Exhibit No.:
Issues: *Allocation of Payroll Costs, Allocation of Corporate Costs, O&M Ratio, Tracker Balance Cut-Off Dates, REC's, AQCS Consumables, Fuel Inventory, Prepayments, Unamortized Balance of Joplin Tornado, Cost of Removal Deferred Tax Amortization, State Tax Flow-Through and Deferred Tax Assets*
Witness: *Amanda C. McMellen*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Surrebuttal Testimony*
Case No.: *ER-2016-0023*
Date Testimony Prepared: *May 16, 2016*

MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING DEPARTMENT

SURREBUTTAL TESTIMONY

OF

AMANDA C. McMELLEN

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2016-0023

Jefferson City, Missouri
May 2016

TABLE OF CONTENTS OF

SURREBUTTAL TESTIMONY

OF

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CASE NO. ER-2016-0023

SURREBUTTAL TESTIMONY

OF

AMANDA C. McMELLEN

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2016-0023

Q. Please state your name and business address.

A. Amanda C. McMellen, 200 Madison Street, P.O. Box 360, Jefferson City, MO 65102.

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

A. I am employed by the Missouri Public Service Commission ("Commission") as a Utility Regulatory Auditor V.

Q. Are you the same Amanda C. McMellen who has previously filed portions of the Commission Staff's ("Staff") *Cost-of-Service - Revenue Requirement Report* and rebuttal testimony in this proceeding?

A. Yes, I am.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to respond to The Empire District Electric Company's ("Empire" or "Company") rebuttal filing regarding allocation of payroll costs, allocation of corporate costs (fiber affiliate and water department), operations and maintenance ("O&M") expense ratio, cut-off dates for trackers, renewable energy credits ("RECS"), air quality control system ("AQCS") consumables, fuel inventory, unamortized balance of Joplin tornado accounting authority order ("AAO"), cost of removal deferred tax amortization, state income tax flow-through and certain deferred tax assets.

ALLOCATION OF PAYROLL COSTS

Q. Please explain Empire's position concerning allocation of payroll related to the pending merger with Algonquin utilities.

A. Empire witness Brad P. Beecher disagrees with Staff's adjustment to allocate payroll to the pending merger for the following reasons: the merger is an isolated event and therefore not representative of ongoing activities; there are no incremental payroll costs because the involved employees are salaried; Staff's overall level of payroll costs excluded significant amounts of executive pay for shareholder activities; and Staff's payroll adjustments in total exclude more payroll through the O&M expense ratio.

Q. How does Staff respond?

A. First, I will address the issue of Staff's O&M expense ratio. Staff has revised the O&M expense ratio from what was proposed in its direct filing to reflect the proper calculations, which will be discussed later in this testimony. Second, although the merger with Algonquin may be an isolated event, the effects of the merger will be ongoing regarding Empire's payroll expense and other areas of its operations. Staff's position is that the normalized level of payroll calculated in this case, absent the merger adjustment, does not reflect any changes that will occur after the merger. Due to the planned nature of the post-acquisition corporate structure of Empire being a central headquarters for Algonquin, it is reasonable to assume that payroll costs and hours directly assigned to Empire electric activities will decrease. Therefore, Staff developed an estimate of these costs in order to properly set prospective rate levels. In addition, Empire is recording the incremental non-payroll costs associated with the merger separately. Empire should also be tracking the payroll costs associated with employee hours devoted to acquisition activities separately, which they have not done to date. Last, Staff is proposing to exclude incentive compensation portions of payroll related to shareholder activities because it is not reasonable to expect customers to pay for costs that benefit shareholders, as explained in the Staff Report on page 100. There is no relationship between Staff's position regarding rate recovery of incentive compensation expense and its position regarding treatment of acquisition related costs.

ALLOCATION OF CORPORATE COSTS

Q. How does Staff respond to Empire witness W. Scott Keith's rebuttal testimony regarding allocation of corporate overhead costs for The Empire District Industries, Inc. ("EDI")?

A. There are two separate issues regarding the allocation of corporate overhead costs to EDI. EDI is an affiliated entity that provides fiber services to Empire's regulated operations.

The main issue is the fact that Empire is not in compliance with the Commission's Affiliate Transactions Rule, 4 CSR 240-20.015. Empire has not provided values to the Commission for the fully distributed costs ("FDC") of services provided by its affiliate, EDI, to compare to the current market values for these services. The Company is in the best position to provide market and fully distributed cost values because they are in control of cost data. Because EDI has no employees, Empire provides corporate services to EDI that, in turn, are the part of the costs that are then charged back to Empire. Empire has either not calculated, maintained or provided this information to the Commission in violation of the rule.

