

Exhibit No.:
Issues: *Unamortized Balance of Joplin
Tornado AAO, Credit Card Fees,
Payroll Test Year, Rate Case
Expense Sharing, LED Lighting,
Low-Income Pilot Program
Amortization, Affiliate
Transactions*
Witness: *Kimberly K. Bolin*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Surrebuttal/True-Up Testimony*
Case No.: *ER-2019-0374*
Date Testimony Prepared: *March 27, 2020*

MISSOURI PUBLIC SERVICE COMMISSION
FINANCIAL AND BUSINESS ANALYSIS DIVISION
AUDITING DEPARTMENT

SURREBUTTAL/TRUE-UP TESTIMONY
OF
KIMBERLY K. BOLIN

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2019-0374

Jefferson City, Missouri
March 2020

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15

**TABLE OF CONTENTS OF
SURREBUTTAL/TRUE-UP TESTIMONY OF
KIMBERLY K. BOLIN
THE EMPIRE DISTRICT ELECTRIC COMPANY
CASE NO. ER-2019-0374**

EXECUTIVE SUMMARY1
UNAMORTIZED BALANCE OF JOPLIN TORNADO AAO2
ADJUSTMENTS TO TEST YEAR PAYROLL.....4
CREDIT CARD FEES5
RATE CASE EXPENSE SHARING5
AAO REQUESTS/COSTS RELATED TO LED LIGHTS7
LOW INCOME PILOT PROGRAM AMORTIZATION.....9
AFFILIATE TRANSACTION10
TRUE-UP12

1 **SURREBUTTAL/TRUE-UP TESTIMONY OF**

2 **KIMBERLY K. BOLIN**

3 **THE EMPIRE DISTRICT ELECTRIC COMPANY**

4 **CASE NO. ER-2019-0374**

5 Q. Please state your name and business address.

6 A. My name is Kimberly K. Bolin, P.O. Box 360, Suite 440, Jefferson City, MO
7 65102.

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

9 A. I am the Auditing Department Manager for the Missouri Public Service
10 Commission (“Commission”).

11 Q. Are you the same Kimberly K. Bolin who contributed to Staff’s Cost of Service
12 Report and filed Direct testimony and Rebuttal testimony in this case?

13 A. Yes, I am.

14 **EXECUTIVE SUMMARY**

15 Q. Please summarize your surrebuttal/true-up testimony in this proceeding.

16 A. In this testimony, I will address The Empire District Electric Company
17 (“Empire” or “Company”) witness Sheri Richard’s Rebuttal testimony concerning rate base
18 treatment of the Joplin tornado Accounting Authority Order (AAO) and rate case expense
19 sharing. I also address Ms. Richard’s claim that Staff’s payroll test year is incorrect. I will also
20 provide Staff’s recommendation as to the amount of credit card fees that should be included in
21 the revenue requirement, should the Commission decide that credit card fee should be
22 included instead of having the individuals who use a credit card to pay their electric bills pay the
23 fees. I also address Empire’s opposition to rate case expense sharing as outlined in

1 Sheri Richard's Rebuttal testimony. I will also address Staff's opposition to the deferrals
2 requested in Empire witness Samuel S. McGarrah's Direct testimony concerning the
3 replacement of mercury vapor lights with light emitting diode (LED) lighting for municipal and
4 private lighting customers. I also address an alleged violation of the affiliate transactions rule
5 by Empire related to a \$90 million debt refinancing transaction as discussed by Office of the
6 Public Counsel ("OPC") witness David Murray and Empire witness Mark T. Timpe. I also
7 address Staff's correction to include the unamortized balance in rate base and amortization
8 expense associated with Empire's Low-Income Pilot Program. Lastly I address the items that I
9 have updated for the true-up period and present Staff's true-up cost of service/revenue
10 requirement for this case.

11 **UNAMORTIZED BALANCE OF JOPLIN TORNADO AAO**

12 Q. What is an accounting authority order (AAO)?

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

18 Q Please describe the AAO that was granted to Empire regarding the 2011 Joplin
19 tornado damage costs.

20 A. In Case No. EU-2011-0387, the Commission authorized Empire to defer
21 incremental operation and maintenance (O&M) expenses incurred for the repair, restoration
22 and rebuild activities associated with the May 22, 2011 tornado in Joplin. Empire was also
23 allowed to defer depreciation expense and carrying costs associated with the tornado-related

1 capital expenditures. The Commission ordered the Company to begin amortizing the
2 deferral over a ten-year period to start at the earlier of (1) the effective date of new rates
3 implemented in its next general rate case (Case No. ER-2012-0345) or next rate complaint
4 case; or (2) June 1, 2013.

