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Reconciliation
Witness: Karen S. Hall
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Electric Company
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**Before the Public Service Commission
of the State of Missouri**

Direct Testimony

of

Karen S. Hall

on behalf of

The Empire District Electric Company

January 2022



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FOR THE DIRECT TESTIMONY OF KAREN S. HALL
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
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DIRECT TESTIMONY OF KAREN S. HALL
THE EMPIRE DISTRICT ELECTRIC COMPANY
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1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Karen S. Hall, and my business address is 15 Buttrick Road, Londonderry,
4 New Hampshire, 03053.

5 **Q. By whom are you employed and in what capacity?**

6 A. I am employed as Senior Manager, Rates and Regulatory by Liberty Utilities Service
7 Corp. In this capacity, I provide regulatory services to The Empire District Electric
8 Company (“Liberty” or “Company”) and other utilities owned by Liberty Utilities Co.

9 **Q. On whose behalf are you testifying in this proceeding?**

10 A. I am testifying on behalf of Liberty.

11 **Q. Please describe your educational and professional background.**

12 A. I hold a B.S. in Business Administration from the University of South Carolina, Aiken,
13 as well as an Associate Degree in Public Service and an Associate Degree in Arts from
14 Greenville Technical College in South Carolina. I am currently enrolled at the
15 University of Missouri where I’m pursuing a Master’s Degree in Public Affairs. After
16 more than a decade providing legal and operational support in private law firms, I
17 joined Duke Energy in 2015 as a member of the Carolinas state regulatory legal team
18 where I supported rate cases, annual fuel filings, and other regulatory matters. In 2018,
19 I joined Duke Energy’s Grid Solutions organization where I led the regulatory support
20 for the company’s recovery of its advanced metering infrastructure investment and
21 provided regulatory support to Duke Energy’s grid improvement initiatives as well as

1 to the customer service and customer experience organizations. In early 2020, I
2 transitioned to Duke Energy’s Rate Design and Strategic Solutions team and was
3 promoted to Rates and Regulatory Strategy Manager. In that role, I was responsible
4 for managing the implementation of key rate designs and strategic solutions across the
5 Duke Energy enterprise. In November 2020 I joined Liberty in my current role.

6 **Q. Have you previously testified before the Missouri Public Service Commission**
7 **(“Commission”) or any other regulatory agency?**

8 A. I have not testified before this Commission; however, I have submitted testimony
9 before the California Public Utilities Commission, the New Brunswick Energy &
10 Utilities Board, and the New York Department of Public Service.

11 **Q. What is the purpose of your testimony in this proceeding?**

12 A. My testimony supports the Company’s request to securitize the qualified extraordinary
13 costs the Company incurred during Winter Storm Uri. Specifically, my testimony
14 describes the calculation of revenues Liberty seeks to recover from customers in order
15 to issue and service securitized utility bonds. The Company proposes a new rate, the
16 Securitized Utility Tariff Charge (“SUTC”), that will allow Liberty to recover
17 securitized costs from customers. I explain how the SUTC will be trued-up to actual
18 revenues and costs at least annually to account for uncertainties in the Company’s
19 electric sales. In my testimony, I demonstrate that securitization of the Storm Uri costs
20 creates benefits for customers when compared to recovery of the costs through
21 customary ratemaking treatment, as required in RSMo. §393.1700 (the “Securitization
22 Statute”).

23 **Q. Are you sponsoring any schedules with your testimony?**

24 A. Yes. I am sponsoring the following schedules:

- 1 • Direct Schedule KSH-1 (Estimated Upfront and Ongoing Costs);
- 2 • Direct Schedule KSH-2 (Total Retail Revenue Requirement for Securitized
- 3 Utility Tariff Charge);
- 4 • Direct Schedule KSH-3 (Benefits Comparison);
- 5 • Direct Schedule KSH-4 (Allocation of Securitized Utility Tariff Charge); and
- 6 • Direct Schedule KSH-5 (Proposed Securitized Utility Tariff Charge).

