employees  
17 are no longer paid on a monthly basis.

18 Q. Please explain the expense lag for Medical Care expense as found on  
19 Accounting Schedule 8.

20 A. The medical care expense lag represents the period of time between the  
21 midpoint of the service period, and the date the Company must pay for its health care  
22 expense. The Company utilizes a trustee and self-insured approach for its health care costs.

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1 The trustee estimates the payout for the month, and the Company deposits the corresponding  
2 estimated level of payout at the beginning of the month. The trustee informs the Company  
3 if the fund approaches a zero balance during the month and, if it does, another deposit is made  
4 to the health care fund.

5 Because there have been no known statutory or payment date changes  
6 associated with health care expenses since the last case, the Staff accepts the Company's  
7 health care expense lag calculation of a negative lag of **12.29** days. The health care expense  
8 lag is negative due to the prepayments made at the beginning of each month. This lag is  
9 consistent with the negative health care expense lag that has been used in the previous two  
10 cases.

11 Q. Please describe the expense lag for Employee's 401K Withholdings as found  
12 on Accounting Schedule 8.

13 A. 401K withholdings relate to voluntary contributions to a retirement plan by  
14 the employees of the Company. All employees with at least one year of employment are  
15 eligible to contribute to the plan, which allows contributions through a payroll deduction of  
16 up to 15% of their compensation. The expense lag for 401K withholdings is the period of  
17 time between the midpoint of the pay period for which the withholdings were withheld, and  
18 the date that the withholdings must be turned over to the trustee.

19 Withholdings are typically deposited on the Monday following the bi-weekly  
20 Friday payday. As a result, this expense lag is the same as the FICA and federal withholding  
21 tax lags. The employee 401K expense lag was calculated to be **15.0962** days. The expense



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1 lag for employee 401K withholding has been reduced by approximately nine days since the  
2 last rate case, as management employees are no longer paid on a monthly basis.

3 Q. Please explain the expense lag for Employers' 401K Matchings as found on  
4 Accounting Schedule 8.

5 A. The employers' 401K matchings expense lag represents the period of time  
6 between the midpoint of the calendar year, and the dates the Company must pay its 401K  
7 matchings to the trustee. The Company will match up to and including 6% of the total salary  
8 deferred into the plan for all employees who are with the Company at the end of each quarter.  
9 The Company 401K matchings are due by the first day of April, July, October and January.  
10 The lag was calculated from each payment date to the midpoint of the calendar year.

11 Because there have been no known statutory or payment date changes  
12 associated with employers' 401K matchings since the last case, the Staff accepts the  
13 Company's expense lag calculation of **45.75** days. This amount is consistent with the  
14 employers' 401K matching lag used in the previous two cases.

15 Q. Please explain the federal and state unemployment tax lags as found on  
16 Accounting Schedule 8.

17 A. Federal and state unemployment taxes (FUTA and SUTA, respectively) are  
18 paid quarterly and are due at the end of the month following each quarter. The FUTA and  
19 SUTA expense lags were calculated to be **74.8836** and **74.9329** days, respectively. This is  
20 consistent with the FUTA and SUTA expense lags used in the previous two cases.

21 Q. Please explain the expense lag associated with Property Taxes as found on  
22 Accounting Schedule 8.

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1           A.     Property taxes for the Company are paid either once a year on December 31  
2     in Missouri, or according to a payment schedule prescribed by the other three states in which  
3     the Company owns property (Arkansas, Kansas, Oklahoma). Because there have been no  
4     known statutory or payment date changes associated with property taxes since the last case,  
5     the Staff accepts the Company's property tax lag calculation of **207.0403** days. This amount  
6     is consistent with the property tax expense lag used in the previous two cases.

7           Q.     Please explain the expense lags associated with Gross Receipts Taxes and  
8     Sales and Use Taxes as found on Accounting Schedule 8.

