

Exhibit No.
Issues: Rate Base and Income Statement
Adjustments
Witness: Joan E. Land
Type of Exhibit: Direct Testimony
Sponsoring Party: Empire District Electric
Case No. ER-2014-0351
Date Testimony Prepared: August 2014

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

**Direct Testimony
of
Joan E. Land**

August 2014



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DIRECT TESTIMONY OF
JOAN E. LAND
ON BEHALF OF
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2014-0351

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DIRECT TESTIMONY
OF
JOAN E. LAND
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2014-0351

1 **I. INTRODUCTION**

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

3 A. My name is Joan E. Land, and my business address is 602 S. Joplin Avenue, Joplin,
4 Missouri.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by The Empire District Electric Company (“Empire” or “Company”) as a
7 Regulatory Analyst.

8 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND**
9 **PROFESSIONAL EXPERIENCE.**

10 A. I graduated from the University of Central Oklahoma in May 2000 with a Bachelor of
11 Science in Accounting. During my graduate studies, I was employed by the University of
12 Oklahoma Health Sciences Center as an accountant for the office of Senior Vice
13 President and Provost. I have also served as Senior Accountant for Tamko Building
14 Products. I joined Empire in October 2008, and held various accounting positions in
15 revenue and fuel departments. In December 2010, I accepted my current position.

16 **Q. HAVE YOU PREVIOUSLY PARTICIPATED IN ANY REGULATORY**
17 **PROCEEDINGS?**

18 A. Yes. I have testified before regulatory commissions in the states of Missouri, Oklahoma

1 and Arkansas.

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

4 A. I will sponsor certain adjustments made to Empire’s supporting schedules in this case.

5 **II. RATE BASE ADJUSTMENTS**

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

8 A. I am sponsoring the following adjustments to rate base:

- 9 • Allocation of common plant to Empire’s natural gas business;
- 10 • Remove water company inventory;
- 11 • Normalize materials and supplies, clearing accounts, and prepayments;
- 12 • Reflect cash working capital requirement in rate base.

13 **Allocation of Common Plant**

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

16 A. The entire amount of Empire’s common general plant investment is recorded on the
17 electric company’s books. An adjustment is required during an electric rate case to
18 allocate a portion of the common general plant to the Company’s gas operations. The
19 allocation is based on a three part formula (the Massachusetts formula), which is
20 described in Empire’s Cost Allocation Manual (“CAM”). Empire’s CAM is the subject of
21 Commission File No. AO-2012-0062. The result of this allocation decreases Empire’s
22 electric general plant in service by \$2,035,664, and decreases the provision for
23 accumulated depreciation for general plant by \$1,254,531, on a total company basis.

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

2 A. Yes, an adjustment using the same methodology has been utilized in the last several
3 Empire rate cases in Arkansas, Missouri, Kansas and Oklahoma.

4 **Water Inventory**

5 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO REMOVE WATER INVENTORY.**

6 A. The material and supplies inventory recorded on Empire's balance sheet includes
7 inventory for both the electric and water businesses. These inventories are tracked
8 separately on a manual spreadsheet. An adjustment of \$34,879, total company, was
9 needed to reduce materials and supplies levels for the amount related to Empire's water
10 business.

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

12 A. Yes, this adjustment has been made in the last several Empire rate cases in Arkansas,
13 Missouri, Kansas and Oklahoma.

14 **Normalize Other Rate Base Items**

15 **Q. PLEASE DESCRIBE THE ADJUSTMENTS TO MATERIALS AND SUPPLIES
16 (M&S), CLEARING ACCOUNTS, AND PREPAYMENTS.**

17 A. A 13-month average level ending April 30, 2014, was used for a majority of the accounts.
18 Some 13-month average levels, however, needed to be adjusted to reflect a more current
19 ongoing level. As a result of these adjustments, materials and supplies increased by
20 \$139,566, clearing accounts decreased by \$165,983, and prepayments increased by
21 \$240,880, on a total company basis.

22 **Cash Working Capital (CWC)**

23 **Q. PLEASE EXPLAIN THE CWC REQUIREMENT REFLECTED IN RATE BASE.**

1 A. Because of no known significant changes, the Company is using the same revenue and
2 expense lags determined by the Commission Staff in Empire's previous rate case (Case
3 No. ER-2012-0345) to determine the CWC requirement in rate base. The Company has
4 updated the adjusted test year amounts associated with each of the CWC categories.

