

Exhibit No.
Issues: Rate Base and Income Statement
Pro Forma Adjustments
Witness: Leigha Palumbo
Type of Exhibit: Direct Testimony
Sponsoring Party: The Empire District
Electric Company
Case No. ER-2019-0374
Date Testimony Prepared: August 2019

**Before the Public Service Commission
of the State of Missouri**

Direct Testimony

of

Leigha Palumbo

on behalf of

**The Empire District Electric Company
a Liberty Utilities Company**

August 2019



TABLE OF CONTENTS
DIRECT TESTIMONY OF
LEIGHA PALUMBO
ON BEHALF OF
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION

SUBJECT	PAGE
I. INTRODUCTION.....	1
II. PURPOSE	2
III. RATE BASE ADJUSTMENT.....	2
IV. INCOME STATEMENT ADJUSTMENTS.....	3

DIRECT TESTIMONY
OF
LEIGHA PALUMBO
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2019-0374

1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Leigha Palumbo, and my business address is 602 S. Joplin Avenue, Joplin,
4 Missouri.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by Liberty Utilities Service Corp. as a Regulatory Analyst for Liberty
7 Utilities Central Region, which includes The Empire District Electric Company, a Liberty
8 Utilities Company (“Liberty-Empire” or “Company”).

9 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
10 **PROFESSIONAL EXPERIENCE?**

11 A. I graduated from Pittsburg State University in 2015 with a Bachelor of Science in Business
12 Administration with a major in Accounting. I was hired by Liberty-Empire in May 2015
13 as an Internal Auditor. I accepted my current position as a Regulatory Analyst in May
14 2017.

15 **Q. HAVE YOU PREVIOUSLY PARTICIPATED IN ANY REGULATORY**
16 **PROCEEDINGS?**

17 A. No, I have not.

1 **II. PURPOSE**

2 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS CASE**
3 **BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION**
4 **(“COMMISSION”)?**

5 A. The purpose of my testimony is to provide support for certain pro forma adjustments to the
6 Company’s revenue requirement in this proceeding. In particular, I support the following
7 rate base (“RB”) and income statement (“IS”) pro forma adjustments:

- 8 • RB ADJ 3 - removal of water company inventory;
- 9 • RB ADJ 11 and RB ADJ 13 - Normalize Prepayments, Materials and Supplies,
10 Customer Advances, and Customer Deposits;
- 11 • IS ADJ 13 - Interest on Customer Deposits; and
- 12 • IS ADJ 31 and IS ADJ 32 - Franchise Fees and Taxes.

13 **III. RATE BASE ADJUSTMENTS**

14 **Q. PLEASE DESCRIBE RB ADJ 3 TO REMOVE WATER INVENTORY.**

15 A. The material and supplies inventory recorded on Liberty-Empire’s balance sheet includes
16 inventory for both the electric and water businesses. These inventories are tracked
17 separately on a manual spreadsheet. Adjustment RB ADJ 3 of \$55,635, Missouri
18 jurisdictional amount, was needed to reduce materials and supplies levels for the amount
19 related to Liberty-Empire’s water business.

20 **Q. PLEASE DESCRIBE THE ADJUSTMENTS TO MATERIALS AND SUPPLIES**
21 **(M&S), CLEARING ACCOUNTS AND OTHER PREPAYMENTS CONTAINED**
22 **WITHIN RB ADJ 11.**

23 A. A 13-month average level ending March 31, 2019, was used to normalize the balances of

1 these accounts. As a result of normalizing the test year balances to a 13-month average,
2 prepayments was increased by \$174,360 and materials and supplies, clearing accounts
3 and fuel inventory balances was increased by \$83,023.

4 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO CUSTOMER ADVANCES AND**
5 **CUSTOMER DEPOSITS CONTAINED WITHIN RB ADJ 13.**

6 A. A 13-month average level ending March 31, 2019, was used to normalize the balances of
7 these accounts. As a result of normalizing the test year balances to a 13-month average
8 customer deposits decreased by \$189,103 and customer advances decreased by \$263,021.

9 **Q. WHY IS A 13 MONTH AVERAGE USED IN ESTABLISHING RATE BASE FOR**
10 **THESE ITEMS?**

11 A. The thirteen-month average is used to help smooth fluctuations in costs and better represent
12 a normal level of costs for inclusion in rate base when setting new rates.

13 **IV. INCOME STATEMENT ADJUSTMENTS**

14 **Q. PLEASE EXPLAIN IS ADJ 13 FOR CUSTOMER DEPOSIT INTEREST.**

15 A. IS ADJ 13 increases Liberty-Empire's operating expenses by \$863,681 to include the
16 interest paid to Missouri customers on their deposit accounts, as the test year revenue
17 requirement balances do not reflect customer deposit interest expense. To calculate this
18 adjustment the Company used the interest rate set by the Commission which was in effect
19 at the end of the test year.

20 **Q. EXPLAIN WHY THE COMPANY REMOVED FRANCHISE REVENUES AS**
21 **REFLECTED IN IS ADJ 31.**

22 A. IS ADJ 31 removes the Missouri jurisdictional revenue amount associated with city
23 franchise taxes in the amount of \$9,923,350. City franchise tax is not a revenue source for

1 Liberty-Empire. It is a municipal tax Liberty-Empire is obligated to collect and remit to
2 the various municipalities where the Company provides electric service. Generally, there
3 is no impact on Empire's earnings related to the collection of city franchise taxes, because
4 revenues are offset by an equal amount of expense. However, as in this case, timing
5 difference may result in a negligible impact.

6 **Q. PLEASE EXPLAIN IS ADJ 32.**

7 A. In conjunction with IS ADJ 31 discussed above, IS ADJ 32 removes \$9,923,690 of
8 franchise tax expenses from its base rate revenue requirement calculation which is reflected
9 in Schedule 5.

10 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

11 A. Yes.

