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Witness: Kelly S. Walters
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Sponsoring Party: Empire District Electric
Case No. ER-2012-0345
Date Testimony Prepared: July 2012

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

Direct Testimony

of

Kelly S. Walters

July 2012



SERVICES YOU COUNT ON

Empire Exhibit No. 2
Date 9-10-12 Reporter KF
File No. ER-2012-0345

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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. ER-2012-0345

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-Chief Operating Officer-Electric. I have held this
8 position since February 2011.

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

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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 was
4 elected to the position of Vice President -- Regulatory Services in May 2006. In
5 February 2011, I assumed my current position with Empire.

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

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

10 **PURPOSE / RATE CASE OVERVIEW**

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

14 A. My testimony will provide an overview of this case, including the primary factors
15 driving Empire's need for an increase in rates and Empire's request for interim rate
16 relief. I will also address specific rate case adjustments Empire is proposing in this
17 case. And finally, I will introduce the other Empire witnesses filing direct testimony in
18 this case.

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

21 A. Empire is requesting an overall increase of \$30.7 million in Missouri jurisdictional
22 revenue, exclusive of applicable fees or taxes, or an increase of 7.6 percent. When the
23 Missouri FAC is normalized as part of the case, the net increase to customers is \$22.1

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1 million or 5.3 percent. This increase is based on an overall rate of return on rate base
2 of 8.32 percent and a rate of return on equity of 10.6 percent. The primary factors
3 driving the need for a rate increase are increases in Empire's operating costs, including
4 those associated with the cost impact of the May 22, 2011 tornado that devastated
5 Empire's service area in and around Joplin, and several new accounting/operating
6 systems that Empire is in the process of installing. These new systems, which include
7 the functional areas of accounting, customer service and system operations, were
8 required as the existing systems approached the end of their useful lives and vendor
9 support for the systems is no longer being offered. In addition to the costs of the
10 tornado and new accounting/operating systems, Empire has reviewed its existing
11 Missouri depreciation rates and determined that changes in the Missouri depreciation
12 rates are warranted and should be proposed at this time. This change in ongoing
13 depreciation expense also includes the recovery of additional depreciation expense on
14 Empire's Riverton units 7 and 8 due to their early retirement as a result of new
15 environmental standards. Current and scheduled increases in the Southwest Power
16 Pool's ("SPP") transmission rates are also a significant factor driving Empire's request
17 for rate relief. Lastly, Empire's vegetation management costs are expected to increase
18 as Empire's process to comply with the Commission's vegetation management rules is
19 fully put in place.

20 **Q. CAN YOU QUANTIFY THE MAJOR COST DRIVERS IN THE RATE CASE?**

21 A. Yes. The following table displays the major cost drivers in the rate case in terms of
22 millions of dollars:

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Description	Revenue Requirement
Tornado	6.2
SPP Transmission Charges	4.3
Retirement Riverton 7 & 8	3.2
Systems Replacement (ERP)	3.2
Vegetation Management	4.2
Depreciation Expense	2.5
General and Administrative	4.7
Other	2.4
Total Base Rates	\$30.7
Less FAC Revenue	-8.6
Net Increase to Customers	\$22.1

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

3 A. Empire has used a test year ending March 31, 2012 adjusted for known and
4 measurable changes through December 31, 2012 as the basis for the revenue
5 requirement in this case.

6 **Q. DOES THE ADJUSTMENT PROCESS USED BY THE COMPANY IN THIS**
7 **CASE DIFFER FROM WHAT EMPIRE HAS HISTORICALLY USED IN**
8 **MISSOURI?**

9 A. No. Historically, Empire has established a test year and adjusted this test year for all
10 known and measurable changes and asked for a true-up process with a cutoff date
11 closer to the date of the technical hearing.

