

Exhibit No.:
*Issues: Unamortized Balance of Joplin
Tornado AAO, Rate Case
Expense, True-Up and
Uncontested Issues*
Witness: Kimberly K. Bolin
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: ER-2012-0345
Date Testimony Prepared: January 16, 2013

MISSOURI PUBLIC SERVICE COMMISSION
REGULATORY REVIEW DIVISION
UTILITY SERVICES - AUDITING

REBUTTAL TESTIMONY

OF

KIMBERLY K. BOLIN

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2012-0345

Jefferson City, Missouri
January 2013

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1 **REBUTTAL TESTIMONY**

2 **OF**

3 **KIMBERLY K. BOLIN**

4 **THE EMPIRE DISTRICT ELECTRIC COMPANY**

5 **CASE NO. ER-2012-0345**

6 Q. Please state your name and business address.

7 A. Kimberly K. Bolin, 200 Madison Street, Suite 440, Jefferson City, MO 65102.

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

9 A. I am employed by the Missouri Public Service Commission (Commission) as a
10 Utility Regulatory Auditor V.

11 Q. Are you the same Kimberly K. Bolin who has previously filed direct testimony
12 in this case?

13 A. Yes.

14 Q. What is the purpose of your rebuttal testimony?

15 A. My rebuttal testimony will address the direct testimony of The Empire District
16 Electric Company (“Empire” or “Company”) witness W. Scott Keith concerning the
17 unamortized balance of the Joplin tornado Accounting Authority Order (AAO), as well as
18 Empire’s recommended list of items to include in the true-up audit. I will also address the
19 direct testimony of Empire witness Jayna R. Long concerning rate case expense.

20 **EXECUTIVE SUMMARY**

21 Q. What topics are addressed in this piece of testimony?

22 A. I will be rebutting Empire’s inclusion of the unamortized balance of the Joplin
23 tornado AAO deferral in rate base in the Company’s cost of service. Exclusion of the

1 unamortized balance from rate base is consistent with other AAOs which were allowed so a
2 company could recover expenses incurred due to a natural disaster. By not including the
3 unamortized balance in rate base, the ratepayers and shareholders share the financial risk
4 associated with these events. I will also be addressing Staff's recommendation that rate case
5 expenses be normalized and no special recovery be given for rate case expenses from prior
6 cases. Finally, I will compare the Company's proposed list of true-up items to what items
7 Staff recommends be included in the true-up audit.

8 **UNAMORTIZED BALANCE OF JOPLIN TORNADO AAO**

9 Q. What is the "Joplin Tornado AAO?"

10 A. In Case No. EU-2011-0387, the Commission approved the deferral of
11 incremental operations & maintenance expenses associated with the repair, restoration and
12 rebuild activities associated with the May 22, 2011 tornado. The Company was also allowed
13 to defer depreciation and carrying costs associated with the tornado-related capital
14 expenditures. The Commission ordered the Company to begin amortizing the deferral over a
15 ten-year period beginning of the earlier of (1) the effective date of new rates implemented in
16 its next general rate increase case or rate complaint case; or (2) June 1, 2013.

17 Q. Does Staff's Cost of Service include the amortization of the deferred
18 tornado costs?

19 A. Yes.

20 Q. What is the unamortized AAO balance as of June 30, 2012?

21 A. The unamortized AAO balance, as of June 30, 2012, is \$2,266,587.

1 Q. Did the Commission Order in Case No. EU-2011-0387 authorize including the
2 unamortized AAO balance in rate base?

3 A. No. Other than providing for an amortization period of ten years and a starting
4 date of such amortization, the Commission did not authorize any ratemaking treatment of the
5 costs deferred.

6 Q. Does Staff agree with the Company's inclusion of the unamortized balance of
7 the tornado AAO in rate base?

8 A. No. Consistent with similar AAOs in prior cases, Staff recommends the
9 Commission not include the AAO balance in rate Base. This treatment was prescribed by the
10 Commission in its Order in Case No. WR-95-145 involving St. Louis County
11 Water Company's (SLCWC) unamortized flood deferrals (SLCWC is now part of the
12 Missouri-American Water Company). In the Commission's Order in Case No. WR-95-145,
13 the Commission noted that including the unamortized balance in rate base would shield the
14 shareholders from the risk of a natural disaster while imposing the risk entirely on the
15 ratepayers. Allowing SLCWC to recover the cost through amortization without including the
16 unamortized balance in rate base allowed both the ratepayers and the shareholders to share in
17 the risk. This regulatory treatment, which has been accepted by the Commission for other
18 AAOs, should be adopted in this case as well.

