Exhibit No.:	
Issue(s):	*Incentive Compensation, Bad Debt Expense, Other Revenues/Expenses, Corporate Allocations*
Witness:	*Caroline Newkirk*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Direct Testimony*
Case No.:	*GR-2021-0320*
Date Testimony Prepared:	*January 24, 2022*

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL AND BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

DIRECT TESTIMONY

OF

CAROLINE NEWKIRK

THE EMPIRE DISTRICT GAS COMPANY,
d/b/a Liberty (Empire)

CASE NO. GR-2021-0320

Jefferson City, Missouri
January 2022

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DIRECT TESTIMONY

OF

CAROLINE NEWKIRK

THE EMPIRE DISTRICT GAS COMPANY,
d/b/a Liberty (Empire)

CASE NO. GR-2021-0320

Q. Please state your name and business address.

A. My name is Caroline Newkirk, 200 Madison Street, Jefferson City, Missouri 65101.

Q. By whom are you employed?

A. I am a Lead Senior Utility Regulatory Auditor employed by the Missouri Public Service Commission ("Commission").

Q. Please describe your educational background and work experience.

A. I graduated from the University of Central Missouri in December 2011 with a Bachelor of Science degree in Accounting, I have previously worked in various jobs in the areas of bookkeeping, tax preparation, and cost accounting. I began my employment with the Commission in October 2016.

Q. Have you previously filed testimony before this Commission?

A. Yes. A listing of the cases in which I have previously filed testimony before this Commission is provided in Schedule CN-d1, attached to this direct testimony.

Q. What knowledge, skills, experience, training, and education do you have in the areas of which you are testifying as an expert witness?

A. I have received both in-house and outside training as well as hands on experience from prior cases throughout my five years at the Public Service Commission.

Q. With respect to Case No. GR-2021-0320, have you made an examination of the books and records of The Empire District Gas Company ("Empire" or "Company")?

A. Yes, with the assistance of other members of the Commission Staff ("Staff").

EXECUTIVE SUMMARY

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to present Staff's recommendations concerning incentive compensation, bad debt expense, other revenues/expenses, and corporate allocations.

INCENTIVE COMPENSATION

Q. What types of incentive plans does Empire currently offer its employees?

A. Empire has a Long Term Incentive Plan (LTIP) and two short term incentive plans: the Shared Bonus Pool (SBP) and the Short Term Incentive Plan (STIP). Directors are eligible for the LTIP, management level employees are eligible for the STIP, and all other employees are eligible for the SBP.

Long Term Incentive Plan (LTIP)

Q. What adjustments to Empire's incentive compensation expense does Staff propose?

A. Through the LTIP, senior officers are annually issued stock options as part of their total compensation. In Empire's past rate cases, Staff recommended disallowance of LTIP benefits because senior officers do not have specific goals to meet in order to be granted these stock options. These awards benefit Empire's shareholders, not Empire's ratepayers. Additionally, unlike other recognition expense in its income statement, Empire has no cash outlay for this equity-based incentive compensation. In this case, Staff eliminated stock options recognized as an expense, consistent with the Commission's orders in prior Empire rate cases.

Short Term Incentive Plans (SBP and STIP)

Q. How does Empire calculate its two short term incentive compensation plans?

A. Empire uses both parent and division scorecards to determine the amounts employees receive under the SBP and STIP. In order to determine the appropriate amount of short term incentive plan costs to include in rate base, Staff reviewed the incentive metrics used to measure parental and divisional goals and the actual award received. Staff disallowed the part of all awards associated with the objective of meeting earnings per share targets because this objective enhances the utility's stock price and benefits Empire's shareholders, not Empire's ratepayers.

Q. What is the formula used to calculate Empire's SBP Incentive Plan payout?

A. Empire calculates the SBP short term Incentive Plan payout for each eligible employee as follows:

SBP Payout $

= $ Bonus Target % x Eligible Earnings x Pro ration Factor x SBP Factor

SBP Factor

= [(85% Parent Scorecard x Scorecard Achievement) + (15% Division Scorecard x Scorecard Achievement)] x Personal Achievement

Q. What is the "parent scorecard" referenced in both the STIP and the SBP calculations?

A. The parent scorecard contains objectives set by the executive team and reflect financial and operational objectives.

Q. What objectives related to the parent scorecards for the short term incentive plans did Staff disallow?

A. Staff disallowed 50% of STIP and SBP costs associated with the financial objectives of the parent scorecard ("Maximize Operating Efficiency by Managing to Budgets" and "Reduce Cost of Capital through Prudent Investments") because they enhance Empire's stock price therefore, these costs should be assigned to shareholders.

