

Exhibit No.:

Issue(s): CWC, Customer Advances,
Customer Deposits and
Interest Expense, Dues and
Donations, Lease Expense,
Materials and Supplies,
Outside Services,
Prepayments, Gas Storage,
Payroll Benefits, Payroll,
Payroll Taxes & 401(k)

Witness: Courtney Horton

Sponsoring Party: MoPSC Staff

Type of Exhibit: Direct Testimony

Case No.: GR-2021-0320

Date Testimony Prepared: January 24, 2022

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL AND BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

DIRECT TESTIMONY

OF

COURTNEY HORTON

**THE EMPIRE DISTRICT GAS COMPANY,
d/b/a Liberty (Empire)**

CASE NO. GR-2021-0320

*Jefferson City, Missouri
January 2022*

**** Denotes Confidential Information ****

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3 **COURTNEY HORTON**

4 **THE EMPIRE DISTRICT GAS COMPANY,**
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DIRECT TESTIMONY

OF

COURTNEY HORTON

**THE EMPIRE DISTRICT GAS COMPANY,
d/b/a Liberty**

CASE NO. GR-2021-0320

Q. Please state your name and business address.

A. My name is Courtney Horton, 200 Madison St. Jefferson City, Missouri 65101.

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

A. I am a Senior Utility Regulatory Auditor with the Missouri Public Service Commission (“Commission”).

Q. Please describe your educational background and work experience.

A. I earned a Bachelor of Accountancy degree from Central Methodist University in Park Hills, Missouri in December of 2016. I completed many courses in accounting and business. Prior to my work at the Commission, I worked in tax accounting, auditing, and record keeping.

Q. What are your responsibilities with the Commission?

A. I conduct audits and examinations of the books and records of regulated utility companies operating within the state of Missouri.

Q. Have you previously filed testimony before this Commission?

A. Yes. I have attached a list of the cases in which I have filed testimony before this Commission as Schedule CH-d1.

Q. With respect to Case No. GR-2021-0320, have you made an examination of the books and records of the Empire District Gas Company (“Empire”)?

1 A. Yes, with the assistance of other members of the Commission Staff (“Staff”).

2 **EXECUTIVE SUMMARY**

3 Q. What is the purpose of your direct testimony?

4 A. The purpose of my direct testimony is to present Staff’s recommendations
5 concerning cash working capital, customer advances, customer deposits, customer deposits
6 interest expense, dues and donations, lease expense, materials and supplies, outside services,
7 prepayments, gas storage, payroll benefits, payroll, payroll taxes and 401(k).

8 Q. What knowledge, skills, experience, training, or education do you have in these
9 issues of which you are testifying as an expert witness?

10 A. I have worked on many of these issues in other rate cases such as Case Nos.
11 SR-2019-0157, ER-2019-0374, WR-2020-0344, WR-2020-0275, and ER-2021-0312, as
12 described in Schedule CH-d1 attached to this testimony. I have also worked closely with senior
13 auditors and supervisors, whom possess extensive regulatory knowledge. I have reviewed
14 Empire’s testimony, workpapers, and responses to data requests in this case, as well as the
15 testimony and workpapers from Empire’s most previous rate case, to gain an understanding of
16 the issues I am addressing.

17 **CASH WORKING CAPITAL**

18 Q. Please explain cash working capital.

19 A. Cash Working Capital (“CWC”) is the amount of funding necessary for a utility
20 to pay day-to-day expenses incurred in providing utility services to its customers. Cash inflows
21 from payments received by the utility and cash outflows for expenses incurred by the utility are
22 analyzed using a lead/lag study.

1 Q. What is a lead/lag study?

2 A. The lead/lag study involves analysis of the timing of when funds are paid to
3 suppliers and when the utility receives the goods or services compared to when the utility
4 receives revenues from customer bills for the utility services it provides. Analysis is also
5 performed for pass-through expenses where funds are collected and remitted such as sales taxes
6 and employee payroll withholdings. The lead/lag study results in either a negative or positive
7 CWC requirement.

8 Q. What does it mean when the CWC requirement is negative?

9 A. If the requirement is negative, it demonstrates that the utility's customers
10 are providing the working capital for the test year, which indicates customers paid for the
11 utility's expenses before the utility incurred them. Under this circumstance, CWC would
12 represent a reduction to rate base.

