

Exhibit No.:

*Issues: Rate Case Expense
Renewable Energy Credits Revenue
Cash Working Capital*

Witness: Ashley R. Sarver

Sponsoring Party: MoPSC Staff

Type of Exhibit: Surrebuttal Testimony

Case No.: ER-2014-0351

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MISSOURI PUBLIC SERVICE COMMISSION

**REGULATORY REVIEW DIVISION
UTILITY SERVICES - AUDITING**

SURREBUTTAL TESTIMONY

OF

ASHLEY R. SARVER

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2014-0351

*Jefferson City, Missouri
March 2015*

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TABLE OF CONTENTS
SURREBUTTAL TESTIMONY OF
ASHLEY R. SARVER
THE EMPIRE DISCTIRCT ELECTRIC COMPANY
CASE NO. ER-2014-0351

EXECUTIVE SUMMARY 2
RATE CASE EXPENSE 2
RENEWABLE ENERGY CREDITS REVENUE 4
CASH WORKING CAPTIAL..... 5

1 **EXECUTIVE SUMMARY**

2 Q. Please provide a brief summary of your surrebuttal testimony in this
3 proceeding.

4 A. In this testimony, I respond to OPC's position arguing for a 50/50 sharing
5 between the shareholders and customers of rate case expense. In this particular case, Staff
6 does not recommend sharing of rate case expense and has instead included an amount of rate
7 case expense normalized over two years in the cost of service.

8 This testimony also addresses Empire's witness Tarter's request that Empire's cost of
9 service reflect REC revenues calculated on a projected basis. Staff's position is to use
10 "known and measurable" REC revenues based on the test year, the twelve months ending
11 April 30, 2014.

12 Finally, I will respond to the Company's recommendation to correct the property tax
13 expense amount listed on Accounting Schedule 08, Cash Working Capital. Staff has
14 reviewed the Company's recommendation and agrees that the test year property tax expense
15 on the CWC Schedule should be changed.

16 **RATE CASE EXPENSE**

17 Q. What is OPC witness Keri Roth's position in this case regarding rate case
18 expense?

19 A. Ms. Roth states in her rebuttal testimony, "Public Counsel's position is that
20 the amount of rate case expense, included in the development of rates of the current case,
21 should only include a normalized annual level of charges that directly benefit ratepayers.
22 Since shareholders actually benefit from the rate case activities from which these charges
23 derive much more than ratepayers do, it is just and reasonable that shareholders should cover

1 some of these charges.” She recommends that the rate case cost be shared 50/50 between
2 shareholders and customers.

3 Q. What is Staff’s current position on rate case expense?

4 A. In this case, Staff is recommending that Empire’s rate case expenses be
5 treated in the traditional manner; that is, the Company should be allowed an opportunity to
6 recover in rates the full amount of reasonable and prudently incurred rate case expenses
7 through a two- year normalization period from the customers. However, Staff will continue
8 to monitor the rate case expenses incurred by Empire for reasonableness and prudence.

9 Q. Has it been Staff’s general position that rate case expense be shared by the
10 customers and shareholders?

11 A. No, not in recent general rate proceedings. However, in September 2013,
12 Staff filed a report in Case No. AW-2011-0330 (“RCE Report”) concerning the topic of rate
13 recovery of rate case expense. Within that document, Staff examined recent trends in
14 incurred rate case expense by major Missouri utilities, and discussed several possible options
15 for allocation of rate case expense between utility shareholders and customers. Within the
16 RCE Report, Staff recommended that the Commission consider “employing structural
17 incentives measures in rate cases to provide utilities with stronger incentives to reasonably
18 limit their rate case expenses to appropriate and necessary levels.”

19 Q. What is the amount of rate case expense the Company has paid to date?

20 A. The most recent response to Staff Data Request No. 69 states as of February
21 28, 2015 Company has paid invoices totaling \$128,536. Staff has included a normalized level
22 of \$64,261 in the rate case. Staff has disallowed \$14 from Worldwide Express due to lack
23 evidence that it is a rate case expense.

1 Q. What is Staff's position regarding OPC's proposal in this rate case for a 50/50
2 sharing of rate case expense between customers and shareholders?

3 A. Given the relatively small amount of expense incurred by Empire to date
4 regarding this rate proceeding, and the relatively small amount that Empire currently expects
5 to incur over the course of this proceeding, Staff does not support a sharing of rate case
6 expense between customers and shareholders in this particular case at this time.

7 **RENEWABLE ENERGY CREDITS REVENUE**

8 Q. Do Staff and Empire differ regarding the level of REC revenues to include in
9 this rate case?

10 A. Yes. There is a difference in methodology between Staff and Empire in how
11 the ongoing level of REC revenues assumed for rate making purposes should be calculated.
12 Empire recommends the annualized value of REC revenues to be used in this case should be
13 the expected level for calendar year 2015. This differs from Staff's methodology which used
14 "known and measurable" REC revenue information from the test year, the twelve months
15 ending April 30, 2014. Empire's approach violates both the known and measurable concept
16 and the matching principle concept.

17 Q. Please define the rate making term "known and measurable."

18 A. The term "known and measurable" means that an event has already occurred
19 and it can be measured with a high degree of accuracy.

20 Q. Please define the rate making term "matching principle."

21 A. The term "matching principle" refers to the practice that all elements of
22 revenue requirement, including revenues, expenses, and rate base, be measured using a
23 consistent time frame.

1 Q. Does Staff agree with Empire's use of a forward-looking spot market price
2 estimate for the purpose of normalizing REC revenues?

3 A. No. The Company recommended using the expected level for calendar year
4 2015. The Company has not based its recommended level of REC revenues on any known
5 and measurable information which occurred during the test year, the test year update period
6 or the true-up period.

7 Q. Will Staff review any changes in the level of REC revenues that occur within
8 the true-up period in this case?

9 A. Yes, Staff will take another look into this issue in the true-up phase of this
10 case which ends December 31, 2014.

11 **CASH WORKING CAPITAL**

12 Q. Do you agree with Mr. Owens that Staff made an error regarding the property
13 tax expense amount in the CWC Accounting Schedule?

14 A. Yes. Staff agrees with the correction Mr. Owens referenced on pages 6-7
15 (lines 21-6). The total Company amount of \$19,398,811 for property taxes was used in the
16 direct filing instead of the Missouri Jurisdictional amount of \$16,702,260 in Staff
17 Accounting Schedule 08. Therefore, Staff will make a correction to appropriately reflect the
18 Missouri jurisdictional property tax expense amount of \$16,702,260 in Staff's updated
19 accounting schedules.

20 Q. What is the impact of these corrections?

21 A. This correction to Cash Working Capital will increase rate base by
22 \$1,020,894 from the revised Staff Accounting Schedule circulated to all of the parties on
23 February 26, 2015.

Surrebuttal Testimony of
Ashley R. Sarver

1 Q. Does this conclude your surrebuttal testimony?

2 A. Yes, it does.