Q. What are the "divisional scorecard" and "personal achievement" referenced in both the STIP and the SBP calculations?

A. While Empire uses the same parent scorecard for all employees under the STIP or SBP plans, the divisional scorecard varies for each of the following divisions based upon the region: Algonquin Power & Utilities Company (APUC), Information Technology, Liberty Utilities/Liberty Power (LU/LP), Corporate Development & Strategy, Legal, Liberty Utilities, Transformation, Compliance and Risk, Human Resources/Communications, Finance, Government Affairs & Sustainability, Regulated Utilities-Head Office, Regulated Utilities-East, Regulated Utilities-Central, and Regulated Utilities-West. For the remaining award, Staff used the individual employee's personal achievement/individual multiplier, which is based on employee performance, to calculate incentive pay.

Q. What changes did Staff make to the divisional/personal scorecards set forth by Empire?

A. Staff reviewed each divisional scorecard to disallow costs associated with meeting earnings per share targets or enhancing the utility's stock price. For the remaining awards, Staff used the individual employee's personal achievement/individual multiplier to calculate incentive pay.

BAD DEBT EXPENSE

Q. Please define bad debt expense.

A. Bad debt, or uncollectible expense, is the portion of retail revenue that Empire is unable to collect from retail customers due to non-payment of bills.

Q. What is Empire's bad debt policy?

A. The bill is due 21 days from the statement mailing date. If the bill is unpaid, a shutoff notice will go out two business days after the due date. The shutoff notice will give an additional 10 days to pay the bill. If the bill is still not paid, two attempts by phone are made to contact the customer. Then, the account could be scheduled for disconnection the following day. If the account is disconnected for non-payment and not paid, it will close out after five business days. A final bill will go out giving the customer 21 days to pay the bill. Then three business days later, if the account is unpaid, a collection notice will be mailed out to the customer. The collection notices will give the customer an additional 10 days to pay before the unpaid amounts are written off as bad debt and turned over to a collection agency.

Q. What was Staff's approach in calculating an appropriate amount of bad debt in this case?

A. Staff examined five years (April 2015 – March 2020) of Empire's bad debt write-offs that were never collected (i.e., write-offs net of amounts subsequently collected) as provided in Empire's responses to Staff Data Request No. 0116. Staff determined, from a review of this data, Empire's bad debt expense fluctuates from one year to the next. Staff calculated a five-year average of the uncollectable percentage of bad debt to revenue.

This percentage was applied to Staff's annualized and adjusted level of test year retail rate revenues to obtain the normalized level of bad debt expense.

Q. Why did the five year date range Staff analyzed end with March 31, 2020?

A. Data after March 2020 was not taken into consideration because COVID-19 would have directly impacted the amount of bad debt and skewed the normalization.

OTHER REVENUES/EXPENSES

Q. Please summarize the adjustments made by Staff to Other Revenues/Expenses.

A. Staff made adjustments to unbilled revenues, gross receipts revenues, and purchased gas costs and revenues as described below.

Unbilled Revenues

Q. Why were unbilled revenues removed from Staff's calculation for Empire's revenue requirement?

A. Staff has eliminated unbilled revenue from its determination of revenue requirement to ensure only 365 days of revenue are included and to reflect revenues on an "as billed" basis. The recording of unbilled revenue on the books of Empire recognizes sales of gas that have occurred, but have not yet been billed to the customer. Therefore, it is necessary for Staff to remove unbilled revenue to reach an accurate revenue requirement based upon gas sales billed to and revenues collected from Missouri customers.

Gross Revenue Taxes (GRT)

Q. Why were gross revenue taxes (GRT) removed from Staff's calculation for Empire's revenue requirement?

A. GRT, also known as city franchise taxes, included on a customer's bill are collected by Empire and remitted to the appropriate taxing authority; Empire acts merely as a collecting agent.

Q. How does GRT affect Empire's books?

A. The GRT included on a customer's bill is booked as revenue, with a corresponding charge booked to GRT expense. Theoretically, the revenue and expense offset one another and, therefore, have no effect on net income. GRT are reported as both a revenue and expense item on Empire's books.