5 Q. On page 9 of Empire witness Sheri Richard's rebuttal testimony she states,
6 "The exclusion of this balance from Liberty-Empire's rate base will deny the Company a return
7 on the investment it made in the system to restore electric service and result in an immediate
8 understatement of Liberty-Empire's cost of service to Missouri retail customers." Why is this
9 statement incorrect?

10 A. With this AAO, Empire was allowed to accrue a carrying charge equal to its
11 Allowance for Funds Used During Construction (AFUDC) rate on its tornado capital additions
12 during the deferral period to offset the lack of a current return on its tornado-related capital
13 additions. Also, Empire was allowed to defer and not charge any of the O&M expense or
14 depreciation expense directly stemming from the tornado to its current expenses at the time of
15 the extraordinary event. The AAO granted to Empire substantially mitigated many of the
16 negative financial impacts Empire would have suffered due to the tornado.

17 Q. Does Staff's cost of service in this case include the amortization of the deferred
18 tornado costs?

19 A. Yes. Staff included an annual amortization of \$402,515.

20 Q. What is the unamortized AAO balance as of January 31, 2020?

21 A. The unamortized AAO balance as of January 31, 2020 is \$1,274,630.

1 Q. Does Staff agree with Empire's proposed inclusion of the unamortized balance
2 of the tornado AAO in rate base?

3 A. No. Consistent with similar AAOs in prior cases, Staff recommends the
4 Commission not include the AAO balance in rate base. This treatment was prescribed by the
5 Commission in its Order in Case No. WR-95-145 involving St. Louis County Water Company's
6 (SLCWC) unamortized flood deferrals (SLCWC is now part of Missouri-American Water
7 Company). In the Commission's Order in Case No. WR-95-145, the Commission noted that
8 including the unamortized balance in rate base would shield the shareholders from the risk of a
9 natural disaster while imposing the risk entirely on the ratepayers. The Commission opined in
10 that case that allowing SLCWC to recover the cost through amortization without including the
11 unamortized balance in rate base allowed both the ratepayers and the shareholders to share in
12 the risk. This regulatory treatment has been accepted by the Commission for other AAOs
13 associated with natural disasters, and should be adopted in this case as well.

14 **ADJUSTMENTS TO TEST YEAR PAYROLL**

15 Q. Empire witness Sheri Richard claims on page 25 of her Rebuttal testimony that
16 Staff's calculation of test year payroll is incorrect. Does Staff agree with her?

17 A. No. Staff's test year total payroll includes all the components of payroll expense
18 (regular payroll, overtime payroll and incentive compensation). Staff witness Ali Arabian
19 calculated regular payroll and overtime. Staff witness Caroline Newkirk then calculated an
20 annualized level of incentive compensation to include in the cost of service and made a separate
21 adjustment to add this number into the cost of service. So, Mr. Arabian's adjustments removed
22 all incentive compensation that occurred in the test year and Ms. Newkirk's adjustment then
23 adds the appropriate amount of incentive compensation back into the cost of service.

1 **CREDIT CARD FEES**

2 Q. On page 20 of Empire witness Sheri Richard's Rebuttal testimony, she asserts
3 that two adjustments need to be made to Staff's credit card collection fee expense. What is the
4 first adjustment?

5 A. The first adjustment would be to separate the number of credit card fee
6 transactions during the test year between residential and commercial customers, then apply the
7 \$2.25 fee to the number of residential customer credit card transactions and then apply the
8 \$13.00 fee to the number of commercial customer credit card transactions.

9 Q. Does Staff agree with this adjustment?

10 A. Yes. However, at the time of this filing, Staff did not have the information to
11 calculate an appropriate amount.

12 Q. What is the second adjustment suggested by Ms. Richard?

13 A. The second adjustment is related to the jurisdictional allocation factor applied to
14 this expense. Staff disagrees that this adjustment is appropriate. While Staff's workpaper for
15 credit card fees does not reflect the jurisdictional allocation, Staff applied an allocation factor
16 of 89.09% to all costs booked in Account 903, including credit card fees, and this is reflected
17 in Staff Accounting Schedules as column I on the Income Statement Detail.

