

Exhibit No.:
Issue: Rate Case Overview
Witness: Kelly S. Walters
Type of Exhibit: Direct Testimony
Sponsoring Party: Empire District Electric
Case No.
Date Testimony Prepared: October 2009

**Before the Public Service Commission
of the State of Missouri**

Direct Testimony

of

Kelly S. Walters

October 2009

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OF
KELLY S. WALTERS
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION

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DIRECT TESTIMONY
OF
KELLY S. WALTERS
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO.

1 **INTRODUCTION**

2 **Q. STATE YOUR NAME AND ADDRESS PLEASE.**

3 A. My name is Kelly S. Walters and my business address is 602 South Joplin Avenue,
4 Joplin, Missouri.

5 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS MATTER?**

6 A. I am appearing on behalf of The Empire District Electric Company (“Empire” or “the
7 Company”).

8 **POSITION**

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

10 A. I am presently employed by Empire as Vice President-Regulatory and Services. I have
11 held this position since May 2006.

12 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND**
13 **PROFESSIONAL EXPERIENCE.**

14 A. I graduated from Pittsburg State University in December 1986 with a Bachelor of
15 Science degree in Business Administration with a major in accounting. In October
16 2001, I received a Master of Arts degree in Human Resource Management from
17 Webster University. I began my employment at Empire in November 1988 in the
18 accounting department and held various positions within the accounting department

1 until July 1993 when I became Manager of Regulatory Accounting.

2 I left Empire in 1998 to assume the position of Manager of Financial Services at
3 Crowder College. In September 2001, I rejoined Empire as Director of Planning and
4 Regulatory. In this position I had responsibility for load research, strategic planning,
5 rates, and regulatory accounting. In April 2005, I was promoted to General Manager of
6 Regulatory and General Services and held this position at Empire until I took my
7 present position in May 2006.

8 **Q. HAVE YOU PREVIOUSLY PARTICIPATED IN ANY REGULATORY**
9 **PROCEEDINGS?**

10 A. Yes, I have. I have testified before regulatory commissions in the states of Missouri,
11 Kansas, Oklahoma and Arkansas.

12 **PURPOSE**

13 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING**
14 **BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION**
15 **(“COMMISSION”)?**

16 A. My testimony will provide overview of this rate case, including the primary factors
17 driving Empire’s need for an increase in rates and a discussion of how this case relates
18 to the Experimental Regulatory Plan (“Regulatory Plan”) approved by the Commission
19 in Case No. EO-2005-0263. I also will introduce the other Empire witnesses filing
20 direct testimony in this case.

21 **Q. WHAT TEST YEAR DID EMPIRE USE IN DETERMINING RATE BASE,**
22 **OPERATING INCOME AND RATE OF RETURN?**

23 A. The test year used in this case by Empire is based upon the twelve months ending June

1 30, 2009, adjusted for known and measurable changes.

2 **Q. PLEASE GENERALLY DESCRIBE THE RATE INCREASE EMPIRE IS**
3 **REQUESTING.**

4 A. Empire is requesting an overall increase of \$68.2 million in Missouri jurisdictional
5 revenue, exclusive of applicable fees or taxes, or an increase of 19.6 percent. This
6 increase is based on an overall rate of return of 8.93 percent and a return on equity of
7 11.0 percent. The primary factors driving the need for a rate increase are the capital
8 investments associated with the addition of the Iatan 1 pollution control facilities, and
9 Empire's participation in the construction and ownership of the Iatan 2 and Plum Point
10 coal-fired generating units.

11 **Q. BY WAY OF BACKGROUND, DOES THE REGULATORY PLAN**
12 **CONTEMPLATE ROUTINE MEETINGS WITH THE COMMISSION STAFF**
13 **("STAFF"), THE OFFICE OF PUBLIC COUNSEL ("OPC"), THE MISSOURI**
14 **DEPARTMENT OF NATURAL RESOURCES ("DNR") AND OTHERS**
15 **CONCERNING EMPIRE'S FUTURE RESOURCE NEEDS, BOTH SUPPLY-**
16 **SIDE AND DEMAND-SIDE?**

17 A. Yes. At paragraph III. F. (1), the Regulatory Plan outlines a process whereby Empire's
18 ongoing activities regarding its Integrated Resource Plan ("IRP") would be presented
19 semiannually to the Staff, OPC, DNR, and other interested parties. This section of the
20 Regulatory Plan also describes some specific IRP requirements Empire was expected
21 to meet, including the development of an extra IRP filing in 2006 and agreement to
22 solicit bids on 200 megawatts ("MW") of additional base load capacity through a

1 Request for Proposal (“RFP”) process.

2 **Q. WHAT IS YOUR UNDERSTANDING AS TO WHY THERE IS SUCH AN**
3 **EMPHASIS IN THE REGULATORY PLAN ON THE IRP AND RFP**
4 **PROCESSES?**

5 A. The parties were very interested in the resources Empire would put in place to replace
6 the base load capacity and energy that was, at the time, and currently is being supplied
7 by Westar from coal-fired units located at the Jeffrey Energy Center in north-central
8 Kansas pursuant to a contract that is due to expire on May 31, 2010.

