

Exhibit No.  
Issue: Income Statement and Rate Base  
Adjustments  
Witness: Jayna R. Long  
Type of Exhibit: Direct Testimony  
Sponsoring Party: Empire District Electric  
Case No. ER-2011-0004  
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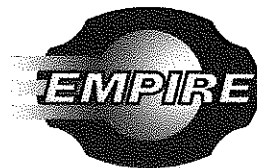
**Before the Public Service Commission  
of the State of Missouri**

**Direct Testimony**

**of**

**Jayna R. Long**

**September 2010**



**SERVICES YOU COUNT ON**

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JAYNA R. LONG  
ON BEHALF OF  
THE EMPIRE DISTRICT ELECTRIC COMPANY  
BEFORE THE  
MISSOURI PUBLIC SERVICE COMMISSION  
CASE NO. ER-2011-0004

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DIRECT TESTIMONY  
OF  
JAYNA R. LONG  
THE EMPIRE DISTRICT ELECTRIC COMPANY  
BEFORE THE  
MISSOURI PUBLIC SERVICE COMMISSION  
CASE NO. ER-2011-0004

1 **I. INTRODUCTION**

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

3 A. Jayna R. Long. My business address is 602 S. Joplin Avenue, Joplin, Missouri.

4 **Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR JOB TITLE?**

5 A. I am employed by The Empire District Electric Company ("Empire or Company"), as a  
6 Regulatory Manager.

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**  
8 **BACKGROUND.**

9 A. I hold a Bachelor of Science degree in Business Administration, with majors in  
10 accounting and marketing, from Missouri Southern State University. I was employed by  
11 Leggett & Platt, Inc., immediately following my graduation in 1993, where I held various  
12 positions as an accountant at the Corporate Office and then was promoted to Division  
13 Controller. I have also served as a Plant Controller for Invensys, Inc., and Controller for  
14 Clark Industries. In May 2001, I joined Empire as a Senior Internal Auditor where I  
15 remained until October 2003. At that time, I accepted a Regulatory Analyst position in  
16 Empire's Planning and Regulatory department. In August 2010, I was promoted to my  
17 current position.

1 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS CASE**  
2 **BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION**  
3 **(“COMMISSION”)?**

4 A. The purpose of my testimony is to sponsor certain adjustments to the accounting  
5 schedules.

6 **II. RATE BASE ADJUSTMENTS**

7 **Q. PLEASE IDENTIFY THE RATE BASE ADJUSTMENTS YOU ARE**  
8 **SPONSORING.**

9 A. I am sponsoring seven adjustments to rate base. The first adjustment is to reflect the  
10 effects of the allocation of common plant to Empire’s natural gas business. The  
11 remaining adjustments are to normalize amounts for inventory, materials and supplies,  
12 and plant in service.

13 **Allocation of Common Plant**

14 **Q. PLEASE EXPLAIN THE FIRST ADJUSTMENT TO ALLOCATE COMMON**  
15 **PLANT TO EMPIRE’S NATURAL GAS BUSINESS.**

16 A. Empire records the entire amount of all common general plant on the electric company’s  
17 books. A rate case adjustment is required to allocate a portion of the common general  
18 plant to the Company’s gas operations. The allocation is based on a three part formula,  
19 the Massachusetts formula, which is described in Empire’s Cost Allocation Manual filed  
20 with the Commission. The result of this allocation decreases the book amount of  
21 Missouri jurisdictional general plant in service by \$1,841,968 and decreases the provision  
22 for accumulated depreciation for general plant by \$1,025,302.

23 **Q. HAS THIS ADJUSTMENT BEEN MADE IN PRIOR EMPIRE RATE CASES?**

1 A. Yes, an adjustment using the same methodology was made by Empire, and also by the  
2 Missouri Public Service Commission Staff ("Staff"), in Empire's last two electric rate  
3 cases, Case Nos. ER-2008-0093 and ER-2010-0130, and in the Company's recent gas  
4 rate case, Case No. GR-2009-0434.

5  
6 **Inventory**

7 **Q. PLEASE DESCRIBE THE FIRST ADJUSTMENT TO NORMALIZE**  
8 **INVENTORY.**

9 A. The material and supplies inventory recorded on Empire's balance sheet includes  
10 inventory for both the electric and water businesses. These inventories are tracked  
11 separately on a manual spreadsheet. An adjustment of \$28,392 Missouri jurisdictional  
12 was needed to reduce materials and supplies levels for the amount related to Empire's  
13 water business.

