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

Date Testimony Prepared: March 24, 2015

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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1 **SURREBUTTAL TESTIMONY** 2 OF ASHLEY R. SARVER 3 4 THE EMPIRE DISTRICT ELECTRIC COMPANY 5 CASE NO. ER-2014-0351 Q. Please state your name and business address. 6 7 A. Ashley R. Sarver, Governor Office Building, P.O. Box 360, Jefferson City, Missouri 65102. 8 9 Q. By whom are you employed and in what capacity? 10 Α. I am employed by the Missouri Public Service Commission ("Commission") 11 as a Utility Regulatory Auditor II in the Auditing Unit of the Utility Services Department, 12 Regulatory Review Division of the Commission Staff ("Staff"). 13 Q. Are you the same Ashley R. Sarver that was responsible for certain sections of 14 Staff's Revenue Requirement Cost of Service Report ("Staff Report") filing in this rate case 15 for The Empire District Electric Company ("Empire" or "Company") on January 29, 2015? 16 A. Yes, I am. 17 Q. What is the purpose of your surrebuttal testimony? 18 A. The purpose of my surrebuttal testimony is to respond to the rebuttal 19 testimony of The Office of the Public Counsel ("OPC") witness Keri Roth regarding rate 20 case expense. I also address the issues discussed in rebuttal testimony by Empire witness 21 Todd W. Tarter regarding Renewable Energy Credits (REC) and Bryan S. Owens regarding 22 Cash Working Capital (CWC).

EXECUTIVE SUMMARY

- Q. Please provide a brief summary of your surrebuttal testimony in this proceeding.
- A. In this testimony, I respond to OPC's position arguing for a 50/50 sharing between the shareholders and customers of rate case expense. In this particular case, Staff does not recommend sharing of rate case expense and has instead included an amount of rate case expense normalized over two years in the cost of service.

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

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

RATE CASE EXPENSE

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

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22 23 some of these charges." She recommends that the rate case cost be shared 50/50 between shareholders and customers.

- Q. What is Staff's current position on rate case expense?
- A. In this case, Staff is recommending that Empire's rate case expenses be treated in the traditional manner; that is, the Company should be allowed an opportunity to recover in rates the full amount of reasonable and prudently incurred rate case expenses through a two- year normalization period from the customers. However, Staff will continue to monitor the rate case expenses incurred by Empire for reasonableness and prudence.
- Q. Has it been Staff's general position that rate case expense be shared by the customers and shareholders?
- A. No, not in recent general rate proceedings. However, in September 2013, Staff filed a report in Case No. AW-2011-0330 ("RCE Report") concerning the topic of rate recovery of rate case expense. Within that document, Staff examined recent trends in incurred rate case expense by major Missouri utilities, and discussed several possible options for allocation of rate case expense between utility shareholders and customers. Within the RCE Report, Staff recommended that the Commission consider "employing structural incentives measures in rate cases to provide utilities with stronger incentives to reasonably limit their rate case expenses to appropriate and necessary levels."
 - Q. What is the amount of rate case expense the Company has paid to date?
- A. The most recent response to Staff Data Request No. 69 states as of February 28, 2015 Company has paid invoices totaling \$128,536. Staff has included a normalized level of \$64,261 in the rate case. Staff has disallowed \$14 from Worldwide Express due to lack evidence that it is a rate case expense.

- Q. What is Staff's position regarding OPC's proposal in this rate case for a 50/50 sharing of rate case expense between customers and shareholders?
- A. Given the relatively small amount of expense incurred by Empire to date regarding this rate proceeding, and the relatively small amount that Empire currently expects to incur over the course of this proceeding, Staff does not support a sharing of rate case expense between customers and shareholders in this particular case at this time.

RENEWABLE ENERGY CREDITS REVENUE

- Q. Do Staff and Empire differ regarding the level of REC revenues to include in this rate case?
- A. Yes. There is a difference in methodology between Staff and Empire in how the ongoing level of REC revenues assumed for rate making purposes should be calculated. Empire recommends the annualized value of REC revenues to be used in this case should be the expected level for calendar year 2015. This differs from Staff's methodology which used "known and measurable" REC revenue information from the test year, the twelve months ending April 30, 2014. Empire's approach violates both the known and measurable concept and the matching principle concept.
 - Q. Please define the rate making term "known and measurable."
- A. The term "known and measurable" means that an event has already occurred and it can be measured with a high degree of accuracy.
 - Q. Please define the rate making term "matching principle."
- A. The term "matching principle" refers to the practice that all elements of revenue requirement, including revenues, expenses, and rate base, be measured using a consistent time frame.

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February 26, 2015.

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 Will Staff review any changes in the level of REC revenues that occur within Q. 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 CAPTIAL 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

- 1 Q. Does this conclude your surrebuttal testimony?
- A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of The Empire District Electric) Company for Authority to File Tariffs) Case No. ER-2014-0353 Increasing Rates for Electric Service Provided) to Customers in the Company's Missouri) Service Area)	I
AFFIDAVIT OF ASHLEY R. SARVER	
STATE OF MISSOURI)) ss. COUNTY OF COLE)	
Ashley R. Sarver, of lawful age, on her oath states: that she has partic preparation of the foregoing Surrebuttal Testimony in question and answer form, pages to be presented in the above case; that the answers in the foregoing Testimony were given by her; that she has knowledge of the matters set forth in and that such matters are true and correct to the best of her knowledge and belief.	consisting of g Surrebuttal
Ashley R. Sarver	
Subscribed and sworn to before me this	
D. SUZIE MANKIN Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: December 12, 2016 Commission Number: 12412070	