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DIRECT TESTIMONY

OF

AMANDA C. CONNER

Submitted on Behalf of the Office of the Public Counsel

EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2016-0023

April 1, 2016

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DIRECT TESTIMONY
OF
AMANDA C. CONNER
EMPIRE DISTRICT ELECTRIC COMPANY
CASE NO. ER-2016-0023

1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. Amanda C. Conner, PO Box 2230, Jefferson City, Missouri 65102.

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

5 A. I am employed by the Missouri Office of the Public Counsel ("OPC") as a Public Utility
6 Accountant.

7 **Q. On whose behalf are you testifying?**

8 A. I am testifying on behalf of the OPC.

9 **Q. What is the nature of your duties at the OPC?**

10 A. My duties include performing audits and examinations of the books and records of public
11 utilities operating within the state of Missouri.

12 **Q. Please describe your educational background.**

13 A. I graduated in May 2012 from Columbia College (in Columbia, Missouri) with a B.S. in
14 Accounting.

15 **Q. Please describe your related background.**

16 A. I started with the OPC in February of 2016. Prior to my current position, I worked for the
17 Missouri Department of Revenue's ("Department") General Counsel's Office in the

1 Bankruptcy Unit as a Processing Technician III where my duties included accounting for
2 and posting of Trustees' payments regarding all tax types within the Department for Chapter
3 13 and Chapter 7 bankruptcies.

4 **Q. What is the purpose of this direct testimony?**

5 A. In this testimony, I sponsor OPC's positions regarding Empire District Electric Company's
6 ("Empire") rate case expense, materials, supplies, prepayments, corporate franchise tax,
7 dues, donations, customer deposits, and customer advances.

8
9 **II. RATE CASE EXPENSE**

10 **Q. What is OPC's position on rate case expense in this rate case?**

11 A. OPC's position is consistent with the Missouri Public Service Commission ("Commission"
12 or "PSC") position as articulated in its *Report and Order* in Case ER-2014-0370 regarding
13 Kansas City Power & Light Company ("KCPL").

14 In this *Report and Order*, the Commission explained the basis and rationale for its position
15 on rate recovery of rate expense. OPC believes allocating rate case expense based on the
16 ratio of utility-proposed increase in revenues over the increase in revenues determined fair
17 and reasonable by the Commission is the appropriate method for allocating rate case
18 expense in this rate case.

19 **Q. What is included in Empire's proposed rate case expense?**

20 A. Empire's rate case expense includes estimated costs of legal fees, consultant costs, travel,
21 and other miscellaneous expenses. Empire records its rate case expense in the company's
22 workpapers.

23 **Q. Have you reviewed Empire's estimated costs to develop and process the current case?**

1 A. Yes. A breakdown of estimated rate case expense can be found in Empire's work papers
2 supporting its direct filing. The breakdown of the costs is as follows:

Current Rate Case Expense - Estimated	
Legal	\$150,000
Consultation	\$35,000
Travel	\$4,000
Other	\$6,000
Total	\$195,000
2014 Unamortized Balance	\$120,769
Total Estimated Expense	\$315,769

3
4 **Q. What is the amount of rate case expense for this rate case that has been incurred by**
5 **Empire as of the date of this testimony filing?**

6 A. Empire states, as of February 29, 2016, the actual level rate case expense incurred by
7 Empire for this rate case is approximately \$121,000.00. OPC has requested additional
8 information regarding the invoices included in Empire's data request responses and will
9 provide a recommendation in rebuttal testimony once the responses are reviewed.

10 **Q. Should the level of rate case expense included in Empire's cost of service in this rate**
11 **case reflect an amortization of rate case expense incurred for previous rate cases?**

12 A. No. Rate case expense is a normalized cost of providing utility service and should be
13 treated as any other normalized cost of service. Costs incurred in previous rate cases are not
14 relevant in this case...

15 **Q. Over what period does OPC recommend Empire's normalized level of rate case**
16 **expense be amortized?**

17 A. OPC is recommending a normalized level of rate case expense based on a three-year
18 amortization of the costs incurred to pursue this current rate case.