7 **Q. How is the remainder of your testimony organized?**

8 A. I begin by discussing the calculation of the revenue requirement for the securitization
9 bonds. I discuss the estimated upfront and ongoing financing costs associated with the
10 bonds that will be passed along to customers. I provide an analysis of the net present
11 value of securitization to customers compared to customary ratemaking treatment, and
12 I demonstrate that securitization results in quantifiable savings to customers. I discuss
13 how the securitized costs will be recovered from customers, and I introduce Liberty's
14 proposed SUTC and discuss the Company's proposal to true-up this rate at least
15 annually.

16 **II. REVENUE REQUIREMENT**

17 **Q. What is the purpose of this section of your testimony?**

18 A. In this section of my testimony, I discuss the calculation of the revenue requirement for
19 the securitization bonds, which is the amount of revenue that Liberty must recover from
20 its customers to pay the bonds, financing costs, and other requirement amounts and
21 charges payable under the bonds.

22 **Q. What is included in the revenue requirement?**

23 A. The revenue requirement is the sum of categories of cost that must be recovered to
24 service the bonds, the first being the payment that will be made on the bonds and the

1 second being ongoing costs to administer the bonds. I calculated the monthly revenue
2 requirement required to cover the bonds until the first true-up, which will occur at least
3 annually to correct any overcollections or undercollections, and more frequently to
4 correct for any forecasted undercollection, to ensure the expected recovery of amounts
5 sufficient to timely provide all payments of debt service and other required amounts
6 and charges in connection with the securitized utility tariff bonds¹.

7 **Q. What determines the total value of the bonds that will be issued?**

8 A. Proceeds from the bonds must be large enough to offset the qualifying extraordinary
9 costs that Liberty incurred on behalf of its customers for service during Winter Storm
10 Uri as well as the costs of issuing the bonds themselves. Therefore, the total issuance
11 is equal to the sum of the two categories of costs, the storm costs with the carrying
12 charges and deferred legal costs, plus the upfront financing costs to issue the bonds.

13 **Q. Please describe the storm costs, carrying charges and deferred legal costs.**

14 A. Through December 31, 2021, Liberty has incurred \$193.4 million in extraordinary
15 expenses for service arising out of Winter Storm Uri on behalf of its customers. The
16 costs and the circumstances around this anomalous weather event are further described
17 in the Direct Testimony of Company witnesses Aaron Doll and John Olsen. Since
18 Liberty incurred the costs, it has applied a carrying charge based on its Weighted
19 Average Cost of Capital (“WACC”), which the Commission set at 6.77% in Case No.
20 ER-2019-0374. As of December 31, 2021, the carrying charges total approximately
21 \$11 million. Additionally, Liberty deferred approximately \$141,000 in legal expenses
22 associated with Winter Storm Uri. As of December 31, 2021, the total of the incurred
23 Winter Storm Uri costs, carrying costs and deferred legal costs is approximately \$208.1

¹ See RSMo § 393.1700.2(3)(g).

1 million. If approved by the Commission, the Company will update these costs through
2 the date of the bond issuance.

3 **Q. What is included in the upfront financing costs?**

4 A. The upfront financing costs total approximately \$3.6 million and include estimated fees
5 to the Company's legal and structuring advisors, consultants, underwriting fees,
6 auditing fees, and others as well rating and filing fees necessary to secure the bonds.
7 Additional discussion regarding the upfront costs are provided in the Direct Testimony
8 of Company Witness Matthew DeCoursey and in Witness Katrina Niehaus's
9 testimony. An itemization of the estimated upfront financing costs is also included in
10 Schedule KSH-1, attached hereto.

11 Liberty has not included an estimate for the Commission's advisor and legal
12 counsel fees since these can vary widely depending on the third parties hired. I am
13 aware of a wide range in estimates, including \$50,000 for the Commission's costs in
14 Texas for an AEP Texas securitization in September 2019 to \$2.95 million by the
15 Florida Commission for a Duke Florida securitization in June 2016.

