

Exhibit No.:
Issues: *Unamortized Balance of
Joplin Tornado AAO,
SPP Transmission Expense,
True-Up, Advanced Coal
Investment Tax Credit*
Witness: *Kimberly K. Bolin.*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Rebuttal Testimony*
Case No.: *ER-2012-0345*
Date Testimony Prepared: *February 4, 2013*

MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

UTILITY SERVICES - AUDITING

SURREBUTTAL TESTIMONY

OF

KIMBERLY K. BOLIN

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2012-0345

Jefferson City, Missouri
February, 2013

1
2
3
4
5
6
7
8
9
10
11
12

TABLE OF CONTENTS
SURREBUTTAL TESTIMONY
OF
KIMBERLY K. BOLIN
THE EMPIRE DISTRICT ELECTRIC COMPANY
CASE NO. ER-2012-0345

EXECUTIVE SUMMARY 1

UNAMORTIZED BALANCE OF JOPLIN TORNADO AAO 2

SPP TRANSMISSION EXPENSE 4

TRUE-UP 6

ADVANCED COAL INVESTMENT TAX CREDIT 9

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22

SURREBUTTAL TESTIMONY

OF

KIMBERLY K. BOLIN

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2012-0345

Q. Please state your name and business address.

A. Kimberly K. Bolin, 200 Madison Street, Suite 440, Jefferson City, MO 65102.

Q. By whom are you employed and in what capacity?

A. I am employed by the Missouri Public Service Commission ("Commission") as a Utility Regulatory Auditor V.

Q. Are you the same Kimberly K. Bolin who has previously filed direct and rebuttal testimony in this case?

A. Yes.

Q. What is the purpose of your surrebuttal testimony?

A. My surrebuttal testimony will address the rebuttal testimony of The Empire District Electric Company ("Empire" or "Company") witness W. Scott Keith concerning the following issues: unamortized balance of the Joplin tornado Accounting Authority Order (AAO), Southwest Power Pool (SPP) transmission expense, and which items to include in the true-up audit. My testimony also addresses the rebuttal testimony of Empire witness L. Jay Williams concerning the Advanced Coal Investment Tax Credit.

EXECUTIVE SUMMARY

Q. What topics are addressed in this piece of testimony?

1 A. I will address the Missouri Public Service Commission Staff's ("Staff's")
2 recommendation that the unamortized balance of the of the Joplin tornado AAO not be
3 included in the rate base in the Company's cost of service. The Staff's exclusion of the
4 unamortized balance is consistent with the treatment given to other AAOs featuring deferral
5 of costs of natural disasters, like this AAO. I will also address Staff's recommendation that
6 projected costs not be used in determining the SPP transmission expense to include in the cost
7 of service. Staff recommends the Commission use historical costs to determine the level of
8 SPP transmission expense. Finally, I will compare the Company's proposed list of true-up
9 items to what Staff believes should be included in the true-up audit.

10 As for the Advanced Coal Investment Tax Credit (ITC) amount for which the
11 Company is requesting recovery in this case, the Staff has not currently included this item in
12 its cost of service. Staff is still conducting research in regard to this issue and has not
13 formulated a final decision if this item should be recovered in rates.

14 **UNAMORTIZED BALANCE OF JOPLIN TORNADO AAO**

15 Q. On page 13 of Empire witness W. Scott Keith's rebuttal testimony he claims
16 that Staff's exclusion of the unamortized balance of the Joplin Tornado AAO is "unfair and is
17 at odds with the Commission's order originally authorizing the deferral . . ." Did the
18 Commission's order address the question of rate base treatment of the allowed asset?

19 A. No.

20 Q. Is it appropriate to exclude the unamortized balance of the AAO from
21 rate base?

22 A. Yes. Including the unamortized balance in rate base would shield the
23 shareholders from sharing any of the risk of the natural disaster. As I stated in my rebuttal

1 testimony, the Commission in the past has agreed with Staff in that the unamortized balance
2 of an AAO associated with an “act of God” should not be included in rate base. In its Report
3 and Order in Case No. WR-95-145, St. Louis County Water Company (“County Water”), the
4 Commission stated:¹

5 Based upon the record in this case, the Commission agrees
6 with Staff that it would be inappropriate to include the unamortized
7 portion of County Water’s flood costs in rate base. County Water
8 is attempting to amortize the expense associated with the damage
9 caused by the 1993 flood over a period of five years and
10 simultaneously include in rate base a portion of that expense.
11 County Water may not capitalize an item in rate base and at the
12 same time recover the item as an expense from ratepayers,
13 particularly where the item claimed is retrospective in nature such
14 as flood expense. In addition, inclusion of the unamortized
15 expense would shield the shareholders from the risk of such a
16 natural disaster while imposing such a risk entirely on ratepayers.
17 The cost incurred as a result of the flood of 1993 was a natural
18 disaster, an “act of God”, and the expenditures were not intended
19 to produce any benefit other than restoring the system to its pre-
20 flood operating condition. The burden of “acts of God” should not
21 have to be borne solely by the ratepayers. In the case of a natural
22 disaster, the shareholders should not be completely shielded from
23 the risk, but should share in the cost with the ratepayer. Allowing
24 County Water to recover the cost through amortization, without the
25 inclusion of the unamortized balance in rate base, achieves that
26 sharing. Thus, the Commission finds that the unamortized portion
27 of the expenses associated with damage from the flood of 1993
28 should not be included in rate base.