12 **Q. IS EMPIRE PROPOSING A TRUE-UP IN THIS CASE?**

13 A. Yes.

14 **Q. WHY?**

15 A. A true-up of rate base and related operating revenues and costs at a point in time as
16 close as possible to the operation of law date is necessary in order for prospective rates

1 to properly reflect the cost of providing service. To balance the need to allow
2 sufficient time for parties to review the costs associated with changes in investment
3 and operations against the need for the Company to minimize regulatory lag and have
4 an opportunity to earn an equitable return on its investments, Empire is proposing a
5 true-up at December 31, 2012. This is discussed further in the direct testimony of
6 Empire witness Scott Keith.

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

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

- 10 • Brad P. Beecher - Policy;
- 11 • W. Scott Keith - Supporting accounting schedules, overall revenue requirement,
12 specific rate case adjustments, SPP cost tracking proposal and true-up;
- 13 • Jayna Long - Specific adjustments to rate base and statement of operations;
- 14 • Joan Land - Revenue changes and cash working capital;
- 15 • Aaron Doll - Weather normalization, DSM investment and amortization and rate
16 design;
- 17 • Todd Tarter - System fuel and energy costs, the continuation of Empire's Fuel
18 Adjustment Clause ("FAC") and inventory;
- 19 • Robert Sager - Stock issuance cost, capital structure, earnings and tornado;
- 20 • James Vander Weide - Cost of Capital;
- 21 • Jeff Lee - Pension and Post Retirement Benefits;
- 22 • Thomas Sullivan - Depreciation rates and Riverton amortization;

- 1 • Jay Williams - Property taxes and accumulated deferred income taxes;
- 2 • James Warren - Cost of removal tax flow through issue;
- 3 • Blake Mertens - SPP day 2 market, Iatan/Plum Point tracker, power plant operation
- 4 and maintenance and Asbury and State Line construction;
- 5 • Brent Baker - Customer service phone and management systems and economic
- 6 development rider;
- 7 • Martin Penning - LED lighting;
- 8 • Sam McGarrah - Mercury Vapor lighting;
- 9 • Pat Bourne – SPP transmission costs.

10 **INTERIM RATE REQUEST**

11 **Q. IS EMPIRE REQUESTING THAT A PORTION OF THE OVERALL**
12 **INCREASE IN REVENUE BE GRANTED AS INTERIM RATE RELIEF**
13 **SUBJECT TO REFUND?**

14 A. Yes. Due to the major financial impact the May 22, 2011 tornado has had on Empire
15 over the last year, Empire is requesting an immediate rate increase to begin recovering
16 the ongoing costs associated with the tornado. It has been over a year since the event
17 and it is reasonable for Empire to be able to begin to mitigate the financial costs
18 related to the storm and begin the tornado recovery process. Empire's interim rate
19 request is equal to about 21 percent of our overall revenue request of \$30.7 million,
20 and would result in an interim increase to our Missouri customers of around 1.5
21 percent. Empire witness Rob Sager will discuss Empire's overall financial position in
22 his direct testimony, how it has evolved over the last few years and the financial
23 impact of the tornado.

1 **Q. PLEASE DESCRIBE THE COMPANY'S MISSOURI REGULATORY**
2 **PROCEEDINGS INVOLVING REVENUE SINCE THE TORNADO.**

3 A. Excluding Empire's periodic fuel adjustment filings, the following table displays the
4 activity in the Missouri regulatory proceedings involving Empire since the tornado:

Date	Case Number	Type
May 23, 2011	ER-2011-0004	Order Granting Motion to Suspend Procedural Schedule
May 27, 2011	ER-2011-0004	Stipulation and Agreement filed for approval
May 31, 2011	ER-2011-0004	Hearing Held on Stipulation and Agreement
June 1, 2011	ER-2011-0004	Order Approving Stipulation and Agreement
June 6, 2011	EU-2011-0387	AAO Tornado Deferral Request
June 15, 2011	ER-2011-0004	New Electric Rates went into effect
November 15, 2011	EU-2011-0387	Stipulation and Agreement filed on Tornado AAO
November 30, 2011	EU-2011-0387	Order Approving AAO Stipulation and Agreement

5 **Q. WERE THERE CIRCUMSTANCES THAT CAUSED EMPIRE NOT TO SEEK**
6 **INTERIM RATE RELIEF IMMEDIATELY AFTER THE TORNADO?**

7 A. Yes. At that point in time there were several factors that made a request for immediate
8 rate relief from the Commission a less desirable alternative for Empire, and, in the
9 case of at least one of the factors, prevented Empire, from a practical standpoint, from
10 seeking any rate relief at that time.