16 **Q. Will the Commission review the final amount of the upfront financing costs?**

17 A. Yes, through the issuance advice letter process discussed by Witness Niehaus.
18 Furthermore, if the actual upfront financing costs are less than the upfront costs
19 included in the principal amount securitized, the periodic billing requirement, defined
20 below, for the first annual true-up adjustment must be reduced by the amount of such
21 unused funds (together with interest, if any, earned on the investment of such funds).
22 If the actual upfront financing costs are more than the upfront financing costs included
23 in the principal amount securitized, Liberty may request recovery of the remaining
24 upfront financing costs through a surcharge to Liberty's rates for distribution service.

1 I anticipate the bonds will be issued in a single issuance or series, but Liberty
2 is requesting authority to be able to issue the bonds in one or more series subject to
3 market conditions in order to ensure the issuance of the bonds results in the lowest
4 securitized utility tariff charges consistent with market conditions at the time the bonds
5 are priced and the conditions of a financing order issued by this Commission.

6 **Q. Please summarize the total issuance of the bonds.**

7 A. The sum of these categories is about \$208.1 million as shown in Table 1:

8 **Table 1. Bond Issuance Amounts**

| | |
|----------------------|---------------|
| Storm Uri costs | \$193,402,198 |
| Carrying costs | \$10,957,635 |
| Deferred legal costs | \$141,106 |
| Upfront costs | \$3,638,534 |
| Total | \$208,139,472 |

9 **Q. What is the interest rate and term of the bonds?**

10 A. While the final interest rate will depend upon market conditions at the time of the
11 offering, Witness Niehaus currently estimates the bonds will have a weighted average
12 coupon rate of 2.47% and a term of 13 years.²

13 **Q. What will be the monthly payment on the bonds?**

14 A. The final monthly payment on the bonds will depend on market conditions at the time
15 of issuance, the actual upfront financing costs and the Commission's advisor and legal
16 costs. However, based on current estimates, the monthly payment would be
17 approximately \$1.6 million. My calculations are shown in Schedules KSH-1 and KSH-
18 2.

² Direct Testimony of Katrina T. Niehaus, Figure KN-3.

1 **Q. Please explain the estimated ongoing costs.**

2 A. As witnesses DeCoursey and Niehaus explain in their Direct Testimonies, the ongoing
3 costs include fees associated with the U.S. Securities and Exchange Commission
4 (“SEC”) review process, indenture trustee fees, and rating agency surveillance fees.
5 Additionally, Liberty has estimated ongoing fees for auditing/accounting, legal,
6 printing and others. Liberty also estimates an ongoing return on the Capital Account
7 discussed by Witness Niehaus at its average WACC. An itemization of these estimated
8 fees is shown in Schedule KSH-1, and the combined amount of these estimated fees is
9 expected be \$298,473 per year, or \$24,873 per month.

10 **Q. Please summarize the revenue requirement.**

11 A. The estimated monthly revenue requirement for securitization is approximately \$1.6
12 million per month, which is the sum of the estimated bond repayment, estimated
13 ongoing costs, each of which are shown in Table 2 and described in Schedule KSH-2:

14 **Table 2. Estimated Revenue Requirement (\$/month)**

| | |
|---------------------|-------------|
| Bond payment | \$1,561,243 |
| Ongoing costs | \$24,873 |
| Revenue requirement | \$1,586,115 |

15

16 This is the amount that Liberty will need to recover from its customers, in the aggregate,
17 each month over the life of the bonds.

18 **Q. Will Liberty update these costs prior to the issuance of the bonds?**

19 A. Yes. As discussed by Company witness Doll, the costs the Company incurred during
20 Winter Storm Uri are known with certainty, but other costs, such as some of the upfront
21 financing costs, are estimates, while other costs, such as the carrying charges, vary over
22 time. Liberty will therefore update the costs immediately before the bonds are issued.

1 **III. BENEFITS OF SECURITIZATION**

2 **Q. What is the purpose of this section of your testimony?**

3 A. In this section, I compare the costs to customers of securitizing Liberty's qualifying
4 extraordinary costs arising out of Winter Storm Uri to those the customers would
5 customarily bear if these costs were recovered without securitization through
6 customary ratemaking treatment. I conclude that securitization creates significant
7 quantifiable savings for customers.

