

*Exhibit No.:*  
*Issue:* State Income Tax Flow-Through  
*Witness:* Paul R. Harrison  
*Sponsoring Party:* MoPSC Staff  
*Type of Exhibit:* Rebuttal Testimony  
*Case No.:* ER-2010-0130  
*Date Testimony Prepared:* April 2, 2010

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**REBUTTAL TESTIMONY**

**OF**

**PAUL R. HARRISON**

**The EMPIRE DISTRICT ELECTRIC COMPANY**

**CASE NO. ER-2010-0130**

*Jefferson City, Missouri*  
*April 2010*

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REBUTTAL TESTIMONY OF  
PAUL R. HARRISON  
THE EMPIRE DISTRICT ELECTRIC COMPANY  
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1 request in this case. One component of that adjustment was not separately broken out on  
2 Schedule WSK -3, although it was reflected in supporting workpapers provided to the Staff.  
3 That adjustment component was a proposed amortization to increase deferred tax expenses in  
4 this case, to recover for an alleged state income tax flow-through treatment afforded to  
5 Empire's Missouri accelerated depreciation tax timing differences in rate proceedings prior  
6 to 1994.

7 Q. Does Staff believe such an adjustment is appropriate?

8 A. No.

9 **STATE INCOME TAX FLOW-THROUGH**

10 Q. What is the revenue requirement impact of this issue in this case?

11 A. The Staff believes this issue is valued at approximately \$81,000.

12 Q. Did the Company address this issue in its Direct testimony?

13 A. No. The Staff only became aware of this issue after reviewing the Company's  
14 supporting workpapers and through discussions with the Company.

15 Q. Does the Staff know why the Company did not address this adjustment in its  
16 Direct testimony?

17 A. No.

18 Q. Why does Staff believe it is not necessary for the Company to seek recovery of  
19 this expense in its Cost of Service for this case?

20 A. The tax deduction for state income tax expenses was included in rates  
21 consistent with the tax treatment that was applicable and authorized by the Commission for  
22 each one of Empire's rate cases that was filed with the Commission prior to 1994. Even  
23 assuming for the sake of argument that the state income tax timing difference was in fact

1 flowed-through to customers in all instances prior to 1994, for Empire to now come back to  
2 the Commission and attempt to recover this cost in rates would be the equivalent of them  
3 asking the Commission to have the ratepayers refund any shortfalls of the state income tax  
4 expense that they did not fully recover from previous rate cases.<sup>1</sup>

5 To the extent that Empire's proposal is intended to recover state income tax costs from  
6 previous periods of time from current customers, that proposal could constitute prohibited  
7 retroactive ratemaking.

8 Q. Does this conclude your Rebuttal testimony?

9 A. Yes, it does.

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<sup>1</sup> A "tax timing difference" exists when specific costs are reflected in determining pretax operating income, for both financial reporting and ratemaking purposes, in a different period than when they are reflected in determining current year taxable income under Internal Revenue Service (IRS) rules. In calculating income tax for ratemaking purposes, timing differences can be reflected consistent with when they are reflected under IRS rules (*flow-through treatment*) or they can be reflected consistent with when they are reflected in determining pretax operating income for financial reporting and ratemaking purposes (*normalization treatment*). When timing differences are normalized for ratemaking purposes, a deferred tax adjustment is used for the purpose of *not* reflecting in rates the timing of cost recognition under IRS rules. Deferred taxes are reversed in subsequent years consistent with the timing for recognizing the related costs for financial reporting purposes in determining pretax operating income. The deferral of a tax timing difference (normalization treatment) can result in either a Deferred Tax Liability or a Deferred Tax Asset.

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

In the Matter of The Empire District Electric )  
Company for Authority to File Tariffs Increasing ) Case No. ER-2010-0130  
Rates for Electric Service Provided to Customers )  
in the Missouri Service Area of the Company )

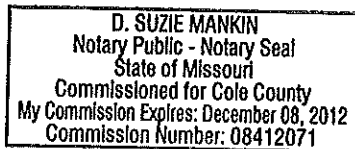
AFFIDAVIT OF PAUL R. HARRISON

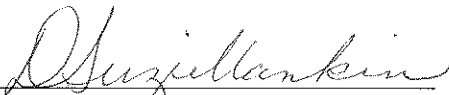
STATE OF MISSOURI     )  
  )     ss.  
COUNTY OF COLE     )

Paul R. Harrison, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 3 pages to be presented in the above case; that the answers in the foregoing Rebuttal 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.

  
\_\_\_\_\_  
Paul R. Harrison

Subscribed and sworn to before me this 1st day of April, 2010.



  
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Notary Public