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Adjustments, Rate Case Rider
Witness: Jayna R. Long
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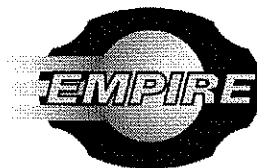
**Before the Public Service Commission
of the State of Missouri**

Direct Testimony

of

Jayna R. Long

October 2009



SERVICES YOU COUNT ON

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DIRECT TESTIMONY 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 **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 Analyst.

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 my current position.

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

1 A. The purpose of my testimony is to present certain adjustment to the accounting schedules.
2 I will also discuss the Rate Case Rider proposed by Empire.

3 **II. RATE BASE ADJUSTMENTS**

4 **Q. PLEASE IDENTIFY THE RATE BASE ADJUSTMENTS YOU ARE**
5 **SPONSORING.**

6 A. I am sponsoring five adjustments to rate base. The first adjustment is the allocation of
7 common plant to Empire's natural gas business. The remaining adjustments are to
8 normalize inventory.

9 **Allocation of Common Plant**

10 **Q. PLEASE EXPLAIN THE FIRST ADJUSTMENT TO ALLOCATE COMMON**
11 **PLANT TO EMPIRE'S NATURAL GAS BUSINESS.**

12 A. Empire records the common general plant on the electric company's books in their
13 entirety. A rate case adjustment is required to allocate a portion of the common general
14 plant to the gas operations. The allocation is based on a three part formula, the
15 Massachusetts formula, which is described in Empire's Cost Allocation Manual filed
16 with the Commission. The result of this allocation decreases the general plant in service
17 by \$2,040,458 and decreases the provision for accumulated depreciation for general plant
18 by \$1,054,165.

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

20 A. Yes, an adjustment using consistent methodology was made by Empire and the Missouri
21 Public Service Commission Staff ("Staff") in Empire's last electric rate case, Case No.
22 ER-2008-0093 and in its recent gas rate case, Case No. GR-2009-0434.

23

1 **Inventory**

2 **Q. PLEASE DESCRIBE THE FIRST ADJUSTMENT TO NORMALIZE**
3 **INVENTORY.**

4 A. The material and supplies inventory recorded on the Empire balance sheet includes
5 inventory for both the electric and water business. These inventories are tracked
6 separately on a manual spreadsheet. An adjustment of \$36,673 was needed to reduce
7 materials and supplies levels for the amount related to Empire's water business.

8 **Q. PLEASE CONTINUE WITH THE SECOND ADJUSTMENT TO NORMALIZE**
9 **INVENTORY.**

10 A. Empire uses a thirteen month average fuel inventory in rate base. At one point during the
11 thirteen months, Empire's Asbury generating unit had a surplus of coal due to an outage
12 that resulted in a build up of inventory. In order to normalize the inventory level, an
13 adjustment of \$996,688 was made to reduce the levels to normal levels.

14 **Q. WHAT OTHER ADJUSTMENTS WERE MADE TO ANNUALIZE**
15 **INVENTORY?**

16 A. The final two adjustments to inventory relate to the addition of Iatan II and Plum Point
17 generating units. The first of these two adjustments is to include materials and supplies
18 for these two plants. Based on the thirteen month average of materials and supplies for
19 Iatan I, an adjustment was made to increase materials and supplies for a total of
20 \$1,468,570 or \$734,285 for each new plant.

21 The second of these two adjustments includes the coal inventory to be maintained at the
22 plants. The adjustment includes a 60 day inventory for each plant based on the average
23 daily burn for Iatan II and for Plum Point less the thirteen month average inventory

1 already recorded on the balance sheet for Iatan II. The adjustment increases coal
2 inventory by \$1,273,123.

3 **III. REVENUE ADJUSTMENTS**

4 **Q. PLEASE IDENTIFY THE REVENUE ADJUSTMENTS THAT HAVE BEEN**
5 **MADE TO MISSOURI JURISDICTIONAL REVENUE.**

6 A. Total Company and Missouri jurisdictional revenues included in the test year have been
7 adjusted to reflect customer growth as of June 30, 2009, normalized weather, and to
8 reflect the rate increase authorized by the Commission in Case No. ER-2007-0093.
9 Furthermore, kilowatt-hour ("kWh") sales and revenues were adjusted to reflect the effect
10 of unbilled sales and revenues in order to properly align test year generation and fuel and
11 purchased power expense. In addition, an adjustment was made to remove the Praxair
12 credit, excess facilities revenue was annualized, city franchise taxes were eliminated,
13 miscellaneous revenues related to the water business were removed and the gain on the
14 disposition of allowances was reclassified to operating income. Each adjustment is
15 discussed below.

