

**DIRECT TESTIMONY**  
**OF**  
**KIMBERLY K. BOLIN**  
**EMPIRE DISTRICT ELECTRIC COMPANY**  
**CASE NO. ER-2004-0570**

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

2   A.   Kimberly K. Bolin, P.O. Box 2230, Jefferson City, Missouri 65102.

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

4   A.   I am employed by the Office of the Public Counsel of the State of Missouri (OPC or Public  
5   Counsel) as a Public Utility Accountant.

6   **Q.   PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

7   A.   I graduated from Central Missouri State University in Warrensburg, Missouri, with a Bachelor of  
8   Science in Business Administration, major in Accounting, in May 1993. In April 1994, I attended  
9   the National Association of Regulatory Utility Commissioners Rate School held in San Diego,  
10   California.

11   **Q.   WHAT IS THE NATURE OF YOUR CURRENT DUTIES WITH THE OFFICE OF**  
12   **THE PUBLIC COUNSEL?**

13   A.   Under the direction of the Chief Public Utility Accountant, I am responsible for performing audits  
14   and examinations of the books and records of public utilities operating within the state of Missouri.

15   **Q.   HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC**  
16   **SERVICE COMMISSION?**

1 A. Yes. Please refer to Schedule KKB-1, attached to this direct testimony, for a listing of cases in  
2 which I have previously submitted testimony. I have prepared testimony on payroll related issues in  
3 six past Commission rate cases.

4 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

5 A. The purpose of my direct testimony is to express the Public Counsel's position regarding the  
6 appropriate regulatory treatment of payroll including overtime, payroll taxes, 401K matching costs.  
7 I also address the amount of energy trader commissions that should be included in the payroll  
8 annualization.

9 **PAYROLL**

10 **Q. DID YOU PREPARE AN ANALYSIS OF ANNUALIZED TEST YEAR PAYROLL?**

11 A. Yes. I have prepared an analysis to determine a proper and reasonable annualized payroll expense  
12 level. OPC's annualized level of total Company payroll expense is \$29,244,266. (See Schedule  
13 KKB-2) I have included all employees' (as of June 30, 2004) hourly wage rates multiplied by 2088  
14 hours to arrive at a total company regular payroll. Included in my payroll annualization are  
15 amounts for overtime, payroll taxes for both regular payroll and overtime payroll, and 401K  
16 matching costs for regular and overtime pay.

17 **Q HOW MANY EMPLOYEES HAVE YOU INCLUDED IN YOUR PAYROLL**  
18 **ANNUALIZATION?**

19 A. I included 650 employees. This was the level of Empire employees as of June 30, 2004.

20 **Q. WHAT PAYROLL TAXES DID YOU INCLUDE IN YOUR PAYROLL**  
21 **ANNUALIZATION?**

1 A. I included FICA, along with federal and state unemployment taxes in my payroll annualization.

2 Q. WHAT IS THE AMOUNT OF 401K EMPLOYER MATCHING COSTS YOU ARE  
3 RECOMMENDING BE INCLUDED IN THE COST OF SERVICE?

4 A. \$632,477. This amount includes employer matching costs for normal payroll and for overtime.

5 Q. WHAT EXPENSE RATIO DID YOU APPLY TO YOUR PAYROLL  
6 ANNUALIZATION?

7 A. I used an expense ratio of 72.76%, which happens to be a yearly average of the expense ratio for  
8 calendar years 1999 through 2003. The following table shows the payroll expense ratio for calendar  
9 years 1999 through 2003.

<u>YEAR</u>	<u>EXPENSE RATIO</u>
1999	68.29%
2000	69.30%
2001	74.39%
2002	76.82%
2003	74.99%

16 Q. WHY DID YOU USE AN AVERAGE INSTEAD OF THE TEST YEAR EXPENSE  
17 RATIO?

18 A. Empire's expense ratio varies from year to year. Based upon my review I could discern no  
19 identifiable trend indicating if the level will increase or decrease in the future. Therefore I felt an  
20 average of the past five years would be more appropriate. The expense ratio for 2003 included the  
21 occurrence of the May 2003 tornadoes that occurred in Empire's service territory. I do not believe

1           that this level is representative of what will occur in the future. A tornado of that magnitude and  
2           damage has not been an annual, normal event in the Empire service territory to my knowledge.