11 **Q. DID EMPIRE SEEK AN ACCOUNTING AUTHORITY ORDER ("AAO") IN**
12 **CONNECTION WITH THE TORNADO?**

13 A. Yes. In Case No. EU-2011-0387, by Order dated November 30, 2011, the
14 Commission discussed the use of an AAO in extraordinary and unusual circumstances
15 and approved a stipulation granting Empire certain accounting authority related to the
16 tornado. As evidenced by the Commission's orders approving AAOs for Southern

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1 Union Company d/b/a Missouri Gas Energy (Case No. GU-2011-0392), Missouri-
2 American Water Company (Case No. WU-2012-0198), and Empire, the Commission
3 has found the effects of the tornado to be extraordinary.

4 **Q. PLEASE EXPLAIN THE CIRCUMSTANCES THAT CAUSED EMPIRE NOT**
5 **TO SEEK INTERIM RATE RELIEF IMMEDIATELY AFTER THE**
6 **TORNADO.**

7 A. The day the tornado struck Joplin, Empire already had a rate case on file at the
8 Commission. We were in the final stages of settlement discussions in that case. We
9 had reached an agreement in principal with the parties, but had not filed a written
10 settlement agreement with the Commission. Since the rate case was still pending
11 before the Commission, Empire could not make an additional rate case filing without
12 jeopardizing the pending case. In addition, as noted above, Empire requested an AAO
13 from the Commission on June 6, 2011. As part of that filing, Empire was requesting
14 the authority to defer tornado related costs, including "lost margin" due to displaced
15 customers, on its balance sheet for future recovery from customers. The
16 implementation of this request would have spread the rate impact of the storm over
17 several years. As indicated in the above table and discussion, Empire's AAO request
18 was pending before the Commission for the balance of the summer and was not
19 finalized until the end of November.

20 **Q. WHY DID EMPIRE WAIT MORE THAN A YEAR AFTER THE TORNADO**
21 **TO SEEK RATE RELIEF?**

22 A. Empire had never experienced a catastrophic event equal to the magnitude of the
23 tornado that hit Joplin May 22, 2011. Unlike other catastrophic events we had

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1 experienced, there were many unknowns, including the number of customers who
2 would build back in our service territory. In addition, immediately following the
3 tornado, every vacant building, hotel room, and church facility was used for displaced
4 businesses and the influx of volunteers who donated time to assist in the restoration
5 process. Until the number of customers returning to service leveled off, establishing a
6 normal test year for Empire was nearly impossible.

7 **Q. WHAT IS THE ONGOING REVENUE REQUIREMENT ASSOCIATED**
8 **WITH THE TORNADO?**

9 A. We have estimated the overall ongoing revenue impact in two components; (1) the
10 revenue requirement associated with Empire's investment in new facilities to replace
11 those facilities destroyed by the storm; (2) and the loss of net margin due to the
12 ongoing loss of customers. In total, we estimate the ongoing revenue requirement
13 associated with these two components at \$6.2 million per year.

14 **Q. WHAT DO YOU MEAN BY THE LOSS OF NET MARGIN AS A RESULT OF**
15 **THE MAY 2011 TORNADO?**

16 A. Net margin represents the amount of profit a business receives for each dollar of
17 revenue it receives. As the concept relates to Empire's request for interim rate relief,
18 net margin also measures the amount of profit the Company lost as a result of the
19 reduction in rate revenue following the May 2011 tornado.