19 **RATE CASE EXPENSE**

20 Q. What costs are included in rate case expense?

21 A. Rate case expense includes legal fees for outside counsel, consulting fees for
22 expert witnesses, postage expenses, and the costs incurred by Company personnel to attend
23 case related activities, including meals, mileage, and lodging.

1 Q. What is the Company's position regarding rate case expense?

2 A. Company witness Jayna R. Long requested to reflect the costs associated with
3 the current rate case and includes rate case expenses from the prior rate case, Case No.
4 ER-2011-0004, in the cost of service.

5 Q. What is Staff's position regarding rate case expense?

6 A. Staff includes a normalized level of rate case expenses that are known and
7 measurable, reasonable, necessary, and prudently incurred as they relate to the current case
8 before the Commission in its cost of service calculation.

9 Q. Please explain Staff's rate case expense recovery approach and how it differs
10 from the Company.

11 A. Rate case expenses are nonrecurring in nature; i.e. they only occur when the
12 utility files a rate case with the Commission and hence are not necessarily incurred every
13 year. Staff's normalization of this expense is aimed at restating test year expense to a normal,
14 ongoing level. Staff includes in rate case expense all measurable, reasonable, necessary, and
15 prudent expenses incurred by the Company in presenting the current rate case before the
16 Commission. Recovery of rate case expense from prior rate proceedings is not appropriate in
17 that it will result in the costs of multiple numbers of rate proceedings being incorporated in
18 customer rates, even though ordinarily only one rate proceeding can be processed by the
19 Commission within a twelve-month period.

20 Q. What is the difference between normalization and amortization?

21 A. Normalization is an adjustment to abnormal test year results to reflect a
22 normal, annual, ongoing level of the cost; in effect, a leveling out. Whereas, an amortization

1 is the spreading out of the recovery of a specific cost over a certain period of time longer than
2 one year.

3 Q. Did Staff recommend an amortization for rate case expense for Empire in the
4 previous rate case?

5 A. No. Staff did not recommend an amortization for rate case expense in the prior
6 Empire rate case. The appropriate accounting for rate case expense, per the Uniform System
7 of Accounts, is to charge the amounts to expense on the utility's income statement as
8 incurred. Rate case expense should not be accounted for as an amortization expense unless
9 that treatment is specified in a Commission order or set out in a stipulation and agreement.

10 Q. Did the Commission order an amortization of rate case expense or did the
11 parties in Case No. ER-2011-0004 set out in the stipulation and agreement that rate case
12 expense should be amortized and included in the next rate case?

13 A. No.

14 Q. Does Staff support the Company's request to recover the unamortized balance
15 of rate case expense from the previous rate case, Case No. ER-2011-0004?

16 A. No. It is not appropriate to allow the inclusion of past rate case expenses in
17 the calculation of current rate case expenses. Ratemaking is prospective, or forward-looking,
18 in nature.

19 **TRUE-UP**

20 Q. In Company witness W. Scott Keith's direct testimony, what items does he
21 propose to include in the true-up audit?

1 A. Witness Keith lists the following items on page 24 of his direct testimony:

- 2 • Net Plant in Service, including the investment associated with Empire's
- 3 new phone, accounting and management systems;
- 4 • Revenue;
- 5 • SPP Transmission costs-Schedules 1a and 11;
- 6 • Schedule 11 transmission revenue;
- 7 • Operation and maintenance costs, especially those associated with
- 8 Empire's new phone, accounting and management systems;
- 9 • Payroll Costs including Benefits;
- 10 • Depreciation, including the impact of the early retirement of Riverton
- 11 units 7 & 8;
- 12 • Vegetation Management Costs; and
- 13 • Remediation Costs.