16 **Customer Growth Adjustment**

17 **Q. PLEASE EXPLAIN THE ADJUSTMENT RELATED TO CUSTOMER**
18 **GROWTH.**

19 A. Missouri jurisdictional revenues have been adjusted to reflect the amount of revenue that
20 would have been generated if the number of Empire customers existing at June 30, 2009,
21 had been served by the Company for the entire test year. For the residential, commercial,
22 and industrial TEB, and GP classes, the differences between the June 30, 2009, level of
23 customers and the average customers billed in each month of the test year were

1 multiplied by the average weather normalized kWh per customer for that month. The
2 resulting change in kWh sales was then multiplied by the average class weather
3 normalized cost per kWh to obtain the revenue adjustment related to customer growth.

4 The industrial customer class, LP, was reviewed on an individual customer basis to
5 calculate the impact of customer growth on revenue. This individual customer approach
6 was used because LP customers have a high usage per customer and changes in customer
7 load patterns due to anomalies can have a significant impact on revenue.

8 In total, the customer growth adjustment to revenue resulted in an increase of \$466,598 in
9 revenue and in sales of 5,459,779 kWh.

10 **Weather Normalization Adjustment**

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

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

15 **Q. HOW WAS THE REVENUE ADJUSTMENT DUE TO WEATHER
16 CALCULATED?**

17 A. Rates were determined for each pricing plan and applied to the sales adjustment derived
18 by Empire witness Mark Quan. The adjustment for weather resulted in an increase to
19 revenue of \$1,836,010.

20 **Rate Increase**

21 **Q. WHY DID YOU MAKE A REVENUE ADJUSTMENT RELATED TO THE RATE
22 INCREASE AUTHORIZED BY THE COMMISSION IN CASE NO. ER-2007-
23 0093?**

1 A. As a result of the Commission's decision in that case, the rate increase became effective
2 on August 23, 2008. The test year does not include a full year of the rate increase.
3 Therefore, an adjustment is needed to reflect the increase in revenues of \$2,636,470 for
4 the portion of July and August where the rate increase was not in effect.

5 **Unbilled Revenue**

6 **Q. PLEASE DESCRIBE THE ADJUSTMENT RELATED TO UNBILLED**
7 **REVENUE.**

8 A. The revenue in the test year should equal the amount actually billed to customers and the
9 portion of sales that were used but not billed during the test year. While the amount of
10 revenues actually billed to customers is known, the portion not yet billed to customers is
11 not known and therefore must be estimated. This adjustment is calculated by multiplying
12 a rate per kWh to the unbilled sales by pricing plan. The unbilled sales computation is
13 discussed by Empire Witness Mark Quan. The unbilled sales were multiplied by the
14 determined rates to derive the unbilled revenue. This resulted in an increase to revenue
15 of \$704,313.

16 A second adjustment was needed to reverse the unbilled revenue recorded on Empire's
17 financial statement. This adjustment resulted in a decrease to rate revenue of \$5,341,385.

18 **Praxair Credit**

19 **Q. PLEASE DESCRIBE THE ADJUSTMENT DUE TO THE PRAXAIR CREDIT.**

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

1 **City Franchise Taxes**

2 **Q. PLEASE EXPLAIN THE ADJUSTMENT TO ELIMINATE CITY FRANCHISE**
3 **TAXES.**

4 A City franchise tax is not a revenue source designed to be collected through the application
5 of a Commission-approved tariff. It is a municipal tax that Empire is obligated to collect
6 and remit to the various municipalities where the Company provides electric service.
7 Although there is no impact on Empire's earnings related to city franchise taxes because
8 it is offset by an equal amount of expense, it is more appropriate if Empire's revenue
9 requirement reflects only the revenue that will be generated through the application of
10 approved Commission tariffs and does not reflect the revenue associated with franchise
11 taxes. The adjustment of \$6,940,205 to eliminate the taxes from revenue has been
12 reflected as both a reduction in revenue and a reduction in taxes other than income taxes.

