

**FILED**

**JUL 8 2008**

**Missouri Public  
Service Commission**

Exhibit No.	508
Witness:	Maurice Brubaker
Type of Exhibit:	Rebuttal True-Up Testimony
Issue:	Regulatory Plan Amortization
Sponsoring Parties:	Industrial Intervenors
Case No.:	ER-2008-0093

**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 File Tariffs Increasing	)	Case No. ER-2008-0093
Rates for Electric Service Provided to	)	
Customers in the Missouri Service	)	
Area of the Company	)	

Rebuttal True-Up Testimony of

**Maurice Brubaker  
on Regulatory Plan Amortization**

On Behalf of

**Industrial Intervenors**

June 16, 2008



BRUBAKER & ASSOCIATES, INC.  
ST. LOUIS, MO 63141-2000

Project 8875

*Indust. Int.*  
**Exhibit No. 508**  
**Case No(s). ER-2008-0093**  
**Date 6-18-08 Rptr KF**

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI


In the Matter of The Empire District )  
Electric Company of Joplin, Missouri )  
for Authority to File Tariffs Increasing ) Case No. ER-2008-0093  
Rates for Electric Service Provided to )  
Customers in the Missouri Service )  
Area of the Company )

STATE OF MISSOURI )  
 ) SS  
COUNTY OF ST. LOUIS )

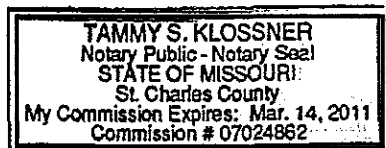
**Affidavit of Maurice Brubaker**

Maurice Brubaker, being first duly sworn, on his oath states:

1. My name is Maurice Brubaker. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141-2000. We have been retained by Industrial Intervenors in this proceeding on their behalf.
2. Attached hereto and made a part hereof for all purposes is my rebuttal true-up testimony on regulatory plan amortization which was prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2008-0093.
3. I hereby swear and affirm that the testimony is true and correct and that it shows the matters and things that it purports to show.

  
Maurice Brubaker

Subscribed and sworn to before me this 13<sup>th</sup> day of June, 2008.



  
Notary Public

**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 File Tariffs Increasing Rates for Electric Service Provided to Customers in the Missouri Service Area of the Company	) ) ) ) ) ) )	Case No. ER-2008-0093
--	---------------------------------	-----------------------

**Rebuttal True-Up Testimony of Maurice Brubaker**

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

2    **A     Maurice Brubaker. My business address is 1215 Fern Ridge Parkway, Suite 208,**  
3           **St. Louis, Missouri 63141-2000.**

4    **Q     WHAT IS YOUR OCCUPATION?**

5    **A     I am a consultant in the field of public utility regulation and president of Brubaker &**  
6           **Associates, Inc., energy, economic and regulatory consultants.**

7    **Q     HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS CASE?**

8    **A     Yes. I have filed four pieces of testimony prior to this filing. They are:**

- 9           • Fuel Adjustment Clause / Revenue Requirement Direct Testimony, filed  
10           February 22, 2008 (Exhibit No. 500);
- 11           • Fuel Adjustment Clause / Rate Design Direct Testimony, filed March 7, 2008  
12           (Exhibit No. 502); and
- 13           • Revenue Requirement / Rate Design Rebuttal Testimony, filed April 4, 2008  
14           (Exhibit No. 503).
- 15           • Fuel Adjustment Clause Surrebuttal Testimony, filed April 25, 2008 (Exhibit No.  
16           505).

1    **Q     ARE YOUR QUALIFICATIONS ATTACHED TO YOUR PRIOR TESTIMONIES?**

2    A     Yes. They appear as Appendix A to the Fuel Adjustment Clause / Revenue  
3         Requirement Direct Testimony filed on February 22, 2008.

4    **Q     WHAT IS ADDRESSED IN YOUR REBUTTAL TRUE-UP TESTIMONY?**

5    A     I address Staff witness Oligschlaeger's true-up direct testimony concerning the  
6         regulatory plan amortization (RPA). Mr. Oligschlaeger calculates the RPA in two  
7         different ways. First, he includes as an amortization expense in the accounting  
8         schedules (part of the traditional revenue requirement calculation) the amount of RPA  
9         found appropriate in Empire's last rate case. Then, when he flows the results of the  
10        traditional revenue requirement calculation from the accounting schedules into the  
11        RPA worksheet, he determines a negative amount for the RPA calculated under the  
12        RPA formulas. He subtracts this amount from the amount found appropriate in the  
13        last case in order to determine the amount appropriate in this case.

14           He also presents the results of an alternative calculation wherein the  
15        accounting schedules used to calculate the traditional revenue requirement do not  
16        include any RPA amount. Under this alternative calculation, the amount of RPA  
17        required to maintain financial integrity is calculated entirely on the RPA schedule.  
18        The end result is the same in both cases.