14 Q. Does Staff agree with the Company's above proposed list of true-up items?

15 A. No. Operation and maintenance costs for operating plants, the special
16 depreciation adjustment for the early retirement of the Riverton 7 & 8 units, vegetation
17 management costs (expense level), and remediation costs should not be included in the true-
18 up audit.

19 Q. Why should operation and maintenance costs for operating plants, vegetation
20 management costs, and remediation costs not be trued-up?

21 A. Staff performed normalizations for these costs. An examination of any of
22 these expenses beyond the test year would not produce materially different results than what
23 Staff's normalizations produced.

24 Q. Why has Staff proposed not including the depreciation adjustment for the
25 retirement of Riverton 7 & 8 as a true-up item?

1 A. Staff is opposed to including a special adjustment for depreciation for
2 the retirement of Riverton 7 & 8 in the cost of service, as discussed in Staff witness
3 John A. Robinett's rebuttal testimony. Staff is similarly opposed to the true-up of this item.

4 Q. Are there any items not listed in Company's direct testimony that Staff
5 recommends to include in the true-up audit?

6 A. Yes. Staff recommends including the following additional items in the true-up
7 audit:

- 8 • Capital Structure
- 9 • Rate Case Expense
- 10 • All rate base items, including trackers
- 11 • Property Taxes
- 12 • Income Taxes

13 **UNCONTESTED ISSUES**

14 Q. Are there items that were discussed in direct testimony that appear to no longer
15 be at issue in this case?

16 A. Yes. While Staff, Empire, and various interveners may have used different
17 approaches to certain issues, it appears that the following revenue requirement items are no
18 longer at issue:

- 19 • Staff's Adjustment to Plum Point Plant
- 20 • Ice Storm Amortization
- 21 • Cash Working Capital Expense Lags
- 22 • SWPA Hydro Reimbursement
- 23 • Allocations
- 24 • Allocations
- 25 • Allocations
- 26 • Allocations
- 27 • Allocations

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- Revenues:
 - Weather Normalization
 - Annualization for Rate Change
 - 365 Days Adjustment
 - Missouri Large Power, Praxair, and Non-Missouri Large Power
 - Rate Switching (Empire and Staff will both update)
 - Unbilled and Gross Receipts Revenue
 - Water Revenue
 - Miscellaneous Revenue
- Fuel Inventories
- Fuel and Purchased Power
- Gas Storage
- Transportation
- Entergy Transmission Contract
- Postage
- Injuries, Damages, Worker’s Compensation
- Dues and Donations, except EEI Dues
- SWPA Amortization
- Tornado AAO Amortization (expense)
- Depreciation Reserve Balance
- Depreciation Reserve – Allocation to Gas
- Depreciation Reserve – Capitalized Incentive Compensation
- FAC – Line losses
- FAC – Heat rate testing
- FAC – Exclusion of gas firm transportation and storage costs from base, as well as Plum Point demand
- DSM Asset

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- Payroll and Benefits
- FAS 87, 88, and 106
- SERP
- Prepaid Pension
- Prepaid Pension Tracker Balances
- Lease Expense
- Customer Deposit Interest Expense
- Amortization Expense
- EISA
- Smart Grid Update
- Accumulated Deferred Income Tax Missouri Regulatory Plan

Q. Does this conclude your rebuttal testimony?

A. Yes.

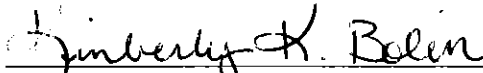
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of The Empire District Electric)
Company of Joplin, Missouri Tariffs) Case No. ER-2012-0345
Increasing Rates for Electric Service)
Provided to Customers in the Missouri)
Service Area of the Company)

AFFIDAVIT OF KIMBERLY K. BOLIN

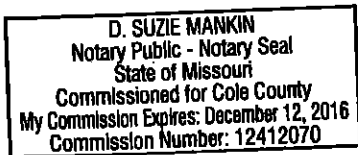
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)


Kimberly K. Bolin, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 9 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.



Kimberly K. Bolin

Subscribed and sworn to before me this 16th day of January, 2013.





Notary Public