8 **Q. Why have you conducted this comparison?**

9 A. Section 2.2(f) of the Securitization Statute requires a comparison of costs customers
10 would pay if securitized utility tariff bonds were issued, and the costs customers would
11 pay if the qualified extraordinary costs were recovered using the customary method of
12 financing. My comparison demonstrates that the Company's proposal to use
13 securitization to finance the recovery of the costs arising from Winter Storm Uri fulfill
14 this requirement.

15 **Q. If the costs in question were not securitized, how would the Company recover**
16 **them?**

17 A. One way would be through the Fuel Adjustment Charge ("FAC"), which the Company
18 uses to recover fuel and related costs it incurs on behalf of its customers. Typically,
19 the FAC is used to recover costs over a six-month period, for the previous six-month
20 period. In this instance, because the costs the Company incurred during Winter Storm
21 Uri were so large, the Company removed these costs from the FAC filing and sought
22 recovery of them in its rate case.

23 In its direct testimony in Liberty's pending rate case, as of May 2021, the
24 Company sought recovery of \$181,682,727 in Storm Uri costs, which results in an

1 incremental increase in revenue of \$29,883,338 from Winter Storm Uri, representing
2 an increase of 4.54% in total base operating revenue.^{3,4} Those numbers do not include
3 additional costs incurred or adjustments for SPP resettlements through the end of
4 December 2021.

5 **Q. If the Company can recover the extraordinary costs over time, why is it proposing**
6 **to securitize them?**

7 A. Because securitization is considerably less expensive, and results in a lower overall
8 cost to customers.

9 **Q. How?**

10 A. Securitization affords access to financing at much lower rates to customers. As I
11 explained previously, the Company currently estimates that the interest rate on the
12 bonds that will be issued is 2.47%. If the Company were to carry the cost and amortize
13 it over time, it would carry the balance as a regulatory asset and apply a carrying charge
14 equal to its WACC. Using the Company's WACC of 7.06% proposed in the current
15 rate case, customers' costs would be much higher, even when out-of-pocket financing
16 costs are considered.

17 **Q. Have you estimated how much Liberty's customers will save from securitizing the**
18 **costs?**

19 A. Yes. As I explain above and detailed in Schedule KSH 2, the revenue requirement for
20 the securitized bonds and the associated estimated costs is about \$1.6 million per
21 month. Over the course of the scheduled thirteen-year period, customers would pay a
22 total of about \$247 million. For comparison, I also calculated the monthly cost that

³ Direct Testimony of Charlotte Emery, ER-2021-0312, page 21 at line 2.

⁴ Direct Testimony of Charlotte Emery, ER-2021-0312, page 5 at line 13.

1 would accrue to customers if the Company amortized its costs from Storm Uri (the
2 actual costs plus carrying costs since) over a period of equal length with a carrying
3 charge equal to the WACC. Note that for the comparison I eliminated the upfront
4 financing costs and the ongoing financing costs. Under that scenario, the Company
5 would need to recover approximately \$2 million per month from customers, with such
6 payments totaling approximately \$313 million over the thirteen-year period. The
7 benefits to customers are thus approximately \$65.6 million. My calculations are
8 included in Schedule KSH-3.

9 **Table 3. Summary of Securitization Benefits**

| | Securitization | Amortization 13 Years |
|------------------------|-----------------------|----------------------------------|
| Total payments | \$247,434,015 | \$313,064,702 |
| Securitization benefit | ----- | \$65,630,688 |

10 **Q. Have you developed any other comparisons?**

11 A. Yes. The Securitization Statute requires a comparison of costs on a Net Present Value
12 (“NPV”) basis. To meet this requirement, I have included a comparison of the total
13 value of the payments made by customers to securitize the Storm Uri costs, expressed
14 on an NPV basis using Liberty’s proposed WACC as a discount rate, to the total value
15 of payments they would make, expressed on the same basis, if Liberty amortized the
16 costs itself. My results are included in Schedule KSH-3 and are shown in Table 4.