1 **Q. Does the Commission's position on rate case expense described in its Report and**
2 **Order in Case No. ER-2014-0370 result in a disallowance of any costs?**

3 A. No. The Commission's *Report and Order* in case number ER-2014-0370 shows the
4 Commission developed a logical approach to the allocation of rate case expense.

5 Some dollars of rate case expense may be "disallowed", or specifically excluded from the
6 allocable cost pool of rate case expense, based on reasonableness of the expense or
7 imprudence of the expense. However, expense disallowance is clearly not the basis of the
8 Commission's position on rate case expense as stated in the 2014 *Report and Order*. The
9 Commission found shareholders should cover a portion of the rate case expense in order to
10 set just and reasonable rates.

11
12 **III. MATERIALS AND SUPPLIES**

13 **Q. What is OPC's position on the rate base component of materials and supplies in this**
14 **rate case?**

15 A. OPC used the period of September 30, 2014 through September 30, 2015 to calculate a 13-
16 month average, or a normal level of materials and supplies. A 13-month average to reflect
17 shareholders' investment in rate base materials and supplies is typical to develop a utility's
18 rate base.

19 **Q. What is the amount of materials and supplies that OPC is recommending to include in**
20 **rate base in this case?**

21 A. OPC recommends including \$21,833,104 for materials and supplies in the rate base.
22

1 **IV. PREPAYMENTS**

2 **Q. What is OPC's position on the rate base component of prepayments in this rate case?**

3 A. OPC used the period of September 30, 2014 through September 30, 2015 to calculate a
4 13-month average or a normal level of prepayments. Consistent with the materials and
5 supplies issue, using a 13-month average to reflect the shareholders' investment in rate
6 base prepayments is a typical method used to develop a utility's rate base.

7 **Q. Did OPC exclude any accounts that were included in Empire's calculation of its 13-**
8 **month average of prepayments?**

9 A. Yes. Empire has included three prepayment accounts in its 13-month average calculation
10 to determine the dollar amount of prepayments to include in the rate base. Empire has
11 included Working Funds Iatan, Working Funds Plum Point, and KCP&L Land Lease
12 (Workpaper)¹. OPC has not included these accounts in its proposed level of rate base
13 prepayments. These accounts are not normal utility prepayment accounts and Empire has
14 provided no support in its direct filing showing these accounts are actual utility expenses
15 requiring prepayment.

16 OPC requested contracts regarding two invoices included in Empires Insurance Policies
17 and Costs: (1) C&H Sales Invoice #5775 dated November 11, 2014 in the amount of
18 \$16,315.00 and (2) Global Risk Consultants Invoice #000851528 dated November 2,
19 2015 in the amount of \$26,000.00. Empire states these were a part of the property
20 insurance premium. After reviewing the date provided, OPC has not included these
21 invoices in the prepayments for insurance because these are not prepayments. Rather,
22 these invoices are assessments of equipment and consulting services for Empire's
23 property insurance company. The Commission generally allows prepayments to be

¹ Workpaper. OPC reviewed Empire's workpaper, "Other Rate Base", Jun15 for case number ER-2016-0023.

1 included in rate base but these items are not prepayments and therefore do not qualify for
2 rate base treatment.

3 **Q. What is the amount of prepayments that OPC is recommending to include in rate**
4 **base for this case?**

5 A. OPC recommends including \$4,843,131 for prepayments in rate base.

6
7 **V. CUSTOMER DEPOSITS**

8 **Q. What are customer deposits?**

9 A. Customer deposits are funds received by Empire from its customers as security against
10 potential loss arising from failure to pay for utility service. Since the deposits are from
11 the customer to the utility, they should be considered an offset to rate base.

12 **Q. Did OPC use a 13-month average to determine a balance for customer deposits?**

13 A. Yes. OPC used the month end balances of customer deposits for the period September 30,
14 2014 through September 30, 2015 to calculate its 13-month average.

15 **Q. What is the amount of customer deposits that OPC is recommending to offset rate**
16 **base in this case?**

17 A. OPC recommends including \$10,362,125 for customer deposits in rate base.

18
19 **VI. CUSTOMER ADVANCES**

20 **Q. What are customer advances?**

1 A. Customer advances are funds provided to Empire by individual customers to assist in
2 recovering the costs of electric plant construction projects. Like customer deposits, these
3 funds act as interest-free loans to Empire. Therefore, it is necessary to include these funds
4 as an offset to rate base.