20 **Q. PLEASE EXPLAIN.**

21 A. When the Commission set rates in Case No. ER-2011-0004, it assigned the costs the
22 Company incurs to provide service to its customers to each of Empire's rate classes
23 and then designed rates that would allow the Company to recover those costs and also

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1 earn a fair and reasonable profit. A portion of Empire's costs consists of fixed costs,
2 which are costs that the Company incurs to be able to provide service, and those costs
3 do not vary based on the amount of electricity Empire sells. The rates the
4 Commission set in Case No. ER-2011-0004 were designed to allow the Company to
5 recover a portion of its fixed costs from each of its customers. But when the number
6 of customers served by Empire declined because of the tornado, rate revenues declined
7 as well, and the Company lost the fixed cost portion of each dollar or rate revenue it
8 was unable to collect from customers.

9 **Q. PLEASE QUANTIFY THE ANNUAL REVENUE REQUIREMENT**
10 **ASSOCIATED WITH THE FACILITIES INSTALLED TO REPLACE THOSE**
11 **DESTROYED BY THE TORNADO.**

12 A. Empire has invested over \$27.6 million to replace the electric infrastructure destroyed
13 by the tornado. We estimate the annual cost to Empire to carry this investment at
14 approximately \$4.5 million. This includes rate of return, associated income taxes and
15 depreciation. In addition, to this annual carrying cost we have added the amortization
16 of the storm costs deferred pursuant to the Accounting Authority Order ("AAO")
17 authorized by the Commission in Case No. EU-2011-0387. This annual AAO
18 amortization is almost \$198,000. In total the ongoing revenue requirement associated
19 with the direct investment in replacement facilities is \$4.7 million.

20 **Q. DOES EMPIRE HAVE A CURRENT ESTIMATE OF THE NUMBER OF**
21 **CUSTOMERS LOST DUE TO THE TORNADO?**

22 A. Yes. As of April 2012, Empire's overall customer count in Missouri was still down
23 by slightly over 1,400 customers. This represents the difference in Empire's Missouri

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1 customer count in April 2011 and April 2012. These customer losses are concentrated
2 in the residential and commercial rate classes in the Joplin area, with the residential
3 customer count down by 1,076 and the commercial customer count down by 336. The
4 number of customers lost due to the storm has declined substantially over the last year
5 from around 8,000 after the tornado to slightly over 1,400 today.

6 **Q. DOES THE RESTORATION OF SERVICE TO THESE LOST CUSTOMERS**
7 **APPEAR TO HAVE LEVELED OFF A YEAR AFTER THE TORNADO?**

8 A. Yes. The rate at which customers are returning for service has leveled off.

9 **Q. PLEASE QUANTIFY THE LEVEL OF ONGOING REVENUE LOSS DUE TO**
10 **THE CURRENT LEVEL OF LOST CUSTOMERS.**

11 A. We have calculated the ongoing loss in pre-tax net margin associated with these lost
12 customers at \$1.4 million per year. This reflects our estimate of future net margin
13 losses and does not include any of the actual losses Empire experienced between June
14 2011 and March 2012, the end of the test year in this case.

15 **Q. WHAT IS THE OVERALL ONGOING REVENUE LOSS ASSOCIATED**
16 **WITH THE TORNADO?**

17 A. In total, we have estimated the continuing and ongoing revenue requirement associated
18 with the tornado losses to be \$6.2 million annually. We are requesting that the
19 Commission approve an immediate interim increase in Empire's rates to stem these
20 ongoing tornado related losses and begin the tornado recovery process, rather than
21 waiting for the full suspension period to authorize rates covering these losses. Empire
22 has included a new tariff sheet that can be implemented without suspension on an
23 interim basis to produce the interim revenue. This interim request is subject to refund

1 and the final outcome of the request for the full rate increase.

2 **Q. IF INTERIM RATE RELIEF IS GRANTED BY THE COMMISSION, CAN**
3 **THE TORNADO AAO COST DEFERRAL BE STOPPED?**

4 A. Yes. Effective with new rates, whether interim or permanent, the deferral of tornado
5 related cost authorized by the Commission in the tornado AAO should be stopped.

