

Exhibit No.:
Issues: Class Cost of Service
Witness: Anne Ross
Sponsoring Party: MoPSC
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Case No.: ER-2001-299
Date Testimony Prepared: April 10, 2001

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

DIRECT TESTIMONY

OF

ANNE ROSS

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2001-299

**Jefferson City, Missouri
April, 2001**

FILED²
APR 10 2001
Missouri Public
Service Commission

DIRECT TESTIMONY
OF
ANNE ROSS
THE EMPIRE DISTRICT ELECTRIC COMPANY
CASE NO. ER-2001-299

1 Q. Please state your name and business address.

2 A. My name is Anne Ross and my business address is Missouri Public Service
3 Commission, P.O. Box 360, Jefferson City, Missouri, 65102.

4 Q. What is your present position with the Missouri Public Service Commission?

5 A. I am a Regulatory Economist in the Electric Department of the Operations
6 Division.

7 Q. Would you please review your educational background?

8 A. I have a Bachelor of Science in Business Administration and an M.B.A. from the
9 University of Missouri - Columbia.

10 Q. Have you previously filed testimony before the Commission?

11 A. Yes. I joined the Staff of the Missouri Public Service Commission (Staff) in
12 September, 1989. Since that time, I have filed testimony on class cost-of-service and rate
13 design in a number of Natural Gas and Electric cases.

Direct Testimony of
Anne Ross

1 Q. What is the purpose of your direct testimony?

2 A. The purpose of my testimony is to present a summary of the Staff's class cost-of-
3 service study results for The Empire District Electric Company (EDE or Company). The
4 Staff's cost-of-service study results are shown in Schedule 1.

5 Q. What are the results of your class cost-of-service study for the various customer
6 classes?

7 A. The Staff's class cost-of-service study, based on a projected revenue deficiency of
8 \$15,133,316, shows that revenue collected from the Residential class is less than the cost of
9 providing service by 6.56%. The revenue collected from the Small General Service class is
10 greater than the cost of providing service by 4.87%. Revenues collected from the Large
11 General Service, Large Power Service, and Special Contract cost-of-service classes are less
12 than the costs of providing service by 7.36%, 24.57% and 22.89%, respectively.

13 Q. What is the purpose of the Staff's class cost-of-service study?

14 A. The purpose of the Staff's class cost-of-service study is to provide the Commission
15 with a measure of relative class cost responsibility for the overall revenue requirement of
16 EDE. For individual items of cost, class cost responsibility can either be directly assigned or
17 can be allocated to customer classes using reasonable methods for determining the relative
18 class responsibility for that item of cost. The results are then summarized so that they can be
19 compared to revenues being collected from each class on current rates.

20 Q. What is the source of accounting information used in your class cost-of-service
21 study in this case?

Direct Testimony of
Anne Ross

1 A. The study was done using the costs filed in Staff witness Phil Williams' direct
2 testimony, Schedule 2, on April 3, 2001, and is based on a twelve month study period ending
3 December 31, 2000, with projected update through June 30, 2001. Updated test-year
4 revenues by cost-of-service class were developed by Staff witness Janice Pyatte.

5 Q. What customer classes are used in the Staff's class cost-of-service study?

6 A. The customer classes used in this study are as follows:

7 Residential
8 Small General Service
9 Large General Service
10 Large Power Service
11 Special Contract Service

12
13 Q. Please describe how you categorized the individual items of cost in the Staff's
14 class cost-of-service study.

15 A. Categorization of costs into functional areas that are to be allocated in the same
16 way is called cost functionalization. The rate base and expense accounts are either assigned
17 to one of the following functional categories or refunfunctionalized to more than one category.
18 The functional categories used in this study are as follows:

19 Production - Capacity
20 Production - Energy
21 Transmission - Capacity
22 Distribution Substations - Demand
23 Poles and Conductors- Primary Feeder - Demand
24 Poles and Conductors - Secondary Customer
25 Poles and Conductors - Secondary Demand
26 Transformers - Secondary Customer - 1 Phase
27 Transformers - Secondary Customer - 3 Phase
28 Transformers - Demand
29 Distribution Services
30 Distribution Meters
31 Customer Deposits
32 Meter Reading

Direct Testimony of
Anne Ross

1 Customer Billing, Sales, Service
2 Assigned Large General Service, Large Power Service, & Special
3 Contract Service
4 Assigned Residential & Small General Service
5 Assigned Special Contract Service
6

7 Q. How are the items in each functional category allocated to the cost-of-service
8 classes?

9 A. These costs are allocated using factors developed by the Staff or the Company.
10 For example, the results of a meter-reading study, in which the average amount of time
11 required to read the meters of customers in various classes was studied, could be used to
12 allocate expenses associated with Meter Reading.