19   **Q     DO YOU DISAGREE WITH MR. OLIGSCHLAEGER APPROACH TO THE RPA?**

20   A     I agree with his end result, and the fact that either approach produces the same  
21         result, as long as the RPA calculated in the RPA formulas is permitted to be negative.  
22         I disagree with the manner of presentation of his primary calculation wherein the RPA  
23         currently in rates as a result of the prior case is included as an on-going expense in

1 determining what otherwise would be regarded as the traditional revenue requirement  
2 determination.

3 **Q PLEASE EXPLAIN YOUR DISAGREEMENT.**

4 A The RPA feature for Empire was developed in Case No. EO-2005-0263. This is often  
5 referred to as the "regulatory plan" case. (This portion of the stipulation follows the  
6 pattern of the RPA included in Kansas City Power and Light Company's regulatory  
7 plan case stipulation.)

8 **Q WERE YOU A PARTICIPANT IN THE DEVELOPMENT OF EMPIRE'S**  
9 **REGULATORY PLAN CASE STIPULATION?**

10 A Yes. I was a participant on behalf of Praxair, Inc. and Explorer Pipeline Company. I  
11 also represented parties in the development of the Kansas City Power and Light  
12 Company regulatory plan stipulation.

13 **Q WHY DO YOU FIND THE INCLUSION OF PREVIOUSLY AWARDED RPA**  
14 **AMOUNTS IN THE TRADITIONAL REVENUE REQUIREMENT CALCULATION TO**  
15 **BE OBJECTIONABLE?**

16 A Because it could give the misleading impression that these are ongoing expenses to  
17 which the utility is entitled.

18 **Q WHY DO YOU SAY THAT IS MISLEADING?**

19 A The purpose of the RPA was to allow the utility to have cash flow sufficient to meet  
20 the credit metrics necessary to maintain an investment grade bond rating, while  
21 providing the customers with a rate base offset to recognize that these amounts are

1 over and above the amounts that ordinarily would be included in rates under  
2 traditional revenue requirement determinations.

3 When an RPA is determined in a rate case, it is based on the metrics in that  
4 case and the amount is included in rates until the next rate case. Because many  
5 factors can change between rate cases, and because of the opportunity for many pro  
6 forma adjustments in new rate cases, it is entirely possible that a utility would need a  
7 different amount of RPA, or even no RPA, when calculations are made in a  
8 subsequent case. For example, if depreciation rates increase or if the awarded return  
9 on equity increases, the calculated amount of traditional revenue requirements will  
10 produce higher cash flows to aid in meeting the credit metrics, so the total amount of  
11 RPA may be smaller, or drop to zero. A change in the formulas (or a change in what  
12 is included in applying the formulas) used by Standard & Poors to calculate the credit  
13 metrics could produce the same result.

14 Thus, there is no continuing entitlement to include in expenses the amount of  
15 RPA that may have been appropriate in a prior rate case. This determination must be  
16 made freshly in each rate case when the credit metrics are examined and the RPA  
17 set in rates until the next case.

18 **Q WHAT IS THE APPLICABLE LANGUAGE FROM THE STIPULATION**  
19 **CONCERNING THIS CALCULATION?**

20 **A** It states as follows:

21 The Signatory Parties agree to support an additional amortization  
22 amount added to Empire's electric cost of service in any general rate  
23 case filed prior to the rate case that includes the latan 2 investment  
24 when the projected cash flows resulting from Empire's Missouri  
25 jurisdictional electric operations, as determined by the Commission, fail  
26 to meet or exceed the Missouri electric jurisdictional portion of the  
27 financial ratio targets shown in Appendix D, for the Adjusted Funds  
28 from Operations Interest Coverage ratio and the Adjusted Funds from  
29 Operations as a Percentage of Average Total Debt ratio. The

1 Signatory Parties agree to support an amortization level necessary to  
2 meet the Missouri jurisdictional portion of these financial ratio targets  
3 identified in **Appendix D** and calculated in a manner consistent with  
4 **Appendix D**.

\* \* \* \* \*

5 The Missouri electric jurisdictional portion and amounts of the  
6 additional amortization will be determined by the Commission in each  
7 relevant rate case. (Stipulation and Agreement, Case No. EO-2005-  
8 0263, July 2005, excerpts from pp. 12-13; MO PSC Order Approving  
9 Stipulation and Agreement, August 2, 2005.)

10 **Q CAN YOU EXPLAIN WHY THE RPA IN THIS CASE IS LESS THAN THAT**  
11 **CALCULATED IN THE PREVIOUS CASE?**

12 **A** As mentioned, the RPA has many different variables that can affect its quantification.  
13 In this case, one of the major variables that is likely causing a decrease in RPA is the  
14 inclusion of a significant capital project (the Asbury SCR) in Empire's rate base. The  
15 inclusion of a capital project in rate base provides the Company an opportunity to  
16 increase its earnings and cash flow, and, all other things being equal, reduces the  
17 need for regulatory plan amortizations.

18 **Q DOES THIS CONCLUDE YOUR REBUTTAL TRUE-UP TESTIMONY?**

19 **A** Yes, it does.

\\Haley\Share\PLDocs\TSK\88751\testimony - BAR\136648.doc