

Exhibit No.:

*Issues: Materials & Supplies, Prepayments, Customer
Deposits, Customer Advances, Postage
Expenses, Property and Liability Insurance,
Injuries and Damage & Workers' Compensation,
PSC Assessment, Rate Case Expense*

Witness: Paul Mapeka

Sponsoring Party: MoPSC Staff

Type of Exhibit: Direct Testimony

Case No.: ER-2006-0315

Date Testimony Prepared: June 23, 2006

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

PAULA MAPEKA

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2006-0315

Jefferson City, Missouri

June 2006

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of The Empire District Company of)
Joplin, Missouri for authority to file tariffs)
increasing rates for electric service provided to)
customers in Missouri service area of the Company.)

Case No. ER-2006-0315

AFFIDAVIT OF PAULA MAPEKA

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Paula Mapeka, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 9 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.



Paula Mapeka

Subscribed and sworn to before me this 21st day of June 2006.





TONI M. CHARLTON
Notary Public - State of Missouri
My Commission Expires December 28, 2008
Cole County
Commission #04474301

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OF

PAULA MAPEKA

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2006-0315

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1 Q. What knowledge, skills, experience, training, or education do you have in
2 these matters?

3 A. I have acquired knowledge of the audit topics assigned to me through the
4 review of the Staff's testimony and workpapers from previous rate cases involving
5 The Empire District Electric Company (Empire or Company), as well as, materials from
6 rate cases filed by other Missouri jurisdictional utilities. I have reviewed in-house
7 training materials on the topics assigned to me in this proceeding. I have also reviewed
8 prior Commission decisions regarding these areas. I have reviewed the Company's
9 testimony, workpapers and responses to the Staff's data requests addressing these topics.
10 My immediate supervisor and other senior auditors have provided guidance and training
11 in these areas and oversight of my work.

12 Q. Did you make an examination and analysis of the books and records of
13 Empire in regard to issues raised in this case?

14 A. Yes. In conjunction with other members of the Commission's Staff
15 (Staff), I specifically examined and analyzed the following documentation: the
16 Company's filed testimony, the Company's responses to Staff data requests, select
17 general ledger information related to my assigned issues, and Company workpapers.

18 **EXECUTIVE SUMMARY**

19 Q. Please give a brief summary of your direct testimony in this case.

20 A. The purpose of this direct testimony is to address the rate base additions of
21 materials and supplies and prepayments, as well as, the rate base reductions of customer
22 deposits and customer advances for Empire in rate Case No. ER-2006-0315. I also made

1 adjustments to annualize and normalize postage and billing expenses, property and
2 liability insurance, injuries and damages, PSC assessment, and rate case expenses.

3 Each of these items will be discussed in turn in my testimony.

4 **MATERIALS AND SUPPLIES**

5 Q. What are materials and supplies?

6 A. These are small dollar assets intended for use in the utility business for
7 construction, operation, and maintenance. Materials and supplies are stored in inventory
8 by the utility and are dispensed as needed.

9 Q. Please describe the Staff's treatment of materials and supplies.

10 A. If there are variations or fluctuations in the balances of materials and
11 supplies accounts throughout an audit period, Staff typically uses a 13-month average
12 method to normalize or smooth out these variations for purposes of determining the value
13 of materials and supplies to include in rate base. In the event that there is a general
14 upward trend or downward trend in materials and supplies balances in an audit period,
15 Staff typically uses the ending test year account balance or ending test year update period
16 account balance to determine the appropriate amount of materials and supplies to use as
17 an element of rate base.

18 In this case, Staff used a 13-month average to normalize the variations in
19 materials and supplies for the 12-month period ending March 31, 2006. This date marks
20 the end of the test year update period for this case.

21 **PREPAYMENTS**

22 Q. What are prepayments?

1 A. These are goods or services a company pays for in advance of their
2 intended use in order obtain the goods or services for the utility to carry out its normal
3 operations. Such items include, but are not limited to, insurance, taxes, rents, interest,
4 and other miscellaneous items.