13 Q. What does it mean when the CWC requirement is positive?

14 A. A positive CWC requirement indicates that the utility pays its expenses before
15 receiving payment from the customers, which means that the shareholders are providing the
16 funds. Under this circumstance, CWC would represent an increase to rate base.

17 Q. Did Staff conduct a lead/lag study in this case?

18 A. No. During this rate proceeding, Staff did not conduct a lead/lag study of
19 its own.

20 Q. Did Empire conduct a lead/lag study for this case?

21 A. No. Empire witness Timothy Lyons in his cash working capital direct testimony
22 on pages 4-6, stated that Empire relied on the expense lead days approved by the Commission
23 in Case No. ER-2019-0374 except for purchased gas, cash vouchers, and property taxes.

1 Empire updated its expense lags for purchased gas, cash vouchers, property taxes and its
2 revenue lags to more accurately reflect the unique characteristics of Empire Gas's customers,
3 service area, and utility services. Mr. Lyons also stated that Empire Gas and Empire District
4 Electric Company share the same payment processes and systems for many expenses so the
5 lead days associated with Empire Electric should be consistent with lead days associated with
6 Empire Gas.

7 Q. What sources did Staff review as part of its CWC analysis?

8 A. Staff reviewed and analyzed Empire's CWC workpapers along with the
9 corresponding invoices Empire provided through its responses to Staff Data Request Nos. 141,
10 142, 143, 144, 145, and 146.

11 Q. What was the result of Staff's analysis?

12 A. Staff concluded it agrees with Empire's recommended revenue and expense lags
13 with the exception of the federal and state income tax expense lags.

14 Q. Please explain what led to Staff's conclusion concerning lags for federal and
15 state income taxes.

16 A. In its confidential response to Staff Data Request No. 218, Empire stated it
17 "*** [REDACTED] ***" Empire also
18 provided copies of its confidential 2019 and 2020 pro forma federal income tax returns and
19 Liberty Utilities (America) Company's confidential 2019 and 2020 Missouri state income tax
20 returns through an informal email request. After analysis, Staff determined that ** [REDACTED]
21 [REDACTED] **

22 Q. What expense lag does Staff recommend for the federal and state income taxes?

1 A. Staff recommends a 365 day expense lag for the federal and state income taxes.

2 **CUSTOMER ADVANCES**

3 Q. Please explain customer advances.

4 A. Customer advances are funds typically provided by developers to Empire to
5 ensure Empire builds natural gas infrastructure in areas that have potential for future
6 development. These advances are also used by the utility to establish gas service for potential
7 future customers without investing a substantial amount of money at the risk of the utility and
8 its other customers. Customer advances are included in the rate base as an offset, reducing the
9 amount of overall investment that customers must supply as a return to the utility.

10 Q. Did Staff perform a review of customer advances for this rate case?

11 A. Yes. Staff reviewed historical balances for customer advances in general ledger
12 account 252300 and performed an analysis to determine if there is a discernible trend. Staff
13 concluded the balances were consistent from September 2019 through May 2021 and then
14 reduced to zero from June 2021 through September 2021. Since the balance of customer
15 advances was zero at the end of the update period for this case, Staff concluded there is no
16 offset to rate base to recommend for customer advances.

17 **CUSTOMER DEPOSITS AND INTEREST EXPENSE**

18 Q. Please explain customer deposits.

19 A. Customer deposits are the funds required to be provided by certain customers
20 receiving gas service from Empire. These funds are deducted from Empire's rate base because
21 these funds are cost-free funds received from Empire's customers. Customer deposits are funds

1 received from customers as a security against potential loss arising from failure to pay for a
2 utility service.

3 Q. Please explain customer deposit interest expense.

4 A. Customer deposits earn interest and the interest is determined by the formula
5 included in the tariff (Tracking No. YG-2010-0568, Sheet No. R-8) to calculate customer
6 deposit interest. This formula computes the customer deposit interest rate which is the most
7 current prime interest rate, as published in the Wall Street Journal, in effect on the last business
8 day of December of the prior year, plus 1%.

9 Q. Did Staff perform a review of customer deposits?

10 A. Yes. Staff reviewed historical balances for customer deposits in general ledger
11 account 235300 and performed an analysis to determine if there was a discernible trend.
12 Although the balance of customer deposits varied from month-to-month, when averaged over
13 different 13-month periods, there was very little difference between the averages.