13 Q. How were allocation factors developed for this case?

14 A. Allocation factors developed for the EDE Case No. ER-97-81 were adjusted to
15 reflect changes in class customer numbers and usage. Staff witness James Watkins adjusted
16 these, and will discuss this in his direct testimony.

17 Q. How are costs which cannot directly be assigned to a functional area
18 refunctionalized?

19 A. Those costs which cannot directly be assigned to any single, specific functional
20 category are divided among several functions based upon some related factor. For example, it
21 seems reasonable to assume that social security taxes are directly related to payroll costs and
22 can therefore be assigned to functions in the same manner as payroll costs, i.e., based on the
23 ratio of labor costs assigned to the functional categories. Two major accounting categories of
24 costs which are refunctionalized in this manner are General and Intangible Plant accounts and
25 Administrative and General Expense accounts.

Direct Testimony of
Anne Ross

1 Q. How were the General and Intangible plant accounts refunctionalized?

2 A. These accounts were refunctionalized using each functional category's relative
3 share of Production, Transmission, and Distribution gross plant.

4 Q. How were the Administrative and General expense accounts refunctionalized?

5 A. These accounts were refunctionalized in one of three ways. Labor-related
6 accounts, such as Salaries and Employee Pensions and Benefits, were refunctionalized using
7 each functional category's relative share of labor costs. Plant-related accounts, such as
8 Property Insurance, were refunctionalized using an aggregate gross plant factor. Finally,
9 overhead costs such as Regulatory Commission expense were spread proportionately to all
10 functional categories based on a ratio of total functionalized costs.

11 Q. How were the various "Other Revenue" accounts allocated to the cost-of-service
12 classes?

13 A. In general, "Other Revenue" accounts were allocated using one of two
14 procedures. Where revenues could be directly associated with certain customers or groups of
15 customers, these revenue accounts were assigned to the corresponding customer class or
16 classes. Otherwise, revenue accounts were refunctionalized based on the nature of the
17 revenues in these accounts, and then allocated to the customer classes.

18 Q. What are the results of your class cost-of-service study?

19 A. The results are shown on Schedule 1 and are presented in terms of class revenue
20 deficiencies at the Staff's estimated \$15 million revenue requirement increase.

21 Q. Does this conclude your direct testimony?

22 A. Yes, it does.

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

IN THE MATTER OF THE)
APPLICATION OF THE EMPIRE)
DISTRICT ELECTRIC COMPANY FOR)
A GENERAL RATE INCREASE.)

Case No. ER-2001-299

AFFIDAVIT OF ANNE ROSS

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Anne Ross, of lawful age, on her oath states: that she has participated in the preparation of the foregoing written testimony in question and answer form, consisting of 5 pages of testimony to be presented in the above case, that the answers in the attached written testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true to the best of her knowledge and belief.


Anne Ross
Anne Ross

Subscribed and sworn to before me this _____ day of April, 2001.

Dawn L. Hake
Notary Public

My commission expires _____

DAWN L. HAKE
Notary Public – State of Missouri
County of Cole
My Commission Expires Jan 9, 2005