18 **RATE CASE EXPENSE SHARING**

19 Q. On pages 33 and 34 of Empire witness Richard's Rebuttal testimony she claims
20 this rate case was not discretionary, thus rate case expense should not be shared by both
21 ratepayers and shareholders. Does Staff agree with this assessment?

22 A. No. Witness Richard asserts that Empire was required under Missouri State
23 Statutes to file this rate case. The statute governing the fuel adjustment clause ("FAC"),

Surrebuttal/True-up Testimony of
Kimberly K. Bolin

1 includes the rate case filing requirement Richard mentions. However, the FAC is a voluntary
2 mechanism that Empire chose to request and chooses to seek continuation in this rate case. The
3 requirement to file a rate case in order to continue Empire's FAC should have no bearing on
4 the allocation of rate case expense.

5 Q. Is the amount of rate case expense Empire incurs a discretionary amount?

6 A. Yes, to a large extent, and the sharing of rate case expense creates an incentive
7 for the utility to keep its discretionary rate case expenses to a reasonable level.

8 Q. Witness Richard claims on page 34, lines 9 through 14, of her Rebuttal testimony
9 that since Empire is smaller than other large utilities, Empire must contract with outside
10 consultants for rate cases because Empire does not have the in-house personnel to process a rate
11 case. Did Empire hire more outside consultants in this proceeding than Ameren Missouri or
12 KCPL had in their most recent rate cases?

13 A. The table below shows that Empire hired four outside consultants while Ameren
14 hired six and KCPL (now Evergy Metro) and KCPL GMO (Evergy Missouri West) both hired
15 two outside consultants¹ in their last rate cases before this Commission. Also, Spire, the largest
16 gas utility in the state of Missouri, hired four consultant for its last rate case:

17

Empire Witness ER-2019-0374	Topic
Robert B. Hevert	Cost of Capital
Timothy S. Lyons	Cash Working Capital, Class Cost of Service, Rate Design, Weather Normalization
Eric Fox	Weather Normalization
James A. Fallert	Pensions and OPEBs

18

¹ In a previous case, Case No. ER-2014-0370, Evergy Metro hired four consultants.

Surrebuttal/True-up Testimony of
Kimberly K. Bolin

1

Ameren Missouri ER-2019-0355	Topic
Robert B. Hevert	Cost of Capital
John J. Spanos	Depreciation Study
John J. Reed	Affiliate Transactions
Ahmad Faruqui	Time of Use Rates
Bradley M. Seltzer	Income Taxes and Cash Working Capital
Todd Schatzki	Unit Commitment & Unit Offers

2

3

KCPL & KCPL GMO ER-2018-0145/0146	Topic
Robert B. Hevert	Cost of Capital
Thomas J. Sullivan	Production Cost Allocation

4

5

Spire Missouri Witness GR-2017-0215 & 0216	Topic
Pauline M. Ahern	Cost of Capital
Timothy S. Lyons	Cash Working Capital, Class Cost of Service, Rate Design
Thomas J. Flaherty	Synergies and Corporate Allocations
James A. Fallert	Pension Asset

6

Q. Is rate case expense a cost of supplying service to Empire's customers as witness

7

Richard claims?

8

A. Not all of rate case expense is a necessary cost of supplying service to

9

Empire's customers. For example, rate case expense produces some direct benefits

10

to shareholders that are not shared with customers, such as seeking a higher return on equity.

11

AAO REQUESTS/COSTS RELATED TO LED LIGHTS

12

Q. Is Empire requesting deferrals for costs associated with replacing mercury vapor

13

lights with LED light fixtures?

14

A. Yes, Empire is requesting two deferrals, one to capture the costs associated with

15

the mercury vapor lights replacement program and to track the difference between estimated

16

and actual revenues and costs of the LED light fixtures for municipal lighting customers, and

Surrebuttal/True-up Testimony of
Kimberly K. Bolin

1 the other to defer and track the same revenues and costs from private lighting customers
2 switching to LED Lighting.

3 Q. Does Staff agree that deferrals should be established for the replacement of
4 mercury vapor lights with LED fixtures for the municipal customers?