3   **Q.   HOW MUCH OVERTIME HAVE YOU INCLUDED IN YOUR PAYROLL**  
4   **ANNUALIZATION?**

5   A.   I included \$4,190,215 for overtime in my payroll annualization. I arrived at the amount by using a  
6           five-year average of overtime hours incurred for the calendar years 1999 through 2003. This is the  
7           same 5-year period for the determination of the payroll expense ratio. I then applied the hourly  
8           overtime rate as December 31, 2003 to the 5-year average of overtime hours. I decided to use a  
9           five-year average for overtime or the same reasons I used an average for the expense ratio. One  
10          being, overtime fluctuates from year to year and the other being the May 2003 tornadoes, which  
11          occurred in Empire's service territory, created more overtime to be incurred than normal.

12   **Q   DOES EMPIRE DISTRICT ELECTRIC COMPANY OPERATE IN OTHER**  
13   **JURISDICTIONS BESIDES MISSOURI?**

14   A.   Yes. Empire also operates in Arkansas, Kansas and Oklahoma.

15   **Q.   FOR YOUR PAYROLL ANNUALIZATION DID YOU FORMULATE ALLOCATION**  
16   **FACTORS TO DETERMINE THE MISSOURI ELECTRIC JURISDICTIONAL**  
17   **PAYROLL EXPENSE?**

18   A.   No. I did not develop jurisdictional allocation factors for Empire in this case. Therefore, the  
19          jurisdictional allocation factor that the Commission decides to use to allocate payroll costs for the  
20          Missouri jurisdictional electric operations should be applied to my annualized payroll expense of  
21          \$29,244,266.

**ENERGY TRADER COMMISSION**

**Q. WHICH EMPIRE EMPLOYEES ARE ELIGIBLE TO RECEIVE THE ENERGY TRADER COMMISSION?**

A. All regular full-time employees who are employed as Traders in the Wholesale Energy Department are eligible. Currently there are three traders in the Wholesale Energy Department.

**Q. PLEASE EXPLAIN HOW EMPIRE'S ENERGY TRADERS EARN A COMMISSION UNDER THE COMPANY'S SALES COMMISSION/INCENTIVE PLAN.**

A. The energy traders earn sales commissions that are based upon the monthly net margin of off-system sales. The higher the net margin the more commissions the traders earn. Attached to my direct testimony is Schedule KKB-3 which details how its energy traders earn the commissions.

**Q. WHAT LEVEL OF OFF-SYSTEM SALES DID YOU USE TO CALCULATE THE ENERGY TRADER COMMISSION?**

A. I used a 5-year monthly average to arrive at a level of \$2,575,293 for off-system sales. (See Schedule KKB-4) The net margin is the amount of off-system sales minus the costs incurred to obtain the off-system sales.

**Q. WHAT ANNUAL LEVEL OF ENERGY TRADER COMMISSION DOES PUBLIC COUNSEL RECOMMEND INCLUDING IN THE COST OF SERVICE?**

A. \$26,194. This is the maximum annual commission that all three traders as a total can earn. The Energy Trader's Commission/Incentive Plan (Schedule KKB-3) sets out \$12,000 as the maximum amount payable during a calendar year for each trader. Schedule KKB-5 attached to my direct testimony shows how I calculated the trader's commission based upon my usage of a 5 year monthly average of off-system sales.

1   **Q.    BASED UPON YOUR 5 YEAR MONTHLY AVERAGE OF OFF-SYSTEM SALES**  
2       **WOULD THE ENERGY TRADER COMMISSIONS EXCEED THE ANNUAL MAXIMUM**  
3       **PAYMENT?**

4    A.    Yes the Commissions for all three of the traders would be a total of \$45,573. This amount exceeds  
5       the maximum annual payout, thus I used the maximum payout amount (\$36,000) as the amount to  
6       be included in the cost of service.

7   **Q.    WHY DID YOU APPLY THE PAYROLL EXPENSE RATIO TO THE**  
8       **COMMISSION?**

9    A.    I applied the payroll expense ratio to the commission because the commission is included in total  
10       payroll costs along with the other payroll costs I have discussed.

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

12   A.    Yes.