

Exhibit No.:
Issue: Tax Reform
Witness: Charlotte T. North
Type of Exhibit: Direct Testimony
Sponsoring Party: The Empire District
Electric Company
Case No.:ER-2018-0366
Date Testimony Prepared: June, 2018

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

Direct Testimony

of

Charlotte T. North

**Case No. ER-2018-0366
June, 2018**



Liberty Utilities[®]
EMPIRE DISTRICT

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1 **I. INTRODUCTION**

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

3 A. My name is Charlotte T. North, and my business address is 602 South Joplin Avenue
4 in Joplin, Missouri.

5 **Q. WHO IS YOUR EMPLOYER AND WHAT POSITION DO YOU HOLD?**

6 A. My employer is Liberty Utilities Services Corp., and I serve as a Supervisor in the
7 Rates and Regulatory Affairs Department for Liberty Utilities Central Region, which
8 includes The Empire District Electric Company (“Empire” or “Company”).

9 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL**
10 **BACKGROUND.**

11 A. I graduated from College of the Ozarks, Point Lookout, Missouri, in 2000 with a
12 Bachelor of Science degree with a major in Accounting. I have been a Certified
13 Public Accountant (“CPA”) in the State of Missouri since 2006. I was hired by the
14 Company in July 2016 as a Rates Analyst and promoted to my current position as a
15 Supervisor in the Rates and Regulatory Affairs Department in May 2017. Previously,
16 I worked for six years in the regulated insurance industry in Springfield, Missouri as a
17 Director of Accounting. In addition, I have nine years of public accounting
18 experience working for both a national and big four accounting firm. My primary
19 roles at these organizations included serving as a supervisor for financial statement
20 audits and a tax consultant.

21 **Q. HAVE YOU TESTIFIED BEFORE ANY STATE REGULATORY**
22 **COMMISSIONS?**

23 A. Yes. I have provided testimony on behalf of Liberty Utilities (Midstates Natural Gas)
24 Corp. before the Missouri Public Service Commission (“Commission”) in Case No.

1 GR-2018-0013. I also submitted an affidavit in Case No. EO-2018-0092 on behalf of
2 Empire. In addition, I have testified before the Arkansas Public Service Commission
3 in Docket Nos. 18-006-U and 16-053-U.

4 **II. CASE NO. EO-2018-0092 (EMPIRE'S CUSTOMER SAVINGS PLAN)**

5 **Q. PLEASE DESCRIBE THE AFFIDAVIT YOU SUBMITTED IN CASE NO. EO-**
6 **2018-0092.**

7 A. On April 24, 2018, Empire, the Missouri Division of Energy, the Midwest Energy
8 Consumers Group, Renew Missouri Advocates, and the Staff of the Commission
9 (“Staff”) (collectively, the “Signatories”) filed a Non-Unanimous Stipulation and
10 Agreement (the “Stipulation”) in Case No. EO-2018-0092, the proceeding regarding
11 Empire’s Customer Savings Plan and the proposed acquisition of wind generation,
12 and Case No. ER-2018-0228. My affidavit addressed the provisions of the Stipulation
13 stemming from Case No. ER-2018-0228, including why those provisions of the
14 Stipulation are reasonable and in the public interest.

15 **III. CASE NO. ER-2018-0228 (THE RATE CASE)**

16 **Q. DID EMPIRE INITIATE CASE NO. ER-2018-0228?**

17 A. No. To further explain, I would like to back up a bit. The Commission opened a
18 working docket regarding “the effect on Missouri utilities and ratepayers of a tax
19 reform now being enacted by the Congress of the United States,” File No. AW-2018-
20 0174. Empire filed its Response to Order in File No. AW-2018-0174 on January 31,
21 2018, stating that the Company believes cost savings from the Federal Tax Cuts and
22 Jobs Act of 2017 (the “Act”) should, and ultimately would, be passed on to utility
23 customers, while also noting challenges facing all parties and the Commission and
24 responding to the questions set forth by Staff and the Commission. When the

1 Commission closed the working docket, Staff filed a “Motion to Open Rate Case and to
2 Require Company to Show Cause,” triggering the opening of Case No. ER-2018-0228.

3 **Q. WHAT HAPPENED NEXT IN CASE NO. ER-2018-0228?**

4 A. On February 21, 2018, the Commission issued its *Order Opening Rate Case, Directing*
5 *Notice, Establishing Time to Intervene, and Requiring Company to Show Cause Why Its*
6 *Rates Should Not be Adjusted* (the “Rate Case Order”). The Commission’s Rate Case
7 Order noted that Staff asked the Commission “to open a rate case” because “Empire’s
8 existing rate schedules may no longer be just and reasonable.”

9 **Q. HAS ANYTHING ELSE TAKEN PLACE IN THIS COMMISSION-**
10 **INITIATED RATE CASE?**

11 A. Yes. The Commission scheduled oral arguments to discuss the possible issuance of
12 Accounting Authority Orders (“AAO”), and Empire and other parties filed written
13 arguments regarding the Commission’s authority to issue AAOs. Also, on May 17,
14 2018, Staff filed both a Voluntary Dismissal and its Withdrawal of Voluntary
15 Dismissal. Oral argument was held in the case on May 24, 2018.

