

Exhibit No.
Issue: Missouri Jurisdictional Revenue,
Rate Base Adjustments, Capital Structure
Adjustments and Tariff Changes
Witness: Jayna R. Long
Type of Exhibit: Direct Testimony
Sponsoring Party: Empire District Electric
Case No.
Date Testimony Prepared: October 2007

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

Direct Testimony

of

Jayna R. Long

October 2007

****Denotes Highly Confidential****

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OF
JAYNA R. LONG
ON BEHALF OF
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION

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

1 **INTRODUCTION**

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

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

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

5 A. The Empire District Electric Company (“Empire” or “Company”), as a
6 Regulatory Analyst.

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

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
11 employed by Leggett & Platt, Inc. immediately following my graduation in 1993
12 where I held various positions as an accountant at the Corporate Office and then
13 was promoted to Division Controller. I have also served as a Plant Controller for
14 Invensys Inc. and Controller for Clark Industries. In May 2001, I joined Empire
15 as a Senior Internal Auditor where I remained until October 2003. At that time, I
16 accepted my current position.

17 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE**
18 **BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION**

1 **(“COMMISSION”)?**

2 A. My testimony will provide an explanation of the adjustments made to Empire’s
3 Missouri jurisdictional revenue for the test year which is the twelve months
4 ending June 30, 2007. I will also describe the adjustments made to rate base for
5 prepayments, materials and supplies, fuel inventory and depreciation reserve.
6 Next, I will explain an adjustment made to the capital structure. Lastly, I will
7 discuss changes to various tariffs.

8 **REVENUE ADJUSTMENTS**

9 **Q. PLEASE IDENTIFY THE REVENUE ADJUSTMENTS THAT HAVE**
10 **BEEN MADE TO MISSOURI JURISDICTIONAL REVENUE.**

11 A. Total Company and Missouri jurisdictional revenues included in the test year
12 have been adjusted to reflect customer growth as of June 30, 2007, normalized
13 weather, and to reflect the rate increase authorized by the Commission in Case
14 No. ER-2006-0315. Furthermore, kilowatt-hour (“kWh”) sales and revenue were
15 adjusted to reflect the effect of unbilled sales and revenues in order to properly
16 match test year generation and fuel and purchased power expense. In addition, an
17 adjustment was made to remove the stockholders’ share of the Praxair credit,
18 excess facilities revenue was annualized, city franchise taxes were eliminated,
19 miscellaneous revenues related to the water business were removed and the gain
20 on the disposition of allowances was reclassified to operating income.

21 **Customer Growth Adjustment**

22 **Q. PLEASE EXPLAIN THE ADJUSTMENT RELATED TO CUSTOMER**
23 **GROWTH.**

1 A. Missouri jurisdictional revenues have been adjusted to reflect the revenue that
2 would have been generated if the number of Empire customers existing at June
3 30, 2007 had been served by the Company for the entire test year. For the
4 residential customer class and commercial classes of CB, SH and TEB and
5 industrial group GP, the differences between the June 30, 2007 level of customers
6 and the average customers billed in each month of the test year were multiplied by
7 the average weather normalized kWh per customer for that month. The resulting
8 change in kWh sales was then multiplied by the average class weather normalized
9 cost per kWh to obtain the revenue adjustment related to customer growth.

10 The industrial customer class LP was reviewed on an individual customer basis to
11 calculate the impact of customer growth on revenue. This individual customer
12 approach was used due to the fact that LP customers have a high usage per
13 customer and any changes in customer load patterns due to anomalies can have a
14 significant impact on revenue.

15 In total the customer growth adjustment to revenue resulted in an increase of
16 \$2,133,403 in revenue and an increase in kWh sales of 28,434,900.

17 **Weather Normalization Adjustment**

18 **Q. WAS THE REVENUE ADJUSTED FOR THE AFFECT OF WEATHER?**

19 A. Yes. The test year sales and revenue were adjusted to account for the impact of
20 abnormal weather. The calculation of the weather normalized sales is presented
21 in the direct testimony of Mr. Mark Quan of Itron, Inc.