Q. What kind of adjustment was made to remove the total effect of GRT on Empire's books?

A. Staff has made adjustments to eliminate, from Empire's test year, both the revenue and expense associated with GRT.

Removal of Purchased Gas Costs

Q. Please explain how Empire books gas purchases.

A. Gas purchase expenses are estimated and assessed to ratepayers outside of general rate proceedings through Empire's Purchased Gas Adjustment (PGA) Clause. The PGA Clause provides Empire an estimating methodology for recovering purchased gas expense, which is subsequently trued-up through the Actual Cost Adjustment (ACA) mechanism. Therefore, purchased gas expenses and revenues generally are netted to equal zero for purposes of general rate cases.

Q. What kind of adjustment was made to remove the total effect of gas purchases on Empire's books?

A. Staff made a line item adjustment to remove Empire's test year booked expense for gas purchases. Staff has made adjustments to eliminate PGA revenues for the test year from the appropriate revenue accounts. Adjustments were made to remove the take-or-pay portion of the PGA revenues and to adjust the PGA revenue for the ACA true-up mechanism. An adjustment was made to remove the gas used by Empire from the cost of service to derive the appropriate actual test year margin results.

CORPORATE ALLOCATIONS

Q. From what entities does Empire receive allocated expenses?

A. Algonquin Power & Utilities Corp (APUC), in addition to some of its subsidiaries, provides various services, either directly or indirectly, to Empire. The costs of these services are allocated to Empire, as well as to other entities based on allocation procedures described in APUC's Cost Allocation Manual (CAM), which was effective January 1, 2017, including an Appendix 9 constituting additional terms and conditions applicable to Empire Electric, The Empire District Gas Company ("EDG"), Liberty Utilities Corp. ("Midstates Natural Gas"), and Liberty Utilities, LLC ("Missouri Water").

Q. Please describe how corporate allocations flow to Empire Gas.

A. The corporate allocation process for Empire flows from many different levels of the corporation and the processes followed at each level are very similar. At its simplest, there are two types of allocations: direct and indirect. Direct allocations to Empire, and other affiliates, occur when the work performed by a corporate entity can be directly related to a specific affiliate, regulated utility, or unregulated utility. On the other hand, indirect allocations occur when the services performed by a corporate entity benefit more than one affiliate, regulated utility, or unregulated utility.

Algonquin Power & Utilities Corporation (APUC)

Q. Please describe, in general, the allocation process for APUC.

A. As described in APUC's CAM, there are several services APUC provides as a benefit to its subsidiaries: financing, financial control, legal, executive and strategic management, and related services. Any expenses associated with these services are billed at cost, with fully burdened labor rates. All labor costs that are directly related to a specific subsidiary are charged directly to that entity. With the exception of corporate capital, indirect costs are totaled for a month and then allocated between Liberty Utilities Canada ("LUC") and Liberty Power using a Corporate Allocation Method described in the CAM. The indirect costs allocated to LUC are further allocated to the individual utilities, which includes Empire, using a Utility Four-Factor allocation methodology. The Utility Four-Factor Methodology allocates costs by relative size and scope of the utilities. The methodology used by LUC involves four allocating factors, or drivers: (1) Utility Net Plant, (2) Total Customers, (3) Non-Labor Expenses, and (4) Labor Expenses. Both direct and indirect allocations are billed monthly to each affected subsidiary.

Q. Did Staff make any adjustments to corporate allocations for APUC?

A. Yes. Staff applied an adjustment for the Bonus, STIP, LTIP, and Stock Options expenses for APUC executives allocated by APUC to its business units. Staff's review of how these incentives are awarded to the executives found that they were awarded for increasing shareholder value, not as a benefit to the ratepayers. A further description of these plans is included in the Incentive Compensation section found earlier in this report. Therefore, Staff applied adjustments to remove from the test year the portions of these expenses that were both directly and indirectly allocated to Empire.

Liberty Utilities (Canada) Corporation (LUC)

Q. Please describe, in general, the allocation process for Liberty Utilities (Canada) Corporation ("LUC").

A. As described in APUC's CAM, LUC provides services separately to Liberty Utilities ("Liberty") and Liberty Power, and together as shared services. Shared services are provided within LUC under the business unit of Liberty Algonquin Business Services ("LABS").

Q. What services are provided to Liberty Utilities?

A. The services provided to Liberty include: executive, regulatory strategy, energy procurement, operations, utility planning, administration, and customer experience. All costs incurred that are directly related to a specific utility are charged directly to that utility. Costs that are not directly related to a utility are indirectly allocated to its regulated utilities using the same Utility Four-Factor Methodology described above for APUC. These indirect allocations include labor, non-labor, and capital costs.

