

EXHIBIT

Exhibit No.:
Issue(s): Storm Damage Expense/
Experimental Regulatory Plan Amortization
Witness: Ted Robertson
Type of Exhibit: Direct
Sponsoring Party: Public Counsel
Case Number: ER-2006-00315
Date Testimony Prepared: June 23, 2006

DIRECT TESTIMONY

OF

TED ROBERTSON

FILED

SEP 29 2006

Missouri Public
Service Commission

Submitted on Behalf of
the Office of the Public Counsel

THE EMPIRE DISTRICT ELECTRIC COMPANY

Case No. ER-2006-0315

June 23, 2006

Public
Counsel
Exhibit No. 18
Case No(s) ER-2006-0315
Date 9-05-06 Rptr RF

**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 TED ROBERTSON

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Ted Robertson, of lawful age and being first duly sworn, deposes and states:

1. My name is Ted Robertson. I am a Public Utility Accountant for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my direct testimony consisting of pages 1 through 8 and Schedule TJR-1.
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.




Ted Robertson, C.P.A.
Public Utility Accountant III

Subscribed and sworn to me this 23th day of June 2006.



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



Jerene Buckman
Notary Public

My commission expires August 10, 2009.

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**DIRECT TESTIMONY
OF
TED ROBERTSON**

**EMPIRE DISTRICT ELECTRIC COMPANY
CASE NO. ER-2006-0315**

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Ted Robertson, P. O. Box 2230, Jefferson City, Missouri 65102.

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

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

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND OTHER QUALIFICATIONS.

A. I graduated from Southwest Missouri State University in Springfield, Missouri, with a Bachelor of Science Degree in Accounting. In November, 1988, I passed the Uniform Certified Public Accountant ("CPA") Examination, and obtained CPA certification from the State of Missouri in 1989. My Missouri CPA license number is 2004012798.

Q. WHAT IS THE NATURE OF YOUR CURRENT DUTIES WHILE IN THE EMPLOY OF THE PUBLIC COUNSEL?

1 A. Under the direction of the OPC Chief Public Utility Accountant, Mr. Russell W.
2 Trippensee, I am responsible for performing audits and examinations of the books
3 and records of public utilities operating within the State of Missouri.

4
5 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC
6 SERVICE COMMISSION?

7 A. Yes, I have. Please refer to Schedule No. TJR-1, attached to this direct
8 testimony, for a listing of cases in which I have previously submitted testimony
9 before the Missouri Public Service Commission ("MPSC" or "Commission").

10
11 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

12 A. The purpose of this direct testimony is to, 1) address the Public Counsel's position
13 regarding the determination of an appropriate annualized level of storm damage
14 expense for Empire District Electric Company ("EDE" or "Company"), and 2)
15 recommend that the amortization authorized in the Experimental Regulatory Plan,
16 Empire Case No. EO-2005-0263, be calculated, and if appropriate, included in
17 the determination of rates in the instant case.

18
19 **II. STORM DAMAGE EXPENSE**

20 Q. WHAT IS THE ISSUE?

1 A. The issue concerns the determination of an appropriate level of annualized storm
2 damage expense to include in Empire's cost of service for the development of
3 rates in the current case.

4
5 Q. PLEASE CONTINUE.

6 A. In order to isolate and identify expenses associated with storm damage,
7 Company, on or about January of 2004, began booking those expenses to
8 Uniform System of Accounts ("USOA") #593.560. During the test year ordered
9 by the Commission (i.e., twelve month period ending December 31, 2005,
10 adjusted and updated for any known and measurable changes through March 31,
11 2006), Company booked a total of \$448,447.44 to the account for the twelve
12 months ended March 2006. The total balance consists primarily of Kansas,
13 Missouri and Oklahoma storm costs. According to the Company, it then
14 allocated 89.3434% (i.e., \$400,658) of that total balance to the operations of its
15 Missouri jurisdiction.

16
17 Q. DOES THE PUBLIC COUNSEL BELIEVE THAT THE COMPANY'S
18 ALLOCATION PROCESSESS RESULT IN A REASONABLE LEVEL OF
19 ANNUALIZED STORM DAMAGE EXPENSE BEING INCLUDED IN THE
20 MISSOURI JURISDICTIONAL COST OF SERVICE?