14 Q. What is Staff's recommendation for customer deposits in this case?

15 A. After analysis, Staff chose to include a 13-month average ending
16 September 30, 2021, in the amount of \$1,989,207 as an offset to rate base.

17 Q. How did Staff determine the customer deposits interest expense to include in its
18 recommendation?

19 A. Staff calculated interest expense based on the level of customer deposits
20 included in Staff's rate base schedule. Staff utilized the formula included in the tariff
21 (Tracking No. YG-2010-0568) to calculate the customer deposit interest.

22 **DUES AND DONATIONS**

23 Q. Please explain dues and donations.

1 A. Empire has several memberships that provide Empire and its employees with
2 benefits such as training, education, mentoring, keeps them abreast of utility news, and provides
3 networking. Empire makes several voluntary donations to various non-profit organizations. A
4 donation is voluntarily giving money or something of monetary value to a person, organization,
5 or company without receiving anything in return.

6 Q. Please describe Staff's review of Empire's dues and donations.

7 A. Staff reviewed the list of membership dues paid and donations made to various
8 organizations that Empire charged to its utility accounts during the test year. In *Re: Missouri*
9 *Public Service, a Division of UtiliCorp United, Inc.*, Case Nos. ER-97-394, *et al.*, *Report and*
10 *Order*, 7 Mo.P.S.C.3d 178, 212 (1998), the Commission stated:

11 The Commission has traditionally disallowed donations such as these.
12 The Commission finds nothing in the record to indicate any discernible
13 ratepayer benefit results from the payment of these donations. The
14 Commission agrees with the Staff in that membership in the various
15 organizations involved in this issue is not necessary for the provision of
16 safe and adequate service to the MPS ratepayers.

17 Q. Please describe the results of Staff's review.

18 A. Staff excluded dues that do not have any direct benefit to ratepayers and were
19 not necessary for the provision of safe and adequate service. Staff also excluded all donations
20 incurred during the test year. Allowing Empire to recover these expenses through rates causes
21 the ratepayer to involuntarily contribute to these organizations. Examples of dues excluded
22 from recovery in the rate case, based on the Commission's *Report and Order* mentioned above,
23 are dues paid to Chillicothe Rotary Club and Corporate membership for Atchison County
24 Development Corporation. Area Chamber of Commerce dues were allowed, but National and
25 State Chamber of Commerce dues were disallowed as being duplicative costs to the local
26 Chamber of Commerce organizations. An example of a donation that Staff excluded from

1 recovery in this rate case is a donation paid to the Northwest Roundtable Inc. Staff disallowed
2 a total of \$11,694 from its cost of service report for dues and donations.

3 **LEASE EXPENSE**

4 Q. Please briefly describe lease expense.

5 A. A lease is a contractual agreement that a person, organization, or company can
6 utilize an asset for a specific period of time. These assets typically include vehicles, buildings,
7 houses, equipment, etc. Lease costs are incurred by Empire for the leasing of its equipment and
8 building space.

9 Q. Please explain Staff's process for reviewing lease costs expended by Empire.

10 A. Staff submitted Data Request No. 0018 to Empire requesting a list of all
11 current lease agreements (office, vehicles, computers, land, etc.) and amounts charged or
12 allocated to Empire's utility operations, along with any changes to these lease amounts since
13 January 1, 2020.

14 Q. Please explain Staff's recommendation for lease expense.

15 A. Staff examined the lease expense costs for the test year through the update period
16 ending September 30, 2021. Staff included the gas only portion of each lease recorded above
17 the line resulting in a negative \$939 total adjustment to the test year.

18 **MATERIALS AND SUPPLIES**

19 Q. What are materials and supplies?

20 A. Materials and supplies represent an investment in inventory for items such as
21 spare parts and other miscellaneous items used in daily operations and maintenance activities
22 by Empire. Materials and supplies are included in rate base.

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

2 A Staff reviewed and analyzed historical monthly balances from January 2019 to
3 September 2021 for each Materials and Supplies account to determine if there was a discernable
4 trend. Staff's analysis concluded there was not a significant discernable trend so Staff used a
5 13-month average from September 2020 to September 2021 to help smooth out the fluctuations
6 in the month-end balances of the Materials and Supplies accounts. Staff included \$560,359 as
7 an addition to rate base for materials and supplies.