5 A. No. In my rebuttal testimony in this case I outlined the reasons why Staff does
6 not agree that a deferral should be established.

7 Q. In your rebuttal testimony you stated that Staff did not have the information to
8 calculate the cost of replacing mercury vapor lights and the revenue and costs of the LED lights
9 for Empire's private lighting service. Has Staff since received the information?

10 A. Yes. If the Company replaced all 5,400 mercury vapor lights in its Missouri
11 private lighting service class within a one year time frame, the most the annual cost of replacing
12 the private mercury vapor lights with LED lights would be is approximately \$282,333.

13 Q. Does Staff oppose the tracking of the revenues lost from private lighting
14 customers switching to LED Lighting?

15 A. Yes. If the Company converts all 5,400 of its mercury vapor lights to LED
16 lighting, the annual amount of lost revenue from the private lighting customers is estimated to
17 be \$79,056 which is not a material amount to Empire.

18 Q. On page 3 of Empire witness Samuel S. McGarrah's rebuttal testimony he
19 reiterates that Empire would like special regulatory treatment for costs to replace mercury vapor
20 light fixtures with LED light fixtures for its Municipal Lighting Service. Does Staff agree that
21 special regulatory treatment is warranted?

22 A. No. As stated in my rebuttal testimony Staff does not recommend allowing
23 special regulatory treatment (AAO) or deferral of these costs because the impact of replacing

1 the light fixtures is not material and can be planned out accordingly by Empire to mitigate the
2 financial impact of this program.

3 Q. What are the costs of replacing the municipal mercury vapor lights?

4 A. If the Company replaced all 8,500 mercury vapor lights in its Missouri municipal
5 lighting service class within a one year time frame, the most the annual cost of replacing the
6 lights would be is approximately \$448,195 and the annual amount of lost revenue from
7 municipal lighting customers would be \$127,415.

8 **LOW INCOME PILOT PROGRAM AMORTIZATION**

9 Q. Is Empire witness Sheri Richard correct in asserting that in Staff's direct filing it
10 inadvertently omitted the unamortized balance of the Low Income Pilot Program (LIPP)² from
11 rate base?

12 A. Yes. In its direct filing, Staff inadvertently omitted the unamortized balance of
13 the LIPP carried over from Case No. ER-2016-0023 and also omitted the amortization of the
14 asset. Staff's true-up revenue requirement reflects both the unamortized balance and the
15 amortization.

16 Q. What amount has Staff included in its rate base for the unamortized balance?

17 A. Staff has included \$250,000, which was the cap that was ordered by the
18 Commission in Case No. ER-2016-0023³.

19 Q. Has Empire incurred more the \$250,000 for this program since Case No.
20 ER-2016-0023?

21 A. Yes. As of January 31, 2020 Empire has recorded \$288,015 in Account 182344.

² Page 5, line 17 through 21 of the Rebuttal Testimony of Sheri Ricard filed in Case No. ER-2019-0374.

³ Order Approving Stipulation and Agreement in Case No. ER-2016-0023.

1 Q. What amortization period does Staff recommend for this regulatory asset?

2 A. Staff has calculated and recommends a six year amortization period. Per the
3 Stipulation and Agreement in Case No. ER-2016-0023, if the Commission ordered a LIPP then
4 the cost of the program was to receive regulatory asset/rate base treatment as the Demand Side
5 Management (DSM) costs. Under the Stipulation and Agreement, the DSM costs are amortized
6 over a term of six years.

7 Q. Is Staff proposing to include \$250,000 in its revenue requirement for the LIPP
8 on an on-going basis as Sheri Richard states in her Rebuttal testimony⁴?

9 A. No. Staff is merely recommending that the \$250,000 cap be removed and that
10 Empire should be allowed to track costs above the current \$250,000 cap or below this amount.

11 **AFFILIATE TRANSACTION**

12 Q. In reference to the \$90 million refinancing that occurred between LUCo and
13 Empire, Empire witness Mark T. Timpe states in his Rebuttal testimony,⁵ “LUCO bears all of
14 the risk of any increase in long-term interest rates until such time as it issues its own long-term
15 debt to refinance its short-term borrowings which provides interim funding for the
16 Liberty-Empire loan.” When was the \$90 million refinancing issued?

