

Exhibit No.:
Issue(s): DSM,
Incentive Compensation
Witness: Caroline Newkirk
Sponsoring Party: MoPSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: ER-2021-0312
Date Testimony Prepared: January 20, 2022

MISSOURI PUBLIC SERVICE COMMISSION
FINANCIAL AND BUSINESS ANALYSIS DIVISION
AUDITING DEPARTMENT

SURREBUTTAL TESTIMONY
OF
CAROLINE NEWKIRK

THE EMPIRE DISTRICT ELECTRIC COMPANY,
d/b/a Liberty

CASE NO. ER-2021-0312

Jefferson City, Missouri
January 2022

1
2
3
4
5
6
7
8
9
10
11
12

TABLE OF CONTENTS
OF
SURREBUTTAL TESTIMONY OF
CAROLINE NEWKIRK
THE EMPIRE DISTRICT ELECTRIC COMPANY,
d/b/a Liberty
CASE NO. ER-2021-0312

CUSTOMER DEMAND PROGRAM1
JURISDICTIONAL ALLOCATION2
BAD DEBT EXPENSE.....3
PAYROLL/EMPLOYEE BENEFITS5
INCENTIVE COMPENSATION.....6

1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **CAROLINE NEWKIRK**

4 **THE EMPIRE DISTRICT ELECTRIC COMPANY,**
5 **d/b/a Liberty**

6 **CASE NO. ER-2021-0312**

7 Q. Please state your name and business address.

8 A. Caroline Newkirk, 200 Madison Street, Jefferson City, Missouri 65101.

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

10 A. I am a Senior Utility Regulatory Auditor employed by the Missouri Public
11 Service Commission (“Commission”).

12 Q. Are you the same Caroline Newkirk that contributed to Staff’s Cost of Service
13 Report filed on October 29, 2021 in Case No. ER-2021-0312?

14 A. Yes.

15 Q. What is the purpose of your surrebuttal testimony?

16 A. The purpose my surrebuttal testimony is to address changes made to Staff’s
17 calculation of the customer demand program (“DSM”) and jurisdiction allocations. This
18 testimony will also address bad debt expense, payroll/employee benefits, and incentive
19 compensation.

20 **CUSTOMER DEMAND PROGRAM**

21 Q. Does Staff agree with Company witness Charlotte Emery’s rebuttal testimony
22 regarding an incorrect calculation for the 2019 portion of the DSM vintage costs?

23 A. Yes. Staff has updated its rate base amount for the Customer Demand
24 Program to include the 2019 amounts for the ADEC (Advertising Energy Conservation),

1 MFLI (Multi-Family Low Income), and LIDI (Multi-Family Direct Install) programs. Staff's
2 direct workpapers mistakenly did not include these three categories in rate base.

3 Q. How much affect did this change have on rate base and amortization expense?

4 A. In making this correction, there was an overall increase to Empire's rate base in
5 the amount of \$166,355 and an overall increase to amortization expense of \$36,523.

6 **JURISDICTIONAL ALLOCATION**

7 Q. Do you agree with Ms. Emery's rebuttal testimony that Staff's LIPP regulatory
8 asset balance is incorrect?

9 Q. What specific issues does Empire witness Emery note in her rebuttal on
10 pages 32-34?

11 A. Ms. Emery notes two main issues with jurisdictional allocations--the allocator
12 used for payroll taxes, and the allocation of direct assigned revenue accounts.

13 Q. Please describe Empire's position on the allocator used for payroll taxes.

14 A. Empire witness Emery notes that the O&M rate of 63.6% is being applied
15 to payroll tax twice--once as a reduction in the payroll workpaper, and then again as a
16 jurisdictional allocation percentage in Staff's Corrected Accounting Schedules.

17 Q. Does Staff agree with Empire's position on the mistreatment of allocations for
18 payroll taxes?

19 A. Yes. Ms. Emery is correct. An O&M percentage should be applied in the
20 workpapers to remove the capitalized portion of payroll tax. A jurisdictional percentage should
21 then be applied in the accounting schedules, which cuts the total company amount down to a
22 Missouri-only portion. Staff incorrectly applied the O&M percentage in both places. Staff has
23 calculated the corrected jurisdictional percentage to be 88.66%. This change has been reflected
24 in Staffs current revenue requirement calculation.

