

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-2012-0345
Date Testimony Prepared: July 2012

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

Direct Testimony

of

Jayna R. Long

July 2012



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JAYNA R. LONG
ON BEHALF OF
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2012-0345

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DIRECT TESTIMONY
OF
JAYNA R. LONG
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2012-0345

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 IN WHAT CAPACITY?**

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.

18 **Q. HAVE YOU PREVIOUSLY PARTICIPATED IN ANY REGULATORY**

1 **PROCEEDINGS?**

2 A. Yes, I have. I have testified before regulatory commissions in the states of Kansas,
3 Arkansas, Missouri, and Oklahoma.

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

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

8 **II. RATE BASE ADJUSTMENTS**

9 **Q. PLEASE IDENTIFY THE RATE BASE ADJUSTMENTS YOU ARE**
10 **SPONSORING.**

11 A. I am sponsoring four adjustments to rate base. The first adjustment is to reflect the
12 effects of the allocation of common plant to Empire’s natural gas business. The
13 remaining adjustments are to remove water inventory, to normalize amounts for prepaid
14 fleet fuel, and to forecast Accumulated Depreciation to December 31, 2012, the requested
15 True-Up date.

16 **Allocation of Common Plant**

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

19 A. Empire records the entire amount of all common general plant on the electric company’s
20 books. A rate case adjustment is required to allocate a portion of the common general
21 plant to the Company’s gas operations. The allocation is based on a three part formula
22 (the Massachusetts formula), which is described in Empire’s Cost Allocation Manual
23 filed with the Commission. The result of this allocation decreases the book amount of

1 Missouri jurisdictional general plant in service by \$1,636,004 and decreases the provision
2 for accumulated depreciation for general plant by \$1,029,002.

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

4 A. Yes, an adjustment using the same methodology was made by Empire, and also by the
5 Missouri Public Service Commission Staff ("Staff"), in Empire's last several electric rate
6 cases and in the Company's gas rate case, Case No. GR-2009-0434.

7 **Water Inventory**

8 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO REMOVE WATER 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. A Missouri jurisdictional adjustment of \$30,525 was
12 needed to reduce materials and supplies levels for the amount related to Empire's water
13 business.

14 **Prepayments**

15 **Q. PLEASE DESCRIBE THE ADJUSTMENTS TO NORMALIZE PREPAID FLEET
16 FUEL.**

17 A. During the test year, Empire changed vendors for fleet fuel cards. The new vendor was
18 able to offer Empire lower cost and a rebate, if Empire prepaid for fuel. A Missouri
19 jurisdictional adjustment of \$14,721 was needed to increase and normalize the prepaid
20 fleet fuel cards for the full test year.

21 **Accumulated Depreciation**

22 **Q. PLEASE EXPLAIN THE ADJUSTMENTS TO INCREASE ACCUMULATED
23 DEPRECIATION TO DECEMBER 2012.**

1 A. Empire has requested a true-up of the rate case to December 31, 2012. Like other rate
2 base items, Empire has updated the balance of the accumulated depreciation to the
3 amount anticipated at the date of the true-up. The adjustment for an additional nine
4 months of depreciation expense increased Missouri jurisdictional accumulated
5 depreciation by \$38,198,715.

6 **III. EXPENSE ADJUSTMENTS**

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

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

- 10 ■ Annualize Payroll and Payroll Taxes
- 11 ■ Annualize Banking Fees
- 12 ■ Normalize Bad Debt Expense
- 13 ■ Annualize Rate Case and Commission Assessment Expense
- 14 ■ Include Customer Deposits
- 15 ■ Normalize Construction Accounting
- 16 ■ Edison Electric Institute ("EEI") Dues
- 17 ■ Amortize the Plum Point and Iatan regulatory asset
- 18 ■ Remove off-system revenue and fuel expense
- 19 ■ Annualize the SWPA payment to customers
- 20 ■ Regulatory Amortization
- 21 ■ Intangible Amortization

22 **Payroll and Payroll Taxes**

23 **Q. WHAT ADJUSTMENT WAS NEEDED FOR PAYROLL EXPENSE AND**

1 **PAYROLL TAXES?**

2 A. The adjustment was made to normalize test year payroll, payroll taxes, and 401k costs.
3 The adjusted expense included in the filing reflects the wages at March 31, 2012,
4 adjusted for known changes, positions currently authorized but unfilled, and pay
5 increases that will occur prior to the effective date of new rates in this case. The
6 adjustment increases Missouri jurisdictional test year expense by \$3,277,407.

