

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

FILED

JUN 18 1997

MISSOURI  
PUBLIC SERVICE COMMISSION

In the Matter of The Empire District Electric )  
Company of Joplin, Missouri, for Authority )  
to File Tariffs Increasing Rates for Increasing )  
Rates for Electric Service Provided to )  
Customers in the Missouri Service Area of )  
the Company.

Case No. ER-97-81

**STAFF BRIEF ON PAYROLL EXPENSES**

On May 23, 1997, the Commission ordered the parties to file initial briefs on the true-up issue styled "Payroll Expense" on June 6. The Commission also ordered the parties to file with the Commission an agreement, procedural schedule and hearing memorandum regarding the in-service status of SLCT 2. Since that order, The Empire District Electric Company (Empire or Company), filed a pleading on May 30, indicating that SLCT 2 would not be in service by May 31, 1997.

The Staff and Company filed an Agreement in Principle and Joint Motion for Extension of Time (Agreement) which was filed on June 6, 1997. Part of the Agreement involved postponing the SLCT 2 "in service" date from May 31 to June 21. In another part of the Agreement, the Company agreed not to pursue the payroll expense issue, should the terms of the Agreement be adopted by the Commission. Since the Staff does not know at this time whether the Commission will adopt the terms of the Agreement, the Staff sets forth below its position on the payroll issue. The Company and The Office of the Public Counsel have already filed briefs on this issue. Empire stated in the Agreement that it did not object to the Staff's late filing of a brief on the payroll issue if the Commission did not accept the terms of the Agreement. None of the other parties object to the Staff's late filing of its brief on the payroll issue.

## **Payroll Issue**

As part of the Stipulation and Agreement in settlement of this case, the parties agreed to true-up payroll through March 31, 1997. The Staff conducted its true-up for payroll by including those positions which were actually filled by the Company as of March 31, 1997. (Tr. 60). The Staff filed the results of its payroll true-up on May 2, 1997. (Tr. 60).

On the afternoon before the scheduled May 23, 1997 true-up hearing, Empire filed the rebuttal testimony of Mr. Bob Fancher, which indicated that the amount of the revenue increase agreed to by the parties in the Stipulation and Agreement should be increased by \$258,662 to account for sixteen positions which were filled by the Company after the March 31 true-up date. The Staff opposed this revenue requirement increase as it violated the terms of the Stipulation and Agreement as well as contradicted the Commission's recognition of the matching principle.

### **What did the parties agree to regarding payroll true-up in the Stipulation and Agreement?**

The Stipulation and Agreement was filed April 4, 1997. Paragraph 3 states that the true-up shall include employee levels and current wage rates through March 31, 1997. Empire does not claim that any of the sixteen employees were employed on March 31, 1997. Therefore, Empire's proposal does not reflect what the parties agreed to in the Stipulation and Agreement.

### **What is the matching principle?**

The matching principle is a regulatory accounting concept recognized by the Commission. See, *Staff of the Missouri Public Service Commission v. Union Electric Company*, 90 PUR 4th 400, 403 (1987); *In re: St. Louis County Water Company*, Case No. WR-95-145, p. 10 (Sept. 19, 1995). Under the matching principle all major elements of a company's revenue requirement (rate base, revenues, expense) should be measured for ratemaking purposes at a consistent point in time, because a utility's revenue requirement over time is a result of constant changes in revenues, expenses and rate base. Reflecting changes in one element of revenue requirement but not others will likely lead to skewed ratemaking, and either over-earning or under-earning by the utility. The

Staff consistently treated all major elements of revenue requirement when it updated Empire's rate base, expense and revenue levels through March 31, 1997. The matching principle ensures that rates reflect the correct balance between revenues and expenses.

