**EXECUTIVE SUMMARY**
**FOR THE REBUTTAL TESTIMONY OF L. JAY WILLIAMS**
**THE EMPIRE DISTRICT ELECTRIC COMPANY**
**BEFORE THE**
**MISSOURI PUBLIC SERVICE COMMISSION**
**CASE NO. ER-2006-0315**

---

**Purpose:**

The testimony discusses the proposed recovery of state deferred income tax benefits flowed through to ratepayers from 1954 through August 15, 1994. In addition, the rebuttal testimony also discusses is an issue related to the amount of deferred income taxes used by the Staff to reduce rate base and comments related to the supplemental direct testimony of Staff Witness Oligschlaeger on the income tax ramifications related to "regulatory plan" amortization.

**Summary and Conclusion:**

From January 1, 1954 until August 15, 1994, Empire flowed through the state income tax benefits related to accelerated depreciation to its customers in the form of lower rates. During that time, deferred income tax expense included in Empire's filing included only the deferred income taxes related to the federal component of income taxes. This gave the customers at that time the benefit of the state deferred income tax expense. This benefit must be recovered by the Company. Empire proposes to recover the previously flowed through deferred state income tax benefits under the "South Georgia" method. Under the Empire proposal, $2,347,760, which Empire has recorded for financial reporting purposes as a deferred state income tax liability and a corresponding regulatory asset, will be recovered ratably over the estimated remaining life of the assets involved, which is 18 years. This equals an annual cost recovery of $130,431.

The Staff's rate base adjustment for deferred taxes included an amount titled "Deferred Income Taxes-Pension Asset-Missouri" in the amount of $2,324,454. This amount appears to be related to a Staff proposed pension adjustment that has been eliminated and should not be deducted from rate base**.** Empire recommends this deferred tax balance be eliminated also.

Staff witness Oligschlaeger did not gross up the Staff's level of recommended regulatory amortization for income taxes. Amortization expense that would be used under the Empire regulatory plan is not a tax deductible expense. The associated revenue would be taxable. This requires that any amortization authorized be increased to reflect the fact that it is taxable in order to meet the desired cash levels under the regulatory plan.