The second issue is determining the proper amount of corporate overhead costs to allocate to EDI in relation to services provided by (purchased from) its affiliate, Empire.

Although the Company has the burden of proof in rate cases, it has not provided any methodology or attempt to estimate these costs in this case. Mr. Keith criticizes Staff for the way it calculated the adjustment but makes no attempt to estimate these costs himself. It is difficult to calculate an accurate amount to allocate with the limited resources and time available to Staff as an outside party.

Q. Please respond to Mr. Keith's rebuttal testimony regarding the allocation of corporate costs to the water department.

A. Staff's adjustment was the best estimate at the time of its direct filing since the Company provided no estimate of the administrative and general ("A&G") costs allocable to the water department. Mr. Keith did provide, after rebuttal testimony was filed, additional workpapers that address these costs. Although Staff has reviewed these workpapers, Staff has not had the time to verify the accuracy of the information provided. Therefore, Staff proposes no changes to its adjustment to allocate costs to the water department at this time.

Q. Are there other concerns with Empire's current process of allocating corporate overhead costs?

A. Yes. As stated in the Staff Report on pages 66-67, Staff has concerns with Empire's current process for allocating corporate costs. Staff's concerns include the following: (1) how Empire employees are recording their time; (2) whether common costs are excluded from the base amounts when determining common allocation percentages; (3) whether or not any outside services charges should be allocated across Empire's business units; and (4) whether or not Empire's "Modified Massachusetts Formula" factor results in an over-allocation to its electric business.

Q. How does Staff plan to address its additional concerns with the allocation of corporate costs?

A. Staff and Company are currently in the process of revising Empire's Cost Allocation Manual ("CAM") in Case No. AO-2012-0062. As part of this process, Staff will also investigate how corporate allocations are calculated.

STAFF UPDATES

Q. What is Staff's response to Empire witness Bryan S. Owens' rebuttal testimony regarding the O&M expense ratio?

A. As stated in my rebuttal testimony, Staff has corrected the O&M expense ratio to an updated three-year average of 74.99%, which is consistent with Mr. Owens' testimony. This rate was then used to update all applicable expenses and included in the revised workpapers provided to all parties following the filing of my rebuttal. Staff will apply the corrected ratio for expenses that will be trued-up through March 31, 2016.

Q. How does Staff respond to Mr. Owens' rebuttal testimony related to the cut-off dates for trackers?

A. Staff included the tracker balances through the September 30, 2015, update period for this case. The tracker balances will be analyzed and updated through March 31, 2016, in the true-up phase of this case.

Q. Please respond to Empire witness Todd W. Tartar's concerns in rebuttal testimony on RECS and AQCS Consumables.

A. Staff will analyze and update the RECS and AQCS Consumables through March 31, 2016, as part of the true-up in this case.

Q. How does Staff respond to Mr. Tartar's rebuttal testimony concerning fuel inventory levels?

A. As stated in my rebuttal testimony, Staff has corrected the fuel inventory level to reflect the proper ownership level which was then included in the revised workpapers provided to all parties. Fuel inventory will be updated in the true-up phase of this case.

Q. What is Staff's response to Empire witness John M. Woods' rebuttal testimony related to prepayments for the Iatan and Plum Point accounts?

A. After discussing this area further with Empire since the time of the direct filing, Staff has revised its position concerning the appropriate prepayments balance in rate base to include the 13-month average balances for the Iatan and Plum Point working capital funds accounts.

UNAMORTIZED BALANCE OF JOPLIN TORNADO AAO

Q. On page 14 of Empire witness Bryan S. Owens' rebuttal testimony, he claims that Staff's exclusion of the unamortized balance of the Joplin Tornado AAO is "unfair and is at odds with the Commission's order originally authorizing the deferral . . ." Did the Commission's order address the question of rate base treatment of the allowed asset?