1 Q. Does Staff agree with Empire's position on the allocation of direct-assigned
2 revenue accounts for FERC account 456?

3 A. Partially. Staff agrees to remove costs associated with the 456 FERC accounts
4 mentioned by Ms. Emery in her rebuttal testimony on page 33-34 (accounts 456081-456084).
5 Staff will remove these accounts with an adjustment instead of altering a jurisdictional
6 allocation percentage since that percentage would affect all 456 FERC accounts and not just
7 the accounts in question.

8 Q. Does Staff agree with Empire's position on the allocation of direct-assigned
9 revenue accounts for FERC account 457?

10 A. No. The accounts Ms. Emery marks as needing to be removed in her
11 rebuttal testimony on page 34 were removed via an adjustment sponsored by Staff
12 Witness Keith Foster and can be seen on Staff's revised Direct Accounting schedules
13 (Schedule 10, Adjustment Number "Rev-14"). Much like account 456, Staff does not agree to
14 alter a jurisdictional percentage that would affect the entire FERC account when only a handful
15 of specific accounts need to be removed. Staff maintains that the manner in which the costs
16 associated with these accounts were removed already addresses Ms. Emery's concerns.

17 **BAD DEBT EXPENSE**

18 Q. Does Staff agree with Empire witness Emery's position that projected
19 revenue increases should affect the calculation of uncollectible expense as explained on
20 page 16, lines 3-7 of her rebuttal testimony?

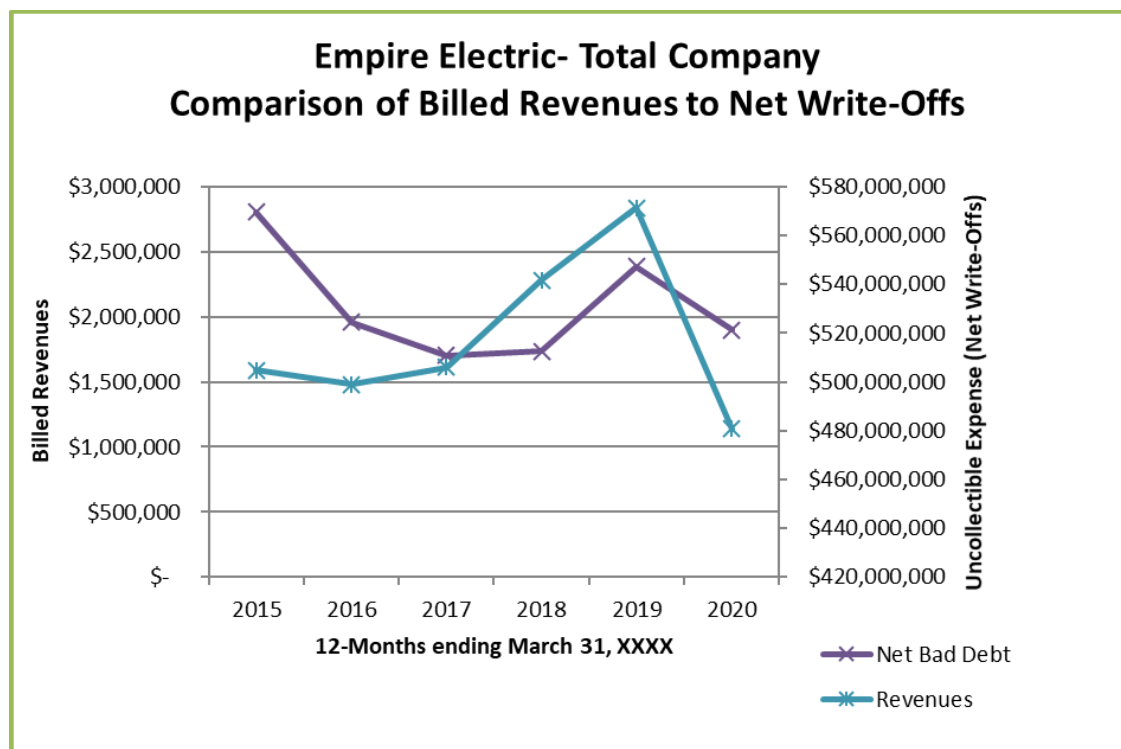
21 A. No. Staff does not subscribe to the position that any increase in the
22 Company's revenue requirement should cause bad debt expense to increase proportionally, or
23 on a dollar-for-dollar basis.

