

Exhibit No.:

Issue(s):

Witness:

Sponsoring Party:

Case No.:

Regulatory Plan Amortization

Trippensee/True-Up

Public Counsel

ER-2006-0315

TRUE-UP TESTIMONY

OF

RUSSELL W. TRIPPENSEE

Submitted on Behalf of
the Office of the Public Counsel

THE EMPIRE DISTRICT ELECTRIC COMPANY

Case No. ER-2006-0315

September 27, 2006

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Empire District Electric
Company of Joplin, Missouri for Authority
to File Tariffs Increasing Rates for Electric
Service Provided to Customers in the
Missouri Service Area of the Company

)
)
)
)

Case No. ER-2006-0315

AFFIDAVIT OF RUSSELL W. TRIPPENSEE

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Russell W. Trippensee, of lawful age and being first duly sworn, deposes and states:

1. My name is Russell W. Trippensee. I am the Chief Public Utility Accountant for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my true-up testimony consisting of pages 1 through 5.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.


Russell W. Trippensee

Subscribed and sworn to me this 27th day of September 2006.



JERENE A. BUCKMAN
My Commission Expires
August 10, 2009
Cole County
Commission #05754036


Jerene A. Buckman
Notary Public

My commission expires August 10, 2009.

TRUE-UP TESTIMONY
OF
RUSSELL W. TRIPPENSEE
EMPIRE DISTRICT ELECTRIC COMPANY
CASE NO. ER-2006-0315

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

2 A. Russell W. Trippensee. I reside at 1020 Satinwood Court, Jefferson City, Missouri 65109, and my
3 business address is P.O. Box 2230, Jefferson City, Missouri 65102.

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

5 A. I am the Chief Utility Accountant for the Missouri Office of the Public Counsel (OPC or Public
6 Counsel).

7 **Q. ARE YOU THE SAME RUSSELL W. TRIPPENSEE WHO HAS FILED**
8 **SUPPLEMENTAL DIRECT TESTIMONY IN THIS CASE?**

9 A. Yes.

10 **Q. WHAT IS THE PURPOSE OF YOUR TRUE-UP TESTIMONY?**

11 A. To address the additional amortization calculation that was provided for in the Stipulation and
12 Agreement (Regulatory Plan) that was approved by the Missouri Public Service Commission (MPSC
13 or Commission) in Case No. EO-2005-0263 involving Empire District Electric Company (EDE or
14 Company).

15 Specifically I will address components of the calculation that the parties have discussed and also
16 present OPC's position on how the total investment applicable to Missouri retail electric operations
17 should be determined for purposes of special amortization.

1 **Q. DOES PUBLIC COUNSEL BELIEVE THAT CERTAIN CHANGES TO THE**
2 **CALCULATION OF THE ADDITIONAL AMORTIZATION HAVE BEEN AGREED**
3 **TO BY THE STAFF, THE COMPANY, AND PUBLIC COUNSEL?**

4 A. Yes. In order to make the calculation consistent with the stipulation and agreement, certain changes
5 to the calculation as contained in Staff's direct testimony were determined to be necessary. It should
6 be noted that Staff's initial calculation was consistent with Appendix D to the Regulatory Plan.
7 However, I believe the Company and Staff will acknowledge that Appendix D was illustrative in
8 nature and was not completely consistent with the language of the Regulatory Plan.

9 It is OPC's understanding that these changes will be reflected in the additional amortization
10 calculation that Staff files as part of its true-up testimony. OPC has not had an opportunity to review
11 that testimony as all parties' testimony is to be concurrently filed.

12 **Q. PLEASE EXPLAIN THE CHANGES THAT OPC ANTICIPATES WILL BE PART**
13 **OF THE ADDITIONAL AMORTIZATION CALCULATION.**

14 A. OPC expects the calculation to reflect an increase in the amortization to recognize the decreased cash
15 flow available due to reduction of deferred income tax expense resulting from the treatment of the
16 amortization as additional book depreciation expense. This reduction in cash flow creates a need for
17 additional amortization (to be treated as additional book depreciation expense) in order to provide
18 sufficient cash flow to meet the financial metrics set out in the Regulatory Plan. Public Counsel
19 agrees with this change.