7 **Banking Fees**

8 **Q. PLEASE EXPLAIN THE BANKING FEES ADJUSTMENT.**

9 A. In January 2012, Empire renegotiated its Unsecured Credit Agreement, reducing banking
10 fees. A Missouri jurisdictional adjustment decreasing expense of \$896,428 was needed
11 to normalize the test year.

12 **Bad Debt Expense**

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

14 A. The approach Empire used for purposes of this case is very similar to the approach used
15 in Empire's last electric rate case. We gathered five (5) years of uncollectible accounts
16 expense recorded in FERC account 904 and compared the historic expense levels to the
17 Missouri jurisdictional retail sales of electricity that took place during each of those five
18 years. This process resulted in a five-year ratio of bad debt expense to retail electric
19 revenue of 0.59 percent. This overall ratio of 0.59 percent was then applied to the
20 normalized retail sales revenue developed for this rate case to arrive at an adjusted bad
21 debt expense of \$2,285,310. The adjusted level of ongoing bad debt expense was then
22 compared to the bad debt expense in the test year to arrive at a Missouri jurisdictional
23 adjustment of (\$822,814).

1 **Rate Case and PSC Assessment Expense**

2 **Q. WHAT ADJUSTMENT WAS NEEDED FOR RATE CASE AND PSC ASSEMENT**
3 **EXPENSE?**

4 A. Rate case and Commission assessment expenses were increased by \$185,753 (Missouri
5 jurisdictional) to reflect the costs associated with the current rate case (and assuming a
6 two year amortization), normalize a full year of rate case amortization from the last prior
7 rate case (which is being amortized over four years), and to include the current year costs
8 of the Commission's annual assessment.

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

11 A. Empire anticipates filing its next electric rate case in 2015. The next case will be related
12 to the construction of additional environmental controls at Empire's Asbury plant in
13 response to new Environmental Protection Agency ("EPA") rules.

14 **Customer Deposits**

15 **Q. WHY IS AN ADJUSTMENT FOR INTEREST ON CUSTOMER DEPOSITS**
16 **NEEDED?**

17 A. This adjustment moves the interest associated with the Missouri jurisdictional deposits
18 above the line, which is consistent with past practices in Empire's rate cases in Missouri.
19 The interest was calculated by applying 4.25% to the customer deposits included in rate
20 base.

21 **Construction Accounting**

22 **Q. PLEASE EXPLAIN THE CONSTRUCTION ACCOUNT ADJUSTMENT.**

23 A. In previous rate cases, Empire was allowed construction accounting for the generating

1 plants Iatan 2, Iatan Common and Plum Point. The construction accounting created
2 regulatory assets and liabilities that are being amortized to expense. The amortization
3 began with Case No. ER-2011-0004, which had rates effective during the current case
4 test year. Therefore, an adjustment of \$667,033 Missouri jurisdictional is needed to
5 annualize the amortization expense.

6 **EEI Dues**

7 **Q. WAS THERE AN ADJUSTMENT MADE FOR EEI DUES?**

8 A. No. Empire included the portion of non-legislative EEI dues incurred during the test year.

9 **Q. WHY?**

10 A. As explained below, Empire's membership in EEI is beneficial for Empire and its
11 customers. In previous Empire cases, Staff has recommended disallowance of the EEI
12 dues. However, Empire has verified with Kansas City Power & Light Company and
13 Ameren Missouri that Staff has allowed inclusion of all of the EEI dues in their rate cases
14 in recent years.

15 **Q. DOES THE CHARACTER OF EMPIRE'S PRIMARY BUSINESS DIFFER**
16 **FROM KANSAS CITY POWER & LIGHT AND AMEREN MISSOURI?**

17 A. No. It is my understanding that Empire utilizes EEI in the same manner as Ameren
18 Missouri and Kansas City Power & Light.

19 **Q. IS THE COMPANY'S MEMBERSHIP IN EEI BENEFICIAL FOR EMPIRE AND**
20 **ITS CUSTOMERS?**

21 A. Yes. Empire and its customers enjoy substantial benefits as a result of the Company's
22 membership. Due to its size, Empire is not able to employ or contract with experts in all
23 areas of its business. The Company must, therefore, rely heavily on EEI for training,

1 guidance and industry statistics. In addition, EEI's Mutual Assistance Program provides
2 Empire access to other utilities during natural disasters. Empire has used this program
3 during ice storms and after tornadoes. Below is a list of EEI Committees including
4 subcommittees:

- EEI Board of Directors
- Executive Committee
- Membership and Budget Committee
- Nominating Committee
- CEO Policy Committee on Public and Governmental Affairs
- Federal Affairs EAC
- External Affairs EAC
- State/Regional Government Relations
- CEO Policy Committee on Energy Delivery
- Distribution
- Metering
- Security
- Transmission
- Energy Delivery Public Policy EAC
- Reliability EAC
- CEO Policy Committee on Energy Services and Efficiency
- Retail Energy Services EAC
- Customer Services
- Rates and Regulatory Affairs
- Fleet Management and Policy
- Supplier Diversity
- CEO Policy Committee on Energy Supply
- Energy Supply EAC
- CEO Policy Committee on Environment
- Environment EAC
- CEO Policy Committee on Finance
- Accounting EAC
- Accounting Standards
- Corporate Accounting
- Internal Auditing
- Property Accounting and Valuation
- Finance EAC
- Budgeting and Financial Forecasting
- Finance
- Risk Management
- Taxation
- CEO Policy Committee on Strategic Issues
- Strategic Issues
- Other Committees Supporting Business Units
- Claims
- Economics
- Labor and Employee Relations
- Legal

- Occupational Safety & Health
- Ad Hoc Groups on Industry Issues
- Clean Air Strategy Group
- Electric Light and Power (EL&P) Task Force to the National Electric Code (NEC)
- Emergency Planning and Community Right-To-Know Act (EPCRA)
- Employment Testing
- Environmental Health & Safety Auditing Task Force
- Fire Protection
- Global Climate Change (GCC) Subcommittee
- NARUC Working Group
- Research and Library Services
- Standards
- Technology Advisory Council
- Transmission Policy

1 Absent EEI membership, the Company would incur significant additional costs to replace
2 the services offered to the Company through its membership in EEI.

3 **Plum Point and Iatan Regulatory Asset Amortization**

4 **Q. PLEASE DESCRIBE THE ADJUSTMENT FOR THE PLUM POINT AND IATAN**
5 **REGULATORY ASSET AMORTIZATION.**

6 A. As described in the direct testimony of Empire witness Blake Mertens, Empire has a
7 tracker for operating and maintenance expense for Plum Point, Iatan 2 and Iatan
8 Common. The difference between the actual expense and the base amount set out in the
9 Stipulation and Agreement (ER-2011-0004) was deferred to a regulatory asset. The
10 regulatory asset at the end of the test year was \$1,297,162. An adjustment was made to
11 amortize this balance over two years, increasing Missouri jurisdictional expense by
12 \$648,581.

13 **Off-System Revenue and Expense**

14 **Q. WHY ARE OFF-SYSTEM REVENUE AND FUEL EXPENSE REMOVED FROM**
15 **THE TEST YEAR?**

1 A. Customers receive the benefit of the off-system sales margin through the fuel adjustment
2 mechanism outside of base rates. Therefore, it is necessary to remove the off-system
3 revenue of \$15,142,175 and fuel expense of \$14,125,947, both Missouri jurisdictional,
4 from the test year to avoid a double counting in this area.

5 **SWPA Payment Amortization**

6 **Q. WHY IS IT NECESSARY TO ANNUALIZE THE SWPA PAYMENT**
7 **AMORTIZATION IN THE TEST YEAR?**

8 A. In Case No. ER-2011-0004, Empire agreed to amortize the SWPA payment back to
9 customers over a ten year period. The test year did not include a full year of amortization
10 so an adjustment to decrease expense of \$118,163 (Missouri jurisdictional) was needed.

11 **Regulatory Amortization**

12 **Q. WHY IS THERE AN ADJUSTMENT FOR REGULATORY AMORTIZATION?**

13 A. Regulatory Amortization concluded when rates became effective in Case No. ER-2011-
14 0004. A portion of the test year for the current rate case was prior to the effective date of
15 rates resulting from Case No. ER-2011-0004. Therefore, the general ledger contained
16 regulatory amortization within the test year of the current case. An adjustment of
17 (\$3,013,236) was made to remove the effects from the test year within the current case.

18 **Intangible Amortization**

19 **Q. WHY IS THERE AN ADJUSTMENT FOR INTANGIBLE AMORTIZATION?**

20 A. The intangibles included in rate base were adjusted to reflect the additions of software as
21 described in the direct testimony of Empire witnesses Kelly Walters and Blake Mertens.
22 As a result of the change in rate base, the amortization was adjusted to increase annual
23 amortization by \$1,369,647.

1 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

2 A Yes, it does.

AFFIDAVIT OF JAYNA R. LONG

STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 2nd day of July, 2012, before me appeared Jayna R. Long, to me personally known, who, being by me first duly sworn, states that she is Regulatory Manager 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 2nd day of July, 2012.

ANGELA M. CLOVEN
Notary Public - Notary Seal
State of Missouri
Commissioned for Jasper County
My Commission Expires: November 01, 2015
Commission Number: 11262659

Angela M. Cloven
Notary Public

My commission expires: 11/01/2015.