1 Q. Why doesn't Staff agree that the actual level of net write-offs directly correlates
2 to the Company's revenue requirement?

3 A. Many other factors can affect the level of uncollectible expense that a utility
4 incurs. The state of the economy, the impacts of weather, the existence of low income assistance
5 programs, and the nature of a utility's customer service policies, such as those regarding
6 customer payment arrangements and use of debt collection agencies, are a few examples of
7 factors that typically affect the level of uncollectible expense.

8 Q. Has Staff compared a history of Empire's billed revenues to the actual amounts
9 of net write-offs recorded by Empire?

10 A. Yes. Please refer to the chart below. Staff compiled this chart using data
11 Empire provided in previous cases and a response to Staff Data Request No. 0089 in the current
12 case; this chart shows the monthly comparison of billed revenue to net write-offs over a
13 five-year period:
14



1 Q. Does Staff's analysis support Empire's position of the correlation between billed
2 revenues and net write-offs?

3 A. No. As shown in the chart, Staff's analysis does not indicate a proportional
4 or corresponding direct relationship between billed revenues and net write-offs. In fact,
5 there are two years where the billed revenues (represented by the blue line) have increased
6 but the net write-offs (represented by the purple line) have actually decreased.

7 **PAYROLL/EMPLOYEE BENEFITS**

8 Q. What specific issues with payroll does Empire witness Emery note in her rebuttal
9 on pages 16-20?

10 A. Ms. Emery notes issues with Staff's calculations with both the payroll test year
11 and employee benefits.

12 Q. Does Staff agree with Empire's assessment that Staff's test year for payroll
13 included costs for Iatan?

14 A. Yes. With the updated workpaper that Ms. Emery provided as part of her
15 rebuttal, Staff was able to verify that the test year did include costs for Iatan. Staff has
16 removed the \$3,829,318 of Iatan costs from the test year for payroll expense, which increased
17 Staff's adjustment to payroll expense the same amount.

18 Q. Does Staff agree with Empire's position that O&M should not be applied to
19 employee benefits?

20 A. Yes. Staff has removed this application of the O&M percentage to employee
21 benefits. This resulted in an increase to employee benefits expense of \$297,154.

22 Q. Other than removing the O&M reduction from employee benefits, has Staff
23 made any other changes to the approach used to calculate employee benefits?

1 A. No. Staff has a long-standing precedent of calculating employee benefits using
2 actual data and not estimates. Active employees can choose to enroll in health insurance
3 coverage for their entire family, for themselves only, or not at all. Speaking generally, these
4 changes usually are made once a year during open enrollment but can also change throughout
5 the year under special circumstances. Other types of employee benefits, such as 401k, can
6 generally have changes made during the year, too. Using actuals allows Staff to use numbers
7 that reflect the historical data of actual elections and changes made by Empire employees.

8 **INCENTIVE COMPENSATION**

9 Q. Does Staff agree with Ms. Emery's rebuttal testimony regarding allowing
10 earnings-based metrics for incentive compensation expense recovery?

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

20 Q. Does this conclude your surrebuttal testimony?

21 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Request of The Empire)
District Electric Company d/b/a Liberty for) Case No. ER-2021-0312
Authority to File Tariffs Increasing Rates)
for Electric Service Provided to Customers)
in its Missouri Service Area)

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 *Surrebuttal Testimony of Caroline Newkirk*; and that the same is true and correct according to her best knowledge and belief.

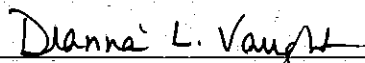
Further the Affiant sayeth not.


CAROLINE NEWKIRK

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 4th day of January, 2022.

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: July 18, 2023
Commission Number: 15207377


Notary Public