Q. What services are provided to Liberty Power?

A. The services provided to Liberty Power include: executive, energy services, asset management, business development, and operations. These services are provided by specific LUC employees who support Liberty Power and, therefore, all associated costs are directly allocated to Liberty Power.

Q. What are the shared services provided within LUC under the business unit of LABS?

A. Shared services from LUC are the costs that benefit both the group of subsidiary companies owned by LU and Liberty Power and administered under the LABS-Canada business unit. All costs incurred that are directly related to a specific affiliate company or business unit are directly charged to that company or business unit. Costs that are not directly related to a specific utility are indirectly allocated between the regulated and unregulated business units using two Corporate Allocation Methods described in the CAM: one for Business Services indirect costs and another for Corporate Services indirect costs. The Utility Four-Factor Methodology described in the CAM is then used to allocate the indirect costs for the regulated businesses to the individual regulated utilities.

Q. How frequently are allocations billed to each subsidiary?

A. Both direct and indirect allocations are billed monthly to each affected subsidiary.

Liberty Utilities Service Corporation (LUSC)

Q. Please describe, in general, the allocation process for Liberty Utilities Service Corporation (LUSC).

A. LUSC employs most of the U.S.-based utility personnel, who are assigned to and provide services to specific utilities. As such, the majority of employees' fully-loaded labor costs are directly charged to the utility for whom each supports, via timesheet tracking. There are some employees who provide shared services that benefit both LU and Liberty Power through the LABS U.S. business unit. A sampling of these shared services includes customer care and billing, information technology support, and human resources.

Q. How are direct/indirect costs handled with LUSC?

A. As with LUC, all costs incurred that are directly related to a specific affiliate company or business unit are directly charged to that company or business unit. Costs that are not directly related to a specific utility are indirectly allocated between the regulated and unregulated business units using two Corporate Allocation Methods described in the CAM: one for Business Services indirect costs and another for Corporate Services indirect costs. The Utility Four-Factor Methodology described in the CAM is then used to allocate the indirect costs for the regulated businesses to the individual regulated utilities.

Q. How frequently are allocations billed to each subsidiary?

A. Both direct and indirect allocations are billed monthly to each affected subsidiary.

Missouri Regulated Utilities

Q. Please describe, in general, the allocation process for the Missouri regulated utilities.

A. Included in Appendix 9 to the CAM are the additional allocation procedures to be followed by each of the Missouri Regulated Utilities, which is Empire Electric (including its water operations), EDG, and Liberty Midstates. Appendix 9 describes the methods for assigning and allocating costs to the regulated electric, gas, and water operations, as well as to the various non-regulated operations. Under the Missouri Regulated Utilities' cost allocation system, costs are either directly assigned to business units (referred to as "The Direct Bill Method"), indirectly allocated to the business units, or allocated through use of a general allocation factor.

Q. For the Missouri regulated utilities, how are direct costs assigned?

A. Under the direct assignment approach, Empire directly assigns certain costs to its regulated electric operations either by use of vendor invoices or by labor charges. In the case of assignment by vendor invoice, each vendor invoice that includes charges for goods and services that directly benefit a specific business unit has the invoiced costs directly assigned to the appropriate corresponding business unit. In the case of assignment by labor, all employees are required to record their time electronically based on the amount of time each employee spends each month working for each business unit. The system then allocates a portion of that employee's salary, including associated payroll taxes and fringe benefits, to the appropriate business unit.

Q. For the Missouri regulated utilities, how are indirect costs assigned?

A. Empire's indirect allocation factors are based upon a "unit of service method," which is employed by Empire in the event that incurred costs cannot be directly billed to the individual business units as described above. Empire uses the unit of service method based on certain unit drivers. Examples of Empire's unit drivers are as follows: numbers of vouchers, active customers, purchase orders, and personal computers. An allocation rate is then calculated based on information obtained from various general ledger entries and adjusted periodically.

Q. How are costs assigned that cannot be directly assigned or do not have unit drivers?

A. For costs that cannot be directly assigned, or do not have unit drivers, the Company uses a modified "Massachusetts Formula" as a general allocation method that it refers to as a "Corporate Allocation Method." A "Massachusetts Formula" is a general allocation factor based upon three (3) separate measurements of directly assigned costs, which is used to allocate a company's common costs that cannot be reasonably directly assigned or indirectly allocated to a company's business units. The modified "Massachusetts Formula" used by Empire consists of the averages of (1) profit margin, (2) payroll, and (3) net property, plant, and equipment. It is used to allocate common costs that apply to the regulated activities of Empire, EDG, and Empire's water operations. Staff modified some of the various allocation factors to reflect Staff's adjusted numbers that were included in its cost of service. Please reference Staff's Accounting Schedules filed with Staff's direct testimony in this case for the allocation factors used by Staff.

