

Exhibit No.:
Issue: Rate Case Overview
Witness: Kelly S. Walters
Type of Exhibit: Direct Testimony
Sponsoring Party: Empire District Electric
Case No. ER-2011-004
Date Testimony Prepared: September 2010

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

Direct Testimony

of

Kelly S. Walters

September 2010

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

<u>SUBJECT</u>	<u>PAGE</u>
INTRODUCTION.....	1
PURPOSE / RATE CASE OVERVIEW.....	2
EMPIRE'S REGULATORY PLAN.....	5
SOUTHWESTERN POWER ADMINISTRATION PAYMENT	7
WITNESSES.....	8

DIRECT TESTIMONY
OF
KELLY S. WALTERS
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2011-0004

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. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR JOB TITLE?**

6 A. I am presently employed by The Empire District Electric Company ("Empire" or
7 "Company") as Vice President-Regulatory and Services. I have held this position
8 since May 2006.

9 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND**
10 **PROFESSIONAL EXPERIENCE.**

11 A. I graduated from Pittsburg State University in December 1986 with a Bachelor of
12 Science degree in Business Administration with a major in accounting. In October
13 2001, I received a Master of Arts degree in Human Resource Management from
14 Webster University. I began my employment with Empire in November 1988 in the
15 accounting department and held various positions until July 1993 when I became
16 Manager of Regulatory Accounting.

17 I left Empire in 1998 to assume the position of Manager of Financial Services with
18 Crowder College. In September 2001, I rejoined Empire as Director of Planning and

1 Regulatory. In that position I had responsibility for load research, strategic planning,
2 rates, and regulatory accounting. In April 2005, I was promoted to General Manager
3 of Regulatory and General Services and held that position with Empire until I took my
4 present position in May 2006.

5 **Q. HAVE YOU PREVIOUSLY PARTICIPATED IN ANY REGULATORY**
6 **PROCEEDINGS?**

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

9 **PURPOSE / RATE CASE OVERVIEW**

10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING**
11 **BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION**
12 **(“COMMISSION”)?**

13 A. My testimony will provide an overview of this case, including the primary factors
14 driving Empire’s need for an increase in rates. I also will discuss how this case relates
15 to the Experimental Regulatory Plan (“Regulatory Plan”) approved by the
16 Commission in Case No. EO-2005-0263. I will also address the payment Empire
17 received from the Southwestern Power Administration in regards to the White River
18 Minimum Flows Project. And finally, I will introduce the other Empire witnesses
19 filing direct testimony in this case.

20 **Q. PLEASE GENERALLY DESCRIBE THE RATE INCREASE EMPIRE IS**
21 **REQUESTING.**

22 A. Empire is requesting an overall increase of \$36.5 million in Missouri jurisdictional

1 revenue, exclusive of applicable fees or taxes, or an increase of 9.2 percent. This
2 increase is based on an overall rate of return on rate base of 8.82 percent and a rate of
3 return on equity of 10.6 percent. The primary factor driving the need for a rate
4 increase is the capital investment associated with the addition of Iatan 2 and the
5 associated increase in operating expenses. In addition, the current revenue deficiency
6 is driven by increases in administrative expenses and an increase in depreciation
7 expense due to a change in depreciation rates. This case also includes a request to
8 amortize a deficiency in the depreciation reserve at Empire's Riverton generating
9 station, which is necessary due to the impending retirement of two coal fired
10 generating units. Empire witness Thomas Sullivan will discuss the new depreciation
11 rates and the Riverton amortization request in his direct testimony.