8 **OUTSIDE SERVICES**

9 Q. Please explain outside services.

10 A. Outside services are the various outside (independent) contractors and vendors
11 who provide legal, auditing, and other services to Empire to carry out its operational activities
12 as needed.

13 Q. Please describe Staff's treatment of outside services expense in this rate case.

14 A. Staff reviewed Empire's outside services expenses booked to general
15 ledger accounts 923045 and 923046 for the test year through the update period ending
16 September 30, 2021. Staff also reviewed a sample of outside services expense invoices Empire
17 provided in its response to Staff Data Request No. 182. Staff reviewed and matched these
18 invoices to Empire's outside services expense general ledger entries. After analysis, Staff
19 normalized the outside services expense on a going forward basis by calculating a five-year
20 average of incurred costs for these accounts in the amount of \$158,725. This adjustment does
21 not include outside services related to rate case expense. Outside services incurred for rate case
22 purposes are booked in a separate account and are addressed by Staff witness Angela Niemeier.

1 **PREPAYMENTS**

2 Q. What are prepayments?

3 A. Prepayments are the costs a company incurs and pays in advance which include,
4 for example, insurance and software licenses. Prepayments are treated as an asset and are
5 reflected in the utility's rate base.

6 Q. What is Staff's treatment of prepayments?

7 A. Staff's recommended treatment of prepayments is to examine each prepayment
8 account individually to determine an appropriate measure that most accurately predicts the
9 ongoing future expense of a particular prepayment account, and then to include that prepayment
10 in Empire's rate base. Staff reviewed and analyzed historical balances from January 2019 to
11 September 2021 for each prepayment account to determine the proper amounts to include in
12 rate base. After analysis, Staff used a 13-month average ending September 2021 to determine
13 Staff's recommended level of prepayments. Staff included \$131,218 as an addition to rate base
14 for prepayments.

15 **GAS STORAGE**

16 Q. Please explain gas storage.

17 A. Natural gas is purchased and injected into storage facilities by Empire during
18 the summer months where it is held until the winter months when it is withdrawn and delivered
19 to the Empire distribution system. The cost of the natural gas stored underground represents an
20 investment by Empire. Therefore, it is included in rate base which allows Empire an opportunity
21 to earn a return on its investment. Natural gas inventory is cyclical in nature, in that gas
22 inventory volumes increase throughout the summer as gas is injected into storage, then decrease
23 throughout the winter as gas is withdrawn or consumed.

1 Q. How did Staff determine the appropriate amount of gas storage cost to include
2 in rate base for this case?

3 A. Staff reviewed the confidential month-end balances Empire provided in
4 response to Staff Data Request No. 0155.1 for the Gas Stored Underground accounts (164110,
5 164120, and 164130) from December 2019 to September 2021. Staff calculated a 13-month
6 average (September 2020 to September 2021) for these accounts to include as an addition to
7 Staff's rate base. A 13-month average is used to account for the fluctuation in inventory levels
8 over time. Staff included \$3,302,893 as an addition to rate base for gas storage.

9 **PAYROLL BENEFITS**

10 Q. Please explain what are considered payroll benefits.

11 A. Empire currently offers its employees a variety of benefits, including dental,
12 vision, healthcare, and life insurance.

13 Q. How did Staff determine the level of payroll benefits expense to include in
14 this case?

15 A. Staff analyzed the employee benefit costs included in general ledger
16 account 926, which is associated with employee benefits. Staff annualized each payroll benefit
17 expense by examining the individual costs over a 36-month period to determine the appropriate
18 amount to include for each expense. Staff used a three-year average ending September 30, 2021,
19 to annualize these expenses resulting in a \$93,819 adjustment to the test year.

20 **PAYROLL, PAYROLL TAXES, AND 401(K)**

21 Q. Please explain Staff's calculation of its adjustment for payroll expenses.

Direct Testimony of
COURTNEY HORTON

1 A. Staff adjusted Empire's test year payroll expense to reflect annualized
2 levels of payroll, payroll taxes, and 401(k) benefit costs as of September 30, 2021. Staff
3 applied the appropriate allocation percentages presented in Empire's direct workpaper
4 ("EXP ADJ 9 - Annualized Payroll", "CAM Allocations" tab) to each employee's salary to
5 determine the gas only portion. Then, Staff applied the appropriate overtime percentages
6 presented in Empire's direct workpaper ("EXP ADJ 9 - Annualized Payroll", "OT Rate" tab)
7 to the gas only portion of each employee's salary to determine a reasonable overtime payroll
8 level for each employee. Finally, Staff added its calculated overtime amounts to each
9 employee's gas only salary to determine Staff's annualized payroll plus overtime. Staff's total
10 adjustment to the test year to reflect an annualized level of payroll expense is \$669,999.

