

Exhibit No.:

Issue(s):

Witness/Type of Exhibit:

Sponsoring Party:

Case No.:

Rate Case Expense
2007 Ice Storms Cost
Roth/Direct
Public Counsel
ER-2012-0345

DIRECT TESTIMONY

OF

KERI ROTH

Submitted on Behalf of the Office of the Public Counsel

EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2012-0345

November 30, 2012

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**


In the Matter of The Empire District)
Electric Company of Joplin, Missouri)
Tariffs Increasing Rates for Electric) File No. ER-2012-0345
Service Provided to Customers in the)
Missouri Service Area of the Company)

AFFIDAVIT OF KERI ROTH

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Keri Roth, of lawful age and being first duly sworn, deposes and states:

1. My name is Keri Roth. I am a Public Utility Accountant I for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my direct testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.




Keri Roth
Public Utility Accountant I

Subscribed and sworn to me this 30th day of November 2012.



JERENE A. BUCKMAN
My Commission Expires
August 23, 2013
Cole County
Commission #09754037



Jerene A. Buckman
Notary Public

My Commission expires August, 2013.

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EMPIRE DISTRICT ELECTRIC COMPANY

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**DIRECT TESTIMONY
OF
KERI ROTH**

**EMPIRE DISTRICT ELECTRIC COMPANY
CASE NO. ER-2012-0345**

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Keri Roth, PO Box 2230, Jefferson City, Missouri 65102-2230.

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

A. I am employed by the Missouri Office of the Public Counsel (OPC or Public Counsel) as a Public Utility Accountant I.

Q. WHAT IS THE NATURE OF YOUR CURRENT DUTIES AT THE OPC?

A. My duties include performing audits and examinations of the books and records of public utilities operating within the state of Missouri under the supervision of the Chief Public Utility Accountant, Mr. Ted Robertson.

1 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND OTHER
2 QUALIFICATIONS.

3 A. I graduated in May 2011, from Lincoln University, in Jefferson City, Missouri, with a
4 Bachelor of Science Degree in Accounting.

5
6 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC
7 SERVICE COMMISSION (COMMISSION OR MPSC)?

8 A. No.

9

10 **II. PURPOSE OF TESTIMONY**

11 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

12 A. I am sponsoring the Public Counsel's position regarding Empire District Electric
13 Company's (Empire or Company) ratemaking treatment for rate case expense and 2007
14 ice storm costs deferred pursuant to the Accounting Authority Orders authorized in Case
15 No. ER-2008-0093.

16

17 **III. RATE CASE EXPENSE**

18 Q. WHAT IS THE ISSUE?

1 A. The issue is determining the proper amount of rate case expense the Company should be
2 authorized to include in its rates pursuant to changes in rates effective at the conclusion of
3 the current case.

4
5 Q. HAVE YOU REVIEWED COMPANY'S ESTIMATED COSTS TO DEVELOP AND
6 PROCESS THE INSTANT CASE?

7 A. Yes. The Rate Case Expense workpaper provided by Company identified the estimated
8 cost of the instant case as \$500,000.

9
10 Q. HAVE YOU REVIEWED THE COST DETAIL PROVIDED BY THE COMPANY FOR
11 ESTIMATED RATE CASE EXPENSE?

12 A. Yes. The Rate Case Expense workpaper, Company provided, shows the breakdown of
13 estimated rate case expense \$500,000 as,

14	Estimate:	
15	Security	600
16	Depreciation	70,000
17	BSE	300,000
18	FSA	30,000
19	TW	3,000
20	PWC	1,500
	Misc	25,000
	W&S	50,000
	Additional for Hearings	19,900
	Total	<u>500,000</u>

1 Q. PLEASE SUMMARIZE THE PUBLIC COUNSEL'S POSITION ON THIS ISSUE.

2 A. Public Counsel believes that the amount of rate case expense included in the development
3 of the Company's rates should only include a normalized annual level of charges that
4 directly benefit ratepayers. Since shareholders benefit from the activities from which rate
5 case costs are derived, as much as, if not more than ratepayers, shareholders should also
6 bear some of the burden of rate case expense.

7

8 Q. HOW DO SHAREHOLDERS AND RATEPAYERS BENEFIT FROM THE
9 ACTIVITIES ASSOCIATED WITH GENERAL RATE INCREASE CASES?

10 A. Customers definitely have an interest in ensuring that their utilities' rates are just and
11 reasonable, which is the ultimate objective of any rate case, whether it results in an
12 increase or decrease in a given utility's rates; however, both shareholders and ratepayers
13 benefit in many ways from a strong stable organization that has competent management
14 at its helm. The utility that is able to respond to all stakeholders with the services and
15 other requirements that they expect necessitates that the utility be able to access debt
16 markets at competitive rates. That entails that the earnings capacity of the utility must
17 be sufficient to fund its construction and operational processes while providing an
18 adequate return to shareholders. In addition, operational processes must be able to
19 fulfill the utility's commitments of safe and reasonably priced service to ratepayers. All
20 of which can only be done if the utility is allowed the opportunity to recover a

1 reasonable return on its investment and recover prudent, reasonable and necessary
2 expenses. General rate increase cases provide the avenue upon which the utility seeks to
3 obtain the proper revenue requirement (i.e., rates) which will allow it to meet those
4 goals. Furthermore, shareholders benefit even more from any efficiencies that
5 management may be able to incorporate into the organization; thereby, increasing the
6 likelihood of growth in future stock prices and dividends they may receive.