17 **Table 4. Summary of Securitization Benefits on an NPV Basis**

| | Securitization | Amortization 13 Years |
|---|-----------------------|----------------------------------|
| NPV of total payments discounted at WACC | \$161,629,490 | \$204,500,939 |
| NPV Securitized Benefit | ----- | \$42,871,448 |

1 **Q. What do you conclude from this comparison?**

2 A. I conclude that the total amount Liberty’s customers will need to pay to offset the
3 qualified extraordinary costs that the Company incurred will be lower, on a nominal
4 and NPV basis, if the costs are securitized.

5 **IV. SECURITIZED METHOD OF STORM COST RECOVERY**

6 **Q. How would the qualified extraordinary costs be recovered from customers once**
7 **costs have been securitized (“Securitized Cost Recovery”)?**

8 A. As explained more fully in the Direct Testimony of Witness Niehaus, in a Securitized
9 Cost Recovery, the utility seeks to accelerate the recovery of qualified extraordinary
10 costs and associated financing costs by issuing bonds and receiving one lump sum of
11 cash upon issuance. The Company is requesting Commission approval to securitize
12 costs arising out of Winter Storm Uri with bonds and recover these costs from
13 customers via a non-bypassable SUTC. This charge will ensure the recovery of
14 revenues is sufficient to provide for the payment of the bond principal, interest,
15 financing costs, and other fees, costs, and charges related to the securitized utility tariff
16 bonds. A Commission-approved SUTC would be assessed to all current and future
17 retail customers of Liberty.

18 **Q. Please explain a non-bypassable SUTC.**

19 A. Pursuant to the Securitization Statute, a non-bypassable charge shall be paid by all
20 existing or future retail customers receiving electrical service from an electrical
21 corporation or its successors or assignees under Commission-approved rate schedules
22 (except for customers receiving electrical service under special contracts as of August
23 28, 2021), even if a customer elects to purchase electricity from an alternative

1 electricity supplier following a fundamental change in regulation of public utilities in
2 Missouri.

3 **Q. Will Liberty collect the SUTC?**

4 A. Yes. Liberty, as servicer, will collect the SUTC and remit the funds to a collection
5 account. This is more fully described in the testimony of Witness Niehaus.⁵

6 **V. SECURITIZED UTILITY TARIFF CHARGE**

7 **Q. What is the purpose of this section of your testimony?**

8 A. In this section of my testimony, I explain the SUTC that the Company proposes to use
9 to recover the costs of the securitization bonds.

10 **Q. Please summarize the calculation of the SUTC.**

11 A. To calculate the SUTC, I allocated the revenue requirement to each of the Company's
12 rate classes based on the results of the Class Cost of Service ("CCOS") study presented
13 by Company witness Tim Lyons in Liberty's ongoing rate case in Case No. ER-2021-
14 0312. I then used the billing determinants Witness Lyons uses to calculate Liberty's
15 proposed distribution rates to calculate a separate SUTC for each class.

16 **Q. How much are the SUTCs you calculate designed to recover?**

17 A. As I explain above, the revenue requirement for the bonds is about \$1.6 million per
18 month; however, to minimize the impact of seasonal variations in usage, I have
19 calculated the SUTCs on an annual basis. Thus, they are designed to recover twelve
20 times the monthly revenue requirement, or about \$19 million.

⁵ Direct Testimony of Katrina T. Niehaus, page 9 at line 23.

1 **Q. How did you determine how much revenue will be recovered from customer**
2 **classes?**

3 A. Based on the class revenue targets from witness Lyons’ rate design which, as he
4 explains in his Direct Testimony filed in Case No.: ER-2021-0312, was established by
5 the Class Cost of Service Study. Specifically, I calculated the percentage of the
6 Company’s total distribution revenue requirement that would be contributed by each
7 of Liberty’s rate classes and used the result to determine how much of the cost of the
8 securitization bonds should be recovered from each class.

9 **Q. What was the next step in your calculation?**

10 A. Using the determinants witness Lyons used in his study, I calculated the SUTC for each
11 class. The results are shown in Table 4 and detailed in Schedule KSH-4.