5 **III. REVENUE ADJUSTMENTS**

6 **Q. PLEASE DESCRIBE THE REVENUE ADJUSTMENTS YOU ARE**
7 **SPONSORING.**

8 A. Missouri jurisdictional revenues have been adjusted to reflect the rate increase authorized
9 by the Commission in Case No. ER-2012-0345. Revenues have also been adjusted to
10 reflect customers who have opted out of the energy efficiency programs. In addition,
11 adjustments were made to annualize excess facilities, remove revenues related to
12 Empire's water business, remove general ledger unbilled revenues, and eliminate city
13 franchise taxes. Each adjustment is discussed in further detail below.

14 **Rate Increase**

15 **Q. WHY WAS AN ADJUSTMENT MADE TO REVENUE FOR THE RATE**
16 **INCREASE AUTHORIZED BY THE COMMISSION IN CASE NO. ER-2012-**
17 **0345?**

18 A. As a result of the Commission's decision in that case, a rate increase became effective on
19 April 1, 2013. Due to Empire's billing cycles, the test year in this case of April 30, 2014, is
20 not reflective of an entire year at the increased rates. Therefore, an adjustment is needed to
21 reflect a full year of the rate increase. This adjustment results in an increase in Missouri
22 jurisdictional revenues of \$25,911.

23 **Energy Efficiency Opt Out Customers**

1 **Q. PLEASE DESCRIBE THE ADJUSTMENT RELATED TO ENERGY**
2 **EFFICIENCY PROGRAM REVENUE.**

3 A. Missouri jurisdictional revenues have been adjusted to reflect the amount of revenue that
4 would have been generated if those customers who have opted out of the Company's
5 energy efficiency programs as of April 30, 2014, had been opted-out for the entire test
6 year. This adjustment results in a decrease of \$13,185 in revenue.

7 **Other Revenue Adjustments**

8 **Q. WHAT OTHER ADJUSTMENTS WERE MADE TO REVENUE?**

9 A. Four other adjustments were made to revenue. These adjustments include normalization
10 of excess facilities revenue, removal of miscellaneous revenues related to Empire's water
11 business, reversal of unbilled revenue, and elimination of city franchise taxes.

12 The excess facilities revenue is a charge based on the Rider XC. This charge is related to
13 the excess facilities that Empire installs at the request of a customer. If this occurs,
14 Empire and the customer enter into a contract for the additional charge (excess facilities)
15 to the customer. Those amounts under contract at April 30, 2014, were annualized and
16 compared to the excess facilities revenue actually recorded during the test year. The
17 difference between these two amounts resulted in an adjustment of \$59,659 in additional
18 excess facilities revenue.

19 Reconnect charges, late fees, and returned check fees related to the water business are
20 recorded in other revenue. In order to eliminate them from the electric rate case, an
21 adjustment of \$9,150 has been made.

22 An adjustment was made to reverse unbilled revenue recorded on Empire's financial
23 statements. This adjustment resulted in an increase to rate revenue of \$1,284,328. The

1 computation of estimated unbilled sales reflected in the test year is discussed by Empire
2 witness Stephen Williams.

3 City franchise tax is not a revenue source for Empire. It is a municipal tax Empire is
4 obligated to collect and remit to the various municipalities where the Company provides
5 electric service. There is no impact on Empire's earnings related to the collection of city
6 franchise taxes, because it is offset by an equal amount of expense, so it is more
7 appropriate if Empire's revenue requirement reflects only the revenue generated through
8 the application of approved Commission tariffs and does not reflect the revenue
9 associated with franchise taxes. A Missouri jurisdictional adjustment of \$8,811,811, to
10 eliminate the taxes from revenue has been reflected as both a reduction in revenue and a
11 reduction in taxes other than income taxes.

12 **IV. EXPENSE ADJUSTMENTS**

13 **Q. PLEASE IDENTIFY THE EXPENSE ADJUSTMENTS YOU ARE SPONSORING**
14 **TO EMPIRE'S TEST YEAR COST OF SERVICE.**

15 A. I am sponsoring the following adjustments to income statement expense:

- 16 • Annualize payroll and payroll related taxes;
- 17 • Normalize bad debt expense;
- 18 • Annualize rate case and commission assessment expenses;
- 19 • Include customer deposit interest expense;
- 20 • Annualize lease expense;
- 21 • Annualize postage expense;
- 22 • Annualize insurance premiums.

23 **Payroll and Payroll Taxes**

1 **Q. WHAT ADJUSTMENT WAS NEEDED FOR PAYROLL EXPENSE AND**
2 **PAYROLL TAXES?**

3 A. The adjustment was made to annualize test year payroll, payroll taxes, and 401k costs.
4 The adjusted expense included in the filing reflects the wages at April 30, 2014, positions
5 currently authorized but unfilled, and pay increases that will occur prior to the effective
6 date of new rates in this case. The adjustment increases Missouri jurisdictional test year
7 expense by \$818,886.