A. No.

Q. Is it appropriate to exclude the unamortized balance of the AAO from rate base?

A. Yes. Including the unamortized balance in rate base would shield the shareholders from sharing any of the risk of the natural disaster. The Commission in the past has agreed with Staff that the unamortized balance of an AAO associated with an "act of God" should not be included in rate base. In its *Report and Order* in Case No. WR-95-145, St. Louis County Water Company ("County Water"), the Commission stated:[1]

> Based upon the record in this case, the Commission agrees with Staff that it would be inappropriate to include the unamortized portion of County Water's flood costs in rate base. County Water is attempting to amortize the expense associated with the damage caused by the 1993 flood over a period of five years and simultaneously include in rate base a portion of that expense. County Water may not capitalize an item in rate base and at the same time recover the item as an expense from ratepayers; particularly where the item claimed is retrospective in nature such as flood expense. In addition, inclusion of the unamortized expense would shield the shareholders from the risk of such a natural disaster while imposing such a risk entirely on ratepayers. The cost incurred as a result of the flood of 1993 was a natural disaster, an "act of God", and the expenditures were not intended to produce any benefit other than restoring the system to its pre-flood operating condition. The burden of "acts of God" should not have to be borne solely by the ratepayers. In the case of a natural disaster, the shareholders should not be completely shielded from the risk, but should share in the cost with the ratepayer. Allowing County Water to recover the cost through amortization, without the inclusion of the unamortized balance in rate base, achieves that sharing. Thus, the Commission finds that the unamortized portion of the expenses associated with damage from the flood of 1993 should not be included in rate base.

Q. Did the *Stipulation and Agreement* in Case No. EU-2011-0387, which established this AAO, specify that the unamortized balance should be included in rate base?

A. No. In fact it was specified, in both the order approving the stipulation and agreement and the stipulation and agreement itself, that, ". . . the Commission reserves the right to consider the ratemaking treatment to be afforded all deferred costs and/or expenditures, including the recovery of carrying costs, if any."

Q. What is an accounting authority order ("AAO")?

[1] 4 Mo.P.S.C.3d pages 106-107.

A. An AAO is an accounting mechanism that permits deferral of costs from one period to another. The items deferred are booked as an asset rather than an expense, thus improving the financial picture of the utility in question during the deferral period. During a subsequent rate case, the Commission determines what portion, if any, of the deferred amounts will be recovered in rates.

Q. Please describe the AAO that was granted to Empire regarding its 2011 tornado damage costs.

A. In Case No. EU-2011-0387, the Commission authorized Empire to defer O&M expenses incurred for the repair, restoration and rebuild activities associated with the May 22, 2011, tornado. The Company was also allowed to defer depreciation and carrying costs associated with the tornado-related capital expenditures. The Commission ordered the Company to begin amortizing the deferral over a ten-year period to start at the earlier of (1) the effective date of new rates implemented in its next general rate case (Case No. ER-2012-0345) or the next rate complaint case; or (2) June 1, 2013[2].

Q. Does Staff's cost of service in this case include the amortization of the deferred tornado costs?

A. Yes.

Q. On page 14 of Company witness Owens' rebuttal testimony, he states, "Empire has absorbed the financial impact of the storm for almost five years." Why is this statement incorrect?

A. Under the authority granted to Empire by the Commission, the Company did not charge any of the O&M expense or depreciation expense directly stemming from

[2] Case No. EU-2011-0387, Order Approving and Incorporating Unanimous Stipulation and Agreement, page 2, EFIS Item 19 filed on 11/30/2011.

the tornado to its current expenses at the time of the extraordinary event. Additionally, Empire was allowed to accrue a carrying charge equal to its Allowance for Funds Used During Construction ("AFUDC") rate on its tornado capital additions to offset the lack of a current return on its tornado-related capital additions. The AAO granted to Empire substantially mitigated many of the negative financial impacts Empire would have suffered due to the tornado.

COST OF REMOVAL DEFERRED TAX AMORTIZATION

Q. How is Company witness L. Jay Williams alleging that the cost of removal tax timing difference was treated for rate purposes in prior Empire rate proceedings in his rebuttal testimony?

A. Mr. Williams alleges that the tax deduction for cost of removal was inadvertently provided to customers twice in prior Empire rate proceedings, once by normalizing the cost of removal component included in Empire's authorized depreciation rates for tax purposes and again by simultaneously flowing through the amount of cost of removal actually incurred by the utility in the Company's income tax calculation. Empire is proposing to recoup this alleged under-recovered accumulated deferred income tax through an amortization of approximately $615,000 per year over the average remaining life of its plant assets once the amortization period begins.