22 **Q. HOW WAS THE REVENUE ADJUSTMENT DUE TO WEATHER**
23 **CALCULATED?**

1 A. The historical kWh consumption for the jurisdictions was extracted from the
2 determinant files. The data was then categorized for rates based upon the summer
3 and winter billing steps and a monthly percentage per billing step was created
4 using this data. Customer numbers were also extracted from the file and a
5 historical Use-Per-Customer ("UPC") was created. A regression analysis was
6 then performed with the UPC and the monthly billing step percentage. Next, a
7 weather normal UPC was created using the historical customer count and the
8 weather-normal sales provided by Metrix, a statistical model. Using the weather
9 normal sales and the forecasted step percentage, a weather-normal sales forecast
10 per rate block was created. The weather-normal sales forecast per rate block was
11 then multiplied by the rates provided by the tariff and averaged monthly, to create
12 a weather normal monthly rate by billing step.

13 The rates were then applied to the sales adjustment derived by Empire witness
14 Mr. Quan. The adjustment for weather resulted in a decrease to revenue of
15 \$3,334,454 and a decrease to kWh sales of 34,316,095.

16 **Rate Increase**

17 **Q. WHY DID YOU MAKE A REVENUE ADJUSTMENT RELATED TO THE**
18 **RATE INCREASE AUTHORIZED BY THE COMMISSION IN CASE NO.**
19 **ER-2006-0315?**

20 A. A rate increase became effective on January 1, 2007, as a result of the
21 Commission's decision in Case No. ER-2006-0315. The test year does not
22 include a full year of the rate increase. Therefore an adjustment is needed to

1 reflect the increase in revenues for the portion of the year that the rate increase
2 was not in effect.

3 **Q. PLEASE EXPLAIN.**

4 A. The rate increase authorized by the Commission in Case No. ER-2006-0315
5 resulted in an overall increase in revenue of 9.96%. This was comprised of two
6 components. The first component was an increase in base revenue of
7 approximately 13.35%. This resulted in an adjustment to increase revenue of
8 \$21,129,279. The second component was related to an elimination of the Interim
9 Energy Charge revenues. This adjustment resulted in a decrease in revenue for
10 purposes of this case of \$4,976,183.

11 **Unbilled Revenue**

12 **Q. PLEASE DESCRIBE THE ADJUSTMENT RELATED TO UNBILLED**
13 **REVENUE.**

14 A. The revenue in the test year should equal the amount actually billed to customers
15 and the portion of sales that were used but not billed during the test year. While
16 the amount of revenues actually billed to customers is known, the portion not yet
17 billed to customers is not known and therefore must be estimated. This
18 adjustment is calculated by estimating the unbilled sales by pricing plan and then
19 applying a rate per kWh to the net unbilled sales. The sales adjustment for the
20 RG, CB, SH, TEB and GP pricing plans was calculated by Empire Witness Mr.
21 Quan. Details of the calculation may be found in his direct testimony. The LP
22 customers were computed on an individual customer basis. The rates applied to

1 the unbilled sales adjustment were the same rates used in the weather adjustment I
2 described earlier in this testimony.

3 The unbilled revenue adjustment in this rate case is comprised of two
4 components, the calculated revenue adjustment and a reversal of the unbilled
5 revenue adjustment recorded on Empire's financial statement. Empire made a
6 revision to the estimate of unbilled revenues during the test year. Therefore, the
7 level of unbilled revenue reflected in Empire's financial statements could not be
8 used for the test year as had been the case in previous rates cases. This
9 adjustment resulted in a decrease to rate revenue of \$6,743,472.

10 **Praxair Credit**

11 **Q. PLEASE DESCRIBE THE ADJUSTMENT DUE TO THE PRAXAIR**
12 **CREDIT.**

13 A As part of a unanimous stipulation and agreement reached in Case No. ER-2001-
14 299, Empire agreed that it would absorb the cost related to an additional credit
15 given to Praxair of \$1.1 per KW/month. Consequently, an adjustment to increase
16 rate revenue in the amount of \$100,320 has been made for this purpose.