14 **Q. PLEASE EXPLAIN WITH THE SECOND SET OF ADJUSTMENTS TO**  
15 **NORMALIZE INVENTORY.**

16 A. Empire uses a thirteen-month average inventory in rate base. During the test year, new  
17 accounts may be added or anomalies may occur within existing accounts. To normalize  
18 these accounts an increase of \$36,220 Missouri jurisdictional was made to fuel inventory  
19 and a decrease of \$120,620 Missouri jurisdictional was made to materials and supplies.

20 **Q. WHAT OTHER ADJUSTMENTS WERE MADE TO ANNUALIZE**  
21 **INVENTORY?**

22 A. The final adjustments to inventory relate to the addition of the Iatan 2 and Plum Point  
23 generating units. The first of these two adjustments is to include materials and supplies

1 for these two plants in test year cost of service. Based on the budget for these generating  
2 units, an adjustment was made to increase Missouri jurisdictional materials and supplies a  
3 total of \$864,386: \$218,638 for Plum Point and \$645,748 for Iatan 2.

4 The last inventory adjustment includes the coal inventory to be maintained at the Iatan 2  
5 and Plum Point plants. The adjustment includes a 60 day inventory for each plant based  
6 on the average daily burn for Iatan 2 and for Plum Point less the thirteen-month average  
7 inventory already recorded on the balance sheet for Iatan 2. The adjustment increases  
8 Missouri jurisdictional fuel inventory by \$557,831: \$386,053 for Plum Point and  
9 \$171,778 for Iatan II.

10 **Plant in Service**

11 **Q. PLEASE DESCRIBE THE ADJUSTMENTS MADE TO PLANT-IN-SERVICE.**

12 A. The Plant-in-Service was increased for the addition of Plum Point and Iatan 2 generating  
13 units as follows:

14

Description	Total Company	Missouri Jurisdictional
Plum Point	105,097,322	87,571,187
Iatan 2	240,627,730	200,500,409
Total Company	345,725,052	288,071,597

15  
16  
17  
18

19 **Q. WHAT ADJUSTMENT WAS NEEDED FOR PLUM POINT?**

20 A. Empire updated the rate base from Staff's test year in Case No. ER-2010-0130 through  
21 June 30, 2010, as further described in the testimony of Empire witness Mr. Scott Keith.  
22 Plum Point was not booked to Plant-in-Service until after June 30, 2010. Due to the  
23 timing of this rate case, an adjustment was needed to maintain the recovery of Plum

1 Point-related costs in this rate case. The addition of the Iatan 2 generating unit is  
2 described in the testimony of Empire witness Mr. Blake Mertens.

3 **III. EXPENSE ADJUSTMENTS**

4 **Q. PLEASE IDENTIFY THE EXPENSE ADJUSTMENTS THAT HAVE BEEN**  
5 **MADE TO THE TEST YEAR COST OF SERVICE.**

6 A. I am sponsoring the following adjustments to income statement expense for the test year:

- 7 ■ Annualize Payroll and Payroll Taxes
- 8 ■ Annualize Property Taxes
- 9 ■ Amortize Vegetation Tracker
- 10 ■ Normalize Bad Debt Expense

11 **Payroll and Payroll Taxes**

12 **Q. WHAT ADJUSTMENT WAS NEEDED FOR PAYROLL EXPENSE AND**  
13 **PAYROLL TAXES?**

14 A. The adjustment was made to normalize test year payroll, payroll taxes, and 401k costs.  
15 The adjusted expense included in the filing reflects the wages at June 30, 2010, adjusted  
16 for known changes, positions currently authorized but unfilled, and pay increase that will  
17 occur prior to the effective date of new rates in this case. The adjustment is net of Staff's  
18 test year adjustment made in Case No. ER-2010-0130 and reflected in the final Staff  
19 accounting schedules in that case. The adjustment increases Missouri jurisdictional test  
20 year expense by \$1,915,770.

21 **Property Taxes**

22 **Q. PLEASE EXPLAIN THE PROPERTY TAX ADJUSTMENT.**

1 A. The property tax adjustment annualizes Empire's test year tax expense. The rate applied  
2 to the property and plant-in-service is the tax rate Empire anticipates for 2010, and is  
3 based on historical rates and expected changes in assessed valuations. The adjustment is  
4 net of the adjustment Staff made in the test year expense and reflected in the final Staff  
5 accounting schedules, in ER-2010-0130. The adjustment resulted in an increase to  
6 Missouri jurisdictional expense of \$2,169,039.