20 OPC also expects the calculation to reflect a revision to the format of the calculation to set out the
21 capital structure percentages so that the investment in Missouri jurisdictional retail electric operations
22 is properly synchronized with the capital structure. This synchronization is required so that the

1 amortization does not provide cash flow to support debt costs that are used to support company
2 operations other than Missouri retail electric operations as determined by this Commission. Public
3 Counsel agrees with this change.

4 **Q. DOES PUBLIC COUNSEL ANTICIPATE A CHANGE WILL BE MADE TO**
5 **STAFF'S INITIAL CALCULATION TO REFLECT ADDITIONAL INVESTMENT**
6 **IN EXCESS OF RATE BASE?**

7 A. Yes. The illustrative calculation of the additional amortization found in Appendix D to the
8 Regulatory Plan included Rate Base but did not include other investments related to Missouri electric
9 operations, specifically construction work in progress (CWIP). The Regulatory Plan specifically
10 states:

11 The Signatory Parties agree to support an additional amortization amount added to
12 Empires' electric cost of service in any general rate case filed prior to the rate case
13 that includes the Iatan 2 investment when the projected cash flows resulting from
14 Empire's Missouri jurisdictional electric operations, as determined by the
15 Commission, fail to meet or exceed the Missouri electric portion of the financial
16 ratio targets shown in Appendix D, ...

17 (emphasis added)

18 The primary investment related to Missouri electric operations that is not contained in rate base is
19 CWIP. Therefore OPC believes that it is appropriate to add CWIP to the Commission determined
20 rate base prior to synchronizing the Missouri electric operations investment with the capital structure
21 as was previously discussed. It is critical to point out that the CWIP balance to be added to rate base
22 for the purposes of calculating the additional amortization should be reduced by the amount of short
23 term debt used in the additional amortization calculation in the section labeled Additional Financial
24 Information Needed for the Calculation of Ratios. Based on information provided to OPC by the
25 Staff, the net amount of investment to be added to rate base would be \$31,731,841.

Public Counsel in not aware of any other item recorded on the Company's financial records that is not considered in the Commission's determination of rate base. If a prudent investment is recorded on the Company's records in the future that relates to Missouri electric operations but is not included in the Commission's determination of rate base, that item should be examined and a determination made as to the appropriateness of including it in the additional amortization calculation.

Q. DOES PUBLIC COUNSEL EXPECT STAFF TO MAKE AN ADJUSTMENT TO RECOGNIZE ADDITIONAL INVESTMENT RELATED TO MISSOURI ELECTRIC OPERATIONS THAT ARE NOT INCLUDED IN RATE BASE?

A. Yes. It is Public Counsel's understanding that Staff has performed a calculation that uses the Company's balance sheet and eliminates items that Staff believes are already specifically identified as a component of rate base. The remaining balance sheet assets are reduced by the remaining liabilities and the net amount is then added to the rate base prior to the synchronization of the capital structure. It is Public Counsel's belief that this results in an additional investment of approximately \$61.9 million.

Q. PLEASE EXPLAIN WHY OPC BELIEVES STAFF'S ADDITIONAL AMOUNT IS INAPPROPRIATELY CALCULATED.

A. The Regulatory Plan clearly sets out that the additional amortization is to provide the necessary cash flows based on Missouri jurisdictional electric operations as determined by this Commission. Rate Base as determined by this Commission is the net investment used to provide electric jurisdictional service. Similarly, a balance sheet represents the net investment of a company but is in fact the accumulation of all assets and liabilities of the Company, both jurisdictional and non-jurisdictional, and thus the resulting net investment does not represent Missouri jurisdictional electric operations.

1 The balance sheet also reflects the assets and liabilities at a point in time whereas rate base often
2 includes investments that reflect averages over a period. Material and supplies along with fuel
3 inventories would be illustrative of these types of investments that are measured differently for rate
4 base versus the balance sheet for financial purposes. Rate base includes certain measurements of
5 assets and liabilities in a manner distinctly different from the balance sheet. As example, accounts
6 payable and accounts receivable are shown on the balance sheet as a number at a specific point in
7 time whereas a lead lag study is used to measure payment of monies and receipt of monies on an
8 annual basis and the result is reflected in cash working capital component of rate base. To the extent
9 that Staff's analysis will not eliminate or identify these concerns, OPC believes the result should not
10 be added to rate base to determine the net investment applicable to Missouri electric retail operations
11 that ratepayers should provide monies via an additional amortization.

12 **Q. DOES THIS CONCLUDE YOUR TRUE-UUP TESTIMONY?**

13 **A.** Yes.