11 Q. How did Staff distribute its payroll expense adjustment?

12 A. After allocation between expense and construction based on a three year
13 Operation & Maintenance (O&M) average, Staff distributed the total amount of the
14 adjustment to individual Federal Energy Regulatory Commission (FERC) Uniform System of
15 Accounts (USOA) based upon the actual distribution by FERC account Empire had for the
16 twelve months ending September 30, 2021. Staff's Accounting Schedule 10, Adjustments to
17 Income Statement Detail, reflects all payroll adjustments, segregated by each FERC USOA
18 account, to reflect Staff's total adjustment required to restate the test year payroll to an
19 annualized level at September 30, 2021.

20 Q. How did Staff determine the payroll taxes in this case?

21 A. Staff calculated payroll taxes based upon September 30, 2021 Staff determined
22 wage levels and current tax rates. This included Federal Unemployment Taxes ("FUTA"),

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1 State Unemployment Taxes (“SUTA”), and Federal Insurance Contributions Act (“FICA”) tax.

2 Staff’s total adjustment to the test year for payroll taxes is \$61,278.

3 Q. How did Staff determine the amounts for Empire’s 401(k) match?

4 A. Empire’s 401(k) benefit costs were annualized by applying Empire’s actual
5 401(k) match rate to Staff’s annualized payroll as of September 30, 2021, for each employee.

6 Staff’s total adjustment to the test year for 401(k) benefits is \$167,007.

7 Q. Does this conclude your direct testimony?

8 A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of The Empire District Gas)
Company's d/b/a Liberty Request to File Tariffs) Case No. GR-2021-0320
to Change its Rates for Natural Gas Service)

AFFIDAVIT OF COURTNEY HORTON

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW COURTNEY HORTON and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Direct Testimony of Courtney Horton*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

Courtney Horton
COURTNEY HORTON

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 19th day of January 2022.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: April 04, 2025
Commission Number: 12412070

D. Suzie Mankin
Notary Public

Courtney Horton

Educational, Employment Background and Credentials

I am currently a Senior Utility Regulatory Auditor in the Auditing Department, Financial and Business Analysis Division for the Missouri Public Service Commission. I have held my position as a Utility Regulatory Auditor since June 2018.

I earned a Bachelor of Accounting degree from Central Methodist University in Park Hills, Missouri in December of 2016. I completed many courses in accounting and business. Prior to the Commission, I worked in tax accounting, auditing, and record keeping.

Case Participation

Company Name	Case Number(s)	Testimony/Issues	Type of Case
S.K. & M Water & Sewer Company	SR-2019-0157	Staff Recommendation	Rate Case
Branson Cedars Resort Utility Company LLC Water & Sewer	WR-2018-0356	Staff Recommendation	Rate Case
Elm Hills	WR-2020-0275	Staff Recommendation	Rate Case
Empire District Electric	ER-2019-0374	Staff Recommendation	Rate Case
Missouri-American Water Company/Harbor View Estates Sewer	SA-2020-0073	Staff Recommendation	CCN Case
Missouri-American Water Company/Golden Acres Water	WA-2019-0070	Staff Recommendation	CCN Case
Missouri American Water Company/Hillers Creek Sewer	SA-2019-0334	Staff Recommendation	CCN Case
Missouri-American Water Company/Clinton Estates Sewer	SA-2020-0132	Staff Recommendation	CCN Case
Liberty Utilities/Saver's Farm Sewer	SA-2020-0067	Staff Recommendation	CCN Case
Liberty Utilities/Empire Water	WM-2020-0156	Staff Recommendation	CCN Case
Missouri American Water Company	WR-2020-0344	Staff Recommendation	Rate Case
Missouri American Water Company/City of Taos Sewer System	SA-2021-0120	Staff Recommendation	CCN Case
Missouri American Water Company/Table Rock Estates Water System	WA-2021-0116	Staff Recommendation	CCN Case
Empire District Electric	ER-2021-0312	Staff Recommendation	Rate Case