7 **Vegetation Management Tracker and Infrastructure Expense**

8 **Q. PLEASE DESCRIBE THE VEGETATION TRACKER.**

9 A. In Case No. ER-2007-0093, the Commission authorized Empire to set up a tracker to  
10 account for any differences Empire incurred from the estimated \$8.575 million. The  
11 additional expense was the result of new Commission rules regarding tree trimming and  
12 infrastructure inspections. The Commission's Report and Order stated as follows:

13 The Commission will require Empire to implement a two-way tracker for  
14 measuring costs relating to infrastructure inspection and vegetation  
15 management. The tracker shall create a regulatory liability in any year where  
16 Empire spends less than the target amount, and a regulatory asset where the  
17 company spends more than the target amount. The assets and liabilities shall  
18 then be netted against each other and considered in Empire's next rate case.  
19 The annual target amount shall be set at \$8.575 million, and Empire shall be  
20 allowed to recover that amount in its current rates.

21  
22 **Q. DID EMPIRE CONTINUE THE TRACKER AS A RESULT OF ITS LAST RATE  
23 CASE, CASE NO. ER-2010-0130?**

24 A. Yes. In the Stipulation and Agreement in Case No. ER-2010-0130, Empire agreed to  
25 continue the Vegetation Tracker, but terminate the Infrastructure Tracker approved in  
26 Case No. ER-2007-0093. The Stipulation and Agreement stated as follows:

27 A. The vegetation tracker established in Empire's last electric rate case, Case  
28 No. ER-2008-0093, and trued-up through December of 2009 in the Staff  
29 Accounting Schedules in this case, will continue. The vegetation tracker will



1 be rebased in Empire's Rate Filing called for in Section III.D.7. of the Empire  
2 Experimental Regulatory Plan Stipulation (the Iatan 2 case), and evaluated for  
3 termination in Empire's electric rate case following Empire's Rate Filing  
4 called for in Section III.D.7. of the Empire Experimental Regulatory Plan  
5 Stipulation. The base for the vegetation tracker in this case, Case No. ER-  
6 2010-0130, will be set at \$9 million, with a \$13 million cap and a \$7 million  
7 floor (all Missouri jurisdictional amounts).

8 B. Empire's current infrastructure tracker will terminate on the effective date  
9 of the revised tariff sheets approved in this case.

10  
11 **Q. IS EMPIRE REQUESTING THE CONTINUATION OF THE VEGETATION**  
12 **TRACKER IN THIS CASE?**

13 A. Yes. Empire requests the Vegetation Tracker continue with this rate case. A reduction of  
14 \$997 was made to update Missouri jurisdictional expense to the current levels of  
15 amortization needed as a result of the existing regulatory asset.

16 **Q. DO THE REMEDIATION COSTS RELATED TO EMPIRE'S FORMAL**  
17 **INFRASTRUCTURE INSPECTION PROGRAM IN THIS CASE REFLECT A**  
18 **FULL YEAR OF OPERATION?**

19 A. No. The test year does not reflect a full year's operation of the department Empire setup  
20 to comply with the Commission's infrastructure rule. Much of the test year was spent  
21 setting up the department, staffing the department, acquiring the software necessary to  
22 track the department's activity, and securing a contract with an outside consultant to  
23 assist in and perform the actual infrastructure inspections. Due to these implementation  
24 efforts, the actual inspection process did not commence until the middle of 2009, and the  
25 remediation efforts related to these inspections did not begin until late 2009. As a result,  
26 the test year does not reflect a full year of the remediation costs that are directly related to  
27 the new Commission rule. Based upon the remediation costs directly related to the  
28 formal inspection program, Empire expects to incur at least \$800,000 per year in

1 incremental remediation costs. The difference between the \$800,000 and Staff's  
2 accounting schedules results in an increase to expense of \$627,173 total Company or  
3 \$522,585 Missouri jurisdictional.

4 **Bad Debt Expense**

5 **Q. HOW WAS THE ADJUSTMENT TO BAD DEBT EXPENSE DEVELOPED?**

6 A. The approach Empire used is very similar to the approach used in Empire's last electric  
7 rate case. We gathered five (5) years of uncollectible accounts expense recorded in  
8 FERC account 904 and compared the historic expense levels to the Missouri  
9 jurisdictional retail sales of electricity that took place during each of those five years.  
10 This process resulted in a five-year ratio of bad debt expense to retail electric revenue of  
11 0.53 percent. This overall ratio of 0.53 percent was then applied to the normalized retail  
12 sales revenue developed for this rate case to arrive at an adjusted bad debt expense of  
13 \$2,314,469. The adjusted level of ongoing bad debt expense was then compared to the  
14 bad debt expense recorded in Staff's final accounting schedules in ER-2010-0130 to  
15 arrive at a Missouri jurisdictional adjustment of \$511,420.

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

17 A Yes, it does.