STAFF CLASS COST-OF-SERVICE RESULTS - STAFF FILED ACCOUNTING COSTS AND FIXED 8.33% RATE OF RETURN

EMPIRE DISTRICT ELECTRIC
CASE NO. ER-2001-299

FUNCTIONAL CATEGORY			TOTAL	RES	SGS	LGS	LPS	SC
PRODUCTION	CAPACITY		\$63,145,679	\$25,919,197	\$7,325,502	\$18,334,881	\$10,702,196	\$863,904
PRODUCTION	ENERGY		\$94,773,179	\$38,676,365	\$10,994,246	\$27,657,741	\$16,136,440	\$1,308,387
TRANSMISSION	CAPACITY		\$14,545,852	\$6,199,666	\$1,730,198	\$4,122,384	\$2,314,949	\$178,654
DISTRIBUTION	SUBSTATIONS	DEMAND	\$7,792,197	\$3,980,663	\$1,039,090	\$1,890,042	\$882,402	\$0
DISTRIBUTION	POLES AND CONDUCTORS	PRI. FEEDER - DEMAND	\$18,363,326	\$9,378,246	\$2,448,436	\$4,454,536	\$2,082,108	\$0
DISTRIBUTION	POLES AND CONDUCTORS	PRI. TAP - CUSTOMER	\$0	\$0	\$0	\$0	\$0	\$0
DISTRIBUTION	POLES AND CONDUCTORS	SEC. CUSTOMER	\$3,942,006	\$3,033,374	\$691,302	\$216,182	\$1,148	\$0
DISTRIBUTION	POLES AND CONDUCTORS	PRI. TAP - DEMAND	\$0	\$0	\$0	\$0	\$0	\$0
DISTRIBUTION	POLES AND CONDUCTORS	SEC. DEMAND	\$1,944,236	\$1,192,310	\$297,294	\$432,566	\$22,066	\$0
DISTRIBUTION	POLES AND CONDUCTORS	ASSIGNED LPS CUSTOMERS	\$0	\$0	\$0	\$0	\$0	\$0
DISTRIBUTION	TRANSFORMERS	SEC. CUSTOMER - 1 PHASE	\$2,901,497	\$2,332,721	\$562,320	\$6,456	\$0	\$0
DISTRIBUTION	TRANSFORMERS	SEC. CUSTOMER - 3 PHASE	\$978,560	\$27,951	\$568,757	\$380,258	\$1,594	\$0
DISTRIBUTION	TRANSFORMERS	DEMAND	\$1,913,667	\$1,173,563	\$292,619	\$425,765	\$21,719	\$0
DISTRIBUTION	SERVICES		\$4,337,998	\$3,281,069	\$813,565	\$235,840	\$7,524	\$0
DISTRIBUTION	METERS		\$3,699,173	\$2,222,276	\$865,649	\$560,705	\$49,250	\$1,293
	CUSTOMER DEPOSITS		(\$366,789)	(\$233,723)	(\$93,078)	(\$39,987)	\$0	\$0
	METER READING		\$1,523,192	\$1,192,164	\$275,656	\$51,421	\$3,843	\$107
	BILLING, SALES, SERVICE		\$2,617,554	\$2,200,338	\$378,457	\$38,011	\$728	\$20
	ASSIGNED LGS/LPS/SC		\$845,423	\$0	\$0	\$829,106	\$15,875	\$443
	ASSIGNED RES/SGS		\$3,639,897	\$3,105,716	\$534,182	\$0	\$0	\$0
	ASSIGNED SPECIAL CONTRACT		\$40,083	\$0	\$0	\$0	\$0	\$40,083
TOTAL			\$226,636,732	\$103,681,896	\$28,724,197	\$59,595,906	\$32,241,842	\$2,392,893
RATE REVENUE			\$201,350,081	\$93,046,757	\$28,648,359	\$52,994,437	\$24,792,524	\$1,868,004
	LIGHTING & RATE 70 RATE REVENUE		\$4,893,380	\$2,238,626	\$620,193	\$1,286,753	\$696,143	\$51,666
	ADDITIONAL RATE REVENUES		\$0	\$0	\$0	\$0	\$0	\$0
	LIGHTING & RATE 70 ASSIGNED OTHER REVENUE		\$5,699	\$2,607	\$722	\$1,499	\$811	\$60
	OTHER REVENUE LESS LIGHTING & 70		\$3,966,102	\$1,738,063	\$483,515	\$1,093,758	\$605,152	\$45,614
	ASSIGNED OTHER REVENUE		\$1,288,154	\$547,767	\$367,276	\$316,427	\$56,685	\$0
	TOTAL REVENUE (RATE+LIGHTING & RATE 70+OTHER)		\$211,503,416	\$97,573,821	\$30,120,064	\$55,692,873	\$26,151,314	\$1,965,344
REVENUE DEFICIENCY			\$15,133,316	\$6,108,075	(\$1,395,868)	\$3,903,032	\$6,090,528	\$427,549
% CHANGE			7.52%	6.56%	-4.87%	7.36%	24.57%	22.89%

ALL MISSOURI JURISDICTIONAL ALLOCATED COSTS ARE ALLOCATED TO STUDIED CLASSES