8 **Bad Debt Expense**

9 **Q. PLEASE EXPLAIN THE ADJUSTMENT TO BAD DEBT EXPENSE.**

10 A. An average of actual Missouri jurisdictional write-offs compared to the Missouri
11 jurisdictional retail sales of electricity was calculated for the five years ending April 30,
12 2014. This resulted in a five-year ratio of bad debt expense of 0.5071 percent. This ratio
13 is applied to the normalized retail sales revenue developed for this rate case to arrive at an
14 adjusted bad debt expense of \$2,227,631. The adjusted level of ongoing bad debt
15 expense was then compared to the bad debt expense in the test year to arrive at a
16 Missouri jurisdictional decrease of \$339,804.

17 **Rate Case and Commission Assessment Expense**

18 **Q. WHAT ADJUSTMENT WAS NEEDED FOR RATE CASE AND PSC**
19 **ASSESSMENT EXPENSE?**

20 A. Rate case expense was adjusted to reflect the costs associated with the current rate case
21 assuming a two-year amortization period. Test year was also adjusted to reflect current
22 year costs of the Commission's annual assessment. The adjustment decreases Missouri
23 jurisdictional test year expense by \$645,161.

1 **Q. WHY IS A TWO-YEAR AMORIZATION PERIOD FOR THE RATE CASE**
2 **EXPENSES APPROPRIATE IN THIS RATE CASE?**

3 A. Empire anticipates filing its next electric rate case in 2015. The next case will be related
4 to the Riverton Unit 12 combined cycle conversion project, which is scheduled to be
5 completed in the summer of 2016.

6 **Customer Deposit Interest**

7 **Q. WHY IS AN ADJUSTMENT FOR INTEREST ON CUSTOMER DEPOSITS**
8 **NEEDED?**

9 A. This adjustment moves the interest associated with the Missouri jurisdictional deposits
10 above the line, which is consistent with past practices in Empire's rate cases in Missouri.
11 The interest was calculated by applying 4.25% to the 13-month average customer
12 deposits included in rate base.

13 **Lease Expense**

14 **Q. PLEASE EXPLAIN THE ADJUSTMENT TO LEASE EXPENSE.**

15 A. An adjustment is needed to reflect the expiration of a lease as well as changes in lease
16 amounts not reflected in the test year. As a result, lease expense decreased \$48,172, on a
17 total company basis.

18 **Postage**

19 **Q. PLEASE EXPLAIN THE ADJUSTMENT TO POSTAGE.**

20 A. Test year postage expense was annualized to reflect the U.S. Postal Service increase that
21 went into effect on January 26, 2014. Postage expense increased \$58,044 on a total
22 company basis.

23 **Insurance Expense**

1 **Q. PLEASE EXPLAIN THE ADJUSTMENT TO INSURANCE EXPENSE.**

2 A. An adjustment was made to recognize the increased level of ongoing insurance premium
3 costs. This resulted in an increase of \$122,913, on a total company basis.

4 **Dues and Donations**

5 **Q. PLEASE EXPLAIN THE ADJUSTMENT TO DUES AND DONATIONS.**

6 A. The Company removed various dues and donations from the cost of service. As a result,
7 test year expenses decreased \$83,318 on a total company basis.

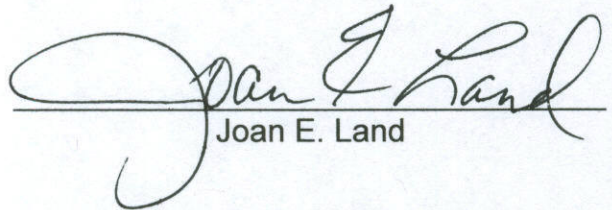
8 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

9 A. Yes.

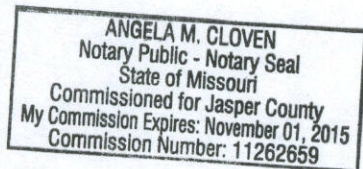
AFFIDAVIT OF JOAN E. LAND

STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 26th day of August, 2014, before me appeared Joan E. Land, to me personally known, who, being by me first duly sworn, states that she is a Regulatory Analyst 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.


Joan E. Land

Subscribed and sworn to before me this 26th day of August, 2014.




Notary Public

My commission expires: 11/01/2015.