17 A. The \$90 million refinancing was issued in June 2018, approximately 1 ½ years
18 ago. Since then LUCo has not issued its own long-term debt to refinance its short-term
19 borrowing that supports this refinancing.

20 Q. Did Empire solicit any bids from other parties for this refinancing?

⁴ Page 20, line 21 through page 2, line 8 of the Rebuttal Testimony of Sheri Richard in Case No. ER-2019-0374.

⁵ Page 4, lines 3 through 5 of the Rebuttal Testimony of Mark T. Timpe filed in Case No. ER-2019-0374.

1 A. No. Empire did not solicit any bids for the refinancing of the \$90 million first
2 mortgage bond; instead Liberty claims it based the rate for this promissory note upon the most
3 recent competitively bid private debt placement by a LUCo affiliate, Liberty Utilities' Finance
4 GP1. Per Empire's response to OPC DR 3011, "In this private debt placement, the Company
5 received bids from 33 different potential investors with bids totaling \$2.4 billion, making it a
6 nearly 3.0x oversubscribed offering. As there was no 15-year tranche as part of this debt
7 placement, the credit spreads from the 10-year and 20-year tranches were averaged to obtain
8 a 15-year credit spread to which was added the then current 15-year US Treasury rate on the
9 promissory note issuance date."

10 Q. Is the interest rate that Liberty charges Empire higher than the interest rate
11 Liberty is incurring to fund this financing?

12 A. Yes. Even though Liberty claims it based the interest rate upon bid results, the
13 fact remains that Liberty obtained the money for this refinancing at a lower interest rate than
14 the 4.53% that Liberty is charging Empire.

15 Q. Does Staff agree with OPC witness David Murray's calculation of the
16 appropriate cost of debt for this refinancing?

17 A. Mr. Murray applied an interest rate based upon the average cost of LUCo
18 short-term debt for the 12 months ended September 30, 2019. Staff does not disagree that an
19 average cost of the short term debt LUCo used to finance this borrowing should be used as
20 LUCo is using short term debt to fund this financing and has been doing so for over a year and
21 half. However, Staff recommends updating this average cost of the LUCo short term debt for
22 the period of 12 months ending January 31, 2020. Accordingly, Staff is recommending an
23 appropriate cost of debt for this promissory note to be 2.15%.

Surrebuttal/True-up Testimony of
Kimberly K. Bolin

1 Q. How is this adjustment reflected in Staff's revenue requirement?

2 A. This adjustment is reflected in the cost of debt used to determine the rate
3 of return.

4 **TRUE-UP**

5 Q. Has Staff updated the unamortized balance of the vegetation management
6 tracker as part of its true-up filing?

7 A. Yes. Staff updated the unamortized balance of the vegetation management
8 tracker as of January 31, 2020.

9 Q. Has Staff updated the unamortized balance of the Iatan and Plum Point Carrying
10 Costs as part of its true-up filing?

11 A. Yes. Staff updated the unamortized balance of the Iatan and Plum Point
12 Carrying Cost as of January 31, 2020.

13 Q. After the true-up audit, what is Staff's recommended revenue requirement in this
14 proceeding?

15 A. Staff's recommended revenue requirement for Empire in this proceeding
16 is \$6,101,419 based upon a mid-point recommended rate of return (ROR) of 7.03%. Staff
17 is recommending a mid-point return on equity (ROE) of 9.25% with a range of 9.05% to
18 9.80% as calculated by witness Peter Chari. Staff's revenue requirement at low and high is
19 \$8,023,298 to -\$829,966 based upon a ROR range of 6.92% to 7.32%.

20 Q. Does this conclude your surrebuttal/true-up testimony?

21 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of The Empire District Electric)
Company's Request for Authority to File) Case No. ER-2019-0374
Tariffs Increasing Rates for Electric Service)
Provided to Customers in its Missouri)
Service Area)

AFFIDAVIT OF KIMBERLY K. BOLIN

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW KIMBERLY K. BOLIN and on their oath declares that they are of sound mind and lawful age; that they contributed to the foregoing Surrebuttal/True-Up Direct Testimony; and that the same is true and correct according to their best knowledge and belief, under penalty of perjury.

Further the Affiant sayeth not.

/s/ Kimberly K. Bolin
KIMBERLY K. BOLIN