

Exhibit No.
Issue: Lead/Lag Study,
Cash Working Capital
Witness: Kelly A Emanuel
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Sponsoring Party: Empire District Gas
Case No.
Date to Be Filed: June 2009

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

Direct Testimony

of

Kelly A Emanuel

June 2009

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OF
KELLY A. EMANUEL
ON BEHALF OF
THE EMPIRE DISTRICT GAS COMPANY
BEFORE THE
PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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DIRECT TESTIMONY
OF
KELLY A. EMANUEL
THE EMPIRE DISTRICT GAS COMPANY
BEFORE THE
PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
CASE NO.

1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. Kelly A. Emanuel. My business address is 602 Joplin Street, Joplin, Missouri.

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

5 A. The Empire District Electric Company (“Empire” or “Company”), as a Regulatory
6 Analyst.

7 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS MATTER?**

8 A. I am appearing on behalf of The Empire District Gas Company (“EDG”). EDG is a
9 wholly owned subsidiary of Empire that was formed to hold the Missouri Gas assets
10 acquired from Aquila, Inc. on June 1, 2006.

11 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
12 **BACKGROUND FOR THE COMMISSION.**

13 A. I hold a Bachelor of Science degree in Business Information Systems from the
14 University of Phoenix. I began my career in accounting and worked up to the positions
15 of Branch Accounting and Human Resources Manager for the Marriott Corporation. I
16 also served as Director of Finance for a manufacturing company, Shaffer Sportswear. I
17 combined my accounting and finance experience into the Information Systems field

1 where I worked in several areas. In 2006, I joined Empire as an Internal Auditor. In
2 2008, I moved into my current position of Regulatory Analyst.

3 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE BEFORE**
4 **THE MISSOURI PUBLIC SERVICE COMMISSION (“COMMISSION”)?**

5 A. My testimony will describe the Cash Working Capital requirements based upon the lead
6 lag study used in calculating the Cash Working Capital requirement for the test year (the
7 twelve months ending December 31, 2008). I will also discuss some tariff changes that
8 EDG is requesting outside of the rate design.

9
10 **LEAD/LAG STUDY**

11 **Q. WHAT IS A LEAD/LAG STUDY AND HOW IS IT USED?**

12 A. A lead/lag study is a method used to calculate the cash working capital requirements
13 necessary to meet the ongoing operating needs of a utility company. The results of a
14 lead/lag study are one component used in the determination of a company’s rate base.

15 **Q. HOW DOES A LEAD/LAG STUDY MEASURE THE AMOUNT OF CASH**
16 **REQUIRED TO MEET OPERATING EXPENSE?**

17 A. A lead/lag study measures the difference between (1) the time a service is rendered until
18 the time revenues for that service are received (lag), and (2) the time that services,
19 materials, etc. are obtained and the time expenditures for those services are made (lead).
20 The applicable lead period for each major category of expense is compared to the revenue
21 lag period. The difference between those periods, expressed in days, multiplied by the
22 average daily operating expense provides the amount of cash working capital required.

Q. HOW WERE THE TEST YEAR AVERAGE REVENUE LAG DAYS DETERMINED?

A. Revenue Lag is the total of 3 components (See SCHEDULE KAE-1):

- Usage Lag
- Billing Lag
- Payment Lag

Q. PLEASE DESCRIBE THE METHODS USED TO DETERMINE THE EXPENSE LEADS?

A. The expense lead days were determined by compiling actual data for the same time period for each of the following categories (See SCHEDULE KAE-1):

- Purchased Gas Expense
- Healthcare Expense
- Payroll Expense
- FICA Employee Withholding and Employer Match
- Federal Income Tax Withheld
- State Income Tax Withheld
- 401K
- Other Operation and Maintenance Expenses
- Property Taxes
- Federal Unemployment Taxes
- State Unemployment Taxes
- Use Tax
- Sales Tax

Each of these components and the related methodology used in the lead/lag study are discussed in detail in the 2008 Lead-Lag Study for Missouri Gas Operations, which is presented in Schedule KAE-1, attached to my testimony.

