Exhibit No.:
Issues: Revenue Requirement, Merger Stipulations, MFRs, and Recovery Mechanisms
Witness: Sheri Richard
Type of Ex: Corrected 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

Corrected Direct Testimony

of

Sheri Richard

on behalf of

The Empire District Electric Company
A Liberty Utilities Company

August 2019

Liberty Utilities
EMPIRE DISTRICT

TABLE OF CONTENTS
CORRECTED DIRECT TESTIMONY
OF
SHERI RICHARD
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
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SUBJECT **PAGE**

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Sheri Richard. My business address is 602 South Joplin Avenue, Joplin, MO, 64802.

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

A. I am employed by Liberty Utilities Service Corp. as the Director of Rates and Regulatory Affairs for Liberty Utilities Central Region, which includes The Empire District Electric Company, a Liberty Utilities company ("Liberty-Empire" or "Company"), as well as gas, water and wastewater utilities serving in the Central Region.

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

A. I am testifying on behalf of Liberty-Empire.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I have a Bachelor of Science degree in accounting and a Masters of Business Administration degree. I am also a Certified Public Accountant licensed to practice in Oklahoma. Prior to joining Liberty-Empire, I was employed for seven years by UICI, a state regulated insurance company. I was then employed by Oklahoma Gas and Electric Company ("OG&E") for over 15 years working in Financial and Regulatory Accounting, managing the Costing and Pricing department, and finally serving as

Director of Revenue Requirements. In 2016, I became employed by Chesapeake Utilities Corporation where I served as Vice President of Rates and Regulatory Affairs. In 2019, I joined Liberty-Empire in my current position.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION OR ANY OTHER REGULATORY AGENCY?

A. While I have not provided testimony before the Missouri Public Service Commission ("Commission"), I have provided testimony before the Oklahoma Corporation Commission in multiple proceedings including Cause Nos. PUD 201800133, PUD 200800059, PUD 200800398, PUD 201100087 and PUD 201400229. I have also testified before the Arkansas Public Service Commission and provided testimony to the Kansas Corporation Commission.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING?

A. My testimony serves multiple purposes. After providing some general information, I address how the Company has satisfied the Commission's Minimum Filing Requirements ("MFRs") and various other filing and reporting requirements pursuant to the Commission's rules. Next, I provide and explain the basis for the Company's revenue requirement, including rate base, rate base adjustments, operating income and operating income adjustments used to establish rates for the Company's retail electric customers in Missouri. I also address the accounting treatment of certain tax related regulatory liabilities, costs related to the retirement of the Asbury plant, expense and revenue related to jurisdictional changes, and the Company's request to continue certain trackers. In addition, my testimony addresses how the Company has satisfied the Commission's Minimum Filing Requirements regarding the Company's request to continue its Fuel Adjustment Clause ("FAC"), as well as compliance with stipulations and agreements in Commission File Nos. ER-2016-0023 and EM-2016-0213.

Q. ARE YOU SPONSORING ANY SCHEDULES WITH YOUR TESTIMONY?

A. Yes. I am sponsoring the following schedules:

- Schedule SDR-1 – Revenue Requirement
- Schedule SDR-2 – Rate Base
- Schedule SDR-3 – Rate Base Adjustments
- Schedule SDR-4 – Operating Income
- Schedule SDR-5 – Operating Income Adjustments
- Schedule SDR-6 – Weighted Average Cost of Capital
- Schedule SDR-7 – Gross Revenue Conversion Factor
- Schedule SDR-8 – Income Taxes
- Schedule SDR-9 – MFRs
- Schedule SDR-10 – Stub Period Earnings Analysis
- Scheduled SDR-11 – Customer Notice
- Schedule SDR-12 – Sample Customer Bill
- Schedule SDR-13 – 2019 Short Term Borrowing Rate
- Schedule SDR-14 – List of Sub-Accounts Included and Excluded for FAC
- Schedule SDR-15 – Plant Efficiency Statistics
- Schedule SDR-16 – Emission Allowances
- Schedule SDR-17 – Five-Year Plant Availability Factors

I am also sponsoring the following adjustments:

- RB ADJ 1 – RB ADJ 10 – Rate Base ("RB") adjustments, except RB ADJ 3

- IS ADJ 1 – IS ADJ 36 – Operating Income ("IS") adjustments, except IS ADJs 13, 31 and 32

Company witness Tim Lyons sponsors RB ADJ 12, and Company witness Leigha Palumbo sponsors RB ADJs 3, 11 and 13 as well as IS ADJs 13, 31 and 32.

Q. WAS THE INFORMATION CONTAINED IN THE SCHEDULES OBTAINED OR DERIVED FROM THE BOOKS AND RECORDS OF THE COMPANY?

A. Yes. The information contained in the schedules I am sponsoring was obtained or derived from the books and records of Liberty-Empire for the twelve months ended March 31, 2019 and adjusted as appropriate to reflect known and measurable changes through January 31, 2020.

Q. DID LIBERTY-EMPIRE PROVIDE THE COMMISSION PROPER NOTICE OF THE COMPANY'S INTENT TO FILE A GENERAL RATE CASE?

A. Yes. Pursuant to Commission Rule 4 CSR 240-4.017, a utility is required to provide at least 60 days' notice to the Commission of its intent to file a case. On May 29, 2019, Liberty-Empire filed its Notice of Intended Case Filing, which was assigned Case No. ER-2019-0374, satisfying the requirements of Commission Rule 240-4.017(1).

II. GENERAL RATE CHANGE BACKGROUND

Q. PLEASE DESCRIBE THE COMPANY'S RECENT HISTORY OF GENERAL RATE CASE FILINGS?

A. Prior to the acquisition by Liberty Utilities (Central) Co., the Company filed for a general rate increase approximately every one to two years: October 2015, August 2014, July 2012, September 2010, October 2009 and October 2007. Tariffs which were the result of Liberty-Empire's last general rate case took effect September 14, 2016.

Q. DID LIBERTY-EMPIRE AGREE TO A STAY OUT PROVISION AS PART OF THE STIPULATIONS AND AGREEMENTS WITH THE PARTIES IN THE ACQUISITION CASE, CASE NO. EM-2016-0213?

A. Yes. The Company agreed to refrain from filing for a general rate increase for one year post acquisition. Contrary to past Company history, however, Liberty-Empire has not come in for a general rate increase for nearly four years.

Q. WHAT IS THE AMOUNT OF THE REQUESTED GENERAL RATE CHANGE IN THIS CASE?

A. The Company is requesting that the Commission approve a $26,516,638 base rate increase.

Q. HOW WAS LIBERTY-EMPIRE'S REQUESTED GENERAL RATE CHANGE DETERMINED?

A. The calculation of the Company's requested general rate increase is summarized in Chart 1 and results in an overall revenue requirement increase of 4.93%.

Chart 1

Line No.	Reference Schedule	General Rate Change	
1	SDR-2	Total Rate Base	$ 1,457,360,469
2	SDR-6	Required Rate of Return	7.50%
3	SDR-1	Required Operating Income	109,237,911
4	SDR-1	Operating Income Deficiency	20,195,045
5	SDR-4	Federal and State Income Tax	6,321,593
6	SDR-1	Revenue Deficiency	$ 26,516,638

III. FILING REQUIREMENTS

Q. WHAT IS THE PURPOSE OF THIS PART OF YOUR TESTIMONY?

A. This portion of my testimony details how the Company met the Commission's MFRs as set forth in Commission Rule 4 CSR 240-3.030 and the filing and reporting requirements as set forth in Commission Rules 4 CSR 240-3.160 and 4 CSR 240-20.090(2).

Q. WHAT IS REQUIRED BY COMMISSION RULE 4 CSR 240-3.030?

A. Commission Rule 4 CSR 240-3.030, effective July 30, 2019, sets forth the MFRs for all general rate increase requests. Counsel for Liberty-Empire is providing the tariff transmittal letter. All other MFRs imposed by this rule, which are set forth below, are included in Schedule SDR-9:

1. The amount of dollars of the aggregate annual increase and percentage of increase over current revenues;
2. Names of counties and communities affected;
3. The number of customers to be affected in each general category of service and for all rate classifications within each general category of service;
4. The average change requested in dollars and percentage change from current rates for each general category of service and for all rate classifications;
5. The proposed annual aggregate change by general categories of service and by rate classifications, including dollar amounts and percentage change in revenues;
6. Any press releases relative to the filing; and
7. A summary of the reasons for the proposed changes.

Q. WHAT IS REQUIRED BY COMMISSION RULE 4 CSR 240-3.160?

A. Commission Rule 4 CSR 240-3.160 contains additional filing requirements for electric utility general rate increase requests: the submission of a depreciation study, database, and property unit catalog under certain circumstances.

Q. IS A DEPRECIATION STUDY INCLUDED WITH THE COMPANY'S DIRECT FILING?

A. No. Liberty-Empire's latest depreciation study was filed in Case No. ER-2016-0023 on October 16, 2015. The Commission's rule does not require the submission of a depreciation study, database, and property unit catalog in this case, as it has been less than five years since the Commission's Staff last received these items from Liberty-Empire.

Q. IS THE COMPANY REQUESTING APPROVAL FOR A NEW DEPRECIATION RATE ON ASSETS THAT DO NOT CURRENTLY HAVE AN APPROVED RATE?

A. Yes. The Company does not have an approved rate for Charging Stations and requests approval to utilize a rate of 5% until the next depreciation study is completed and a rate approved by the Commission.

Q. WHEN WILL THE COMPANY COMPLETE AND FILE ITS NEXT DEPRECIATION STUDY?

A. The Company will prepare and file a depreciation study in 2020 and will request approval of new rates in its rate case planned to be filed the 3rd quarter of 2020.

Q. WHAT IS REQUIRED BY COMMISSION RULE 4 CSR 240-20.090?

A. Commission Rule 4 CSR 240-20.090 contains filing requirements for an electric utility that seeks to establish, continue, or modify a Rate Adjustment Mechanism ("RAM") such as the Company's FAC tariff. As described by Company witness

Aaron Doll, the Company is seeking modifications to its FAC tariff. Please see Schedules SDR 11-17 attached to this testimony and Schedule AJD-1 attached to Mr. Doll's direct testimony for the information necessary to satisfy all of the FAC-related filing requirements.