Q. What is Staff's position regarding this proposed amortization?

A. Staff is opposed to this amortization's inclusion in rates for the following reasons:

1. Empire has not provided credible evidence that this alleged double-reflection of the cost of removal tax deduction in cost of service ever

actually occurred, nor has Empire provided an accurate quantification of the amount of the alleged double recovery;

2. Empire's analysis of this issue ignores the point that the tax straight-line depreciation calculation does not necessarily provide for a deduction of cost of removal; and

3. Even assuming that this double-reflection of the cost of removal tax deduction in Empire's cost of service actually occurred, it is my understanding that prospective correction in rates of "errors" in setting a utility's prior rates may not be permissible from a legal perspective.

Q. What evidence, if any, has Empire provided to Staff in this proceeding to support its contention of double reflection of cost of removal deductions?

A. The Company provided Staff with copies of the Staff income tax accounting schedules from two Empire rate cases filed in the 1990s.

Q. Do these accounting schedules fully support Empire's assertions?

A. No. The accounting schedules show that Staff included a deduction for cost of removal in its income tax calculations on an individual basis and an amount for tax straight-line depreciation deduction in the tax calculation. However, these schedules do not show to what extent a cost of removal accrual was incorporated within Staff's tax straight-line depreciation deduction.

Q. What is "tax straight-line depreciation?"

A. A utility's tax depreciation deduction amount is split into two pieces for ratemaking purposes. "Tax straight-line depreciation" is the application of the utility's authorized book depreciation rates to the tax basis of their depreciable assets. "Excess depreciation" is the application of the allowed accelerated tax depreciation rates to the tax basis of the utility's depreciable assets. If cost of removal is included as part of the depreciation rates to calculate tax depreciation, it would be incorporated in the tax straight-line depreciation calculation.

Q. In this testimony, are you asserting that Staff's position in this matter is that no double reflection of a cost of removal tax deduction occurred in prior rate cases?

A. Yes. Mr. Williams' assertion that a double recovery of tax benefits of cost of removal occurred ignores the fact that the tax straight-line depreciation amount as measured over the life of a company's assets does not allow for recognition of cost of removal in the calculation. Therefore, the approach utilizing the tax straight-line depreciation deduction alone to recognize the tax benefits associated with cost of removal is problematic. The use of the tax depreciation model to calculate tax straight-line depreciation, as normally done in rate cases, ultimately prevents the recognition of any cost of removal in tax straight-line depreciation amounts.

Tax depreciation is based on "vintage accounting." "Vintage accounting" is accounting for a group of assets based upon the year the assets were placed in service, as opposed to accounting for each asset on an individual basis. Total tax depreciation is the result of the amount of a depreciation deduction allowed for each year, or vintage, of the Company's plant investment. Once the total tax depreciation deductions for a particular vintage over time equals the total dollar amount of the plant investment (as measured for tax purposes) made within that vintage, no further tax depreciation is allowed for that vintage of assets.

Q. Can you illustrate this point using a simple example?

A. Yes. Assume a plant asset has an original cost of $100 and an estimated cost of removal value of $20. (We will assume that there is zero expected salvage value for this asset.) The utility's depreciation rates should be set to recover a total of $120, the book basis of the asset plus the estimated cost of removal, over the asset's assumed life. However, if the asset has a longer life than originally assumed, the utility may collect an amount in excess of the $120 in depreciation expense for that associated asset in rates.

Then, assume that for tax purposes the depreciable basis of the same asset is $95. (The book basis and tax basis of assets will often be different.) Remembering that cost of removal is not part of the tax depreciation calculation (because no deduction for cost of removal is allowed until the cost is incurred), the tax depreciation treatment applied to this asset will result in a total tax depreciation deduction equal to $95, and no more. In this example, it can be seen that the use of a tax straight-line depreciation deduction to calculate income tax expense will not provide for a deduction amount for cost of removal, only for the amount of the tax basis of the asset.

Q. For the period of time for which Empire's cost of removal deferred tax asset was calculated, can Staff state affirmatively that for any portion of that period there was not even a theoretical possibility of a double reflection of the cost of removal deduction to the benefit of ratepayers?

A. Yes, for the approximate period of 2001 through 2004, the Commission ordered that cost of removal be included in Empire's cost of service as an element of expense on its income statement, and not as a component of Empire's depreciation expense. For at least this period of time, inclusion of cost of removal in Empire's income tax calculation for ratemaking purposes could not have occurred as part of a tax depreciation calculation.

