

Exhibit No.  
Issue: Asbury Coal Plan Regulatory Asset  
Accounting  
Witness: Robert W. Sager  
Type of Exhibit: Direct Testimony  
Sponsoring Party: The Empire District Electric  
Company  
Case No:  
APSC Docket No. 17-061-U  
KCC Docket No. 18-EPDE-\_\_\_\_\_-PRE  
MPSC File No. EO-2018-0092  
OCC No. PUD 2017 \_\_\_\_\_  
Date Testimony Prepared: October 2017

**Direct Testimony**

**of**

**Robert W. Sager**



**Empire District™**  
A Liberty Utilities Company

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

2 A. My name is Robert W. Sager and my business address is 602 South Joplin  
3 Avenue, Joplin, Missouri, 64801.

4 **Q. WHO IS YOUR EMPLOYER AND WHAT POSITION DO YOU HOLD?**

5 A. I am employed by Liberty Utilities Service Corp. as the Vice President of Finance  
6 and Administration of Liberty Utilities' Central Region, which includes The  
7 Empire District Electric Company, Liberty Utilities (Midstates Natural Gas) Corp.  
8 and Liberty Utilities (Missouri Water) LLC.

9 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

10 A. I am testifying on behalf of The Empire District Electric Company ("Empire" or  
11 "Company").

12 **Q. WHAT ARE YOUR QUALIFICATIONS AND PREVIOUS WORK  
13 EXPERIENCES?**

14 A. I am a licensed Certified Public Accountant and hold a Bachelor of Science  
15 Degree in Accounting from Pittsburg State University, Pittsburg, Kansas. I have  
16 been employed by Empire since October of 2006 and was the Director of  
17 Financial Services and Controller prior to being named to my current position in  
18 January of 2017. I worked for a regional public accounting firm for  
19 approximately ten years prior to coming to Empire.

20 **Q. PLEASE EXPLAIN THE PURPOSE OF YOUR TESTIMONY.**

21 A. The purpose of my testimony is to support the Company's request to record a  
22 regulatory asset for the net book value of the Asbury generation plant, which the  
23 Company is proposing to retire as part of its Customer Savings Plan in order to

1 achieve up to \$325 million in customer savings over the next 20 years. The  
2 creation of a regulatory asset would allow the Company to remove the Asbury  
3 plant assets from “property, plant, and equipment” when those assets are retired,  
4 and record the net remaining unrecovered balance as a regulatory asset on the  
5 Company’s balance sheet.

6 **Q. WHY IS THE COMPANY REQUESTING THE ASBURY GENERATION**  
7 **ASSETS BE MOVED TO A REGULATORY ASSET ON THE**  
8 **COMPANY’S BALANCE SHEET?**

9 A. The Asbury assets currently reside in the “property, plant and equipment”  
10 category of the Company’s balance sheet which represents those assets that are  
11 “used and useful.” If Asbury were retired as part of the Customer Savings Plan, it  
12 would no longer meet the used and useful designation according to Generally  
13 Accepted Accounting Principles (“GAAP”), and would need to be transferred to a  
14 regulatory asset for recovery of the remaining costs on the Company’s books.

15 **Q. WHAT IS THE REMAINING VALUE OF THE ASBURY GENERATION**  
16 **ASSETS?**

17 A. As of the date on which Asbury would no longer be in service, which would be no  
18 later than April 2019, the remaining net book value balance of the Asbury  
19 generation facilities would be approximately \$204,000,000. Ultimately the  
20 amount that would end up as a regulatory asset would be less once an estimate for  
21 accumulated deferred income taxes is calculated.

22 **Q. WHAT WOULD BE THE ACTUAL ENTRIES TO RECORD THE**  
23 **ASBURY GENERATION FACILITIES AS A REGULATORY ASSET?**

1 A. The accounting entries (based on projected April 2019 balances) are depicted in  
2 **Direct Attachment RWS-1** to my testimony. The Company would credit  
3 property, plant, and equipment accounts related to the Asbury facility; debit  
4 accumulated depreciation for the depreciation that has already been recorded  
5 through the plant's life; and, the net balance would require a debit entry to a  
6 regulatory asset account. The resulting regulatory asset would be amortized over  
7 the period prescribed by the Commission order.

8 **Q. WOULD OTHER ENTRIES BE REQUIRED?**

9 A. Yes. The Company will have to determine what it can do with the remaining coal  
10 inventory. It may be able to sell the inventory or alternatively transfer the  
11 inventory to one of its other jointly-owned facilities such as Iatan or Plum Point.  
12 This would have a minimal impact and should be treated as a component of fuel  
13 costs.

14 Entries related to taxes may be required since the tax rules differ compared  
15 to GAAP regarding generation plants which have been removed from service.  
16 Ultimately, taxes are to be normalized during the rate process and would create  
17 adjustments to the accumulated deferred income tax accounts as well as current  
18 income tax accounts. If the circumstances qualify for abandonment under tax  
19 law, a current tax loss would generally be offset by the change in deferred income  
20 tax liability required as part of the tax rules. An example of this is shown in  
21 **Direct Attachment RWS-2.**

1 **Q. WHAT WOULD BE THE ACCOUNTING RESULT IF THE**  
2 **COMMISSION DID NOT APPROVE REGULATORY ASSET**  
3 **TREATMENT FOR THE ASBURY ASSETS?**

4 A. If the Company were to retire the Asbury facility without regulatory asset  
5 treatment for the Asbury assets, Empire would then be required to record an  
6 impairment loss for the remaining book value of the Asbury plant.