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

14 A. The test year used in this case by Empire is based upon the Commission Staff's
15 ("Staff") final accounting schedules (EMS run) from Case No. ER-2010-0130,
16 Empire's last general rate case in Missouri, which is less than a year old. This EMS
17 run has been adjusted for specific known and measurable changes that will take place
18 in Empire's operations, including the updating of rate base investment to June 30,
19 2010, the updating of the customer count to June 30, 2010, including the impact of
20 new depreciation rates and quantifying the impact of the Plum Point and Iatan 2
21 generating units. In addition, Empire has updated its requested return on equity and
22 updated the capital structure to reflect the current mix of debt and equity. Among the

1 other items taken into account or updated in adjustments to the last Staff EMS run in
2 Case No. ER-2010-0130 were:

- 3 • the rate increase authorized in ER-2010-0130,
- 4 • bad debt expense,
- 5 • the Plum Point and Iatan 2 operating expenses,
- 6 • the Plum Point purchase power demand charges,
- 7 • Entergy transmission charges,
- 8 • infrastructure inspection costs,
- 9 • FAS 87/106 costs,
- 10 • payroll costs,
- 11 • common stock expense,
- 12 • rate case expense, and
- 13 • demand-side management and Experimental Low Income Plan (“ELIP”).

14 **Q. DOES THIS ADJUSTMENT PROCESS DIFFER FROM WHAT EMPIRE HAS**
15 **HISTORICALLY USED IN MISSOURI?**

16 A. Yes. Historically, Empire would establish an entirely new test year and adjust this new
17 test year for all known and measurable changes.

18 **Q. WHY IS EMPIRE UTILIZING A DIFFERENT PROCESS IN THIS CASE?**

19 A. Since the EMS run from the last case is less than a year old, the adjustment process
20 was used to streamline the rate case issues and possibly reduce the time necessary to
21 process the case.

22 **Q. WAS THE LIMITED LIST OF ISSUES AND ADJUSTMENTS AND**

1 **EMPIRE’S PLAN TO USE THE STAFF’S ACCOUNTING SCHEDULES**
2 **FROM THE LAST RATE CASE AS A STARTING POINT DISCUSSED WITH**
3 **THE PARTIES INVOLVED IN CASE NO. ER-2010-0130?**

4 A. Yes.

5 **Q. DOES THIS APPROACH PRESENT THE OPPORTUNITY FOR A**
6 **DECREASE IN THE COMMISSION’S NORMAL RATE CASE TIMELINE?**

7 A. Yes. As discussed in the Stipulation and Agreement approved by the Commission in
8 Case No. ER-2010-0130, the adjustment approach being used by Empire should make
9 the audit process easier and enable the Commission to issue a report and order in this
10 case in less than eleven (11) months.

11 **EMPIRE’S REGULATORY PLAN**

12 **Q. WHAT WAS THE MAIN PURPOSE OF EMPIRE’S REGULATORY PLAN?**

13 A. The main purpose of Empire’s Regulatory Plan was the initiation of a process that
14 would result in a certificate of convenience and necessity (“CCN”) to participate in
15 Iatan 2 and provide assurance to potential investors that Empire would have the
16 financial resources necessary to carryout the planned base-load generation additions.

17 **Q. IS THIS THE FINAL RATE CASE ENVISIONED BY THE REGULATORY**
18 **PLAN?**

19 A. Yes. This rate case includes in Empire’s revenue requirement the costs of Iatan 2 and
20 as such is the “Iatan 2 rate case” agreed to in the Regulatory Plan. The Regulatory
21 Plan and the associated amortization will conclude the date the rates set in this case go
22 into effect.

1 **Q. BY WAY OF BACKGROUND, DOES THE REGULATORY PLAN**
2 **CONTEMPLATE ROUTINE MEETINGS WITH THE STAFF, THE OFFICE**
3 **OF PUBLIC COUNSEL (“OPC”), THE MISSOURI DEPARTMENT OF**
4 **NATURAL RESOURCES (“DNR”) AND OTHERS CONCERNING EMPIRE’S**
5 **FUTURE RESOURCE NEEDS, BOTH SUPPLY-SIDE AND DEMAND-SIDE?**

6 A. Yes. At paragraph III. F. (1), the Regulatory Plan outlines a process whereby Empire’s
7 ongoing activities regarding its Integrated Resource Plan (“IRP”) would be presented
8 semiannually to the Staff, OPC, DNR, and other interested parties. That section of the
9 Regulatory Plan also describes some specific IRP requirements Empire was expected
10 to meet, including the development of an extra IRP filing in 2006 and an agreement to
11 solicit bids on 200 megawatts (“MW”) of additional base load capacity through a
12 Request for Proposal (“RFP”) process.