Q. Does this conclude your direct testimony?

A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of The Empire District Gas Company's d/b/a Liberty Request to File Tariffs to Change its Rates for Natural Gas Service	)))	Case No. GR-2021-0320

AFFIDAVIT OF CAROLINE NEWKIRK

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW CAROLINE NEWKIRK and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Direct Testimony of Caroline Newkirk;* and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

Caroline Newkirk
CAROLINE NEWKIRK

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 24th day of January 2022.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: April 04, 2025
Commission Number: 12412070

D Suzie Mankin
Notary Public

CAROLINE NEWKIRK

CREDENTIALS AND CASE PARTICIPATION

POSITION:

I am a Lead Senior Utility Regulatory Auditor (former title Utility Regulatory Auditor IV) in the Auditing Department, Financial and Business Analysis Division for the Missouri Public Service Commission (Commission). I was promoted to a Utility Auditor IV on March 1, 2020.

EDUCATIONAL BACKGROUND AND WORK EXPERIENCE:

In December 2011, I received a Bachelor of Science Degree in Business Administration in Accounting from the University of Central Missouri in Warrensburg, MO. I joined the Commission Staff in October of 2016. Prior to my employment at the Commission, I worked in tax accounting, cost accounting, and bookkeeping.

CASE PARTICIPATION:

Company Name	Case Number(s)	Testimony/Issues
Empire Electric	ER-2021-0312	Bad Debt Expense Corporate Allocations DSM Cost Recovery Miscellaneous Revenues Solar Rebates Incentive Compensation, Payroll,
MAWC	WO-2021-0343	ISRS Recommendation
Carl Mills	WR-2021-0177	Rate Base
Middlefork	WM-2021-0003	Merger, Sale, or Transfer
MAWC	WO-2020-0344	Office Supply Expense Insurance (Other than Group) Rate Case Policy AWWS Support Services Central Lab Allocations Corporate Allocations Bad Debt Expense Reconciliation

Company Name	Case Number(s)	Testimony/Issues
Empire	ER-2019-0374	DSM/MEEIA Bad Debt Expense Incentive Compensation Revenues Solar Rebates
Spire	GA-2020-0235	Application for Certificate
Confluence Rivers	WR-2020-0053	Bank Fees Billing Expense Chemicals DNR Fees Operations, Pumping, Treatment Repairs and Maintenance Outside Services Uncollectibles PSC Assessment Rate Case Expense Misc. Expense
Ameren	EA-2019-0181	CCN
SK&M	SR-2019-0157	Accounting Schedules (EMS) Accounting Schedules (Revenue) Memo Compilation Affiliate Transactions Repairs and Maintenance Rate Base
Middlefork	WR-2018-0328	Accounting Schedules (EMS) Accounting Schedules (Revenue) Memo Compilation Revenues Dues and Donations Employee Benefits Payroll/Salaries Postage Expense Transportation Expense Taxes Rate Base

Company Name	Case Number(s)	Testimony/Issues
SEGES	SR-2017-0099	Memo Rate Case Expense Payroll and Taxes Telephone Expense Maintenance Expense PSC Assessment Bank Service Charges Insurance Accounting Fees Office Fees
Spire	GO-2018-0309	ISRS Recommendation/Direct Testimony
Missouri American Water Company	WO-2018-0059	ISRS Recommendation/Direct Testimony
Missouri American Water Company	SR-2018-0019	Acquisition
Missouri American Water Company	WR-2017-0285	Advertising Cash Working Capital Contract Services Employee Awards Injuries and Damages Insurance Payroll Promotional Expense Telephone Expense Waste Disposal
Missouri American Water Company	WO-2017-0297	ISRS Recommendation
Missouri Gas Energy	GO-2017-0201	ISRS Recommendation
Missouri Gas Energy	GO-2016-0332	ISRS Recommendation/Direct Testimony

Company Name	Case Number(s)	Testimony/Issues
Terre Du Lac Utilities Corporation	WR-2017-0110	Chemical Expense Insurance Postage Expense Real Estate and Personal Property Tax Outside Services Uncollectible Permits and Licenses MoPSC Assessment Fuel Expense Billing and Collections Expense Electric Expense Dues