13 **Other Revenue Adjustments**

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

15 A There were three more adjustments made to revenue. These adjustments include the
16 normalization of excess facilities revenue, elimination of miscellaneous revenues related
17 to Empire's water business, and a reclassification of gain on disposition of allowances.
18 The excess facilities revenue is related to a charge based on the Rider XC. This charge is
19 related to the excess facilities that Empire is required to install at a customer's request.
20 If this occurs, Empire and the customer enter into a contract for the additional charge
21 (excess facilities) to the customer. Those amounts under contract at June 30, 2009, were
22 annualized and compared to the excess facilities revenue actually recorded during the test
23 year. The difference between these two amounts resulted in an adjustment of \$41,377 in

1 additional excess facilities revenue.

2 Forfeited discounts and return check fees related to the water business are recorded in
3 other revenue. In order to eliminate them, an adjustment of \$9,031 has been made.

4 The final revenue adjustment is related to the gain on disposition of allowances. This
5 adjustment increases operating income by \$177,018. For financial statement purposes,
6 these sales are booked below the line in non-operating income. For the rate case, an
7 adjustment is required to reclassify these sales so that they are reflected in operating
8 income.

9 **IV. EXPENSE ADJUSTMENTS**

10 **Q. PLEASE IDENTIFY THE EXPENSE ADJUSTMENTS THAT HAVE BEEN**
11 **MADE TO THE TEST YEAR.**

12 **A.** I am sponsoring adjustments to income statement expense for the test year as follows:

- 13 ■ Annualize Commission Assessment Fees
- 14 ■ Annualize Postage Increase
- 15 ■ Include Customer Deposit Interest
- 16 ■ Annualize Payroll and Payroll Taxes
- 17 ■ Annualize Property Taxes
- 18 ■ Annualize 2007 Ice Storms Amortization
- 19 ■ Amortize May 2009 Wind Storm
- 20 ■ Amortize Vegetation Tracker
- 21 ■ Remove the Contract Payoff of Software Maintenance

22 **Commission Assessment Fees**

1 Q. WHY WAS AN ADJUSTMENT TO THE COMMISSION ASSESSMENT FEES
2 NEEDED?

3 A. During the test year, the Commission assessment fees may change. The adjustment
4 annualizes the most current amount known. The adjustment increased the expense for the
5 Missouri jurisdiction by \$87,312.

6 Postage

7 Q. PLEASE EXPLAIN THE ADJUSTMENT FOR POSTAGE EXPENSE.

8 A. The adjustment was made to annualize postage expense to reflect the increase in postage
9 rates which took effect May 11, 2009. The increase to expense was \$27,433.

10 Customer Deposit Interest

11 Q. PLEASE EXPLAIN THE CUSTOMER DEPOSIT INTEREST ADJUSTMENT.

12 A. Empire's adjustment annualizes interest expense related to customer deposits. Customer
13 deposits are interest bearing so they are deducted from rate base. The associated interest
14 is included in the overall cost of service. To calculate this adjustment or reclassification,
15 a 4.25% interest rate (prime + 1%) was multiplied by the balance in customer deposits.
16 The customer deposit interest to be included in the cost of service is \$313,505.

17 Payroll and Payroll Taxes

18 Q. WHAT ADJUSTMENT WAS NEEDED FOR THE PAYROLL AND PAYROLL
19 TAXES?

20 A. The adjustment was made to normalize test year payroll, payroll taxes, and 401k costs.
21 The adjusted expense included in the filing reflects the wages at August 30, 2009,
22 adjusted for known changes, positions currently authorized but unfilled, and the pay

1 increase that will occur prior to the effective date of new rates. This adjustment increases
2 the test year expense by \$1,915,770.

3 **Property Taxes**

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

5 A. The property tax adjustment annualizes EDE's tax expense. The rate applied to the
6 property plant in service is the tax rate Empire anticipates incurring for 2009. The
7 estimated rate is based on historical rates and expected changes in assessed valuations.
8 The adjustment resulted in an increase to expense of \$5,915,779.

9 **2007 Ice Storms**

10 **Q. WHY DID YOU MAKE AN ADJUSTMENT RELATED TO THE 2007 ICE**
11 **STORM AMORTIZATION AUTHORIZED BY THE COMMISSION IN CASE**
12 **NO. ER-2007-0093?**

13 A. The rates from Case No. ER-2007-0093 became effective on August 23, 2008. The test
14 year does not include a full year of the amortization for the 2007 ice storms. Therefore
15 an adjustment is needed to reflect an increase in expense of \$526,360 for the portion of
16 the year that the rates were not in effect.