IV. REVENUE REQUIREMENT

Q. WHAT IS MEANT BY THE TERM "REVENUE REQUIREMENT"?

A. A utility's "revenue requirement" is the sum of its Operation and Maintenance ("O&M") expenses, depreciation expense, income and other taxes and a fair return on the utility's rate base. The revenue requirement is determined based on a historical test year with pro forma adjustments reflecting reasonably known and measurable changes to revenue and expenses. When the revenue requirement exceeds the utility's test year revenues, a revenue deficiency exists, and a rate increase is required. This calculation is made specific to the Company's jurisdictions which include four state jurisdictions and also the Federal jurisdiction.

Q. WHAT ARE THE GENERAL CATEGORIES OF PRO FORMA ADJUSTMENTS PROPOSED BY THE COMPANY?

A. *Pro forma* adjustments generally fall into one of the following categories:

1) Normalization Adjustments - made to rate base and expenses to offset unusual levels of operations recorded during the test year. An example of such an adjustment would be the use of a 13 month average for materials and supplies to address the variable nature of the expense.

2) Annualization Adjustments - made to recognize a cost which occurred during the test year that will be ongoing and must be captured on a prospective basis. An example of such an adjustment would be the adjustment to payroll to account for

salary increases during the *pro forma* period. This annualization is necessary to adjust payroll costs to a level reflecting the *pro forma* salary for the entire year.

3) Out of Period Adjustments - which consider known and measurable changes that occur outside the end of the test year. An example of such an adjustment would be increases in Plant in Service based on Construction Work that is expected to be complete, used and useful by the end of the pro forma period.

4) Costs that are not necessary to provide electric service - An example of such an adjustment would be to remove common plant utilized by Liberty-Empire's gas or water utilities.

5) Costs recovered elsewhere - made to adjust the test year to reflect any cost recovery that occurs outside of base rates. An example of such an adjustment is to remove franchise fees. This adjustment is necessary to ensure that customers are not double charged for these costs recovered or passed through a separate mechanism or tariff condition.

Q. WHAT TEST YEAR IS THE COMPANY PROPOSING IN THIS CASE?

A. The Company is proposing a historical test year based on twelve months ended March 31, 2019.

Q. IS LIBERTY-EMPIRE REQUESTING THE TEST YEAR BE UPDATED?

A. Yes. Liberty-Empire is requesting an update through September 30, 2019.

Q. IS LIBERTY-EMPIRE REQUESTING A "TRUE-UP" PROCESS?

A. Yes. Liberty-Empire is proposing a true-up through January 31, 2020. The impact of the true-up process has been included in the Company's revenue requirement.

Q. WHAT IS LIBERTY-EMPIRE'S CALCULATED OVERALL RATE OF RETURN?

A. Liberty-Empire's calculated overall rate of return at current rates is 6.11 percent. This rate of return earned under the current rates is calculated by dividing adjusted test year operating income by the adjusted test year rate base.

Q. PLEASE SUMMARIZE THE RATE RELIEF THE COMPANY IS SEEKING IN THIS PROCEEDING.

A. Liberty-Empire is seeking to recover an annual revenue requirement of $564.7 million and a current revenue deficiency of $26.5 million.

Q. PLEASE DESCRIBE SCHEDULES SDR-1 THROUGH SDR-8 OF THE REVENUE REQUIREMENT MODEL.

A. Schedule SDR-1 presents Liberty-Empire’s proposed revenue requirement and the overall revenue requirement calculation. Schedule SDR-2 summarizes the Company’s test year rate base, including pro forma adjustments calculated through the proposed true-up period and the resulting adjusted rate base. Schedule SDR-4 summarizes the test year statement of operating income, including pro forma adjustments and the resulting adjusted operating income. Schedule SDR-3 and Schedule SDR-5 summarize adjustments to rate base and operating income, respectively. Schedule SDR-6 presents the overall cost of capital used in the calculation of the revenue requirement, which will be addressed in detail by Company Witness Robert B. Hevert. Schedule SDR-7 calculates the Gross Revenue Conversion Factor based on the effective state and federal income tax rates, and Schedule SDR-8 calculates Liberty-Empire’s income tax expense based on its calculated net operating income or loss and the state and federal effective tax rates presented on Schedule SDR-7.

V. <u>RATE BASE</u>

Q. WHAT IS THE COMPANY’S PROPOSED RATE BASE IN THIS CASE?

A. As shown on Schedule SDR-2, Liberty-Empire's adjusted rate base is approximately $1.5B. It is comprised of the test year rate base of $1.3B with pro forma adjustments totaling $156.3M.

Q. PLEASE EXPLAIN RB ADJ 1.

A. RB ADJ 1 increases plant in service and accumulated depreciation for projects reasonably expected to be placed in service, used and useful by January 31, 2020. The increase in Missouri jurisdictional plant in service is $180,144,089, and the increase in Missouri jurisdictional accumulated depreciation is $1,379,466.

Q. PLEASE EXPLAIN RB ADJ 2.

A. A portion of certain common plant assets on Liberty-Empire's books are related to non-electric service and should be removed. RB ADJ 2 removes a percentage of the common plant associated with the service provided to those business units. The decrease in Missouri jurisdictional plant is $4,001,090, and the associated accumulated depreciation is $2,615,671.

Q. DO YOU SPONSOR RB ADJ 3?

A. No. Company witness Leigha Palumbo sponsors RB ADJ 3 - Water Inventory.

Q. PLEASE EXPLAIN RB ADJ 4.

A. As reflected in Schedule SDR-3, RB ADJ 4 increases rate base by $7,372,640 in accordance with the pension and other post-employment benefits ("OPEB") trackers established in Case No. ER-2016-0023. Please refer to the direct testimony of Company witness James A. Fallert filed in this docket for additional information regarding the adjustment for pension and OPEB expenses.

Q. PLEASE EXPLAIN RB ADJ 5.

A. As reflected in Schedule SDR-3, RB ADJ 5 increases rate base by $246,851. The adjustment brings the Low Income Pilot Program balance to the amount the Company expects to have incurred through the January 31, 2020 true-up period. The Company is requesting the continuation of the tracking of customer charges in a regulatory asset. Please refer to the direct testimony of Company witness Nathaniel W. Hackney filed in this proceeding for additional information regarding Liberty-Empire's low income pilot program including the Company's proposal to continue the program.

Q. PLEASE EXPLAIN RB ADJ 6.

A. As reflected in Schedule SDR-3, RB ADJ 6 increases rate base by $301,947 to reflect the discounts given to customers in accordance with the provisions of Senate Bill 564 related to economic development (RSMo. 393.1640).

Q. PLEASE EXPLAIN RB ADJ 7.

A. RB ADJ 7 increases the amount of accumulated deferred income taxes included in rate base by $522,886 to reflect the expected balance at January 31, 2020.

Q. PLEASE EXPLAIN RB ADJ 8.

A. As reflected in Schedule SDR-3, RB ADJ 8 updates the accumulated depreciation included in Liberty-Empire's rate base through the true-up period. RB ADJ 8 decreases the Company's rate base by $57,413,779.

Q. PLEASE EXPLAIN RB ADJ 9.

A. RB ADJ 9 reflects a net adjustment to increase rate base by $19,117,166 comprised of a net increase in regulatory assets of $5,362,107 and a net decrease in regulatory liabilities of $13,755,059. This adjustment reflects the removal of various regulatory assets and liabilities that will be fully amortized by the time rates go into effect as a result of this case, the removal of certain pension liabilities as addressed by Company witness James Fallert, and the removal of a Tax Cut and Jobs Act ("TCJA") tax regulatory liability.

Q. DID THE COMMISSION OPEN A DOCKET TO ADDRESS THE IMPACT OF THE TCJA ON LIBERTY-EMPIRE AND ITS CUSTOMERS?

A. Yes. The Commission opened Case Nos. ER-2018-0228 and ER-2018-0366 to consider the impact of the TCJA and to adjust the Company's rates following the passage of RSMo. Section 393.137 (Senate Bill 564).

Q. DID THE COMMISSION TAKE ANY ACTION IN THAT DOCKET WITH REGARD TO THE COMPANY?

A. Yes. As part of its Report and Order in Case No. ER-2018-0366 (the "Tax Order"), the Commission directed Liberty-Empire to establish a regulatory liability to address the impact of the TCJA on Empire's rates for the so-called "stub period" - January 1, 2018 (the date of the tax rate reduction) to August 30, 2018 (the effective date of lower base rates for Liberty-Empire). In that order, the Commission noted that it was "not making any ratemaking decision" regarding whether the stub period revenues "can, or should be returned to the company's ratepayers." Tax Order, p. 22. The Commission continued by stating "(t)hat decision will be made in Empire's next general rate case proceeding, and a decision about the constitutionality of any ordered rate reduction also will be made at that time." *Id.* at 22. The Commission then ordered: "The Empire District Electric Company shall record a regulatory liability for the financial impact of the Tax Cut and Jobs Act of 2017 on the electrical corporation for the period of January 1, 2018, through August 30, 2018. Recovery of the amounts deferred through the regulatory liability shall be determined in Empire's next general rate proceeding." *Id.* at 25.

Q. IS THIS LIBERTY-EMPIRE'S FIRST GENERAL RATE PROCEEDING SINCE THE ISSUANCE OF THE TAX ORDER REQUIRING THE ESTABLISHMENT OF THE REGULATORY LIABILITY?

A. Yes.

Q. HOW DOES LIBERTY-EMPIRE PROPOSE THAT THE REGULATORY LIABILITY BE TREATED IN THIS RATE CASE?

A. The Company has reviewed its financial performance for the "Stub Period" and determined the Company earned less than its allowed return during that period. Schedule SDR-10 shows this analysis which is based on actual earnings without any adjustments. As a result, the Company does not believe that it would be equitable to credit this regulatory liability to customers given that it would experience significant under-earnings during this period. The Company also has concerns with regard to whether returning revenues which were lawfully collected pursuant to Liberty-Empire's filed and approved tariffs would constitute retroactive ratemaking or otherwise be unlawful.