9           A.     Because there have been no known statutory or payment date changes  
10    associated with gross receipts and sales and use taxes since the last case, the Staff accepts the  
11    Company's expense lag calculations of **20.53** and **19.15** days, respectively. These lags are  
12    consistent with the expense lags for gross receipts taxes and sales and use taxes that were  
13    used in the previous two cases.

14          Q.     Why do the revenue lags for gross receipts taxes and sales and use taxes differ  
15    from the revenue lag you discussed above?

16          A.     The Company acts solely as an agent of the taxing authority in collecting gross  
17    receipts, sales and use taxes from the ratepayer, and paying the proper institution on a timely  
18    basis. The Company has not provided any service to the ratepayer associated with the gross  
19    receipts and sales and use taxes. Therefore, in order to match the same time frames for these  
20    components, the collection lag was adopted and used as the revenue lag. As explained earlier,  
21    the Staff accepted the Company's collection lag of **17.42** days, and used this number as the  
22    revenue lag for gross receipts, sales and use tax lags.

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1           Q.     Are there components of CWC that do not directly appear in the Staff's  
2     Accounting Schedule 8?

3           A.     Yes, the Federal Income Tax Offset, State Income Tax Offset and Interest  
4     Expense offset rate base line items are components of CWC. These appear as separate line  
5     items in the Staff's Rate Base Schedule, Accounting Schedule 2.

6           Q.     Why are the income tax offset and interest expense offset included in the  
7     Staff's Rate Base Accounting Schedule, rather than the Staff's CWC schedule, Accounting  
8     Schedule 8?

9           A.     The normalized Missouri jurisdictional expense of these components is tied  
10    directly to the computation of the revenue requirement. The Staff's revenue requirement  
11    computer program (EMS run) has the capability to extract these amounts from the Staff's  
12    Income Tax Schedule, Accounting Schedule 11. It applies the CWC factor to each  
13    component, and places the CWC requirement directly into the Staff's Rate Base Accounting  
14    Schedule.

15          Q.     Please explain and describe the inclusion of taxes in the Staff's analysis of  
16    CWC.

17          A.     Unlike other line items reflected within the CWC Accounting Schedule, taxes  
18    are not considered to be O&M expenses, but they are known and certain obligations of the  
19    Company with payment periods and payment dates established by statute. Rates paid by  
20    customers to cover taxes payable represent a source of cash to the Company until passed on  
21    to the appropriate taxing authority.

22          Q.     Please explain the federal and state income tax offset.

Direct Testimony of  
John M. Kiebel, II

1           A.     The federal and state income tax expense lags represent the period of time  
2     between the midpoint of the tax/calendar year, and the dates the income taxes must be paid  
3     to the federal or state taxing authority. Currently, 100% of the estimated federal tax must be  
4     paid during the year in four installments, which are due by the 15th day of April, June,  
5     September and December. The state of Missouri requires that at least 90% of the Company's  
6     estimated tax liability must be paid during the year in four equal installments, which must be  
7     paid by the 15th day of April, June, September and December. Unlike the estimated federal  
8     tax requirements, the remaining 10% is due April 15 following the close of the tax year.

9                 Each lag was calculated from each payment date to the midpoint of the tax  
10    year. The federal and state income tax lags were weighted by the total tax payments made  
11    during the year to obtain federal and state income tax expense lags of **37.5** and **62.55** days,  
12    respectively. The CWC factor is placed in the Rate Base Accounting Schedule, and the Staff's  
13    computer program calculated the CWC requirement for income taxes.

14           Q.     Please explain the interest expense offset.

15           A.     Although not an O&M expense, interest expense is included in the Staff's  
16    lead/lag analysis because interest is a source of cash provided by the ratepayer and therefore,  
17    properly considered in CWC. The Company has a known and certain obligation to pay cash  
18    in the form of interest on its debt. The interest is pre-collected through rates from the  
19    ratepayer for the purpose of passing it on to the bondholder. These funds are a source of cash  
20    to the Company for use toward any purpose it desires until they are passed on to the  
21    bondholder.