13 **Q. WHAT IS YOUR UNDERSTANDING AS TO WHY THERE IS AN**
14 **EMPHASIS IN THE REGULATORY PLAN ON THE IRP AND RFP**
15 **PROCESSES?**

16 A. The parties were very interested in the resources Empire would put in place to replace
17 the base load capacity and energy that was, at the time, being supplied by Westar from
18 coal-fired units located at the Jeffrey Energy Center in north-central Kansas pursuant
19 to a contract that expired on May 31, 2010.

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

22 A. Yes. The extra IRP filing required under the Regulatory Plan was completed and

1 submitted to the non-utility Signatory Parties to the Stipulation and Agreement in Case
2 No. EO-2005-0263 in July of 2006. Empire also completed the RFP on additional
3 base-load power supply as outlined in the Regulatory Plan. As a result, Empire was
4 able to gain access to, and a partial ownership interest in, the Plum Point coal-fired
5 generation unit now in operation in northeastern Arkansas.

6 **Q. DOES THE REGULATORY PLAN ADDRESS EMPIRE'S DEMAND-SIDE**
7 **MANAGEMENT ACTIVITIES?**

8 A. Yes. The Regulatory Plan included the formation of a Customer Programs
9 Collaborative ("CPC"). The CPC was directed to make decisions pertaining to the
10 development, implementation, monitoring and evaluation of demand-side
11 management, energy efficiency and affordability programs for Empire. The current
12 membership of the CPC includes the Staff, OPC, DNR, and a representative from
13 several of Empire's industrial customers.

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

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

19 **Q. IS EMPIRE REQUESTING TO CONTINUE THE CPC?**

20 A. Yes, but with modifications, as discussed by Empire witness Sherry McCormack.

21 **SOUTHWESTERN POWER ADMINISTRATION PAYMENT**

22 **Q. PLEASE DESCRIBE THE PAYMENT EMPIRE RECEIVED FROM THE**

1 **SOUTHWESTERN POWER ADMINISTRATION IN REGARDS TO THE**
2 **PROPOSED WHITE RIVER MINIMUM FLOWS PROJECT.**

3 A. On September 16, 2010, Empire received a pre-tax payment of \$26,563,700 from the
4 Southwestern Power Administration. The payment was for the estimated impact of
5 the proposed White River Minimum Flows Project, which will result in losses at
6 Empire's hydro generating station, Ozark Beach, located near lake Taneycomo.

7 **Q. DOES EMPIRE BELIEVE THE PAYMENT OF \$26,563,700 SHOULD BE**
8 **FLOWED THROUGH TO RATEPAYERS?**

9 A. Yes. Empire will work with the parties in this case to determine the best way to flow
10 the payment, net of tax, back to our customers.

11 **WITNESSES**

12 **Q. PLEASE NAME THE OTHER WITNESSES PRESENTING TESTIMONY ON**
13 **EMPIRE'S BEHALF IN THIS CASE.**

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

- 15 • William Gipson-Policy;
- 16 • William S. Keith-Supporting accounting schedules, overall revenue requirement,
17 specific rate case adjustments, and the continuation of Empire's Fuel Adjustment
18 Clause ("FAC");
- 19 • Jayna Long-Specific adjustments to rate base and statement of operations;
- 20 • Kelly Emanuel-Revenue changes, base rate and miscellaneous tariff changes;
- 21 • Aaron Doll-Weather normalization;
- 22 • Todd Tarter-System fuel and energy costs;

- 1 • Robert Sager-Stock issuance cost, capital structure and Iatan 2 tax credits;
- 2 • James Vander Weide-Cost of Capital;
- 3 • Laurie Delano-Pension, Post Retirement Benefits and Construction accounting;
- 4 • Sherry McCormack-DSM, Low-Income Programs and CPC;
- 5 • Blake Mertens-Investment in Iatan pollution control, Iatan 2 and Plum Point;
- 6 • Martin Penning-Proposed revisions to Empire's Rules and Regulations;
- 7 • Edwin Overcast-Class cost of service and rate design; and
- 8 • Thomas Sullivan-Depreciation rates and Riverton amortization.

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

10 A. Yes.