29 Q. Did the Stipulation and Agreement in Case No. EU-2011-0387, which
30 established this AAO, specify that the unamortized balance should be included in rate base?

31 A. No. In fact it was specified in both the order approving the stipulation and
32 agreement and the stipulation and agreement itself, that, “. . . the Commission reserves the
33 right to consider the ratemaking treatment to be afforded all deferred costs and/or
34 expenditures, including the recovery of carrying costs, if any.”

¹ 4 Mo.P.S.C. 3d pages 106-107.

1 Q. What is an AAO?

2 A. An AAO is an accounting mechanism that permits deferral of costs from one
3 period to another. The items deferred are booked as an asset rather than an expense, thus
4 improving the financial picture of the utility in question during the deferral period. During a
5 subsequent rate case, the Commission determines what portion, if any, of the deferred
6 amounts will be recovered in rates.

7 Q. On page 14, of witness Keith's rebuttal testimony he states, "Empire has
8 absorbed the financial impact of the storms for almost two years." Why is this statement
9 incorrect?

10 A. In Case No. EU-2011-0387, the Commission authorized Empire to defer
11 incremental O&M expenses associated with the repair, restoration and rebuild activities
12 associated with the tornado, as well as depreciation expense and "carrying charges" related to
13 any capital additions necessitated by the tornado. Under that authority Empire did not charge
14 any O&M expense or depreciation expense directly related to the tornado to current expense.
15 Under that authority, Empire was also allowed to accrue a carrying charge equal to its
16 Allowance for Funds Used During Construction (AFUDC) rate on its tornado capital
17 additions to offset the lack of a current return on its tornado-related capital additions. The
18 AAO granted to Empire substantially mitigated many of the negative financial impacts
19 Empire would have suffered due to the tornado.

20 **SPP TRANSMISSION EXPENSE**

21 Q. Through what period of time does Mr. Keith advocate in his rebuttal testimony
22 to recognize transmission expenses in Empire's cost of service?

1 A. Empire proposes to include its projections of increases for 2013, which is
2 outside of the test year and true-up period in this case.

3 Q. Does Staff agree with the Company's use of projections to determine the SPP
4 transmission expense to be included in the cost of service?

5 A. No. Empire's approach to transmission expense in this instance ignores the
6 Commission's practice of using a historical test year and reflecting only the financial impact
7 of known and measurable changes to the test year in determining a utility's revenue
8 requirement, and instead relies solely on projections in this area. Staff has consistently taken
9 the approach in rate cases to include in revenue requirement only costs that are known and
10 measurable. In this case, Staff examined the past SPP transmission expenses that Empire has
11 incurred to determine the level of expense to include in the cost of service.

12 Q. What do you mean by "known and measurable"?

13 A. "Known and measurable" relates to items or events affecting the cost of
14 service which occur after the test year. Such items or events must have been realized by the
15 company and the effect on the cost of service must be calculated with a high degree of
16 accuracy and certainty.

17 Q. Are the future SPP transmission expenses known and measurable?

18 A. No. As evidenced in witness Keith's rebuttal testimony, the Company has not
19 provided dates in which the rates will increase nor has the Company provided the amounts by
20 which they will increase.

21 Q. Has Staff proposed to include SPP transmission expense as part of its
22 true-up audit?

1 A. Yes. After reviewing the historical SPP transmission expenses, Staff found the
2 expenses to be increasing on a 12 month rolling average basis. Staff used the most current
3 twelve months as of June 30, 2012 for its expense level in the cost of service. Staff will
4 include this item in the true-up audit through December 31, 2012 due to the increasing trend
5 in the data. However, changes in the level of this expense through 2013 are not known or
6 measureable at this time; thus, projected data should not be considered now or in the true-up
7 phase of this case.

8 Q. Did Staff use historical revenues to calculate the SPP transmission revenues
9 received by Empire reflected in Staff's case?

10 A. Yes. Staff used the most current twelve months as of June 30, 2012 for the
11 revenue level for SPP transmission revenues.

12 Q. Does any Empire witness address Staff's use of historical information for
13 calculating SPP transmission revenues in their rebuttal testimony?

14 A. No.

15 **TRUE-UP**

16 Q. In Company witness W. Scott Keith's rebuttal testimony, what items does
17 he propose to include in the true-up audit?