Q. Assuming that Empire is correct in asserting that, in at least some past rate proceedings, cost of removal was reflected in income tax accounting schedules twice (once as a component of depreciation expense and again as a separate line item in the schedule), even then does this mean that customers necessarily received a proportionately greater tax benefit associated with cost of removal than merited by the amount of cost of removal those customers provided to Empire in rates?

A. No. Customers may not have received the full benefits of a tax deduction for the entire amount of cost of removal provided to the Company in rates for an additional reason.

The amount of tax straight-line depreciation reflected in a utility's income tax calculation for rate purposes is almost always less than the amount of book depreciation it is collecting in customer rates. This is because the "tax basis" of utility assets for depreciation purposes is almost always less than the book basis, because in the past the income tax code allowed for some elements of a company's book basis of assets to be charged to expense immediately rather than capitalized as plant in service. The full book value of the assets will not be reflected in a utility's tax straight-line depreciation calculation under these circumstances. Accordingly, a proportional amount of a cost of removal tax benefits associated with the difference in basis between a utility's assets for book and tax purposes also would not have been passed on to customers in rates as part of a tax straight-line depreciation deduction. This point is particularly applicable to Empire's rate levels set in the 1980s, prior to the time its income tax expense would have been calculated using the provisions of the Tax Reform Act of 1986, which had the impact of prospectively reducing the amount of differences between measurement of book basis and tax basis for purposes of depreciation of assets.

Q. Assuming again that the Company's contentions that customers have unduly benefited from prior rate treatment of cost of removal tax deductions are fully accurate (which Staff believes has not been demonstrated), does that mean that the proposed deferred tax asset amortization is appropriate and should be ordered by the Commission?

A. No. Empire is effectively claiming that its rates were improperly set in prior proceedings, due to the alleged double reflection of cost of removal tax deductions in its cost of service. Therefore, because Empire asserts its rates were set too low in past rate cases for this reason, Empire is now seeking to increase its rates through the proposed deferred tax asset amortization. Based upon discussions with Staff counsel, I have been advised that seeking to correct alleged errors made in setting a utility's prior rates in the context of setting new, prospective rates constitutes prohibited "retroactive ratemaking."

STATE TAX FLOW-THROUGH

Q. Please describe the state tax flow through issue in this particular rate proceeding.

A. Empire is asserting that the normalization treatment of tax timing differences provided to it by the Commission prior to August 1994 allowed the Company to book deferred taxes that were calculated using only the stand-alone federal tax rate, and not the composite federal-state income tax rate usually used to record deferred taxes resulting from normalization of tax timing differences. The composite tax rate is a combination of the federal and state income rates. The current composite tax rate is 38.3886%, while the stand-alone tax rate is only the federal tax rate of 35.0%. Therefore, Empire claims that when Staff uses the current composite federal-state income tax rate for the purpose of calculating deferred taxes to return to customers in this case, this over-compensates customers for the deferred taxes previously provided in rates in which a lower federal stand-alone rate was used. Empire is proposing to increase its cost of service through an amortization to collect state deferred taxes that it did not record at the time of its previous rate proceedings to offset this alleged shortfall.

Q. What are “deferred taxes?”

A. “Deferred taxes” represent the income tax expense paid by customers in rates that is calculated based upon the impact of financial events and which is currently includable in “book” net income, but that is not includable in current “taxable income” as that amount is defined by federal and state taxing authorities. Deferred taxes result from use of the so-called “normalization” approach to recognize tax timing differences in setting customer rates. The usual ratemaking quantification of deferred taxes for ratemaking purposes is to calculate the amount based upon a “composite” income tax rate, reflecting both the current federal and state (Missouri) prescribed income tax rates.

Q. Is Empire claiming that its prior customer rates were in fact set using a tax normalization approach computed on a stand-alone federal income tax rate basis?

A. Yes. Company witness L. Jay Williams’ rebuttal testimony on page 3 states that “the Company has only been ordered to provide deferred taxes at the federal rate.”

Q. What evidence did Mr. Williams provide to support this contention?

A. None. Empire’s position on this matter is based upon a claim that it was only authorized to book deferred taxes at a stand-alone federal rate due to a Commission order issued in 1956.

Q. If, in fact, Empire was only authorized to book deferred taxes using a federal stand-alone rate from 1956 to 1994, does it necessarily mean that Empire’s rates were set based upon a level of deferred tax expense calculated at a federal tax rate only?