Q. WHAT WERE THE RESULTS OF THE LEAD/LAG STUDY?

A. Please refer to Schedule KAE-1 page 10, which shows the calculations for average lead days for the expense categories. The average lag days are also shown on Schedule KAE-1, pages 3 and 4, for each component, Usage (15.2 days), Billing (10.26 days), and Payment (27.38 days) for a total lag of 52.84 days.

CASH WORKING CAPITAL

Q. HOW ARE THE RESULTS OF THE LEAD/LAG STUDY USED TO CALCULATE THE REQUIRED CASH WORKING CAPITAL FOR THE TEST YEAR?

A. The lead time for the various expense categories, as listed in Schedule KAE-1 page 10, is subtracted from the total lag time to achieve the total Cash Working Capital Lag. Next, a Cash Working Capital Factor is calculated by dividing the Cash Working Capital Lag by 365 (total number of days in the test year) for a daily lag. The daily lag factor is then used to calculate the required cash for that expense category by multiplying the daily factor by the test year total expenses for that category.

Q. WHAT WAS THE RESULT OF YOUR WORKING CAPITAL CALCULATIONS?

A. The result was a total increase in EDG's ratebase in the amount of \$2,485,148 associated with necessary working capital. This overall increase in rate base has been broken down

1 into each of the two operating districts, \$316,566 for Northwest and \$2,168,582 for the
2 North/South Region.

3
4 **OTHER TARIFF CHANGES**

5 **Q. IS EDG RECOMMENDING ANY TARIFF CHANGES NOT RELATED TO**
6 **RATE DESIGN?**

7 A. Yes, EDG is proposing seven changes to its Rules and Regulations outside of the rate
8 changes being supported by EDG witness Overcast and energy efficiency program
9 changes being supported by EDG witness McCormack.

10 **Q. PLEASE PROCEED.**

11 A. (1) In Section 2.04, EDG is proposing a change to subsection 2 to reflect a date change
12 of the prime rate published in the Wall Street Journal from the first business day of
13 December to the last business day in December of the prior year. This is proposed in
14 order to align EDG's gas process with that used by Empire's electric operations;

15 (2) In the same Section (2.04) EDG is proposing a wording change on the refunding of
16 customer deposits. The last sentence has been changed to read "Deposits from non-
17 residential Customers may be retained by the Company as a guarantee of payment of
18 final bills";

19 (3) EDG is also proposing a change to section 2.07 concerning reconnections. In order
20 to recover the actual costs of reconnection, EDG is proposing a reconnection fee of \$40
21 for any reconnection during normal business hours and a fee of \$125 for any
22 reconnection after normal business hours. This recommendation is due to the increased
23 costs of maintenance and fuel expenses in addition to the minimum pay requirements

1 associated with calling an employee in to perform the reconnection after normal business
2 hours;

3 (4) EDG is proposing to delete section 2.09, which are the costs associated with installing
4 excess flow valves. Excess flow valves are now required to be installed, and therefore,
5 EDG is proposing to remove the associated charges to the customer for installation;

6 (5) EDG's next recommendation relates to section 5.03, Meter Testing Requests. EDG is
7 proposing a \$65 fee for the testing of the meters. If the meter tests as accurate, the
8 customer will be charged a \$65 fee.

9 (6) EDG is proposing to delete Section 9.07 in the Rules and Regulations to eliminate
10 the Commercial and Industrial Purchase Plan from the EDG Tariffs. And finally;

11 (7) In Section 10, subsection 6.09, EDG is proposing the Late Payment Charge to remain
12 one-half percent (0.50%) of the unpaid bill for Residential Customers and to change the
13 late charge for all other rate classes to five percent (5.0%).

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

15 **A** Yes, it does.

AFFIDAVIT OF KELLY A. EMANUEL

STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 17th day of June, 2009, before me appeared Kelly A. Emanuel, to me personally known, who, being by me first duly sworn, states that she is a Regulatory Analyst of The Empire District Electric Company and acknowledges that she has read the above and foregoing document and believes that the statements therein are true and correct to the best of her information, knowledge and belief.

Kelly A Emanuel
Kelly A Emanuel

Subscribed and sworn to before me this 17th day of June, 2009.

Sherri J. Blalock
Notary Public

My commission expires: Nov 16, 2010