5 Q. Please describe the Staff's treatment of prepayments.

6 A. If there are variations or fluctuations in the balances of prepayment
7 accounts throughout an audit period, Staff typically uses a 13-month average method to
8 normalize or smooth out these variations for purposes of determining the value of
9 prepayments to include in rate base. In the event that there is a general upward trend or
10 downward trend in prepayment balances in an audit period, Staff typically uses the
11 ending test year account balance or ending test year update period account balance to
12 determine the appropriate amount of prepayments to use as an element of rate base.

13 In this case, after review of the prepayment balances in the test year and update
14 period, Staff used the 13 month average for the 12-month period ending March 31, 2006,
15 to normalize the monthly variations in these costs.

16 **CUSTOMER DEPOSITS**

17 Q. What are customer deposits and how are they treated?

18 A. These are amounts deposited with the utility by customers as security for
19 the payment of bills. Customer deposits are treated as a liability repayable to customers
20 by the utility company and, therefore, are deducted from the rate base.

21 Staff has determined the balance of customer deposits at March 31, 2006, to be
22 most representative of the ongoing level of customer deposits and has included that
23 amount as a reduction to rate base.

INTEREST EXPENSE ON CUSTOMER DEPOSITS

Q. Please explain Income Statement adjustment S-69.3.

A. Staff's adjustment S-69.3 annualizes interest expense related to customer deposits. Customer deposits are interest bearing, so the interest expense paid by Empire to its customers that have provided customer deposits is included as an expense in the cost of service. Staff used an 8.75% interest rate, (prime + 1%), reported on March 31, 2006, in the Wall Street Journal to determine the interest rate to apply to Empire's customer deposits balance as of March 31, 2006. This calculation of interest expense on customer deposits is consistent with the methodology set forth within the Company's tariffs.

CUSTOMER ADVANCES

Q. Please describe the customer advances amount that is deducted from rate base.

A. Customer advances are funds provided by customers of the Company to cover certain specific costs incurred by the Company on behalf of these customers. These funds represent interest free money to the Company; therefore, it is appropriate to include the funds as an offset to rate base. Empire has been experiencing an upward trend in its level of customer advances. Therefore, Staff has determined the balance at March 31, 2006, to be most representative of the ongoing level of customer advances to include as a reduction to rate base.

1 **POSTAGE EXPENSES**

2 Q. Please describe the Staff's postage expense adjustment, Income Statement
3 adjustment S-69.4

4 A. Adjustment S-69.4 reflects the 5.4% across-the-board increase on postal
5 rates which became effective January 2006. Empire's postage expenses represent the
6 costs of postage for customer bill statements, shut off notices, collection notices,
7 dispatch, and special mailings to customers.

8 To calculate its adjustment, Staff reviewed postage expense for the 12 months
9 from January 2005 to December 2006 and determined an average amount of postage
10 expense for those months. This average was then multiplied by 12 to determine the
11 annualized level of postage expense. The annualized postage expense amount was then
12 multiplied by 5.4% to derive the incremental adjustment to postage expense for the
13 January 2006 postage increase.

14 **CUSTOMER GROWTH ADJUSTMENT FOR POSTAGE EXPENSES**

15 Q. Please explain the Staff's customer growth adjustment for postage
16 expenses, Income Statement adjustment S-69.5.

17 A. This adjustment reflects the additional postage costs associated with the
18 increase in the number of Empire's customers from April 2005 to March 2006. Staff
19 multiplied the total postage expenses incurred from April 2005 to March 2006 by the
20 customer growth percentage derived from the Company customer counts compiled by
21 Staff Auditing Witness Dana E. Eaves.

1 **PROPERTY AND LIABILITY INSURANCE**

2 Q. Please describe the property and liability insurance adjustments.

3 A. Income Statement adjustments S-84.2, S-83.2, S-89.4, S-89.5, S-85.11,
4 S-84.3 adjust property and liability insurance to reflect the premiums for policies in effect
5 at May 2006 to reflect the ongoing and normal expense for this item to Empire.