12 **Table 5. Calculation of SUTCs by Class**

| Class | Allocation | Revenue Target | Class Usage | SUTC |
|-------------------------|-------------------|-----------------------|--------------------|---------------|
| | <i>%</i> | <i>\$</i> | <i>kWh</i> | <i>\$/kWh</i> |
| Residential | 44.38% | \$8,446,124 | 1,672,672,383 | \$0.00505 |
| Commercial | 8.93% | \$1,700,368 | 314,902,557 | \$0.00540 |
| Small Heating | 2.01% | \$382,997 | 79,755,494 | \$0.00480 |
| General Power | 18.30% | \$3,482,371 | 837,326,668 | \$0.00416 |
| Transmission | 1.13% | \$214,289 | 69,477,754 | \$0.00308 |
| Total Electric Building | 7.69% | \$1,463,808 | 340,335,347 | \$0.00430 |
| Feed Mill | 0.02% | \$2,935 | 452,711 | \$0.00648 |
| Large Power | 16.21% | \$3,084,578 | 874,735,928 | \$0.00353 |
| Misc. Service | 0% | \$592 | 136,106 | \$0.00435 |
| Street Lighting | 0.62% | \$118,709 | 17,854,334 | \$0.00665 |
| Private Lighting | 0.70% | \$133,675 | 12,566,733 | \$0.01064 |
| Special Lighting | 0.02% | \$2,939 | 405,972 | \$0.00724 |
| | | | | |
| Total/Average | 100% | \$19,033,386 | 4,220,621,987 | \$0.00451 |

1 **Q. Is the Company seeking approval of a tariff at this time?**

2 A. No. If the Commission approves the Company's request to securitize the costs arising
3 from Winter Storm Uri, the Company will update its calculation for costs immediately
4 before the bonds are issued, and it will seek approval of the final tariff at that time.
5 However, I've attached the current draft tariff, based on the estimated costs, as
6 Schedule KSH-5.

7 **Q. If approved, how will SUTC appear on customer bills?**

8 A. The SUTC will appear as a separate line item on a customer's bill and it will include
9 both the rate and the amount charged on each bill.

10 **VI. SUTC TRUE-UP AND ADJUSTMENT**

11 **Q. What is the purpose of this section of your testimony?**

12 A. In this section of my testimony I summarize the true-up of the SUTC the Company will
13 conduct at least annually during the life of the securitization bonds.

14 **Q. Please summarize the formula based true-up mechanism.**

15 A. The true-up adjustment will, at least annually, adjust the SUTC for any overcollections
16 or undercollections to ensure the expected recovery of amounts are sufficient to timely
17 provide all payments of debt service and other required amounts and charges in
18 connection with the securitized utility tariff bonds.

19 **Q. Will Liberty complete any other reviews of the SUTC?**

20 A. Yes. In addition to the reviews at least annually, Liberty may request a true-up at any
21 time during the term of the securitized utility tariff bonds to correct any
22 undercollection. Further, Liberty must be able to make a mandatory interim true-up
23 adjustment semi-annually (or quarterly beginning 12 months prior to the final
24 scheduled payment date of the last tranche of the securitized utility tariff bonds) to

1 ensure that the amount of the SUTC matches any funding requirements approved by
2 the Commission.

3 **Q. Please describe the reconciliation process as required by RSMo 363.1700.2(2)(f)**
4 **between securitized utility tariff bonds and final securitized costs incurred by**
5 **Liberty.**

6 A. As this is a securitization for the recovery of qualified extraordinary costs arising out
7 of Winter Storm Uri, I do not anticipate having to do a reconciliation because at the
8 time the bonds will be issued, all qualified extraordinary costs arising out of Winter
9 Storm Uri will be known and approved by the Commission for recovery.

10 **Q. Please explain what happens to the SUTC once the bonds and any related**
11 **financing costs have been repaid in full.**

12 A. Once the bonds and financing costs have been repaid Liberty will no longer bill
13 customers for the SUTC.

14 **VII. CONCLUSION**

15 **Q. Does this conclude your testimony?**

16 A. Yes.

VERIFICATION

I, Karen S. Hall, under penalty of perjury, on this 19th day of January, 2022, declare that the foregoing is true and correct to the best of my knowledge and belief.

/s/ Karen S. Hall