A. No. I have reviewed several past Empire rate filings, including Case No. ER-90-138, an Empire rate increase filing within the period that Empire claims the Company's deferred taxes were calculated using the stand-alone federal tax rate. Staff's testimony in that case stated that Staff calculated deferred taxes using a composite federal-state income tax rate. Though this case was ultimately resolved through stipulation, Staff's position in that case illustrates that, at the very least, there was no agreement among parties in that proceeding that a stand-alone federal income tax rate should be used to calculate deferred taxes.

Q. Did you review any other cases to provide evidence of how deferred taxes were calculated for purposes of inclusion in rates for Empire in its previous rate cases?

A. Yes. I reviewed two case files for Empire's rate case Nos. ER-83-42 and ER-81-209. Both of these cases were settled through stipulation in whole or in part, and I was unable to find any discussion in Commission orders or in stipulations and agreements, concerning the assumptions by which deferred taxes were calculated for inclusion in Empire's cost of service.

Q. If Staff cannot locate definitive evidence that demonstrates how Empire's rates were set in past rate proceedings regarding calculation of deferred taxes, what is the relevance of that to Empire's current position on this issue?

A. Even absent concerns regarding possible "retroactive ratemaking" due to setting current rates based on alleged past ratemaking omissions, unless Empire can provide definitive evidence that its prior rates were set for a period of time using calculations of deferred tax expense on a federal stand-alone basis, its request for recovery of an amortization in the current case should be rejected as unsupported. Empire has failed to provide any evidence supporting its position.

Q. Is the state flow through asset that Empire seeks to amortize a "regulatory asset?"

A. No, not in the usual sense of that term. This amount is not a regulatory asset in the sense that its booking was ever authorized by or approved by the Commission through an AAO or other means. The Company is attempting to validate this issue after the fact by recording a regulatory asset on the books without regulatory approval, then claiming the Company will need to write off this asset if regulatory approval for recovery of this asset is not given.

<u>DEFERRED TAX ASSETS</u>

Q. How does Staff respond to Empire witness Mr. Williams' rebuttal testimony concerning the FAS 123 deferred tax asset for stock based compensation?

A. Staff's position is that since it is not including any stock-based compensation in normalized payroll levels, as stated in the Staff Report on page 100, then the deferred tax impact of that expense should not be included as well.

Q. What is Staff's position regarding the deferred tax related to the net operating loss deduction?

A. After receiving further information from the Company, Staff has included the deferred tax asset related to the net operating loss balance as of September 30, 2015, update period used in this case. Staff will reevaluate the balance for the true-up through March 31, 2016.

Q. Please explain the situation that caused Empire to record deferred taxes associated with alternative minimum taxes ("AMT").

A. It is Staff's understanding that as a result of net operating losses sustained on a consolidated corporate basis, Empire was subject to AMT at times in the past.

Q. Is it Staff's position that it is appropriate to increase the cost of service by including the AMT deferred tax asset in rate base?

A. No. Empire, which has the burden of proof for this issue, has not demonstrated to Staff that it is appropriate to include AMT in rates for regulated operations. Empire pays taxes on a consolidated corporate basis; therefore, unregulated losses or other unregulated business situations may have caused Empire to be subject to AMT. If this is the case, regulated rates should not be impacted by these unregulated operations.

Further, based on correspondence with Mr. Williams, Empire's past AMT status does not necessarily represent its normal operations and should not be included in ongoing rates in the future. In addition, as can be seen from Staff's calculation of revenue requirement in this case, the Company incurred numerous expenses that have been disallowed by Staff from the cost of service (advertising, dues and donations, etc.). These expenses, which are not appropriate for inclusion in the cost of service, contribute to the loss situation that caused Empire to be subject to AMT. It is inappropriate to increase the cost of service as a result of the Company being subject to AMT due in part to the Company incurring expenses which are disallowed from the cost of service.

Q. Does this conclude your surrebuttal testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of The Empire District Electric Company's Request for Authority to Implement a General Rate Increase for Electric Service	)))	Case No. ER-2016-0023

AFFIDAVIT OF AMANDA C. McMELLEN

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW AMANDA C. McMELLEN and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing SURREBUTTAL TESTIMONY; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

Amanda C McMellen

AMANDA C. McMELLEN

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 16th day of May, 2016.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2016
Commission Number: 12412070

D Suzie Mankin
Notary Public