6 **Q. HOW WOULD YOU CHARACTERIZE THE LOSSES ASSOCIATED WITH**
7 **THE TORNADO?**

8 A. The tornado and associated losses was and is an extraordinary event from Empire's
9 standpoint.

10 **Q. PLEASE EXPLAIN.**

11 A. As discussed by Empire witness Rob Sager, Empire's retained earnings were already
12 at a low level when the tornado struck on May 22, 2011. This tornado was one of the
13 most destructive tornados in the United States in recent memory, and Empire's request
14 for interim relief to deal with this extraordinary event is designed to stem the ongoing
15 financial losses related to the storm and is reasonable.

16 **ADJUSTMENTS**

17 **Q. PLEASE DESCRIBE THE RATE CASE ADJUSTMENTS YOU ARE**
18 **SPONSORING IN THIS CASE.**

19 A. I am sponsoring several adjustments to the statement of operations and rate base. The
20 adjustments to the statement of operations are as follows:

- 21 • Enterprise Resource Planning Costs,
- 22 • Vegetation management,
- 23 • System inspection and remediation, and

- 1 • Healthcare costs.

2 **Q. WHAT IS THE ENTERPRISE RESOURCE PLANNING OR (“ERP”)**
3 **PROJECT?**

4 A. This project involves a major upgrade in our accounting and resource management
5 systems. This project is scheduled to be rolled out and completed in phases over the
6 last half of 2012.

7 **Q. WHY WERE THE SYSTEMS UPGRADED AT THIS TIME?**

8 A. The existing systems were approaching the end of their useful life, and our general
9 ledger accounting/human resource system PeopleSoft, was no longer being supported
10 by the vendor, Oracle. In addition, much of Empire’s systems involved the use of
11 manually maintained data bases and spreadsheets. In the case of Empire’s existing
12 general ledger accounting/human resource system, which was installed to meet the
13 issues associated with the year 2000 problem, the problems were two-fold. In the
14 years since Empire first installed its general ledger system, the vendor had enhanced
15 its PeopleSoft offerings many times, but these enhancements were not available to
16 Empire due to the age of its system. Given these factors, Empire decided to fully
17 upgrade its system to the latest version of PeopleSoft to take full advantage of the data
18 integration enhancements in the new system. These system enhancements will also
19 enable Empire to fully integrate many accounting functions that are currently handled
20 by manual processes.

21 **Q. DOES THE ERP PROJECT ALSO INVOLVE FIXED ASSET ACCOUNTING?**

22 A. Yes. In addition to the new general accounting/human resource system, Empire has

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1 opted to install a new fixed asset accounting system that will replace the manual
2 process that is currently used to track our fixed assets. This new system, PowerPlant,
3 will be integrated with the new PeopleSoft system and will enable our fixed asset
4 system to fully integrate the tax and regulatory aspects of fixed asset accounting, while
5 eliminating a somewhat limited and cumbersome manual system based upon data
6 bases and spreadsheets.

7 **Q. WHAT SYSTEM CHANGES ARE BEING MADE IN EMPIRE'S RESOURCE**
8 **MANAGEMENT SYSTEMS AS PART OF ERP?**

9 A. Empire is expanding its use of Maximo, a resource management system, from two of
10 its existing power plants to all areas of the Company's operations. Again, this system
11 will be integrated with the new accounting/human resource system. The expansion of
12 Maximo to all aspects of Empire's operations will allow Empire to dispense with
13 several manually maintained data bases and allow Empire to more precisely monitor
14 work force management.

15 **Q. HOW WAS THE EMPIRE CASE ADJUSTED TO REFLECT THE NEW**
16 **SYSTEMS?**

17 A. Empire's rate base was adjusted to reflect the new investment cost of \$15.7 million
18 total company and \$13.4 million on a Missouri jurisdictional basis. In addition,
19 Empire's annual operating expenses were increased by \$380,051 and \$328,226
20 (Missouri jurisdictional) to account for the increase in annual operation and
21 maintenance costs associated with the new system.

