

Exhibit No.:
Issue: True-up Revenue Requirement, Rate
Base, Statement of Operations, Rate of Return
Witness: W. Scott Keith
Type of Exhibit: True-up Direct Testimony
Sponsoring Party: Empire District Electric
Case No: ER-2011-0004
Date Testimony Prepared: May 2011

**Before the Public Service Commission
of the State of Missouri**

**True-up Direct Testimony
of
W. Scott Keith**

May 2011

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OF
W. SCOTT KEITH
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2011-0004

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TRUE-UP DIRECT TESTIMONY
OF
W. SCOTT KEITH
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2011-0004

1 **I. INTRODUCTION**

2 **Q. STATE YOUR NAME AND ADDRESS PLEASE.**

3 A. My name is W. Scott Keith and my business address is 602 S. Joplin Avenue,
4 Joplin, Missouri.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am presently employed by The Empire District Electric Company (“Empire” or
7 “the Company”) as the Director of Planning and Regulatory. I have held this
8 position since August 1, 2005.

9 **Q. ARE YOU THE SAME W. SCOTT KEITH THAT EARLIER PREPARED
10 AND FILED DIRECT, REBUTTAL AND SURREBUTTAL TESTIMONY IN
11 THIS RATE CASE BEFORE THE MISSOURI PUBLIC SERVICE
12 COMMISSION (“COMMISSION”) ON BEHALF OF EMPIRE?**

13 A. Yes.

14 **Q. WHAT IS THE PURPOSE OF YOUR TRUE-UP DIRECT TESTIMONY?**

15 A. My true-up direct testimony will discuss what impact the true-up process has on
16 Empire’s overall Missouri revenue requirement and explain the overall change in
17 rate base, statement of operations, and rate of return.

1 **II. TRUE-UP PROCESS**

2 **Q. PLEASE DESCRIBE HOW EMPIRE PERFORMED THE TRUE-UP OF ITS**
3 **OVERALL REVENUE REQUIREMENT.**

4 A. Empire has updated its capital structure, rate base and statement of operations
5 through March 31, 2011, as ordered by the Commission on April 18, 2011. In
6 terms of its rate base, the major items updated included plant in service, the
7 reserves for depreciation and amortization, prepaid pension asset, material and
8 supplies, vegetation/infrastructure tracker, the payment from the Southwest Power
9 Administration (“SWPA”), and demand-side management (“DSM”) regulatory
10 asset. Empire’s statement of operations was updated to reflect customer growth,
11 payroll changes (excluding variable), fuel and purchased power expense (including
12 new contractual based fuel and purchase power prices, and a natural gas storage
13 contract entered into on June 17, 2010), rate case expense, FAS 87/106,
14 depreciation expense, bad debt expense, pension costs, taxes other than income
15 (payroll and property) and income taxes (for the impact of true-up items).

16 **III. RATE BASE**

17 **Q. WHAT WAS THE IMPACT OF THE TRUE-UP ON EMPIRE’S MISSOURI**
18 **JURISDICTIONAL RATE BASE?**

19 A. Empire’s rate base decreased by \$14,178,314 from \$1,067,907,990 to
20 \$1,053,729,677. One of the major changes taking place in rate base in the true-up
21 is related to the reflection of the SWPA payment, net of income taxes.

22 **Q. WHY IS THERE SUCH A SIGNIFICANT DECREASE IN EMPIRE’S RATE**
23 **BASE?**

1 A. The significant decrease in rate base is primarily related to the balances included for
2 Iatan 2 and Plum Point. Empire's original filing included the overall budget
3 expenditures for each of the units, while the true-up filing only includes the actual
4 expenditures on each unit through March 31, 2011. There are still significant
5 expenditures on these units that are scheduled to take place after March 31, 2011.
6 In addition, the SWPA payment, net of income taxes, is also reflected in Empire's
7 true-up rate base.

8 **A. SWPA**

9 **Q. IS EMPIRE OPPOSED TO USING THE BENEFITS OF THE SWPA**
10 **PAYMENT AS A CREDIT TO THE ENERGY COSTS THAT FLOW**
11 **THROUGH THE FAC?**

12 A. No. Empire recommends that the benefits of the SWPA payment, net of income
13 taxes, be used to offset the FAC energy costs. The only questions left to answer
14 with regard to the SWPA payment and Empire's FAC are when to begin the
15 process and over how long a period of time the SWPA credits should be spread.

16 **Q. DOES USING THE FAC TO PASS ON THE NET BENEFIT OF THE SWPA**
17 **PAYMENT REQUIRE AN ADJUSTMENT TO EMPIRE'S BASE RATES**
18 **OR THE FAC BASE?**

19 A. No. All of the net benefits associated with the SWPA payment can be reflected in
20 Empire's FAC without any changes in base rates or the FAC base. As a result of
21 this methodology, customers will see a decrease on their statements in the fuel
22 portion of their bill.

1 **IV. STATEMENT OF OPERATIONS**

2 **Q. HOW DID THE TRUE-UP CHANGE EMPIRE'S MISSOURI**
3 **JURISDICTIONAL STATEMENT OF OPERATIONS?**

4 A. Empire's Missouri jurisdictional net operating income declined by \$5.6 million or
5 from \$71.7 million to \$66.1 million.