Q. PLEASE EXPLAIN RB ADJ 10.

A. RB ADJ 10 increases rate base by $10,217,935 for the amount of Asset Retirement Obligations ("ARO") paid out as of the test year, as well as additional AROs expected to be settled and paid out by January 31, 2020.

Q. PLEASE BRIEFLY DESCRIBE AN ARO.

A. AROs are legal obligations associated with a tangible long-lived asset that result from the acquisition, construction, development, or normal operation of a long-lived asset in which the timing or method of settlement is conditional on a future event. An ARO exists when the obligation to perform the asset retirement activity is *unconditional* even though there may be uncertainty about whether and, if so, how and when the obligation will ultimately be settled. The following are examples of common AROs experienced by Liberty-Empire: (1) coal ash impoundments handling and retirement and (2) abatement of asbestos-containing materials.

Q. DO YOU SPONSOR RB ADJ 11?

A. No. Company witness Leigha Palumbo sponsors ADJ 11 - Prepayments and Materials.

Q. PLEASE EXPLAIN RB ADJ 12?

A. Company witness Timothy Lyons presents the lead lag study prepared for Liberty-Empire and sponsors RB ADJ 12 which represents the level of CWC included in the calculation of rate base.

Q. PLEASE EXPLAIN RB ADJ 13.

A. Company witness Leigha Palumbo sponsors ADJ 13 to Customer Advances and Deposits.

VI. INCOME STATEMENT ADJUSTMENTS

Q. HAS THE COMPANY PROPOSED ANY ADJUSTMENTS TO ITS TEST YEAR OPERATING INCOME?

A. Yes. As reflected in Schedule SDR-5, Liberty-Empire has proposed several adjustments to its test year operating income.

Q. DO ANY OF THE PROPOSED ADJUSTMENTS RELATE TO REVENUE?

A. Yes. The Company has proposed adjustments to operating revenues to normalize for the effects of weather, to annualize customer growth, for Investment Tax Credit (“ITC”) refund over collection as ordered in ER-2014-0351, to increase revenues for expected load growth and the Economic Development Rider (“EDR”) Revenues, and to remove unbilled revenues. An adjustment was also made to increase revenues to reflect only the revenue change for reduced taxes occurring during the test year associated with the TCJA and as ordered in Case No. ER-2018-0366.

Q. DO ANY OF THE PROPOSED ADJUSTMENTS RELATE TO EXPENSE?

A. Yes. The Company has made several adjustments such as the amortization of expenses deferred in trackers as well as the normalization or adjustment of expenses for out of period occurrences that impact expense.

Q. PLEASE EXPLAIN IS ADJ 1.

A. As reflected in Schedule SDR-5, IS ADJ 1 increases uncollectible expenses by $34,183 by normalizing uncollectible expense based on a 5-year historical uncollectible percentage.

Q. PLEASE EXPLAIN IS ADJ 2.

A. As reflected in Schedule SDR-5, IS ADJ 2 decreases operating expenses by $102,449 to remove merger related transition and acquisition costs incurred during the test year from the revenue requirement as required in the stipulation and agreement in Case No. EM-2016-0213.

Q. PLEASE EXPLAIN IS ADJ 3.

A. IS ADJ 3 increases operating expenses by $1,409,581 to include additional labor costs associated with open positions that the Company reasonably anticipates to fill after the test year (out of period) but before the end of the true-up period.

Q. PLEASE EXPLAIN IS ADJ 4.

A. As reflected in Schedule SDR-5, IS ADJ 4 increases operating expenses by $498,742 to reflect a normalized amount of labor costs associated with overtime based on a 5-year average overtime percentage.

Q. PLEASE EXPLAIN IS ADJ 5.

A. IS ADJ 5 annualizes payroll based on the last pay period of the test year, March 22, 2019, and as a result increases operating expenses by $621,653.

Q. PLEASE DESCRIBE ADDITIONAL PAYROLL INCENTIVES NOT CAPTURED IN IS ADJ 5.

A. As further described by Liberty-Empire witness Jeff Westfall, the Company will offer additional monthly pay to incentivize the Company's linemen, and other employees that qualify, to continue employment with Liberty-Empire. The Company also will offer incentives externally to attract linemen. The Company anticipates this increased O&M cost to be approximately $718,200. While the Company did not make a pro forma adjustment for this, the increase in payroll costs will be captured when the Company updates and trues-up its revenue requirement.

Q. PLEASE EXPLAIN IS ADJ 6.

A. As reflected in Schedule SDR-5, IS ADJ 6 decreases operating expenses by $264,101 to annualize and adjust for expected changes in claims expense for healthcare (medical, dental and vision) occurring after the test year.

Q. PLEASE EXPLAIN IS ADJ 7.

A. IS ADJ 7 increases operating expenses by $7,915,095 to annualize depreciation expense based on plant in service at the end of the true-up period including the plant additions in RB ADJ 1. Liberty-Empire calculated depreciation expense based on depreciation rates established in the Company's last general rate case, Case No. ER-2016-0023, as reflected on Schedule A of the stipulation and agreement and as requested above.

Q. PLEASE EXPLAIN IS ADJ 8.

A. As reflected in Schedule SDR-5, IS ADJ 8 increases operating expenses by $410,030 to normalize expenses associated with maintenance of boiler plants based on a 5–year historical average.

Q. PLEASE EXPLAIN IS ADJ 9.

A. IS ADJ 9 increases operating revenues by $1,109,211 to adjust for anticipated load growth as a result of the anticipated expansion of two industrial customers.

Q. PLEASE EXPLAIN IS ADJ 10.

A. IS ADJ 10 increases operating revenues by $462,805 to account for economic development discounts provided to customers in accordance with Liberty-Empire's Economic Development Rider (Schedule EDR).

Q. PLEASE EXPLAIN IS ADJ 11.

A. IS ADJ 11 increases operating expenses by $6,073,947 in accordance with the pension and other post-employment benefits ("OPEB") trackers established in Case No. ER-2016-0023, as well as changes in FAS 87 and FAS 106 expense, settlement charges and Supplemental Executive Retirement Plan ("SERP") expense as discussed in the direct testimony of Company witness James A. Fallert.

Q. PLEASE EXPLAIN IS ADJ 12.

A. IS ADJ 12 increases operating income by $15,960,504 based on the Company's fuel production model used to set an appropriate level of fuel in Liberty-Empire's base rates. Company witness Todd Tarter further discusses the production model and base fuel calculations.

Q. PLEASE EXPLAIN IS ADJ 13.

A. Company Witness Palumbo sponsors IS ADJ 13.

Q. PLEASE EXPLAIN IS ADJ 14.

A. IS ADJ 14 annualizes the number of Liberty-Empire customers and their related usage at the end of the test year and results in an increase in operating revenues of $2,089,780.

Q. PLEASE EXPLAIN IS ADJ 15.

A. IS ADJ 15 adjusts test year sales and revenues to account for the net impacts of abnormal weather. The calculation of the normalized weather sales is presented in the direct testimony of Company witness Eric Fox. Normalized weather revenue is calculated by multiplying the weather normalized sales by the current rates for each pricing plan affected by weather. IS ADJ 15 adjusts revenues for abnormal temperatures during the test year which resulted in higher than normal sales and revenues. As such, the weather normalization adjustment, IS ADJ 15, results in a decrease to Missouri jurisdictional base rate revenue by $18,382,302. In his direct testimony, Mr. Fox further discusses test-year sales and system load weather normalization.

Q. PLEASE EXPLAIN IS ADJ 16.

A. As reflected in Schedule SDR-5, IS ADJ 16 increases operating expenses by $877,216 to reflect an out of test period anticipated increase in insurance premiums through the update period.

Q. PLEASE EXPLAIN IS ADJ 17.

A. Schedule SDR-5 reflects the impact of the Company's adjustment, IS ADJ 17, to remove $15,233 from operating expenses for costs recorded during the test year that the Company does not seek to recover from its Missouri retail customers.

Q. PLEASE EXPLAIN IS ADJ 18.

A. As reflected in Schedule SDR-5, IS ADJ 18 increases operating expenses by $6,335,625 to annualize increases in property taxes associated with increased plant in service expected to be in service after the test period.

Q. PLEASE EXPLAIN IS ADJ 19.

A. In accordance with the Stipulation and Agreement in Case No. ER-2016-0023, Liberty-Empire tracked the program costs associated with the Low Income Pilot Program in a regulatory asset for recovery consideration by the Commission in this case, the Company's next general rate case. IS ADJ 19 proposes to amortize $246,851 over a 5 year period and results in an increase in annual operating costs of $49,370.

Q. PLEASE EXPLAIN IS ADJ 20.

A. IS ADJ 20 reflects the amortization of $1,401,804 related to the regulatory asset previously established by the Commission for Missouri solar initiatives, including the Company's pro-forma adjustment to reflect the balance of the regulatory asset at the end of the true-up period. As reflected in RB ADJ 9, Liberty-Empire's projected true-up balance for the Missouri solar initiatives and included in rate base is $14,018,041. The Company proposes to amortize the regulatory asset over ten years.

Q. PLEASE EXPLAIN IS ADJ 21.

A. IS ADJ 21 proposes an increase in annual operating revenues by $160,218 to amortize revenues associated with investment tax credits and as directed in the Report and Order in ER-2014-0351.

Q. PLEASE EXPLAIN IS ADJ 22.

A. IS ADJ 22 increases operating expenses $217,736 to normalize and amortize the anticipated rate case expense associated with this proceeding over a 2-year amortization period.

Q. PLEASE EXPLAIN IS ADJ 23.

A. IS ADJ 23 increases operating expenses by $60,389 for the amortization, over five years, of projected economic development discounts to be provided to customers in accordance with Liberty-Empire's Limited Large Customer Economic Development Rider (Schedule SBEDR).

Q. PLEASE EXPLAIN IS ADJ 24.

A. IS ADJ 24 reflects the annual amortization, $8,540,550, of unprotected excess accumulated deferred income taxes ("ADIT") calculated based on the Average Rate Assumption Method or ARAM. The Company proposes to flow back to customers the balance of unprotected excess ADIT over a 3 year period.