9 **Q. DID EMPIRE COMPLY WITH THE IRP AND RFP PROCESSES**
10 **CONTEMPLATED BY THE REGULATORY PLAN?**

11 A. Yes. The extra IRP filing was completed and submitted to the non-utility Signatory
12 Parties to Case No. EO-2005-0263 in July of 2006. Empire also completed the RFP on
13 additional base-load power supply as outlined in the Regulatory Plan. As a result,
14 Empire was able to gain access to and a partial ownership interest in the Plum Point
15 coal-fired generation unit now being built in northeastern Arkansas.

16 **Q. HAS THE PLUM POINT INVESTMENT BEEN INCLUDED IN EMPIRE’S IRP**
17 **PLANS FILED WITH THE COMMISSION?**

18 A. Yes.

19 **Q. DOES THE REGULATORY PLAN ADDRESS EMPIRE’S DEMAND-SIDE**
20 **MANAGEMENT ACTIVITIES?**

21 A. Yes. The Regulatory Plan included the formation of a Customer Programs
22 Collaborative (“CPC”). The CPC was directed to make decisions pertaining to the

1 development, implementation, monitoring and evaluation of demand-side management,
2 energy efficiency and affordability programs for Empire. The current membership of
3 the CPC includes the Staff, OPC, DNR, and a representative from several of Empire's
4 industrial customers.

5 **Q. SINCE IT WAS ESTABLISHED IN 2005, HAS THE EMPIRE CPC**
6 **IMPLEMENTED SEVERAL DEMAND-SIDE MANAGEMENT OR ENERGY**
7 **EFFICIENCY PROGRAMS?**

8 A. Yes. In her direct testimony, Empire witness Sherry McCormack will outline the
9 energy efficiency efforts Empire implemented as a result of the CPC process.

10 **Q. PLEASE COMMENT ON THE TIMING OF THIS FILING.**

11 A. If Empire is unable to include in rate base and timely recover through rates the
12 Company's investment in the new facilities at the Iatan 1 plant, which is now in-
13 service, as well as its investments in Iatan 2 and Plum Point, Empire will experience
14 significant adverse financial consequences. In this regard, it was initially thought that
15 both Iatan 2 and Plum Point would be in-service in the June 2010 timeframe. The
16 construction schedules for these plants, however, have now been adjusted and the
17 projected in-service dates no longer appear to be generally contemporaneous or
18 synchronized and instead appear to be diverging. An expanding gap of time between
19 the commercial operation dates of these plants will create additional financial pressures
20 on Empire. Given all of these circumstances, the Company has determined that it
21 would be prudent to file this case at this time. The Signatory Parties to the Regulatory
22 Plan are currently in discussions about procedures to be used in this case, including the

1 including the timing of the consideration and rate recovery of Empire's investments in
2 the three generating facilities and other expenditures.

3 **WITNESSES**

4 **Q. WHO ARE THE OTHER WITNESSES PRESENTING TESTIMONY ON**
5 **EMPIRE'S BEHALF IN THIS CASE?**

6 A. The following witnesses will present direct testimony on behalf of Empire:

- 7 • William Gipson-Policy
- 8 • Scott Keith-Supporting accounting schedules, overall revenue requirement,
9 continuation of Empire's Fuel Adjustment Clause ("FAC")
- 10 • Jayna Long-Specific adjustments to rate base and statement of operations
- 11 • Kelly Emanuel-Cash Working Capital and tariff changes not related to rate base
- 12 • Mark Quan-Weather Normalization
- 13 • James Vander Weide-Cost of Capital
- 14 • Laurie Delano-Supporting Schedules for Pension and Post Retirement Benefits
- 15 • Rob Sager-Capital Structure and Stock Issuance Cost
- 16 • Sherry McCormack-DSM, Low-Income Programs and CPC
- 17 • Blake Mertens-Investment in Iatan pollution control, Iatan 2 and Plum Point
- 18 • Sam McGarrah-Infrastructure Management
- 19 • Thomas Mackey-Vegetation Management

20 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

21 A. Yes.