17 **City Franchise Taxes**

18 **Q. PLEASE EXPLAIN THE ADJUSTMENT TO ELIMINATE CITY**
19 **FRANCHISE TAXES.**

20 A City franchise tax is not a revenue source designed to be collected through the
21 application of a Commission-approved tariff. It is a municipal tax that Empire is
22 obligated to collect and remit to the various municipalities where the Company
23 provides electric service. Although there is no impact on Empire's earnings

1 related to city franchise taxes because it is offset by an equal amount of expense,
2 it is more appropriate for this case if Empire's revenue requirement reflects only
3 the revenue that will be generated through the application of approved
4 Commission tariffs and does not reflect the revenue associated with franchise
5 taxes. The adjustment to eliminate the city franchise from revenue of \$6,363,093
6 has been reflected as both a reduction in revenue and a reduction in taxes other
7 than income taxes.

8 **Other Revenue Adjustments**

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

10 A There were three more adjustments made to revenue. These adjustments include
11 the normalization of excess facilities revenue, elimination of miscellaneous
12 revenues related to Empire's water business and a reclassification of gain on
13 disposition of allowances.

14 The excess facilities revenue is related to a charge based on the Rider XC. This
15 charge is related to the excess facilities that Empire is required to install at a
16 customer's request. If this occurs, Empire and the customer enter into a contract
17 for the additional charge (excess facilities) to the customer. Those amounts under
18 contract at June 30, 2007 were annualized and compared to the excess facilities
19 revenue actually recorded during the test year. The difference between these two
20 amounts resulted in an adjustment of \$44,308 in additional excess facilities
21 revenue.

22 Forfeited discounts and return check fees related to the water business are
23 recorded in other revenue. In order to eliminate this revenue from the electric rate

1 case an adjustment of \$10,469 has been made.

2 The final revenue adjustment is related to the gain on disposition of allowances.

3 This adjustment increases operating income by \$69,500. For financial statement

4 purposes, these sales are booked below the line in non-operating income. For the

5 rate case, an adjustment is required to reclassify these sales so that they are

6 reflected in operating income.

7 **RATE BASE ADJUSTMENTS**

8 **Q. PLEASE DESCRIBE THE ADJUSTMENT MADE TO PREPAYMENTS.**

9 A Empire records a prepaid asset for the Elk River Farm wind contract. For two
10 months during the test year, the amount recorded in the prepaid asset was not
11 equal to the remainder of the months due to non-recurring events. The adjustment
12 to increase prepayment by \$71,481 was needed to normalize the account.

13 **Q. WHY WAS AN ADJUSTMENT TO MATERIALS AND SUPPLIES**
14 **NEEDED?**

15 A. The material and supplies inventory recorded on the Empire balance sheet
16 includes inventory for both the electric and water business. These inventories are
17 tracked separately on a manual spreadsheet. An adjustment of \$34,013 was
18 needed to reduce materials and supplies levels for the amount related to Empire's
19 water business.

20 **Q. WHAT ADJUSTMENT WAS MADE TO THE FUEL INVENTORY?**

21 A. Asbury has a surplus of blend coal due to a blend coal contract terminating at the
22 end of 2007. A replacement contract for 2008 is expected to be priced
23 significantly higher so Empire has been acquiring as much blend coal as possible

1 under the 2007 contract price in an effort to take advantage of a lower commodity
2 price. In order to normalize the fuel inventory level, an adjustment of \$388,914
3 has been made to reduce the level of the coal inventory to sixty days, a level of
4 inventory within the Company guidelines.

5 **Q. PLEASE EXPLAIN THE ADJUSTMENT MADE TO THE**
6 **DEPRECIATION RESERVE.**

7 A As noted in the direct testimony of Company witness Mr. Mike Palmer, the
8 Empire electric system suffered significant damage during an ice storm in January
9 2007. As a result of the damage, Empire was forced to retire damaged assets.
10 During this retirement process significant costs were incurred. The depreciation
11 reserve at the end of the test year did not yet reflect the write-off of the original
12 cost of all of the items retired due to the ice storm. Therefore, an adjustment to
13 increase Depreciation Reserve by \$1,887,636 total Company was needed to
14 reflect the remaining cost of removal associated with the ice storm.