Q. WHAT DID THE COMMISSION ORDER IN CASE NO. ER-2018-0366 REGARDING EXCESS ACCUMULATED DEFERRED INCOME TAX ("ADIT")?

A. As part of the Tax Order, the Commission directed Liberty-Empire to "record a regulatory liability for the difference between the excess ADIT balances included in current rates, which is calculated using the 35 percent federal corporate income tax rate, versus the now lower federal corporate income tax rate of 21 percent. The calculation of the regulatory liability of excess ADIT shall begin as of January 1, 2018. Recovery of the amounts deferred through the regulatory liability shall be determined in Empire's next general rate proceeding."

Q. HOW DOES LIBERTY-EMPIRE PROPOSE THAT THE EXCESS ADIT REGULATORY LIABILITY BE TREATED IN THIS RATE CASE?

A. Excess ADIT is divided into two groups or buckets: unprotected and protected. As noted above, the Company's proposal is to return the unprotected portion back to customers over 3 years, as opposed to a longer period of 10 or 15 years as some utilities in the industry have requested, in order to help minimize the rate increase impact on customers. Due to IRS rules, the Company cannot accelerate the return or amortization of the protected portion of the excess ADIT. As a result, the protected portion of excess ADIT will flow back to customers over the average remaining life of the related assets.

Q. PLEASE EXPLAIN IS ADJ 25.

A. In Case No. ER-2014-0351, Liberty-Empire agreed to continue its energy efficiency programs, at established funding levels and with the established recovery mechanism, until Liberty-Empire has an approved Missouri Energy Efficiency Investment Act (MEEIA) or until the effective date of rates in Liberty-Empire's next general rate case. IS ADJ 25 proposes to amortize the Company’s projected regulatory asset balance of $136,211 at the end of the true-up period, over 2 years resulting in an increase to annual operating expenses of $68,106.

Q. PLEASE EXPLAIN IS ADJ 26.

A. IS ADJ 26 amortizes the costs collected in the Riverton 12 Tracker established in Case No. ER-2014-0351 over a 5-year amortization period and results in an increase to operating expenses of $2,933,728.

Q. PLEASE EXPLAIN IS ADJ 27.

A. IS ADJ 27 reflects a net decrease in operating expenses of $117,337, to remove annual amortization expense currently being collected in rates and set to be fully amortized during the true-up period in this rate case related to regulatory assets and liabilities.

Q. PLEASE EXPLAIN IS ADJ 28.

A. IS ADJ 28 reflects the annual amortization of protected excess ADIT associated with the TCJA and returns $2,263,671 to customers annually.

Q. PLEASE EXPLAIN IS ADJ 29.

A. As reflected in Schedule SDR-5, IS ADJ 29 increases operating expenses by $266,228 for known and measurable changes occurring outside the test year associated with the contracted demand charge for Liberty-Empire's Plum Point generating unit. The new demand charge will become effective in September 2019.

Q. PLEASE EXPLAIN IS ADJ 30.

A. Please refer to the direct testimony of Company witness Brent Baker who addresses Liberty-Empire's request to include fees associated with credit card and debit card ("card") payments, currently incurred by its customers, in base rates. IS ADJ 30 proposes to increase operating expenses by $1,250,222 which represents an estimated annualized amount of fees paid by residential customers based on the number of card payments received in the most recent ten month period and multiplied by the per transaction fee of $2.25.

Q. PLEASE EXPLAIN IS ADJs 31 and 32.

A. Company witness Palumbo sponsors ADJs 31 and 32.

Q. PLEASE EXPLAIN IS ADJ 33.

A. Schedule SDR-4 includes the impact of IS ADJ 33 which removes $1,034,930 of revenues from test year that were not billed to or received from customers during the test year and which billing determinants were not reflected in the billing determinants used to calculate a weather normalized level of revenue. Therefore, this adjustment is required in order to avoid a double counting of revenue.

In addition, the Company recorded $6,391,485 unbilled revenue in its books and records during the test year. However, a significant portion of the unbilled revenue reflected a change in timing of the recording of billed revenue that occurred during the test year and resulted in a one month delay in the booking of customers' revenue for all of billing cycle 21 beginning in October 2018. This change resulted in unbilled revenue associated with the billing in the final month of the test year for these customers totaling $5,356,555. This portion of unbilled revenue was not removed to ensure that the test year revenue reflected the full 12-months of revenue for the cycle 21 customers.

Q. PLEASE EXPLAIN IS ADJ 34.

A. IS ADJ 34 increases Liberty-Empire's operating revenues by $3,985,645, to reflect only the deferred revenues related to the change in the federal income tax rate as a result of the TCJA occurring during the test period.

Q. PLEASE EXPLAIN IS ADJ 35.

A. IS ADJ 35 increases operating expenses by $2,619,326 for the annual amortization of various AROs that have been paid or expected to be paid by the end of the true-up period.

Q. PLEASE EXPLAIN IS ADJ 36.

A. IS ADJ 36 increases non-labor operating and maintenance expenses associated with Liberty-Empire's Riverton 12 generation unit by $4,798,471, to normalize the level of expenses included in the calculation of base rates.

VII. <u>REBASED COSTS</u>

Q. DOES THE COMPANY PROPOSE TO REBASE COSTS CURRENTLY BEING RECOVERED THROUGH OTHER RATE ADJUSTMENT MECHANISMS OR TRACKER MECHANISMS?

A. Yes. The Company is proposing to rebase the amount of Riverton 12 Operation and Maintenance ("O&M") expense included in its base rates to reflect a new base amount of $8,731,672. Also, as discussed by Company witness Todd W. Tarter, Liberty-Empire is proposing to adjust the FAC base factor and update the amount of fuel and purchased power included in its base rates.

VIII. RETIREMENT OF ASBURY

Q. AS DESCRIBED IN FILE EO-2018-0092, THE COMPANY HAS BEEN CONSIDERING THE RETIREMENT OF ITS ASBURY POWER PLANT. WHAT ARE THE COMPANY'S CURRENT PLANS FOR THE ASBURY PLANT?

A. Liberty-Empire recently submitted its triennial integrated resource plan ("IRP") to the Commission which reflects a preferred plan to retire Asbury. As a result of this analysis and as discussed in Company witness Tim Wilson's testimony, the Company plans to retire the Asbury plant no later than June of 2020. Closing the Asbury plant by June 2020 enables the Company to avoid additional investment that would be required by environmental regulations governing coal ash. Asbury would not be allowed to operate beyond that date without making considerable investments or incurring significant costs to dispose of the coal ash. Considering the age of the plant, the investments needed to comply with the environmental rules, the ongoing operation and maintenance costs that could be avoided or reduced, as well as how the plant has performed in recent years in the Southwest Power Pool's Integrated Marketplace, the Company determined the retirement of the Asbury plant by June of 2020 to be in the best interests of its customers.

Q. PLEASE DESCRIBE HOW O&M EXPENSES INCLUDED IN RATES ARE IMPACTED BY THE CLOSURE OF THE ASBURY PLANT.

A. Upon closure of the Asbury plant, there will be an impact on the Company's O&M expenses. Examples of this include reduced expenses to maintain the plant such as materials expense. In addition, labor costs associated with the plant may be reduced due to redeployment elsewhere in the Company.

Q. IS THE COMPANY OPPOSED TO THE ISSUANCE OF AN AAO TO ADDRESS THE IMPACT ON O&M EXPENSE AS A RESULT OF THE CLOSURE OF ASBURY?

A. No. Because Asbury will be retired outside of the true-up period of this rate case and the O&M changes will not yet be known and measurable, an AAO is an option that could be used to address the out of period changes.

Q. DID THE NON-UNANIMOUS STIPULATION IN CASE NO. EA-2019-0010 CONTEMPLATE THIS APPROACH?

A. Yes. In EA-2019-0010 and the predecessor docket, EO-2018-0092, the Non-Unanimous Stipulations contained a provision regarding the establishment of an AAO to address the change in operating expense associated with any retirement of the Asbury plant. However, the Commission did not adopt that provision in either of those dockets.

IX. JURISDICTIONAL ALLOCATION CHANGES

Q. IS THE COMPANY REQUESTING AN AAO OR OUT OF PERIOD ADJUSTMENT RELATED TO JURISDICTIONAL ALLOCATION CHANGES?

A. Yes. The company will experience a significant and unusual change in its native load after the end of the true-up period but prior to the expected effective date of rates in this proceeding. The native load reduction will be approximately six percent when this change takes place. Since the Company's native load will be decreased, there will be less kWh included in the calculation to allocate costs to the Company's jurisdictions which will result in additional costs allocated to Missouri's retail customers.

This change of load significantly affects the cost of service allocations among Liberty-Empire's jurisdictions. Therefore, Liberty-Empire is requesting either an AAO to capture the changes in allocated costs and associated revenues for review in the next rate case or a discrete out-of-period adjustment.

Q. WHEN WILL THIS CHANGE OCCUR?

A. The effective date of the change in load requirements is June of 2020, after the close of the true-up period in this case. Unless an out-of-period adjustment is made, any change in cost of service, including any revenue streams associated with this change, will not be included in the rates for Missouri customers until the effective date of rates resulting from Liberty-Empire's next rate case. If a discrete out-of-period adjustment is not made, the establishment of an AAO would at least allow these costs and revenues to be considered in the next rate case.

Q. WHAT IS CAUSING THIS REDUCTION IN NATIVE LOAD?

A. In late 2017, three long term customers who are currently under a 10 year contract decided not to extend their contracts as they had previously done. The customers notified the Company and executed documents to stop receiving their load requirements from Liberty-Empire. Since that time, the Company has worked diligently to find other customers that have a need for energy and/or capacity.

Q. DID THE COMPANY ENTER INTO AN AGREEMENT WITH ANOTHER CUSTOMER?

A. Yes. The Company has entered into an agreement and will sell capacity to a new customer. The Company proposes to flow the revenues from this sale of capacity back to its retail customers through the proposed AAO or with the discrete adjustment, offsetting some of the costs associated with the jurisdictional allocation change. In addition, the Company will sell generation related to this capacity on behalf of this new customer into the Southwest Power Pool ("SPP") Integrated Marketplace ("IM") and receive revenue from the purchaser for this energy. The Company is also proposing to flow back to its retail customers the net revenues associated with those sales - whether through an AAO or as part of a discrete adjustment.