The Commission recognized the matching principle in this case when it issued its Order Establishing Test Year and Directing True-Up on December 13, 1996. The Commission established a test year of twelve months ending September 30, 1996 with isolated adjustments through May 31, 1997. In that Order, the Commission stated that the "relationship between revenue, expense and rate base will be maintained as accurately as possible in calculating any isolated adjustment." Empire's proposal does not maintain this relationship, since expenses are increased to levels beyond March 31, while the level of revenues (and rate base) is kept at the March 31 level.

The matching principle is a practical necessity. At some point, the measurement of Empire's revenue, expense and rate base must end. Empire argues that it is reasonable to include these additional payroll costs since they were in the process of filling them as of March 31. (Fancher Rebuttal, Ex. TU-3, p.2). However, if an adjustment is made for additional payroll expenses, then similar adjustments should be considered for other significant elements of Empire's revenue requirement to the same point in time, including additional revenues due to customer growth after March 31. Empire admitted that it will have additional customers after March 31. (Tr. 91). If changes to all major elements of Empire's revenue requirement are considered to the same point in time as the proposed payroll adjustment, then it might be found that Empire's revenue requirement has not increased at all notwithstanding the new employees. Seen in this light, Empire has presented no evidence that the Staff's true-up revenue requirement as of March 31, 1997 is inaccurate or understated.

The Staff recognizes that there must be a cutoff, so that rates can be determined by the Commission. Empire agreed to a March 31, 1997 cutoff. (Tr. 94). The Company is not prejudiced by the Commission holding Empire to its original bargain.

**Other problems with Empire's adjustment.**

Empire claims that the payroll issue is worth \$258,662. The Staff did not have a chance to verify the accuracy of the Company's calculation of this amount since it only learned of the adjustment the day before the true-up hearing. (Tr. 62). The Staff ended its inquiry as of March 31, pursuant to the Stipulation and Agreement. Every other element of Empire's proposed rate increase has been verified by the Staff.

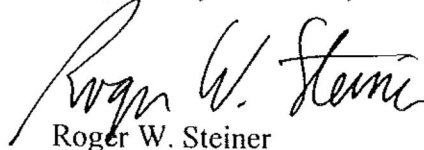
The use of Empire's unverified adjustment is inherently inaccurate. Empire witness Fancher admitted on cross examination that not all of the sixteen positions had been filled and that not all of the positions will be filled on a certain date. (Tr. 87-88). Mr. Fancher also admitted that the Company has a constant position vacancy rate. (Tr. 90). Thus, if the Commission were to adopt the Company's position, it would result in an overstatement of costs due to the fact that it would be reflecting more positions in its calculations of payroll expense than the Company would actually have filled at any point in time. Without Staff verification of Empire's payroll levels, the Commission is left to guess as to the proper balance of revenues and expenses. By calculating the level of both on a date certain as envisioned in the Stipulation and Agreement, the Commission can be certain that a proper match is achieved.

The weakness of Empire's position was shown through Commissioner Drainer's questioning of Empire's witness. Mr. Fancher admitted that Empire's employee levels remain constant from month to month, with a constant three percent vacancy rate. (Tr. 97, 100). Thus, in order for this statement to be true, if Empire added employees after March 31, it also lost approximately the same number of employees in the same time period. The Staff's payroll true-up reflected this constant level of employees since it measured employee levels at the end of March. The Company has provided no evidence to indicate that employee levels ending March 1997 were abnormally low. The use of a March 31, 1997 level is appropriate since the Company admits that its employee levels remain constant from month to month.

## Conclusion

The Company has provided insufficient justification for abandoning the matching principle and ignoring the March 31, 1997 true-up date as agreed to by the parties in the Stipulation and Agreement. The Company's \$258,662 adjustment should be rejected.

Respectfully submitted,

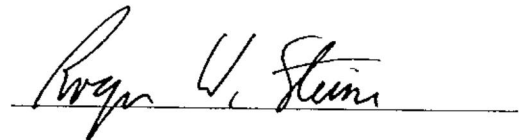


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## CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 13<sup>th</sup> day of June, 1997.



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