15 **CAPITAL STRUCTURE**

16 **Q. WHAT CAPITAL STRUCTURE IS EMPIRE PROPOSING IN THIS**
17 **RATE CASE?**

18 A Empire is using the consolidated capital structure at June 30, 2007, with two
19 adjustments.

20 **Q. PLEASE EXPLAIN THESE ADJUSTMENTS.**

21 A. The first adjustment eliminates short-term debt from the capital structure. The
22 Company uses short-term debt to finance the construction work in progress.
23 Historically, both the Commission Staff and the Company have excluded short-

1 term debt from the capital structure if the balance of short-term debt is less than
2 that of construction work in progress. At the end of the test year, the short-term
3 debt balance was lower than construction work in progress and an adjustment of
4 \$49,842,000 was made to eliminate short-term debt from the capital structure.

5 ** _____

6 _____

7 _____

8 _____

9 _____

10 _____ **

11 **TARIFF CHANGES**

12 **Q. IS EMPIRE PROPOSING ANY CHANGES TO THE TARIFFS OR RULES**
13 **AND REGULATIONS OUTSIDE OF THE FUEL ADJUSTMENT AND**
14 **RATE INCREASE?**

15 A Yes, Empire is proposing four changes. This includes a change in the General
16 Power Service Schedule GP referencing the excess facilities charge, Chapter III,
17 Section D of the Rules and Regulations, the addition of a late payment fee for the
18 Special Transmission Service Contract: Praxair Schedule SC-P, and a change in
19 the late payment fees for Schedules Large Power LP, General Power GP and
20 Total Electric Building TEB.

21 **Q. PLEASE PROCEED.**

22 A. The first change Empire is requesting is to the General Power Service Schedule
23 GP. This tariff, unlike the other tariffs does not reference the application of the

1 Rider XC. To be consistent among pricing plans, Empire is proposing the
2 following verbiage be added as a new Conditions of Service: “Where the
3 customer's use of welding, or other equipment characterized by fluctuating or
4 severe demands, or the need for multiple or oversized transformers, necessitates
5 the installation of additional or increased facilities (including distribution
6 transformers, service conductors or secondaries) solely to serve such customer,
7 the applicable provisions of Rider XC will apply in amendment to the provisions
8 of this schedule.”

9 **Q. WHAT OTHER CHANGES IS EMPIRE RECOMMENDING?**

10 A. The second change that Empire is proposing is in regards to the Rules and
11 Regulations. In Chapter III – Service Specifications, the Company is requesting
12 the addition of a 3rd item to Section D. Power Supply: “For any poly-phase
13 services, the Customer is responsible for protecting motors and other equipment
14 from damage in case of a single phasing condition on the Company’s distribution
15 and/or transmission systems. This removes Empire from any liability associated
16 with “loss of phase” on the Company’s distribution and/or transmission systems
17 caused by weather, accidents, or other factors beyond the Company’s control.”

18 **Q. PLEASE EXPLAIN YOUR RECOMMENDATION REGARDING THE**
19 **PRAXAIR SCHEDULE SC-P.**

20 A. Empire’s proposes to add a late payment fee to the Special Transmission Service
21 Contract: Praxair, Schedule SC-P. This tariff does not include a late payment fee
22 as do the Company’s other rate schedules. Empire is requesting that the following
23 paragraph be added to the tariff to provide consistency: “PAYMENT: The above

1 rate applies only if the bill is paid on or before fifteen (15) days after the date
2 thereof. If not so paid, the above rate plus 5% then applies.

3 **Q. WHAT IS YOUR FINAL RECOMMENDATION?**

4 A. Empire's final proposal is a change in the late payment fee for the following three
5 schedules: Large Power LP, General Power GP and Total Electric Power TEB.

6 Empire request the late payment fees for these rates be structured and charged the
7 same percent (5 %) as the Commercial CB, and Small Heating SH.

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

9 A Yes, it does.

AFFIDAVIT OF JAYNA R. LONG

STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 15th day of October, 2007, before me appeared Jayna R. Long, 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.

Jayna R. Long
Jayna R. Long

Subscribed and sworn to before me this 15th day of October, 2007.

Sherril J. Blalock
Notary Public

My commission expires: Nov. 16, 2010.