6 **INJURIES AND DAMAGES AND WORKERS' COMPENSATION**

7 Q. Please explain how injuries and damages expenses are accounted for by
8 Empire.

9 A. The Company accrues for injuries and damages expenses on its books
10 based on estimate of claims that the Company anticipates will be incurred, rather than
11 amounts that are actually paid out by Empire. The accrual is accumulated in a reserve
12 account by Empire, against which actual claims are charged when paid. The reserve
13 represents funds estimated to be paid in the future for claims related to medical costs,
14 workmen compensation costs and lawsuits relating to injuries and damages expense.

15 Q. What is Staff's position regarding treatment of injuries and damages
16 expenses?

17 A. The Staff disagrees with use of estimated future claims payouts to set rates
18 for injuries and damages expenses. Estimates of the impact of future events, which may
19 or may not occur, do not meet the Commission's traditional "known and measurable"
20 standard for inclusion of costs in rates.

21 In this case, Staff takes the position that injuries and damages expenses should be
22 reflected in rates base on actual claims payments, either from the test year or a multi-year
23 average of such payments.

1 Q. What is the Income Statement treatment for injuries and damages
2 expenses?

3 A. A historical analysis of injuries and damages payouts from 2001 to 2005
4 by Empire shows that these payments increased annually. Staff used the test year level of
5 payments as representative of an ongoing level of injuries and damages costs for Empire
6 to recover in rates.

7 Q. Please explain adjustment S-6.1, S-61.3, S-69.6, S-79.3

8 A. These adjustments annualize the excess workers' compensation insurance
9 based on the premium rates effective May 2006. A historical analysis shows an increase
10 in the premiums from May 2004 to the policy effective May 2006.

11 **PSC ASSESSMENT**

12 Q. Please discuss Income Statement adjustment S-87.1 to annualize the PSC
13 Assessment.

14 A. These adjustments represent the difference between the Staff's annualized
15 PSC Assessment and the test year recorded assessment expense. The most recent PSC
16 Assessment, in effect for the fiscal year July 1, 2005, to June 30, 2006, was used in the
17 Staff's annualization. This adjustment is subject to change upon receipt of the 2007
18 fiscal year assessment amount, which will go into effect July 1, 2006.

19 **RATE CASE EXPENSE**

20 Q. Please describe Income Statement adjustment S-87.2.

21 A. This adjustment normalizes rate case expenses over a two-year period.
22 Staff selected two years to normalize this expense in recognition of the Company's

1 typical rate case filing pattern, as shown by Case Nos. ER-2002-0424, ER-2004-0570,
2 and its current filing, Case No. ER-2006-0315. Staff had asked the Company in
3 Data Request 0140.1 when the Company anticipated filing its next electric rate case. The
4 Company did not have an exact timeline established for future rate filings in Missouri.

5 Q. How was test year rate case expense adjusted by Staff in
6 Case No. ER-2006-0315?

7 A. The total amount of rate case expenses incurred by Empire through
8 May 01, 2006, is being allowed at this time. This date falls beyond the test year update
9 period, which ends March 31, 2006, because Staff considers all reasonably incurred
10 expenses by utilities seeking rate changes throughout the rate case process. This
11 approach allows costs such as consulting fees, employee travel expenditures, and legal
12 representation, which are directly associated with the length of the case, to be properly
13 included in this case. This adjustment however, does not include those rate case expenses
14 booked within the test year that are associated with Case No. ER-2004-0570, Empire's
15 prior rate proceeding. This exclusion is appropriate because the Staff's policy is to
16 recommend recovery in rates of normalized rate case expense only on a prospective basis.
17 Staff believes it is inappropriate to allow specific recovery in rates of amounts related to
18 past rate proceedings.

19 The Staff will work with the Company through the duration of this case to
20 establish a reasonable and ongoing normalized level of rate case expense for inclusion in
21 rates.

22 Q. Does this conclude your direct testimony?

23 A. Yes, it does.