X. CONTINUATION AND IMPLEMENTATION REQUESTS FOR TRACKERS

Q. DOES LIBERTY-EMPIRE REQUEST TO CONTINUE THE RIVERTON 12 TRACKER?

A. Yes. As discussed above, the operating expenses associated with the Riverton 12 long term maintenance agreement have increased significantly since the tracker was established in the Company's last rate case. Liberty-Empire believes the continuation of the tracker for these costs provides benefits to both the Company and its customers by avoiding any over or under collection of costs incurred for maintenance of the Riverton 12 unit.

Q. DOES LIBERTY-EMPIRE REQUEST THE CONTINUATION OF THE PENSION AND OPEB TRACKER?

A. Yes. As discussed and supported by Company witness James Fallert, pension and OPEB costs can fluctuate greatly due to a variety of circumstances. The Company respectfully requests the continuation of a tracker mechanism for pension and OPEB expenses.

Q. DOES THE COMPANY REQUEST TO REMOVE THE ADDENDUM TO THE TARIFFS FOR FEDERAL TAX RATE REDUCTION AND INCLUDE A TRACKER FOR TAX AMORTIZATIONS INCLUDED IN BASE RATES?

A. Yes. Liberty-Empire requests to remove the addendum to the tariffs which became effective August 30, 2018 to allow the Company to pass the benefits of the TCJA back to customers. The Company's proposed revenue requirement is calculated based on the reduced federal income tax rate and the addendum is no longer appropriate. The Company also requests a tracker for the over or under collection in rates due to changes in the annual amortization of the protected portion of excess ADIT amounts due to ARAM and due to usage changes for both the protected and unprotected excess ADIT.

XI. RIDER FAC MINIMUM FILING REQUIREMENTS

Q. IS THE COMPANY'S REQUEST TO CONTINUE ITS RIDER FAC DESIGNED TO COMPLY WITH THE COMMISSION'S RULES?

A. Yes. Liberty-Empire has designed its Rider FAC continuation request to comply with Commission Rule 4 CSR 240-20.090(2)(A)1-19 which governs the fuel adjustment process. The table below displays a list of the FAC-related minimum filing requirements and a description of where this information can be found in supporting schedules and testimony.

4 CSR 240-20.090 Fuel and Purchased Power Rate Adjustment Mechanisms Section (2)(A), Minimum Filing Requirements		
#	Description	Reference
1.	Customer Notice	Schedule SDR-11
2.	Sample Customer Bills	Schedule SDR-12
3.	Proposed FAC Tariff	Schedule AJD-1
4.	Description and Operation	Richard Direct Testimony
5.	Equity Return	Richard Direct Testimony
6.	True-up	Richard Direct Testimony
7.	Short-term Borrowing Rate	Schedule SDR-13
8.	Prudence Reviews	Richard Direct Testimony
9.	Power Supply Costs/Rev.	Schedule SDR-14
10.	Fuel Costs/Rev.	Schedule SDR-14
11.	Incentive Features	Richard Direct Testimony
12.	Rate Volatility Mitigation	Richard Direct Testimony
13.	Cost Recovery Prudence	Richard Direct Testimony
14.	Business Risk	Richard Direct Testimony
15.	Plant Efficiency Stats	Schedule SDR-15
16.	IRP Schedule	EO-2013-0547 ("2019 IRP")
17.	Emission Allowances	Schedule SDR-16
18.	Five-year Plant Availability	Schedule SDR-17
19.	Authorization	Richard Direct Testimony

Q. WILL LIBERTY-EMPIRE CUSTOMERS BE NOTIFIED OF THE REQUEST TO CONTINUE THE FAC (4 CSR 240-20.090 (2) (A) 1)?

A. Yes. In addition to the normal notice requirements for a general rate case filing, the Company has prepared a notice that describes the request to continue the existing FAC. Please see an exemplar copy of the notice attached as Schedule SDR-11.

Q. DOES THE ACCOUNTING AND BILLING PROCESS IN THE PROPOSED FAC ENABLE LIBERTY-EMPIRE TO TRACK FAC REVENUES AS A DISCRETE LINE ITEM ON CUSTOMERS' BILLS (4 CSR 240-20.090 (2) (A) 2)?

A. Yes. FAC changes/credits have been, and will continue to be, shown as a separate line item on each customer's bill, and the FAC revenue will continue to be segregated on the Company's books and records to facilitate the accounting and audit process. Please see Schedule SDR-12 for an example of a customer bill.

Q. ARE THE PROPOSED FAC TARIFF SHEETS PROVIDED (4 CSR 240-20.090 (2) (A) 3)?

A. Yes. Please see Company witness Doll's Schedule AJD-1.

Q. PLEASE DESCRIBE THE OPERATION OF LIBERTY-EMPIRE'S FAC (4 CSR 240-20.090 (2) (A) 4).

A. The application of the tariff involves the accumulation of actual Missouri jurisdictional net energy costs over a six-month period and comparing that cost accumulation to the base cost of energy recovery of net costs eligible for the FAC. Please also see the testimony of Company witness Todd Tarter. Ninety-five percent of this over/under recovery balance is then billed/credited to Liberty-Empire's Missouri retail customers over a six-month billing period that immediately follows the six-month accumulation period. The first six-month accumulation period is September through February, and the associated recovery or billing period is the following June through November. The process in the FAC involves changing the energy cost recovery factor twice each year, once in June and again in December. Liberty-Empire files for energy cost recovery changes under the FAC in April and October of each year. Please also see Company witness Doll's Schedule AJD-1.

Q. WHAT IS THE TIMING OF THE SEMI-ANNUAL FAC FILINGS IN THE FAC TARIFF?

A. The proposed tariff incorporates the following timing of actions, which are the same as those included in Liberty-Empire's existing FAC:

- Filing for a change in the fuel adjustment rate ("FAR") on April 1st and October 1st each year;

- Staff recommendation on the filed FAR by May 1st and November 1st each year;
- Commission action on the FAR by June 1st and December 1st or FAR as filed is allowed to go into effect on June 1st and December 1st each year.

Q. DOES THE TIMING OF THESE ACTIONS COMPLY WITH THE COMMISSION'S RULES GOVERNING THE FILING OF PERIODIC ADJUSTMENTS TO THE FAC?

A. Yes. The Staff has thirty days from the date of a FAR filing to make its recommendation, and the Commission has sixty days from the FAR filing date in which it can render a decision concerning the cost recovery factor or allow it to go into effect by operation of law.

Q. DOES THE PROPOSED FAC TARIFF AND THE RECOVERY/REFUND MECHANISM PROVIDE LIBERTY-EMPIRE SUFFICIENT OPPORTUNITY TO EARN A FAIR RETURN ON EQUITY (4 CSR 240-20.090 (2) (A) 5)?

A. Yes and no. The proposed FAC mechanism is a significant improvement over the recovery of these costs only through base rates. Additionally, the Company is proposing some changes to its existing FAC as described by witness Doll. These changes, such as the proposed inclusion of all RTO transmission expense, would improve the Company's opportunity to earn a fair return as compared with base rate recovery. The proposed FAC will recover 95 percent of the changes in energy costs, which means that the Missouri retail customers will reimburse Liberty-Empire for a significant portion of its actual, prudently incurred, fuel and energy costs when above the base level. Although, overall, the FAC is a great improvement over the situation that existed prior to the FAC, any negative adjustment to the 95% / 5% sharing mechanism could deprive the Company of a sufficient opportunity to earn a fair return on equity and thereby deny the Company one of the major benefits an FAC was designed to provide. During periods when fuel and purchased power costs increase between rate cases, the sharing mechanism requires Liberty-Empire to absorb five percent of those cost increases – which directly reduces the Company's earnings – even though all those costs were prudently incurred. If the percentage of costs the Company is required to absorb under the FAC's sharing mechanism is increased above the current level, the resulting effect on net income could deprive Liberty-Empire of an opportunity to earn a fair return on equity. Likewise, if energy costs would happen to fall below the FAC base, Liberty-Empire's customers could be adversely impacted.

Q. HOW DOES THE TRUE-UP OF ENERGY COST RECOVERY TAKE PLACE (4 CSR 240-20.090 (2) (A) 6)?

A. The true-up of recovered energy costs takes place every six months. Any refunds ordered by the Commission will include interest at the Company's short-term borrowing rate.

Q. PLEASE DESCRIBE HOW THE FAC MONTHLY SHORT-TERM BORROWING RATE IS DEFINED AND APPLIED TO OVER-UNDER BILLED AMOUNTS AND DISALLOWANCES AS PRESCRIBED BY THE COMMISSION'S RULES (4 CSR 240-20.090 (2) (A) 7)?

A. The interest rates for Liberty-Empire's FAC accounts are calculated monthly at a rate equal to the weighted average interest paid on the Company's short term debt, applied to the average balance of the under or over recovery calculations for periods including the current accumulation period and all prior accumulation periods net of recoveries/refunds from/to customers. A sample calculation of the short-term rate is shown on Schedule SDR-13.

Q. PLEASE DESCRIBE HOW THE FAC COMPLIES WITH THE PRUDENCE REVIEW PROCEDURES PRESCRIBED BY THE COMMISSION'S RULES (4 CSR 240-20.090 (2) (A) 8)?

A. Liberty-Empire's proposed FAC is flexible and allows the Commission to adjust the amount of FAC recovery if any cost is disallowed as the result of a prudence review. The accounting procedures used by Liberty-Empire will involve an audit trail that should facilitate the audit process associated with those periodic prudence reviews. The exact timing of the prudence review has not been explicitly set out in the tariff, but the tariff specifies that prudence reviews will take place no less than every eighteen (18) months. Liberty-Empire's operation of the FAC has been audited by the Commission Staff through February 28, 2018, and no disallowances have been recommended by Staff.

Q. PLEASE EXPLAIN ALL OF THE COSTS AND REVENUES THAT SHALL BE CONSIDERED FOR RECOVERY IN THE PROPOSED FAC (4 CSR 240-20.090 (2) (A) 9 and 4 CSR 240-20.090 (2) (A) 10).