5 **Q. How are customer advances different from customer deposits?**

6 A. Like customer deposits, no interest is paid to customers for the use of this money.

7 **Q. Did OPC use a 13-month average to determine a balance for customer advances?**

8 A. Yes. Consistent with other rate base components, OPC used the period of September 30,
9 2014 through September 30, 2015 to calculate its 13-month average of customer advances.
10 OPC is recommending a balance of \$2,064,282 for customer advances to be deducted in
11 Empire's rate base in this case.

12
13 **VII. CORPORATE FRANCHISE TAX**

14 **Q. What is the amount of corporate franchise tax OPC recommends to include in**
15 **Empire's cost of service in this rate case?**

16 A. OPC recommends including \$0 for corporate franchise tax. Missouri's corporate
17 franchise tax ended in January 2016 after being phased out over the previous five years.

18
19 **VIII. DUES AND DONATIONS**

20 **Q. What is the appropriate level of dues and donations expenses that should be**
21 **included in a utility's cost of service?**

1 A. Only the required dues and donations reasonably incurred to provide safe and adequate
2 utility service should be included in cost of service. For example, dues to professional
3 associations for engineers, attorneys, and accountants to maintain professional licenses
4 are costs found to be a reasonable and necessary expense.

5 **Q. Have you reviewed the dues and donations costs booked in Empire's financial**
6 **records?**

7 A. Yes. OPC has received Empire's data for membership dues and donations. OPC has
8 made adjustments to exclude various dues and donations included by Empire in its work
9 papers. OPC excluded dues and donations that do not have any direct benefit to
10 ratepayers and were not necessary for the provision of safe and adequate service.

11 **Q. What is the amount of dues that OPC is recommending to include in this case?**

12 A. OPC recommends including \$76,939.00 for dues for cost of service.

13 **Q. What is the amount of donations that OPC is recommending to include in this case?**

14 A. OPC recommends including \$34,425.00 for donations for cost of service.

15 **Q. What does OPC recommend regarding Edison Electric Institute (EEI) dues?**

16 A. EEI is an association of investor-owned electric utilities and industrial affiliates. OPC
17 has determined that a primary function of EEI is to represent the interests of the electric
18 utility industry in the legislative and regulatory arenas. This role includes EEI's
19 engagement in lobbying activities.

20 In Case No. ER-83-49, a KCPL rate increase case, the Commission stated its
21 determination that EEI dues:

22 ...would be excluded as an expense until the company could better
23 quantify the benefit accruing to both the company's ratepayers and
24 shareholders.

25 This position has been re-affirmed by the Commission in subsequent rate proceedings.

1 In *Re: Kansas City Power & Light Co.*, Case Nos. EO-85-185 *et al.*, *Report and Order*,
2 28 Mo.P.S.C. (N.S.) 228, 259 (1986), the Commission stated:

3 ...The argument that allocation is not necessary if the benefits lessen the
4 cost of service to the ratepayers by more than the cost of the dues, misses
5 the point.

6 It is not determinative that the quantification of benefits to the ratepayer
7 is greater than the EEI dues themselves. The determining factor is what
8 proportion of those benefits should be allocated to the ratepayer as
9 opposed to the shareholder. It is obvious that the interests of the electric
10 industry are not consistently the same as those of the ratepayers. The
11 ratepayers should not be required to pay the entire amount of EEI dues if
12 there is benefit accruing to the shareholders from EEI membership as
13 well. The Commission finds this to be the case. The Company has been
14 informed in prior cases that it must allocate its quantified benefits from
15 membership in EEI. That has not been done herein. Therefore, no
16 portion of EEI dues will be allowed in this case.

17 Empire has failed to quantify ratepayer and shareholder benefits from its participation in
18 EEI. Therefore, OPC has excluded EEI dues from Empire's cost of service.

19 **Q. Does this conclude your testimony?**

20 **A. Yes.**

21
22