7 **Q. WHY WOULD THAT BE THE CASE?**

8 A. The Company would no longer be deriving an economic benefit from the asset  
9 and GAAP would consider that an impairment of value, except for potential  
10 salvage, if any. The value of the assets would have to be removed from the  
11 balance sheet by writing off the value as a charge to the income statement.

12 **Q. WHAT WOULD BE THE CONSEQUENCE FOR THE CUSTOMER**  
13 **SAVINGS PLAN IF THE COMMISSION DOES NOT AUTHORIZE**  
14 **REGULATORY ASSET TREATMENT FOR ASBURY?**

15 A. As discussed by Company witness Swain, failure to obtain approval of a  
16 regulatory asset for the retired Asbury plant would prevent the Company from  
17 moving forward with any aspect of the Customer Savings Plan, including the  
18 opportunity to save customers up to \$325 million.

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

20 A. Yes, it does.

**Accounting Entries for Disposition of Asbury Generating Station  
Based on Plant and Reserve Balances as of 6/30/2017**

Account Description	Account ID	Debit	Credit	Net
<b>Beginning Balances:</b>				
Plant in Service	101000	\$ 140,441,635.76		
Construction Completed, Not Classified	106100	\$ 151,318,961.37		
Accumulated Provision for Depreciation	108100		\$ (61,893,850.36)	
		\$ 291,760,597.13	\$ (61,893,850.36)	\$ 229,866,746.77
<b>Asset Retirement:</b>				
Plant in Service	101000		\$ (140,441,635.76)	
Construction Completed, Not Classified	106100		\$ (151,318,961.37)	
Accumulated Provision for Depreciation	108100	\$ 291,760,597.13		
		\$ 291,760,597.13	\$ (291,760,597.13)	\$ -
<b>Settlement of Reserve:</b>				
Accumulated Provision for Depreciation	108100		\$ (229,866,746.77)	
Regulated Asset - Unrecovered Plant	182XXX	\$ 229,866,746.77		
		\$ 229,866,746.77	\$ (229,866,746.77)	\$ -
<b>Ending Balances:</b>				
Plant in Service	101000	\$ 140,441,635.76	\$ (140,441,635.76)	\$ -
Construction Completed, Not Classified	106100	\$ 151,318,961.37	\$ (151,318,961.37)	\$ -
Accumulated Provision for Depreciation	108100	\$ 291,760,597.13	\$ (291,760,597.13)	\$ -
Regulated Asset - Unrecovered Plant	182XXX	\$ 229,866,746.77	\$ -	\$ 229,866,746.77
		\$ 813,387,941.03	\$ (583,521,194.26)	\$ 229,866,746.77

**Theoretical Tax Entries**

**ASSUMPTIONS:**

	(000's)	
Book Asset Value	240,000	
Tax Asset Value	150,000	
Book/Tax Difference	90,000	
Estimated Accumulated Def. Income Tax (ADIT) (38% blended rate)	34,200	ADIT liability balance

No Salvage received upon abandonment  
No book loss recorded as asset transferred to regulatory asset

**ENTRIES:**

Upon abandonment, the asset would be considered a tax loss generating a reduction to the current tax liability

	<u>DR</u>	<u>CR</u>
Current tax liability	57,000	
<b>Current tax expense</b> (\$150,000 X 38% assumed blended rate)		57,000

Removal of ADIT related to abandoned asset

Deferred income tax liability (ADIT)	34,200	
<b>Deferred tax expense</b>		34,200

Establish ADIT related to regulatory asset (no tax basis for this asset)


<b>Deferred tax expense</b>	91,200	
Deferred income tax liability (ADIT) (\$240,000 X 38%)		91,200

\*Overall net income impact is zero for the tax provision

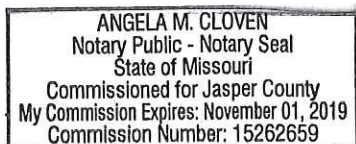
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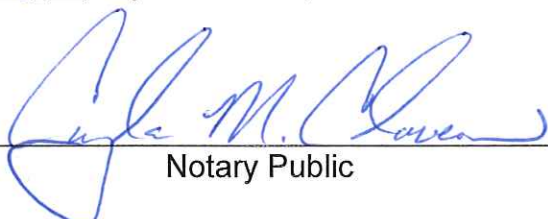
STATE OF MISSOURI )  
  ) ss  
COUNTY OF JASPER )

On the 30<sup>th</sup> day of October, 2017, before me appeared Robert W. Sager, to me personally known, who, being by me first duly sworn, states that he is the VP of Finance and Administration of Empire District – Liberties Utilities Central and acknowledges that he has read the above and foregoing document and believes that the statements therein are true and correct to the best of his information, knowledge and belief.

  
\_\_\_\_\_  
Robert W. Sager

Subscribed and sworn to before me this 30<sup>th</sup> day of October, 2017.



  
\_\_\_\_\_  
Notary Public

My commission expires: 11/01/19.