6 **Q. WHAT ARE THE MOST SIGNIFICANT AREAS OF COST INCREASES**
7 **REFLECTED IN EMPIRE'S TRUE-UP?**

8 A. There was a major increase in Empire's FAS 87/106 costs in the true-up as well as
9 a significant increase in the cost of the legal fees for the rate case.

10 **V. CAPITAL STRUCTURE**

11 **Q. WHAT IMPACT DID THE TRUE-UP HAVE ON EMPIRE'S CAPITAL**
12 **STRUCTURE?**

13 A. Empire's capital structure at March 31, 2011, included 50.24% of long-term debt
14 and 49.76% of equity. Using Empire's requested return of equity of 10.6% and a
15 weighted cost of debt of 6.382%, the true-up resulted in an overall rate of return of
16 8.481%. This compares to Empire's original overall rate of return of 8.821%.

17 **VI. REVENUE REQUIREMENT**

18 **Q. WHAT IMPACT DID THE TRUE-UP HAVE ON EMPIRE'S OVERALL**
19 **REVENUE REQUIREMENT?**

20 A. The true-up process resulted in an overall increase in Empire's overall revenue
21 deficiency of almost \$1.2 million or \$37.7 million overall revenue deficiency
22 compared to an overall revenue deficiency of \$36.5 million in Empire's original
23 filing.

1 **A. REVENUE**

2 **Q. WHAT REVENUE COMPONENTS DID EMPIRE UPDATE?**

3 A. Empire updated its revenue to reflect the number of customers at March 31, 2011 in
4 the residential, commercial, space heat, total electric buildings, general power and
5 large power categories.

6 **B. FUEL AND PURCHASE POWER**

7 **Q. WHAT COMPONENTS OF FUEL AND PURCHASED POWER EXPENSE**
8 **WERE INCLUDED IN EMPIRE’S TRUE-UP?**

9 A. Empire updated its analysis of fuel and purchased power expense so that it included
10 the impact of customer growth through March 31, 2011. In addition, the fuel and
11 purchase power costs reflect the contract prices Empire was incurring for coal, coal
12 transportation, wind energy, purchased power at Plum Point, and natural gas
13 storage as of March 31, 2011.

14 **Q. HOW HAS EMPIRE’S FUEL AND ENERGY COST CHANGED AS A**
15 **RESULT OF THE TRUE-UP?**

16 A. Excluding the demand charges associated with the Plum Point power contract, the
17 fuel and purchased power energy costs have increased from \$161.380 million in the
18 original filing to \$162.086 million at true-up, or an increase of slightly more than
19 \$700,000. In terms of an average cost per megawatt-hour (“MWH”), Empire’s
20 original filing included an average energy cost of \$29.75, while the true-up includes
21 an average cost of \$29.97. On an average cost basis, Empire’s update or true-up of
22 energy costs represents less than a one percent change from that level included in
23 Empire’s original filing.

1 **Q. WHAT IS THE OVERALL AVERAGE COST OF NATURAL GAS IN**
2 **EMPIRE'S TRUE-UP?**

3 A. Empire's true-up filing reflects an overall average cost of natural gas of \$5.65 per
4 MMBtu. Empire witness Todd Tarter will also provide additional true-up direct
5 testimony covering the true-up of Empire's fuel and energy cost.

6 **C. RATE CASE EXPENSE**

7 **Q. HOW MUCH RATE CASE EXPENSE WAS INCLUDED IN EMPIRE'S**
8 **TRUE-UP?**

9 A. Empire's true-up of rate case expenses includes a total cost estimate of \$595,000
10 for all facets of the rate case, except those pertaining to Staff's allegations of
11 imprudence on the part of KCPL regarding the Iatan projects. After adding in the
12 costs Empire has incurred through the end of April 2011 for the Iatan prudence
13 issues in the amount of \$1,157,566, the overall rate case cost for purposes of the
14 true-up is \$1,760,930. This total rate case expense was amortized over a four-year
15 period, just as in the original Empire filing.

16 **Q. HOW MUCH DID EMPIRE'S RATE CASE EXPENSE INCREASE FROM**
17 **THE ORIGINAL FILING?**

18 A. The total estimated rate case cost has increased by \$1,165,930 as a result of the
19 KCPL Iatan prudence issues. The potential for the re-litigation of alleged
20 imprudence on the part of KCPL did not become apparent until the Commission
21 Staff filed its direct case. Empire then had to respond with testimony and
22 supporting documentation from Iatan's builder, KCPL. This resulted in an annual
23 revenue requirement impact of approximately \$291,500 after applying the four-year

1 amortization period.

2 **Q. IS THERE A NEED TO UPDATE RATE CASE COSTS AFTER THE**
3 **TRUE-UP PROCESS?**

4 A. Yes. Empire's overall estimate of rate case expense does not include an estimate of
5 the additional cost it would incur if the KCPL Iatan witnesses are required to attend
6 the Empire hearing. The professional time and travel expenses associated with
7 their attendance could be material.

8 **Q. HAVE YOU ATTACHED A SCHEDULE TO YOUR TRUE-UP DIRECT**
9 **TESTIMONY THAT REFLECTS THE OVERALL CHANGES TO**
10 **EMPIRE'S REVENUE REQUIREMENT?**

11 A. Yes. I have attached True-up Schedule WSK-1.

12 **Q. DOES THIS CONCLUDE YOUR TRUE-UP DIRECT TESTIMONY?**

13 A. Yes.

