

Exhibit No.:
Issue: True-up
Witness: Mark L. Oligschlaeger
Sponsoring Party: MoPSC Staff
Type of Exhibit: True-up Direct Testimony
Case No.: ER-2011-0004
Date Testimony Prepared: May 6, 2011

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

TRUE-UP DIRECT TESTIMONY

OF

MARK L. OLIGSCHLAEGER

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2011-0004

Jefferson City, Missouri
May 2011

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OF
MARK L. OLIGSCHLAEGER
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TRUE-UP DIRECT TESTIMONY

OF

MARK L. OLIGSCHLAEGER

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2011-0004

Q. Please state your name and business address.

A. Mark L. Oligschlaeger, P. O. Box 360, Jefferson City, MO 65102.

Q. Are you the same Mark L. Oligschlaeger who has previously filed direct and surrebuttal testimony in this proceeding for Staff?

A. Yes, I am.

Q. What is the purpose of your true-up direct testimony?

A. The purpose of this testimony is to report the results of the Missouri Public Service Commission (“Commission”) Staff’s true-up audit of The Empire District Electric Company (“Empire” or “Company”) in this proceeding.

EXECUTIVE SUMMARY

Q. Please briefly summarize your true-up direct testimony.

A. Staff has performed a true-up audit of Empire’s electric operations in conformity with the Commission’s April 19, 2011 “*Order Regarding True-up Proceeding and Directing Filing.*” In this testimony, I discuss the results of the true-up audit in general.

1 **TRUE-UP AUDIT**

2 Q. Please describe the true-up audit of Empire's electric operations performed by
3 Staff in this proceeding.

4 A. Based upon a previous Order from the Commission, the parties are using a test
5 year of the 12 months ending June 30, 2009 in this case, with an additional update period
6 ending November 30, 2010. Per the Commission's subsequent April 19, 2011 Order
7 authorizing a true-up in this proceeding, the Staff has updated its case to reflect known and
8 measurable events affecting significant elements of Empire's electric revenue requirement
9 for the months of December 2010 through March 2011. The revenue requirement areas
10 updated by Staff are the following:

11 Rate Base: Plant in Service, Accumulated Depreciation Reserve, Amortization
12 of Electric Plant, Accumulated Deferred Income Taxes, Regulatory Assets for
13 Iatan 1/Iatan 2/Plum Point Carrying Costs, Fuel Inventory, Prepaid Pension Asset,
14 FAS 87 and FAS 106 Regulatory Asset Trackers, Vegetation Tracker, Materials
15 and Supplies, Prepayments, Customer Advances, Customer Deposits, Customer
16 Demand Side Management Programs Regulatory Asset, Cash Working Capital (annualized
17 amounts only), and Cash Working Capital Income Tax and Interest Offsets.

18 Income Statement: Revenues from Customer Growth, Bad Debt Expense, Payroll
19 (Employee Levels and Wage Rates), Fuel and Purchased Power Expense (Fuel and
20 Purchased Power Prices, System Loads), Rate Case Expense, Depreciation Expense,
21 Property Tax Expense, Amortizations of Tracker Deferrals (FAS 87, FAS 106, Vegetation,
22 Demand Side Management) and Income Taxes (Effect of Trued-up Items).

23 Rate of Return: Rate of Return Calculation (excluding Return on Equity) and
24 Capital Structure.

1 Q. How did Staff conduct its true-up audit?

2 A. Staff updated its analysis in the areas listed above using the same methods and
3 approach it used in its initial filing in this proceeding, with the exception noted below.

4 Q. What capital structure is Staff using as of March 31, 2011?

5 A. Staff is using Empire's actual capital structure as of March 31, 2011, which
6 consists of 49.69% common equity and 50.31% long-term debt.

7 Q. What is Staff's true-up rate of return recommendation in this case?

8 A. After updating the long-term debt rate and capital structure percentages, Staff's
9 rate of return recommendation at true-up is 7.72%, reflecting a mid-range return on equity
10 of 9.1%. Staff witness Shana Atkinson's true-up direct testimony explains the Staff's
11 position on updating capital structure and the rate of return calculation in more detail.

12 Q. What revenue components were updated by the Staff in its true-up audit?

13 A. Staff updated its revenue adjustments to reflect customer growth for the period
14 of December 2010 through March 2011 2008 for the following customer classes:
15 residential, commercial, small heating, total electric buildings and general power.