16 **IV. THE NON-UNANIMOUS STIPULATION AND AGREEMENT**

17 **Q. PLEASE DESCRIBE THE TAX REFORM PROVISIONS OF THE**
18 **STIPULATION.**

19 A. As part of the Stipulation filed in Case Nos. EO-2018-0092 and ER-2018-0228, and
20 in conjunction with the provisions regarding wind generation, Empire has agreed to
21 file revised tariffs reflecting a reduction in base rate revenue as the result of the
22 implementation of the Act. If the Stipulation is approved, Empire will file revised
23 tariffs which would reflect an annual base rate reduction in the total amount of

1 \$17,837,022 so that the Commission may approve them to take effect as of October 1,
2 2018.

3 **Q. HOW DID EMPIRE DETERMINE THE AMOUNT OF \$17.8 MILLION?**

4 **A.** To determine the appropriate amount for the reduction in Empire's annual base rate
5 revenue requirement, Empire started with the agreed upon revenue requirement
6 utilized in its last completed rate case, ER-2016-0023, which included base rates
7 utilizing a federal corporate income tax rate of 35 percent. Empire then recalculated
8 the revenue requirement using the reduced federal corporate income tax rate of 21
9 percent under the Act. Attached to the Stipulation as Appendix B is a spreadsheet
10 displaying the annual reduction, along with the allocation of the reduced revenue
11 requirement to the individual rate classes. This spreadsheet is also be attached hereto
12 as Schedule 1.

13 **Q. ARE THERE OTHER TAX PROVISIONS IN THE STIPULATION?**

14 **A.** Yes. In addition to the \$17,837,022 annual base rate reduction effective October 1,
15 2018, the tax reform provisions of the Stipulation provide that Empire shall establish
16 a regulatory liability to account for the tax savings associated with excess
17 Accumulated Deferred Income Taxes ("ADIT"). The calculation of the regulatory
18 liability for excess ADIT would begin as of January 1, 2018, the effective date of the
19 Act, and would be valued in the Company's next general rate case proceeding.

20 **Q. IF THE STIPULATION IS APPROVED, WILL ANY ISSUE REMAIN TO BE
21 DECIDED REGARDING THE EFFECT OF THE ACT ON EMPIRE?**

22 **A.** Yes. If the Stipulation is approved by the Commission, the only issue remaining to be
23 decided in File No. ER-2018-0228 would be the design of the rate structure to flow
24 back the annual tax savings to customers.

1 **Q. IS THE STIPULATION IN THE PUBLIC INTEREST?**

2 A. Yes, and the tax reform provisions are an important part of the Stipulation. The
3 annual base rate revenue requirement reduction and the excess ADIT provision, taken
4 together, will provide the full benefits of the Act to Empire's customers. Also, the
5 provision regarding the filing of revised tariffs to effectuate the annual revenue
6 requirement reduction will provide certainty to Empire's customers regarding when
7 and how they will receive the benefits of the tax reform legislation.

8 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

9 A. Yes.

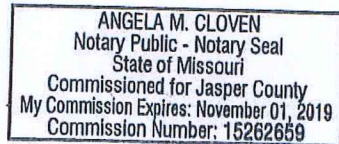
AFFIDAVIT OF CHARLOTTE T. NORTH

STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 6th day of July, 2018, before me appeared Charlotte T. North, to me personally known, who, being by me first duly sworn, states that she is Supervisor, Rates and Regulatory Affairs of The Empire District Electric Company and acknowledges that she has read the above and foregoing document and believes that the statements therein are true and correct to the best of her information, knowledge and belief.

Charlotte T. North
Charlotte T. North

Subscribed and sworn to before me this 6th day of July, 2018.



Angela M. Cloven
Notary Public

My commission expires: 11/01/2019.

The Empire District Electric Company
-A Liberty Utilities Company
ER-2018-0366
Schedule 1

Tax Reform Revenue Requirement Impact Calculation
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Line No.	Description Revenue Requirement Component	Missouri	
		21% Federal Income Tax Rate	35% Federal Income Tax Rate ⁽¹⁾
1	Operating Expense	352,263,768	352,263,768
2	Rate Base	1,345,483,910	1,345,483,910
3	ROR	7.33%	7.33%
4	Return on Rate Base	98,664,126	98,664,126
5	Interest Sync:		
6	Rate Base	1,345,483,910	1,345,483,910
7	Weighted Cost of Debt	2.72%	2.72%
8	Interest Deduct	36,650,982	36,650,982
9	Return on Rate Base	98,664,126	98,664,126
10	Interest Deduct	(36,650,982)	(36,650,982)
11	Net Income (Equity Portion of Return)	62,013,145	62,013,145
12	Composite Tax Rate	25.12%	38.39%
13	Equity x Tax Rate	15,576,772	23,805,978
14	GRCF	1.3354	1.623
15	Taxes	20,801,896	38,638,918
16	Total Revenue Requirement	471,729,790	489,566,812
17	Total Rev Req (Per Stipulation)	489,566,812	489,566,812
18	Difference	(17,837,022)	0

Footnotes:

Jurisdictional Revenue

Information derived from Docket No. ER-2016-0023 (empire rate design stip

<p>⁽¹⁾ 1b_06152016.xlsx)(Summary - CCOS Tab)</p> <p>Total:</p>	<p>489,566,812</p> <p>489,566,812</p>
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