18 A. Witness Keith lists the following items on pages 25 and 26 of his
19 rebuttal testimony:

- 20 • All of the components of rate base, including plant in service balances and
- 21 accumulated depreciation balances
- 22 • DSM investment balances

- 1 • Change in the number of customers taking service
- 2 • Fuel/purchase power costs associated with change in number of customers
- 3 • SPP revenue
- 4 • SPP expense
- 5 • Payroll expense
- 6 • Employee benefits such as health care
- 7 • Rate case expense
- 8 • Depreciation and amortization expense, including depreciation rates
- 9 • Property tax
- 10 • Income tax
- 11 • Vegetation management costs
- 12 • Various tracker balances and amortization levels
- 13 • New operating system costs, including maintenance on new systems
- 14 • Property insurance costs
- 15 • Generation unit maintenance costs

16 Q. Does Staff agree with the Company's above proposed list of true-up items?

17 A. No. Generation unit maintenance costs, depreciation expense associated with
18 the impact of the alleged early retirement of Riverton 7 & 8, vegetation management costs
19 (expense level), and property insurance costs should not be included in the true-up audit.

20 Q. Why does Staff oppose including operation and maintenance costs for
21 operating plants, and vegetation management costs?

22 A. Staff performed normalizations for these costs. Further examination of any of
23 these expenses beyond the test year would not produce materially different results than what

1 Staff's normalizations produced. The purpose of a true-up is to reflect significant changes in
2 the cost of service outside of the test year and update periods but going out no further than the
3 end of the true-up period in the proceeding.

4 Q. Why has Staff excluded depreciation for the retirement of Riverton 7 & 8 as a
5 true-up item?

6 A. Not only is Staff opposed to including depreciation for the retirement of
7 Riverton 7 & 8 in the true-up, Staff is also opposed to Company's proposal to include this
8 expense in the cost of service at this time. Staff recommends that the depreciation rates it
9 recommended in Staff's direct filed case also be used in the true-up audit.

10 Q. Why does Staff oppose including property insurance in its true-up audit?

11 A. Property insurance is not usually an item that is considered in most true-up
12 audits due to Staff's normalization of this expense in Staff's direct case. In a rate case a test
13 year is established for the purposes of matching the rate base, revenue and expenses at the
14 same time period. This ratemaking principle is commonly referred to as the "matching"
15 principle. It is a standard practice in ratemaking to match the major components (rate base,
16 revenue, and expense) of a utility's revenue requirement. Property insurance expense is not
17 normally considered a major component of a utility's revenue requirement. For the Company
18 to start picking out costs that will be increasing after the test year to request to be included
19 in the true-up audit is to violate the matching principle and ignore any potential decreases to
20 other expenses. It would be overly burdensome to re-audit substantially all expenses and
21 revenues in order to achieve matching of increasing and decreasing costs and revenues.

22 Q. Are there any items not listed in Company's direct testimony that Staff
23 recommends to include in the true-up audit?

1 A. Yes. The Company did not specific these items, but Staff recommends
2 including the following items in the true-up audit:

- 3 • Capital Structure
4 • All Fuel/Purchased Power costs (not only just the changes due to customer
5 growth).

6 Q. Why does Staff recommend including the capital structure in true-up?

7 A. A company's capital structure impacts the rate of return the Company
8 receives on the company's rate base. The return a company receives upon its investment
9 (rate base) is a major component in determining the revenue requirement. This may be a
10 significant adjustment.

11 Q. Should fuel and purchase power costs be included as an expense item to
12 include in the true-up audit?

13 A. Yes. All of the factors that determine the fuel and purchased power costs; such
14 as coal and natural gas prices, purchased power contracts, etc. should be included in the
15 true-up audit, not just the impacts of the change in the number of customers. It is particularly
16 important for utilities, such as Empire, that have a Fuel Adjustment Clause (FAC) to update
17 fuel and purchased power expense to reflect the latest known and measurable changes in the
18 calculation so that the FAC base is as accurate as possible.

19 **ADVANCED COAL INVESTMENT TAX CREDIT**

20 Q. Please explain this issue.

21 A. In Empire witness Mr. Williams' rebuttal testimony he addresses a new issue
22 that was not reflected in the Company's direct filing, of whether the Company's inability to

Surrebuttal Testimony of
Kimberly K. Bolin

1 utilize Advanced Coal ITC tax benefits which were used to reduce rates in the previous
2 Empire case, Case No. ER-2011-0004, creates a normalization violation. To address this
3 possibility, Empire is proposing to recover back from customers an amount for this tax benefit
4 that was included in Empire's last rate increase.

5 Q. Is Empire's position on this issue correct?

6 A. Staff is unsure at this time. Staff is continuing to conduct research on this
7 issue. Staff is not proposing recovery of this item as of this filing.

8 Q. Does this conclude your surrebuttal testimony?

9 A. Yes.

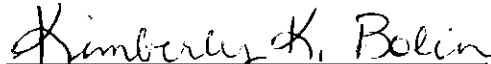
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

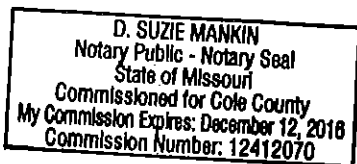
AFFIDAVIT OF KIMBERLY K. BOLIN

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Kimberly K. Bolin, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 10 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.


Kimberly K. Bolin

Subscribed and sworn to before me this 4th day of February, 2013.




Notary Public