A. Liberty-Empire is proposing to continue with the same FAC components as Liberty-Empire's existing FAC as well as those requested by Mr. Doll. Liberty-Empire's current FAC consists of net FPP energy costs (including FPP costs associated with the SPP IM, fuel related costs such as unit train, undistributed and other, variable natural gas transportation expenses and Plum Point PPA O&M), plus the cost of the AQCS consumables, a portion of the Regional Transmission Operator ("RTO") transmission expense and net emissions cost, if any, less the net sales of RECs.

Liberty-Empire's proposed FAC includes the addition of net Auction Revenue Rights and Transmission Congestion Rights, all of the RTO transmission expense and other items including the revised definition of off-system sales revenue ("OSSR") as proposed by Mr. Doll.

The FAC base is then calculated on a per unit basis utilizing net system input expressed in kilowatt hours or megawatt hours. Please also see Company witness Todd Tarter's Schedule TWT-3.

Finally, accounts, especially subaccounts, can change from time to time. They exist as a way to track and manage costs. Therefore, some flexibility should be retained to handle changing business conditions. An example of specific accounts and definitions from Liberty-Empire's existing and proposed FAC are attached as Schedule SDR-14.

Q. DO THE ENERGY COSTS ELIGIBLE FOR RECOVERY THROUGH THE PROPOSED FAC INCLUDE THE COSTS AND/OR BENEFITS ASSOCIATED WITH LIBERTY-EMPIRE'S FUEL RISK MANAGEMENT (HEDGING) PROGRAM?

A. Yes. As indicated on Schedule SDR-14, the costs eligible for recovery through the tariff include Liberty-Empire's fuel risk management costs, which are recorded in FERC accounts 501, 547, and 555.

Q. PLEASE DESCRIBE ANY INCENTIVE FEATURES IN THE PROPOSED FAC (4 CSR 240-20.090 (2) (A) 11).

A. As with the existing FAC, Liberty-Empire is proposing to maintain the 95% / 5% sharing mechanism, which operates as an incentive feature. It is my understanding that when this sharing mechanism was initially instituted, it was designed to incentivize the Company to maintain low energy costs. If prudently incurred FAC eligible costs are higher than the FAC base factor, the Company would absorb five percent of the costs higher than the FAC base. Alternately, if the prudently incurred FAC eligible costs are lower than the FAC base factor, the Company would retain five percent of the costs lower than the FAC base.

Q. ARE THERE BENEFITS ASSOCIATED WITH THE CONTINUED USE OF A FAC FOR LIBERTY-EMPIRE (4 CSR 240-20.090 (2) (A) 11)?

A. Yes. There are benefits for all of the Company's stakeholders. First, Liberty-Empire benefits by being able to recover most of its actual fuel and energy costs through the FAC. This strengthens Liberty-Empire's financial profile and enhances its ability to attract the financing necessary to meet its customers' needs and to obtain that financing at the best rates possible. In addition, the need to file general rate cases for the purpose of recovering ongoing fuel and energy costs in base electric rates has essentially been eliminated. Fewer general rate case filings lowers the Company's regulatory costs and, as such, the cost to serve Liberty-Empire's Missouri customers.

Q. DOES THE FAC BENEFIT THE CUSTOMER (4 CSR 240-20.090 (2) (A) 11)?

A. Yes, the customer benefits from the implementation and continuation of a properly designed FAC. The customer will only reimburse Liberty-Empire for the actual cost of fuel and energy, not an estimate of future energy costs. Thus, depending on the sharing mechanism and the actual costs incurred, there may be no over or under recovery of cost. Liberty-Empire could also have a stronger financial profile and an enhanced ability to attract the capital necessary to operate its utility system at the best rates possible. Ultimately, this should lower the cost of operations from what it would have been without the FAC. In addition, the FAC conveys a more accurate cost of electric energy to Liberty-Empire's customers. If energy costs increase, the customer will know within six months and will be in a position to make an informed decision concerning any energy efficiency measures that could be implemented in an effort to lower consumption. The fixed energy pricing system that Missouri used prior to the FAC tended to shield the customer from the true cost of electric energy, which may hamper the customers' adoption of or participation in energy efficiency programs.

Q. DOES THE PROPOSED FAC INCLUDE ANY RATE VOLATILITY MITIGATION FEATURES (4 CSR 240-20.090 (2) (A) 12)?

A. Yes. The energy cost changes that occur during the accumulation period will be spread over six months. This feature will fix the FAC component of a customer's bill for six months and will tend to smooth out energy price volatility.

Q. DOES THE EMPIRE FAC TARIFF INCLUDE PROVISIONS THAT ARE DESIGNED TO LIMIT EMPIRE'S FAC RECOVERIES TO PRUDENTLY INCURRED COST OF ENERGY (4 CSR 240-20.090 (2) (A) 13)?

A. Yes. The Liberty-Empire FAC and the Commission's rule governing FACs include two safeguards that limit FAC recovery to actual, prudently-incurred energy costs. The first safeguard is a true-up process that ensures that the FAC collections during the Recovery Period do not exceed actual energy costs incurred during the Accumulation Period. The second safeguard involves a requirement that Liberty-Empire's energy costs be subjected to periodic Prudence Reviews, which ensure that only prudently-incurred energy costs are passed through to customers.

Q. DOES LIBERTY-EMPIRE HAVE PROCEDURES IN PLACE DESIGNED TO ENSURE THAT ITS FUEL PURCHASING IS PRUDENT (4 CSR 240-20.090 (2) (A) 13)?

A. Yes, it does. Liberty-Empire plans its fuel procurement activity using long-term planning and maintains an active Risk Management Policy.

Q. IN ITS DIRECT FILING, HAS THE COMPANY PROVIDED ANY INFORMATION ABOUT THE CHANGE IN BUSINESS RISK RESULTING FROM THE IMPLEMENTATION OF THE PROPOSED FAC (4 CSR 240-20.090 (2) (A) 14)?

A. Yes, please refer to the direct testimony of Company witness Robert B. Hevert starting on page 29.

Q. HAS LIBERTY-EMPIRE CONDUCTED ANY HEAT RATE TESTING ON ITS GENERATION UNITS DURING THE PREVIOUS TWENTY-FOUR MONTHS (4 CSR 240-20.090 (2) (A) 15)?

A. Yes. The heat rate test results are included as Schedule SDR-15. Additionally, the documentation of the test monitoring procedures are found in files contained in folder FAC MFR #15 which will be provided to the parties in this case as part of the workpapers it provides in connection with its direct case filing. Heat rate testing information, as required by Rule subpart 20.090(2)(A)(15), is being providing for twelve of Liberty-Empire's thirteen generating units. Heat rate testing, however, was performed on Liberty-Empire's Riverton 11 generating unit just outside the 24-month time period prescribed by the Rule, and, as such, a partial waiver is being requested.

Q. PLEASE PROVIDE ANY INFORMATION THAT DEMONSTRATES THAT EMPIRE HAS A LONG-TERM RESOURCE PLANNING PROCESS IN PLACE (4 CSR 240-20.090 (2) (A) 16).

A. Liberty-Empire filed its most recently completed IRP in Missouri on June 28, 2019, in Case No. EO-2019-0049 ("2019 IRP").

Q. PLEASE PROVIDE A DESCRIPTION OF THE COMPANY'S EMISSION

MANAGEMENT POLICY AND FORECASTED ENVIRONMENTAL INVESTMENTS AND ALLOWANCES PURCHASES AND SALES (4 CSR 240-20.090 (2) (A) 17).

A. Empire is currently subject to two sets of regulations which utilize emissions allowances. They are the Acid Rain program and the Cross State Air Pollution Rule ("CSAPR"). Under these programs, each year, a set number of emissions allowances are provided to Empire for each of the affected plants. Empire anticipates being able to comply with these regulations with the allowances provided. At this time, Empire has no plans to sell any banked allowances, which are used to help ensure compliance with existing regulations. Therefore, based on current market conditions, the Company expects little to no costs or revenue over the next four years related to emissions allowances.

Q. PLEASE PROVIDE DATA AND ILLUSTRATIONS DETAILING GENERATING PLANT AVAILABILITY FOR THE PRECEDING FIVE YEARS FOR EACH PLANT LIBERTY-EMPIRE OWNS EITHER IN PART OR IN ITS ENTIRETY(4 CSR 240-20.090 (2) (A) 18).

A. The plant availability data is included as Schedule SDR-17.

Q. DOES LIBERTY-EMPIRE GRANT AUTHORIZATION FOR THE COMMISSION TO RELEASE TO ALL PARTIES TO THE GENERAL RATE CASE THE PREVIOUS FIVE YEARS OF HISTORICAL SURVEILLANCE MONITORING REPORTS LIBERTY-EMPIRE HAS SUBMITTED THROUGH THE ELECTRONIC FILING INFORMATION SYSTEM? (4 CSR 240-20.090 (2) (A) 19).

A. Yes.

XII. COMPLIANCE WITH STIPULATIONS AND AGREEMENTS

Q. HAS THE COMPANY COMPLIED WITH THE STIPULATIONS AND AGREEMENTS AS ORDERED BY THE COMMISSION IN FILE NO. ER-2016-0023?

A. Yes, the Company is in compliance with the Stipulation and Agreement approved by the Commission by Order dated August 10, 2016, as well as the DSM Stipulation and Agreement approved by Order dated May 17, 2017 ("DSM"). Among the major areas are the following:

DSM Regulatory Asset

The Signatories agreed that the Company will continue amortization of the DSM regulatory asset for costs incurred during the Regulatory Plan, File No. EO-2005-0263, for a total term of ten (10) years.

DSM Program Cost

The Signatories agreed that the Company will continue amortization for the DSM program costs incurred after the end of the Regulatory Plan and prior to any program implementation under MEEIA for a total term of six (6) years.

Low Income Weatherization

Please see the direct testimony of Company witness Nathaniel W. Hackney who will address the stipulations and agreements regarding Low Income Weatherization.

Volumetric Rate Design / Block Rates

Staff, OPC, DE, and the Company agreed to work together to develop an analysis regarding responsible energy use as related to residential block rates, with said analysis to be filed by the Company in its next general rate case. Please refer to the direct testimony of Company witness Timothy S. Lyons for this analysis.

