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Incentive Compensation
Witness: Caroline Newkirk
Sponsoring Party: MoPSC Staff
Type of Exhibit: Surrebuttal/True-Up Testimony
Case No.: ER-2019-0374
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MISSOURI PUBLIC SERVICE COMMISSION
FINANCIAL AND BUSINESS ANALYSIS DIVISION
AUDITING DEPARTMENT

SURREBUTTAL/TRUE-UP TESTIMONY
OF
CAROLINE NEWKIRK

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2019-0374

Jefferson City, Missouri
March 2020

**TABLE OF CONTENTS OF
SURREBUTTAL/TRUE-UP TESTIMONY OF
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1
2
3
4
5
6
7
8
9
10
11

REVENUES1

INCENTIVE COMPENSATION.....2

TRUE-UP TESTIMONY4

 Customer Demand Program 4

 Solar Rebates..... 4

 Other Revenues 4

1 made to FAC revenues, unbilled revenue and franchise tax revenue. Do you agree with
2 Ms. Richard's statement?

3 A. No. When normalizing or annualizing revenues or expenses, a common date is
4 used across the board and would be required for appropriate matching. However in the case of
5 complete disallowance, the timing is not updated or true-up past the test year because it is not
6 necessary in order to set an account to zero. No matter what balances would be reflected in the
7 update period or true-up period, it is the test year that is adjusted in the EMS run. So for that
8 reason Staff makes a negative adjustment equal to test year amounts in order to remove these
9 revenues from the revenue accounts.

10 **INCENTIVE COMPENSATION**

11 Q. Please describe any new information that has been provided by the Company to
12 Staff regarding incentive compensation since rebuttal?

13 A. Since Staff's rebuttal was filed, the Company has provided Staff with a corrected
14 response to test year amounts and accounts for incentive compensation pay (response to Staff
15 Data Request ("DR") No. 0033.1). With this complete information, Staff was able to properly
16 correct adjustment amounts for the EMS run.

17 Q. Has Staff updated anything else for incentive compensation since rebuttal
18 testimony?

19 A. Yes. Staff's incentive compensation workpaper has been updated with
20 some minor changes based upon clarified information and questions answered via various
21 follow-up DR's. Because of the Company's updated response to DR No. 0073, which corrected
22 their inadvertent inclusion of fiber employees, Staff has also removed fiber employees from the
23 calculation of incentive pay.

1 Q. Does Staff agree with Company witness Sheri Richard that incentive pay should
2 have been removed from payroll test year?

3 A. No. Test year is a starting place that adjustments are made to in order to arrive
4 at a final number. In this case the payroll issue was split between Staff witness Ali Arabian and
5 myself. Mr. Arabian handled all of payroll except for incentive compensation adjustments.
6 Mr. Arabian was correct to include incentive compensation in test year as it is a part of payroll.
7 Mr. Arabian effectively eliminated incentive compensation amounts when he made the
8 adjustment to derive his final payroll numbers. This is why Staff included a positive adjustment
9 for the portion of incentive compensation to be allowed instead of a negative adjustment to
10 remove what was disallowed. Please see Staff witness Kimberly K. Bolin's testimony for more
11 information on this point.

12 Q. Does Staff agree with Ms. Richard's rebuttal testimony regarding allowing
13 earnings based metrics for incentive compensation expense recovery?

14 A. No. As previously discussed in Staff's Cost of Service Report, the metrics that
15 appeared to be based on shareholders earnings were disallowed. It has been a long-standing
16 precedent for Staff to exclude these types of payments for incentive compensation. While,
17 Ms. Richard attempts to convey how increased earnings for the Company benefits customers,
18 Staff is not convinced the customer receives any real, tangible, or measurable benefit that would
19 outweigh the cost associated. Staff is not arguing that the Company should not be allowed to
20 offer goals that increase profits in their incentive program- only that they should not be
21 recoverable in rates since they do not directly and proportionately benefit customers.

1 **TRUE-UP TESTIMONY**

2 **Customer Demand Program**

3 Q. Has Staff updated the regulatory asset balance included in Empire's rate base
4 for the Customer Demand Program?

5 A. Yes. Staff updated its rate base amount for the Customer Demand Program to
6 include expenditures through January 31, 2020.

7 Q. Did the amount of amortization expense Staff is recommending for the Customer
8 Demand Program change as well?

9 A. Yes. The asset balance for the years 2009 and 2013 became fully amortized as
10 of December 2019 and has therefore been removed from amortization expense.

11 **Solar Rebates**

12 Q. Has Staff updated solar rebates as part of its true-up filing?

13 A. Yes. Staff has updated rate base to include solar rebates amounts through
14 January 31, 2020. Staff has also updated the amortization expense amount to reflect the
15 additional data as well.

16 **Other Revenues**

17 Q. Has Staff updated other revenues as part of its true-up filing?

18 A. Yes. With the additional data provided as a part of true-up, Staff was able to
19 adjust the date ranges to full calendar years instead of the mid-year ranges which were
20 previously used. Staff used the 12 months ending December 31st for 2017, 2018, and 2019 to
21 analyze trends in the "other revenue" data. After analyzing the trends in the data, Staff decided
22 to use a three-year average for rent revenue, fly ash revenue, and other electric revenue.

23 Q. Does this complete your surrebuttal/true-up testimony?

24 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of The Empire District Electric)
Company's Request for Authority to File)
Tariffs Increasing Rates for Electric Service)
Provided to Customers in its Missouri)
Service Area)

Case No. ER-2019-0374

AFFIDAVIT OF CAROLINE NEWKIRK

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

COMES NOW CAROLINE NEWKIRK and on their oath declares that they are of sound mind and lawful age; that they contributed to the foregoing Surrebuttal/True-Up Direct Testimony; and that the same is true and correct according to their best knowledge and belief, under penalty of perjury.

Further the Affiant sayeth not.

/s/ Caroline Newkirk
CAROLINE NEWKIRK