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John M. Kiebel, II

1                   The expense lag for interest was computed by dividing the number of days in  
2                   the year by four. All of the Company's long-term debt bears semiannual interest. The lag  
3                   represents the period of time between the midpoint of the semi-annual period, and the date  
4                   interest is paid. The expense lag computed for interest expense is **91.25** days ( $365 \div 4$ ).

5                   The CWC factor was placed in the Rate Base Accounting Schedule and the  
6                   Staff's computer program calculated the CWC requirement for interest.

7                   Q.     What was the result of the Staff's lead/lag calculation?

8                   A.     The lead/lag study performed by the Staff resulted in a negative CWC  
9                   requirement. This means that the ratepayer has provided the CWC in the aggregate during  
10                  the test year. Therefore, the ratepayer has been compensated for the CWC, which the  
11                  ratepayer provides through a reduction to rate base. This is shown on Accounting  
12                  Schedule 2.

13                  Q.     Does this conclude your direct testimony?

14                  A.     Yes, it does.

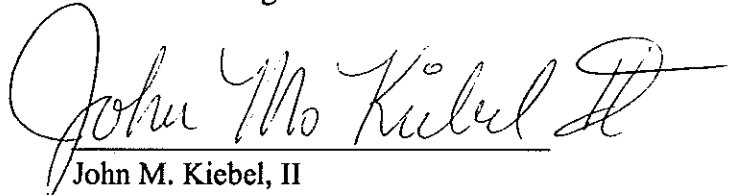
**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

In the matter of The Empire District Electric       )  
Company of Joplin, Missouri, for Authority to       )       ER-97-81  
File Tariffs Increasing Rates for Electric Service       )  
Provided to Customers in the Missouri Service       )  
Area of the Company.       )

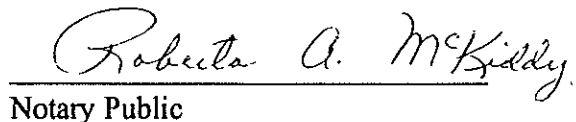
**AFFIDAVIT OF JOHN M. KIEBEL, II**

STATE OF MISSOURI       )  
                                      )  
COUNTY OF COLE       )       ss.

John M. Kiebel, II, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 20 pages to be presented in the above case; that the answers in the foregoing Direct 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.

  
John M. Kiebel, II

Subscribed and sworn to before me this 11<sup>th</sup> day of February, 1997.

  
Notary Public

My Commission Expires:                       
ROBERTA A. McKIDDY  
Notary Public, State of Missouri  
County of Cole  
My Commission Expires 09/11/99

## MANAGEMENT AUDIT PARTICIPATION

JOHN M. KIEBEL, II

<u>Company Name</u>	<u>Case No.</u>
<u>Large Electric, Water, Natural Gas and Telecommunications Companies</u>	
Missouri Public Service Company	EO-82-171
Union Electric Company	EO-84-63
Empire District Electric Company	EO-84-73
Laclede Gas Company	GO-85-63
St. Louis County Water Company	WO-85-156
United Telephone Company	TO-86-87
KPL Gas Service	GO-89-252
Associated Natural Gas Company	GO-92-6
Raytown Water Company	WO-93-194
<u>Small Telecommunication Companies</u>	
Granby Telephone	TO-92-130
Mid-Missouri Telephone	TO-92-196
Peace Valley Telephone	TO-92-245
Ellington Telephone	TO-92-249
Steelville Telephone Exchange	TO-92-255
Chariton Valley Telephone	TO-92-263
Citizens Telephone	TO-92-270
Le-Ru Telephone	TO-92-282
Holway Telephone	TO-92-86
New London Telephone	TO-93-7

MANAGEMENT AUDIT PARTICIPATION

JOHN M. KIEBEL, II

Orchard Farm Telephone	TO-93-8
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Stoutland Telephone	TO-93-9
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Small Water and Sewer Companies

Herculaneum Sewer Company	SO-92-72
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Central Jefferson County Utilities	WO-92-74
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Terre du Lac Utilities Corporation	WO-94-10
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The Meadows Water Company	WO-94-106
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