7
8 Q. DOES THE PUBLIC COUNSEL BELIEVE THAT THE COSTS ASSOCIATED WITH
9 THE CURRENT GENERAL RATE INCREASE CASE SHOULD BE UTILIZED TO
10 DEVELOP THE NORMALIZED AMOUNT OF RATE CASE EXPENSE TO INCLUDE
11 IN THE DETERMINATION OF FUTURE RATES?

12 A. Yes. On a going forward basis, Public Counsel believes that only the prudent and
13 reasonable costs incurred in the instant case should be utilized to determine the annual level
14 of rate case expense to include in the determination of rates since they represent the most
15 recent actual costs one can expect the utility to incur.

16
17 Q. WHAT IS THE ANNUALIZED AMOUNT OF RATE CASE EXPENSE YOU ARE
18 PROPOSING THAT THE COMPANY RECEIVE?

19 A. As of the time this testimony is given, the Company has incurred rate case expense costs
20 of \$183,926.40. The costs are a moving target in that they will continue to be incurred

1 through the end of the update period and true-up; the total rate case expense will not be
2 known until sometime after the end of December 2012. Public Counsel will update the
3 Commission on its recommendation in later testimony.

4
5 Q. IS THERE A NEED TO NORMALIZE THE RATE CASE EXPENSE AUTHORIZED
6 BY THE COMMISSION?

7 A. Yes. Since utilities do not normally file a rate increase request on a yearly basis, the
8 costs that they incur to process the activity should be recovered over a period of years
9 representative of how often the utility's rates are actually changed from one case to
10 another. The costs should be normalized (averaged) over the period of time necessary to
11 complete the cycle for the activity.

12
13 Q. DOES PUBLIC COUNSEL RECOMMEND A SPECIFIC NORMALIZATION
14 PERIOD?

15 A. Yes. Company's proposal for a two-year normalization of rate case expense appears to
16 be reasonable.

17
18 V. **2007 ICE STORMS**

19 Q. WHAT IS THE ISSUE?

1 A. In January 2007, and again in December 2007, major winter storms with damaging freezing
2 rain and heavy ice accumulations hit Empire's service area. Significant damage was caused
3 to Empire's transmission and distribution systems by both storms. Because the restorative
4 repairs were too extensive for Empire employees to handle on their own, the Company
5 hired various contractors and employees from other utilities to assist in the restoration
6 efforts.

7
8 Q. WHAT ARE THE COSTS AT ISSUE?

9 A. Empire tracked all costs associated with the ice storms separately. For the amounts that
10 were not capitalized, the Company requested in Case No. ER-2008-0093 that these
11 expenses be amortized over five-years. In Case No. ER-2008-093, the Company, Staff, and
12 OPC entered into a "Non-Unanimous Stipulation and Agreement as to Certain Issues" and
13 the language included in that Stipulation concerning the January and December ice storm
14 costs is as follows:

15 For purposes of future ratemaking, Empire shall be considered to have
16 begun to amortize its January ice storm expenses in February 2007 and its
17 December 2007 ice expenses in January 2008.

18
19 The Stipulation included a five-year amortization for these costs. However, for the January
20 2007 ice storm, \$1,635,638 was amortized in the current test year on the Missouri
21 jurisdictional basis. This amount should be disallowed, and amortization of the January
22 2007 ice storm costs should stop, because according to the Stipulation and Agreement,

1 January ice storm costs were fully amortized in January 2012. Company stopped booking
2 the January 2007 ice storm expense at January 31, 2012; however, the costs are still being
3 recovered by ratepayers in current rates. Similarly, for the December 2007 ice storm,
4 \$1,672,371 was amortized in the current test year on the Missouri jurisdictional basis. This
5 amount should also be disallowed, and amortization of the December 2007 ice storm costs
6 should stop, because the costs will be fully amortized at the end of December 2012.
7

8 Q. WHAT DOES PUBLIC COUNSEL RECOMMEND?

9 A. Public Counsel recommends that the January 2007 and December 2007 ice storm costs
10 should not be included in the instant rate case, because the January 2007 ice storm costs
11 were fully amortized in January 2012, and the December 2007 ice storm costs will be fully
12 amortized at December 31, 2012, which is the end of the true up period requested by the
13 Company.
14

15 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

16 A. Yes, it does.