17 **May 2009 Wind Storm**

18 **Q. WHAT ADJUSTMENT DID EMPIRE MAKE TO EXPENSE FOR THE MAY**
19 **2009 WIND STORM?**

20 A. During May 2009, the Empire service area suffered substantial damage due to severe
21 weather. As a result of this storm, Empire incurred significant damage to both its
22 distribution and transmission service. Empire Witness Samuel McGarrah further
23 discusses the wind storm in his testimony.

1 Q. WHAT ADJUSTMENT DID EMPIRE MAKE TO THE TEST YEAR TO
2 REFLECT ITS WIND STORM PROPOSAL?

3 A. Empire is proposing to amortize the expense of the storm total expense amount over five
4 years commencing at the time rates set in the case become effective. Empire adjusted the
5 test year expense for one year of amortization of \$134,159.

6 **Vegetation Management Tracker**

7 Q. WHAT ADJUSTMENT DID THE COMPANY MAKE TO THE TEST YEAR FOR
8 THE VEGETATION TRACKERS AUTHORIZED BY THE COMMISSION IN
9 CASE NO. ER-2007-0093?

10 A. In the previous rate case, the Commission authorized Empire to set up a tracker to
11 account for any differences Empire incurred from the estimated \$8.575 million. The
12 additional expense was the result of new Commission rules regarding tree trimming and
13 infrastructure inspections. The order stated as follows:

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

23 Q. DID EMPIRE IMPLEMENT THE TWO-WAY TRACKER?

1 A. Yes. As a result of the two-way tracker, Empire set up a regulatory asset of \$609,509.
2 An adjustment is needed to increase expense \$304,755 for a two-year amortization.

3 **Maintenance Contract**

4 **Q. WHAT ADJUSTMENT DID EMPIRE MAKE FOR REPLACEMENT OF A**
5 **SOFTWARE MAINTENANCE CONTRACT?**

6 A. During the test year, the maintenance contract Empire maintained with Tomorrow Now
7 for the support of Empire's PeopleSoft software was terminated. Tomorrow Now was
8 going out of business and as a result was required to pay Empire \$252,247 in order to
9 terminate the contract early. Empire replaced the contract with a similar contract but an
10 adjustment was needed to remove the non-reoccurring pay off amount from the test year.
11 The adjustment increased expense \$252,247.

12 **VII. RATE CASE RIDER**

13 **Q. DO YOU HAVE ANY OTHER COMMENTS CONCERNING TEST YEAR**
14 **EXPENSE?**

15 A. Yes. The Office of the Public Counsel and certain Industrial Interveners have appealed
16 or filed other actions in connection with the last two Empire electric rate case orders in
17 the Western District Court of Appeals, the Missouri Supreme Court, the Cole County
18 Circuit Court, and most recently in the Jasper County Circuit Court. Empire, has been
19 forced to spend a significant amount of money defending the orders that were issued by
20 this Commission.

21 In anticipation of similar actions with regard to the Commission decision in this case and
22 in order to keep Empire whole, we are requesting a Rate Case Expense Recovery
23 ("RCER") Rider.

1 **Q. HOW WOULD THE RATE CASE EXPENSE RECOVERY RIDER WORK?**

2 A. As proposed, the Rider will allow Empire to accumulate the cost of the rate case and
3 related actions in a regulatory asset and then recover the cost beyond those included in
4 base rates based on kWh usage over the next three years. The surcharge will appear as a
5 separate line item on the customer statements. The RCER rider has been included in the
6 tariff sheets proposed by Empire in this case.

7 **Q. HAS SUCH A RIDER BEEN IMPLEMENTED IN OTHER JURISDICTIONS?**

8 A. Yes. We designed our tariffs from similar riders approved for Entergy and CenterPoint
9 Energy, both in Texas.

10 **Q. IS THIS THE ONLY METHOD AVAILABLE FOR RECOVERY OF THESE**
11 **COSTS?**

12 A. No. An adjustment could be made to the test year to project the amount of rate case and
13 related expense Empire will incur. Because it is difficult to project the expenses
14 associated with the appeal process and since we have very limited control of the
15 associated expenses, we support the Rider as the appropriate method for recovery of these
16 costs.

17 **Q. HAVE YOU MADE AN ADJUSTMENT TO RATE CASE EXPENSE?**

18 A. Yes. The adjustment we made to the test year for rate case expense reflects the cost
19 associated with the rate case before the Commission. It does not take into consideration
20 the cost associated with subsequent appeals or other related actions. The rate case
21 expense adjustment is further discussed by Empire witness W. Scott Keith.

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

23 A Yes, it does.