Reporting

The Company agreed to and has continued to provide monthly quality of service reporting, submit monthly revenue and usage reports to Staff, and provide the following information as part of its monthly FAC reports (as agreed to in the Non-Unanimous Stipulation and Agreement filed May 12, 2010, in File No. ER-2010-0130):

a. Monthly SPP market settlements and revenue neutrality uplift charges;

b. Notify Staff within 30 days of entering a new long-term contract for transportation, coal, natural gas or other fuel; natural gas spot transactions are specifically excluded;

c. Provide Staff with a monthly natural gas fuel report that includes all transactions, spot and longer term; the report will include term, volumes, price and analysis of number of bids;

d. Notify Staff within 30 days of any material change in the Company's fuel hedging policy, and provide the Staff with access to new written policy;

e. Provide Staff its Missouri Fuel Adjustment Interest calculation work papers in electronic format with all formulas intact when the Company files for a change in the cost adjustment factor;

f. Notify Staff within 30 days of any change in Liberty-Empire's internal policies for participating in the SPP; and

g. Continue to provide Staff access to all contracts and policies upon Staff's request, at the Company's corporate office in Joplin, Missouri.

XIII. MERGER STIPULATIONS – CASE NO. EM-2016-0213

Q. HAS LIBERTY-EMPIRE COMPLIED WITH THE CONDITIONS SET FORTH IN THE STIPULATIONS AND AGREEMENTS WITH THE STAFF

AND OFFICE OF THE PUBLIC COUNSEL ("OPC") REGARDING FINANCING?

A. Yes. Liberty-Empire has complied with the following conditions regarding financing:

- The Company agreed to provide notice to the Commission, including a filing with required information, in the event The Empire District Electric Company ("Empire"), and/or the affiliate on which it relies on for its debt financing ("Financing Affiliate"), should have its Standard & Poor's ("S&P") Corporate Credit Rating downgraded to below BBB-. *The Company has not been downgraded below a BBB-.*
- The Company agreed in the event Empire's affiliation with Algonquin Power & Utilities Corp. and its companies should cause Empire's and/or the Financing Affiliate's S&P Corporate Credit Rating to be downgraded to below BBB-, Empire, or the Financing Affiliate, shall pursue additional legal and structural separation, if necessary, from the affiliate(s) causing the downgrade, to ensure Empire continues to have access to capital at the least cost. Empire shall not pay a dividend to its upstream parent companies until there is sufficient evidence that Empire's S&P Corporate Credit Rating has been restored to the rating Empire had before the event. *The Company has not been downgraded below a BBB-.*
- The Company agreed if Empire's S&P Corporate Credit Rating declines, and/or the credit rating of the Financing Affiliate declines, Empire shall file with the Commission a comprehensive risk management plan that assures Empire's access to and cost of capital will not be further impaired. The plan shall include

a non-consolidation opinion if required by S&P. *The S&P Corporate Credit Rating has not declined.*

- The Company agreed that Empire shall not seek an increase to the cost of capital as a result of this Transaction or Empire's ongoing affiliation with Algonquin Power & Utilities Corp. and its affiliates other than Empire after the Transaction. Any net increase in the cost of capital Empire seeks shall be supported by documentation that: (a) the increases are a result of factors not associated with the Transaction or the post Transaction operations of Algonquin Power & Utilities Corp. or its non-Empire affiliates; (b) the increases are not a result of changes in business, market, economic or other conditions caused by the Transaction or the post Transaction operations of Algonquin Power & Utilities Corp. or its non-Empire affiliates; and (c) the increases are not a result of changes in the risk profile of Empire caused by the Transaction or the post Transaction operations of Algonquin Power & Utilities Corp. or its non-Empire affiliates. The provisions of this section are intended to recognize the Commission's authority to consider, in appropriate proceedings, whether this Transaction or the post Transaction operations of Algonquin Power & Utilities Corp. or its non-Empire affiliates has resulted in capital cost increases for Empire. Nothing in this agreement shall restrict the Commission from disallowing such capital cost increases from recovery in Empire's rates. *The Company has not attempted to seek an increase to the cost of capital as a result of the Transaction. Please refer to the testimony of Company witness Robert Hevert.*

- The Company agreed if Empire's per books capital structure is different from that of the entity or entities in which Empire relies for its financing needs, Empire shall be required to provide evidence in subsequent rate cases as to why Empire's per book capital structure is the most economical for purposes of determining a fair and reasonable allowed rate of return for purposes of determining Empire's revenue requirement. *Please refer to the testimony of Company witness Robert Hevert.*
- The Company agreed the Joint Applicants will not obtain Empire financing services from an affiliate, unless such services comply with Missouri's Affiliate Transaction Rules. *Any financing provided to Empire from an affiliate has been in compliance with Missouri's Affiliate Transaction Rules.*
- The Company agreed to the extent the goodwill arising from the Transaction which is assigned to LU Central becomes impaired and such impairment negatively effects Empire's cost of capital, all net costs associated with the decline in Empire's credit quality specifically attributed to the goodwill impairment, considering all other capital cost effects of the Transaction and the impairment, shall be excluded from the determination of its rates. *The goodwill impairment analysis was completed on January 26, 2018.*
- The Company agreed for the first five years after closing of the Transaction, LU Central shall provide Staff and OPC, its annual goodwill impairment analysis in a format that includes spreadsheets in their original format with formulas and links to other spreadsheets intact and any printed materials within 30 days after it is performed. Thereafter, this analysis will be made available to Staff and OPC

upon request. *The Company filed the annual goodwill impairment analysis for 2017 on April 2, 2018 and for 2018 on May 7, 2019.*

Q. HAS LIBERTY-EMPIRE COMPLIED WITH THE CONDITIONS SET FORTH IN THE STIPULATIONS AND AGREEMENTS WITH THE STAFF AND OPC REGARDING DEPRECIATION?

A. Yes. Liberty-Empire has complied with the following conditions regarding depreciation of electric assets:

- The Company agreed that for purposes of accruing depreciation expense, Liberty-Empire shall use the ordered depreciation rates from File No. ER-2016-0023 until they are changed in a subsequent rate proceeding. *The Company is accruing depreciation expense at rates ordered in Docket ER-2016-0023.*
- Liberty-Empire agreed to continue to book all plant and depreciation reserve records in compliance with the format set forth in Title 18: Conservation of Power and Water Resources, Part 101—Uniform System Of Accounts Prescribed For Public Utilities and Licensees Subject To The Provisions Of The Federal Power Act (FERC USOA). *Liberty-Empire's plant and depreciation reserve are recorded in the format set forth in Title 18: Conservation of Power and Water Resources, Part 101—Uniform System Of Accounts Prescribed For Public Utilities and Licensees Subject To The Provisions Of The Federal Power Act (FERC USOA).*
- Liberty-Empire agreed to continue to prepare and maintain its books in accordance with the FERC Uniform System of Accounts (USOA). *Liberty-Empire continues to prepare and maintain its books in accordance with the FERC Uniform System of Accounts (USOA).*

- The Company agreed to submit the following information in accordance with 4 CSR 240-3.175 - Submission Requirements for Electric Utility Depreciation Studies. *While Liberty-Empire has not included a depreciation study as part of this filing, once completed it will be submitted in accordance with 4 CSR 240-3.175 - Submission Requirements for Electric Utility Depreciation Studies.*

Q. HAS LIBERTY-EMPIRE COMPLIED WITH THE CONDITIONS SET FORTH IN THE STIPULATIONS AND AGREEMENTS WITH THE STAFF AND OPC REGARDING RATEMAKING AND ACCOUNTING CONDITIONS?

A. Yes. Liberty-Empire has met the following conditions relating to ratemaking:

- The Company agreed Goodwill associated with the premium over book value of the assets paid for the shares of Empire stock (referred to for purposes of this stipulation as "Acquisition Premium") will be maintained on the books of LU Central and the amount of any acquisition premium paid will not be recovered in retail rates. Liberty-Empire agreed it would not seek direct or indirect recovery or recognition of any acquisition premium through any purported acquisition savings "sharing" adjustment (or similar adjustment) in future rate cases. *The Acquisition Premium has been recorded on the books of LU Central and Empire did not include for recovery any acquisition premium either directly or indirectly in this case.*
- The Company agreed it would not seek either direct or indirect rate recovery or recognition of any transaction costs through any purported acquisition savings "sharing" adjustment (or similar adjustment) in any future rate cases. *Liberty-*

Empire's filing does not include any merger-related transactions costs to be recovered by Missouri customers.

- The Company agreed transition costs are those costs incurred to integrate Empire under the ownership of LU Central and includes integration planning and execution, and "costs to achieve." Transition costs include capital and non-capital costs. Non-capital transition costs can be ongoing costs or one- time costs. Non-capital transition costs were allowed to be deferred on the books of the Company to be considered for recovery in future rate cases. If the Company seeks to recover these costs in subsequent rate recovery it will have the burden of proving that the recoveries of any transition costs are just and reasonable and the costs provide benefits to its customers. *Liberty-Empire is not seeking to recover transition costs in this rate case.*

Q. HAS LIBERTY-EMPIRE COMPLIED WITH THE CONDITIONS SET FORTH IN THE STIPULATIONS AND AGREEMENTS WITH THE STAFF AND OPC REGARDING AFFILIATE TRANSACTIONS?