16 Q. What components of fuel and purchased power expense were updated by Staff
17 in its true-up audit?

18 A. Staff has calculated updated natural gas prices, coal prices, purchased power
19 prices, and freight/transportation costs associated with delivery of coal, natural gas and
20 petroleum coke. The result of these calculations, when Staff incorporated this updated
21 information in its fuel expense model, was an increase to Staff's recommended level of total
22 variable fuel/purchased power costs. This change in fuel/purchased power expense is the
23 primary reason for the increase in the amount of rate relief Staff is recommending for

1 Empire in this proceeding, compared to the previous level of rate relief recommended in
2 Staff's direct filing.

3 Q. Why did Staff's recommended level of fuel/purchased power expense increase
4 as a result of the true-up?

5 A. This increase is primarily related to contractual changes in the price of coal and
6 to increases in costs associated with rail transport of coal to Empire's generating stations.

7 Q. What trued-up natural gas price is Staff recommending that the Commission
8 use to set rates in this case?

9 A. Staff's overall recommended price for natural gas in this proceeding continues
10 to be \$5.65 per MMBtu. While Staff updated its calculation of this value using information
11 through the end of the true-up period March 2011, the result of this calculation did not
12 change from the natural gas price that Staff recommended in its direct filing.

13 Q. Are there any other new components of fuel/purchased power expense that
14 Staff is including in its case as part of the true-up audit?

15 A. Yes. Staff is including the fixed costs, as well as the variable costs and
16 benefits, associated with a new natural gas storage contract entered into by Empire and
17 effective on April 1, 2011, in its true-up case. By long-standing Commission precedent, an
18 event that occurs simultaneously with the expiration of a test year/true-up cut-off period
19 (i.e., March 31, 2011) is treated as eligible for ratemaking inclusion within that period.

20 Q. Is another Staff witness providing greater detail regarding Staff's position
21 concerning the appropriate ratemaking for the new natural gas storage contract?

22 A. Yes. Staff witness Daniel I. Beck of the Energy Department will be filing true-
23 up direct testimony on this matter.

1 Q. How did Staff update Empire's rate case expense in the true-up audit?

2 A. Staff has reflected Empire's actual rate case expenses incurred through
3 March 31, 2011, in its case. Rate case expenses incurred by Empire after March 31, 2011
4 will continue to be monitored and evaluated by Staff during the remainder of this
5 proceeding.

6 Q. Are there any cost of service components for which Staff changed its
7 methodology from that used in its direct filing?

8 A. Yes. When Staff was updating its property tax expense calculation for the
9 true-up audit, it determined an error had been made in developing its property tax rate
10 percentage in its direct case. When that error was corrected, Staff further determined that it
11 was no longer appropriate to use a five-year average to derive Empire's property tax rate
12 percentage, as was done in our direct filing, but should rather use the property tax rate
13 percentage from the most recent year (2010). Using this modified approach, Staff's
14 recommended level of property tax expense in this proceeding has increased from the level
15 recommended in our direct filing.

16 Q. What are the overall results of the Staff's true-up audit?

17 A. The Staff's recommended revenue requirement after the true-up audit is
18 \$7,107,566, reflecting the midpoint of the Staff's rate of return range as shown in the Staff's
19 True-up Accounting Schedules, filed concurrently with this testimony.

20 Q. Does this conclude your true-up direct testimony?

21 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of The Empire District Electric)
Company of Joplin, Missouri for Authority to) File No. ER-2011-0004
File Tariffs Increasing Rates for Electric)
Service Provided to Customers in the Missouri)
Service Area of the Company)

AFFIDAVIT OF MARK L. OLIGSCHLAEGER

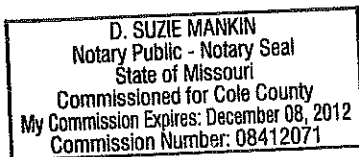
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

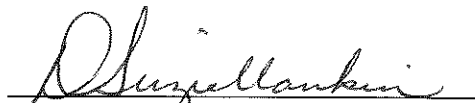
Mark L. Oligschlaeger, of lawful age, on his oath states: that he has participated in the preparation of the foregoing True-Up Direct Testimony in question and answer form, consisting of 5 pages to be presented in the above case; that the answers in the foregoing True-Up Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.



Mark L. Oligschlaeger

Subscribed and sworn to before me this 6th day of May, 2011.





Notary Public