22 **Q. PLEASE EXPLAIN THE ADJUSTMENT YOU ARE SPONSORING WITH**
23 **REGARD TO VEGETATION MANAGEMENT.**

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1 A. The adjustment I am sponsoring to Empire's vegetation management program
2 establishes Empire's expenditures in this area at \$13 million per year on a total
3 Company basis, which is a level expected to reoccur annually during the immediate
4 future. The specific adjustment to operations in this area results in an increase to
5 ongoing vegetation management costs of \$4.2 million on a Missouri jurisdictional
6 basis.

7 **Q. IS THERE ANOTHER ISSUE THAT NEEDS TO BE ADDRESSED WITH**
8 **REGARD TO VEGETATION MANAGEMENT?**

9 A. Yes. Empire currently has an authorized vegetation management tracker. This tracker
10 allows Empire to defer costs on its balance sheet when our actual expenditure in this
11 area deviates from the base level established in Empire's most recently completed rate
12 case (Case No. ER-2011-0004). The balance sheet deferred amount is then amortized
13 into Empire's cost of service over a five year period. At the end of the test year for the
14 current rate case, the Missouri vegetation deferral amount on Empire's general ledger
15 was \$7.2 million. Coupling this balance with the Commission authorized
16 amortization period results in an adjustment increasing vegetation management costs
17 by \$935,384 on a Missouri jurisdictional basis.

18 **Q. IS EMPIRE REQUESTING A CONTINUATION OF THE VEGETATION**
19 **TRACKER AS PART OF THIS CASE?**

20 A. No, not if the costs included in the case reflect the ongoing cost of the process Empire
21 has put in place to comply with the Commission's vegetation management rules. In
22 the event that something less than the full cost of compliance is included in the base
23 rates authorized in this case then the continuation of the vegetation tracker is

1 preferable.

2 **Q. WHY WAS THE VEGETATION TRACKER INITIALLY AUTHORIZED?**

3 A. The vegetation management tracker was initially needed to capture actual costs during
4 the program's initial implementation phase. Now that the program is in full operation
5 and we have several years of operational experience, the tracking mechanism is no
6 longer an essential component if the ongoing costs of the program are included in base
7 rates.

8 **Q. HAS EMPIRE'S VEGETATION MANAGEMENT PROGRAM RESULTED IN**
9 **IMPROVEMENTS IN THE LEVEL OF ELECTRIC SERVICE?**

10 A. Yes. The number of outages related to vegetation issues has declined by over 63
11 percent since 2006.

12 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO SYSTEM INSPECTION AND**
13 **REMEDICATION COSTS.**

14 A. Empire has fully implemented a system inspection and remediation program designed
15 to meet the Commission's standards in this area. The adjustment I am sponsoring
16 establishes Empire's expenditures in this area at our 2012 annual budget levels. The
17 adjustment increases Empire's annual operating costs in this area by \$268,811 (total
18 Company) and \$252,225 (Missouri jurisdictional) basis.

19 **Q. PLEASE EXPLAIN THE ADJUSTMENT TO HEALTHCARE COSTS.**

20 A. Empire has adjusted its annual healthcare costs to eliminate the interruption of service
21 at our provider's facilities due to the Joplin tornado. Empire is self-insured and uses
22 Mercy, formally St. Johns, as the primary healthcare provider for its employees. Due
23 to the destruction of the hospital on May 22, 2011, the service offering at the Joplin

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1 facilities were disrupted. This disruption in service caused Empire's level of medical
2 claims fall in the last half of 2011, which is part of our test year. In order to remove
3 this abnormality from Empire's case, we have adjusted Empire's healthcare costs
4 upward by \$1.3 million (total Company) and \$1.1 million (Missouri jurisdictional) to
5 reflect a normalized level of annual healthcare costs.

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

7 A. Yes.