A. Yes. Liberty-Empire has met the following conditions:

- The parties agreed that the Company is to be operated after the purchase in compliance with the affiliate transaction rule, or will obtain any necessary variances from the MoPSC's affiliate transaction rule as defined in 4 CSR 240-20-015(10) and 4 CSR 240-40-015(10). *Empire is operating in compliance with the affiliate transaction rule.*
- The parties agreed Algonquin Power & Utilities Corp. and its subsidiaries will commit that all information related to an affiliate transaction consistent with 4 CSR 240-20.015(5)(A)(1)-(2) and 4 CSR 240-40.015(5)(A)(1)-(2) charged to

Liberty-Empire will be treated in the same manner as if that information is under the control of Liberty-Empire. *The Company continues to treat information related to affiliate transactions as if that information is under the control of Liberty-Empire.*

- The parties agreed that Liberty-Empire will provide no preferential service, information, or treatment to an affiliated entity over another party at any other time, consistent with 4 CSR 240-20.015(2) and 4 CSR 240-40.015(2). *Liberty-Empire continues to provide no preferential service, information, or treatment to an affiliated entity over another party.*

Q. HAS THE COMPANY COMPLIED WITH THE CONDITIONS REGARDING ACCESS TO RECORDS?

A. Yes. Liberty-Empire has complied with the following conditions:

- The Company agrees to provide Staff and OPC with access, upon reasonable written notice during working hours and subject to appropriate confidentiality and discovery procedures, to all written information provided to common stock, bond or bond rating analysts which directly or indirectly pertains to Liberty-Empire or any affiliate that exercises influence or control over Liberty-Empire or has affiliate transactions with Liberty-Empire. *The Company will make available any information related to common stock, bond, or bond rating analysts which directly or indirectly pertains to Empire or any affiliate that exercises influence or control over Empire or has affiliate transactions with Empire.*
- Empire agrees to make available to Staff and OPC, upon written notice during normal working hours and subject to appropriate confidentiality and discovery

procedures, all books, records and employees as may be reasonably required to verify compliance with Liberty-Empire's cost allocation manual ("CAM"). Liberty-Empire also agreed to provide Staff and OPC any other such information (including access to employees) relevant to the Commission's ratemaking, financing, safety, quality of service and other regulatory authority over Liberty-Empire. *The Company will make available all such relevant records and related documents required to verify compliance.*

- The Company agrees to provide Staff and OPC access to and copies of, if requested by Staff or OPC, the complete Liberty Utilities Co, LU Central and Empire Board of Directors' meeting minutes, including all agendas and related information distributed in advance of the meeting, presentations and handouts, provided that privileged information shall continue to be subject to protection from disclosure and Liberty-Empire shall continue to have the right to object to the provision of such information on relevancy grounds. *Empire agrees to provide access to and copies of the relevant, non-privileged documents.*
- The Company agrees to maintain records supporting its affiliated transactions for at least five years. *Empire has and will continue to maintain records supporting its affiliated transactions for at least five years.*
- The Joint Parties agreed that should it be deemed necessary for Staff employees to travel to locations outside of the State of Missouri to examine any records deemed relevant to the subject matter at hand Liberty-Empire shall bear all reasonable expense incurred by the employees, provided, however, that before any such expense shall be incurred by Staff, the Company shall be given reasonable notice to produce the records requested for inspection and

examination at the office of the Commission at Jefferson City, Missouri or at Empire's offices in Joplin, Missouri, or at such other point in Missouri, as may be mutually agreed, in which case Liberty-Empire shall make available at that place, at that time, a person(s) who is acquainted with the records. *Empire will continue to comply with this agreement if it is deemed necessary for Staff employees to travel to locations outside of the State of Missouri to examine any records deemed relevant to the subject matter at hand.*

Q. HAS EMPIRE COMPLIED WITH ADDITIONAL CONDITIONS CONTAINED IN THE OPC STIPULATION?

A. Yes. Liberty-Empire has complied with the following additional conditions:

- In ensuring that the transaction is rate-neutral, the Joint Parties commit that there will be no establishment of regulatory assets as part of the merger, unless approved by the Commission. *Liberty-Empire has not established a regulatory asset as part of the merger.*
- The Company agrees that Liberty-Empire's parent company will indemnify Liberty-Empire for any federal or local income tax liability in excess of Liberty-Empire's standalone liability for any period in which Liberty-Empire is included in a consolidated income tax filing. *Although it has been included in consolidated income tax filings, Liberty-Empire has not incurred any federal or local income tax liability in excess of its standalone liability as a result. If this circumstance occurs, Liberty-Empire's parent company will indemnify Liberty-Empire for any federal or local income tax liability in excess of Liberty-Empire's standalone liability for any period in which Liberty-Empire is included in a consolidated income tax filing.*

- The Company agreed to record on its books all deferred taxes related to income tax deductions or credits created by Liberty-Empire's operations. *Liberty-Empire has recorded on its books all deferred taxes related to income tax deductions or credits created by Liberty-Empire's operations.*
- The Company agrees to not assume liability for the debts assumed by Algonquin, Liberty Utilities, or any of their subsidiaries or affiliates. *Liberty-Empire has not assumed liability for the debts issued by Algonquin, Liberty Utilities or any other subsidiary or affiliate.*
- The Company agrees to maintain corporate officers who have a fiduciary duty to Empire. *Liberty-Empire has maintained corporate officers which have a fiduciary duty to the Company.*
- The Company agrees to maintain separate books and records, and make them available for review by Staff and OPC. *Liberty-Empire continues to maintain separate books and records, which are available for review.*
- The Company agrees it would not pay a dividend if its equity to total capitalization ratio, based on a 12-month rolling average, falls below 40%, or if payment of dividends would cause Liberty-Empire's equity to total capitalization ratio to fall below that threshold. *Liberty-Empire's equity level has not fallen below 40 percent.*
- The Company agrees to provide copies to Staff and OPC of the portions of any external audit reports performed for Algonquin Power & Utilities Corp. and Liberty Utilities Co.'s shared services pertaining directly or indirectly to determinations of direct billings and cost allocations to Empire. *There have not been any such determinations and therefore nothing has been provided.*

- The Company agrees to provide upon request a list of proceedings, if any, where Liberty Utilities Co.'s cost allocation practices have been audited in any other jurisdictions. Liberty-Empire will also make any such audit reports available to the Commission, its Staff, and the OPC upon request. *There have not been any such audits and therefore nothing has been provided.*
- The Company agreed to notify the Commission Staff and OPC within thirty days anytime there is 1.) an addition or deletion of an affiliated entity that provides services to, or receives services from, Liberty-Empire; 2.) an addition or deletion of an unregulated service provided by Liberty-Empire ; or 3.) an addition or deletion of a regulated service by Liberty-Empire for which a tariff has not been approved. *These events have not occurred, so no such notifications have been made.*
- The Company agrees to provide an independent attestation engagement of the CAM related to non-regulated affiliates and activities if requested by Staff or OPC. If approved by the Commission, the costs of any independent attestation engagement related to the CAM shall be shared by the regulated and non-regulated operations consistent with the allocation of similar costs. *There have not been any such engagements and therefore nothing has been provided.*
- The Company agrees to not file a rate case until at least one full year of financial and operational information was available following the close of the Transaction on January 1, 2017. *Liberty-Empire did not file a rate case within one year following the close of the merger.*

Q. HAS EMPIRE COMPLIED WITH THE CONDITIONS IN THE AGREEMENT WITH THE EMPIRE DISTRICT ELECTRIC SERP RETIREES?

A. Yes. Empire has complied with the following conditions:

- The Company agrees to engage within one year after the Transaction closes, an actuarial analysis with the intention of determining whether a SERP funded via a Rabbi trust according to the SERP plan is less expensive to ratepayers than benefits paid from Empire's general funds for the life of the plan (the "Study"). The current SERP recipients shall be included in the development of all assumptions and allowed review and analysis of the Study. If the Study concludes the annual costs and expenses of funds contributed by Empire using a Rabbi trust (including contributions to the trust) to provide benefits are essentially the same or less than the costs and expenses to ratepayers of providing the alternate of SERP benefits from Empire's general funds, Empire will discuss the results of the Study with Staff and OPC, and to the extent neither party oppose the rate recovery of the Rabbi trust in place of the SERP funded from general funds, Empire will fund a Rabbi trust according to the plan. Any trust documents shall be subject to review by the SERP recipients' counsel. *On June 13, 2017, the Company engaged Towers Watson to perform an actuarial analysis with the intention of determining whether a Supplemental Executive Retirement Plan ("SERP") funded via a Rabbi trust according to the SERP plan is less expensive to customers than benefits paid from Empire's general funds for the life of the plan. Liberty-Empire and the current SERP recipients continue to work together to review the assumptions and the analysis of the study. On November 28, 2018, and again on February 25, 2019, Liberty-Empire met with Staff, OPC and the retirees. Prior to implementing any* *changes in funding of the SERP or seeking recovery in rates, the Company will discuss the proposed changes with Staff and OPC.*

Q. HAS EMPIRE COMPLIED WITH THE CONDITIONS IN THE AGREEMENT WITH THE MISSOURI DIVISION OF ENERGY ("DE") AND RENEW MISSOURI?

A. Yes. Empire has complied with the following conditions:

- The Company agrees that within six (6) months following the completion of the Transaction and the publication of best practices recommendations for microgrid interconnection by the Missouri University of Science and Technology's Microgrid Industrial Consortium, Empire will meet with DE to consider a microgrid interconnection strategy consistent with the best practices recommendations of the Microgrid Industrial Consortium. *On June 29, 2017 following the completion of the acquisition and the publication of best practices recommendations for microgrid interconnection by the Missouri University of Science and Technology's Microgrid Industrial Consortium, the Company met with DE to consider a microgrid interconnection strategy consistent with the best practices recommendations of the Microgrid Industrial Consortium. The Company has reviewed the viability of offering a community solar or solar subscription program that provides its customers with the option of purchasing blocks of electricity generated from solar installations constructed and/or owned by Empire within the state of Missouri. On June 11, 2019 Liberty-Empire met with stakeholders to solicit input and feedback on its proposal. The Company is in the process of finalizing and submitting a formal proposal to the Commission.*

XIV. CONCLUSION

Q. DOES THIS CONCLUDE YOUR CORRECTED DIRECT TESTIMONY?

A. Yes.

AFFIDAVIT OF SHERI RICHARD

STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 22 day of August, 2019, before me appeared Sheri Richard, to me personally known, who, being by me first duly sworn, states that she the Director of Rates and Regulatory Affairs of The Empire District Electric Company – Liberty Utilities Central and acknowledges that she has read the above and foregoing document and believes that the statements therein are true and correct to the best of her information, knowledge and belief.

Sheri Richard

Sheri Richard

Subscribed and sworn to before me this 22 day of August, 2019.

ANGELA M. CLOVEN
Notary Public - Notary Seal
State of Missouri
Commissioned for Jasper County
My Commission Expires: November 01, 2019
Commission Number: 15262659

Angela M. Cloven

Notary Public

My commission expires: 11/01/19.