21 A. No. The following table shows the total costs booked to USOA #593.560 (all
22 jurisdictions), during the twelve-month periods listed, and the allocated amount

of the total balances Company included in the cost of service for the Missouri jurisdiction. It also shows the actual amount of Missouri storm damage expense incurred and booked in the account prior to the allocation process:

<u>Year</u>	<u>Total Acct.</u>	<u>MO. Allocated</u>	<u>MO. Actual</u>
2004	\$718,040	\$640,482	\$459,983
September 2005	\$347,881	\$310,691	\$143,456
2005	\$417,997	\$373,408	\$173,598
March 2006	\$448,447	\$400,658	\$199,109

The portion of the total amounts booked that were actually incurred for the benefit of the Missouri jurisdiction are 65%, 42%, 42% and 45%, respectively. However, the percentage of the total balances that Company allocates to the Missouri jurisdiction are 89.1987%, 89.3095%, 89.3326% and 89.3434%, respectively. The Company allocation process passes to the Missouri jurisdiction, for the respective periods, 1.4X, 2.17X, 2.16X and 2.02X the amount of expense actually incurred for the benefit of the Missouri operations during those periods.

Q. DOES THE PUBLIC COUNSEL BELIEVE THE COMPANY ALLOCATION PROCESSES TO BE REASONABLE IN THIS INSTANCE?

1 A. No. A primary purpose of any allocation process is to rationally divide and
2 assign to the various jurisdictions of a utility costs which are incurred for the
3 benefit of all its jurisdictions and/or are not easily identifiable with any of the
4 specific jurisdictions. Since the Company does in fact identify and label almost
5 all of the costs booked in USOA #593.560 with the specific jurisdiction in which
6 the expense was actually incurred (only a immaterial amount of clearing costs is
7 not jurisdictionally identified), I believe it more reasonable to develop an
8 annualized level of storm damage expense that is based upon the actual costs
9 incurred, over a reasonable period of time, for the specific jurisdiction.

10
11 Q. WHAT IS THE ANNUALIZED LEVEL OF STORM DAMAGE EXPENSE
12 PUBLIC COUNSEL PROPOSES TO INCLUDE IN THE MISSOURI
13 JURISDICTIONAL COST OF SERVICE FOR THE INSTANT CASE?

14 A. In OPC Data Request No. 1010, I requested that the Company provide me with
15 the average yearly storm expense for the period calendar year 1998 through
16 calendar year 2005 (i.e., eight years). Company's response to the data request
17 states that the Missouri average yearly storm expense for that period of time was
18 \$195,656. Since I believe that the \$195,656 is based upon a sufficient amount of
19 time to develop a reasonable average annual expense amount and it also very
20 nearly matches the Missouri jurisdictional actual incurred expense for the twelve-
21 month period ended March 2006 (i.e., \$199,109), it is my recommendation that
22 the March 2006 book amount of \$199,109 is an appropriate annualized level of

1 Missouri storm damage expense to included in the cost of service for the instant
2 case.

3 Q. IF IN THE FUTURE, COMPANY REQUESTS AN ACCOUNTING
4 AUTHORITY ORDER ("AAO") FOR UNEXPECTED STORM DAMAGE
5 COSTS, WOULD PUBLIC COUNSEL SUPPORT THE REQUEST?

6 A. If such an event occurs, and its costs are determined to be extraordinary, OPC
7 concurs that AAO deferral of the costs, for possible future recovery, should be
8 permitted in order to provide the utility with the incentive to do what is necessary
9 to help prevent disruption of, or restore, safe and adequate service. Of course, the
10 caveats are that the costs must be determined to be extraordinary according to the
11 parameters set in previous AAOs authorized by the Commission and ratemaking
12 for the costs deferred is postponed until a rate case is filed and run its due course.
13

14 **III. EXPERIMENTAL REGULATORY PLAN AMORTIZATION**

15 Q. IS COMPANY REQUESTING AN AMORTIZATION PURSUANT TO THE
16 EXPERIMENTAL REGULATORY PLAN AUTHORIZED BY THE
17 COMMISSION IN EMPIRE DISTRICT ELECTRIC COMPANY CASE NO.
18 EO-2005-0263?

19 A. No. Company is not requesting an amortization to meet financial ratio targets as
20 provided for in Case No. EO-2005-0263. On page 10, lines 8-17, of the direct
21 testimony of Mr. William L. Gipson, President and Chief Executive Officer of
22 Empire District Electric Company, he states:

1
2 Q. ARE YOU REQUESTING ANY AMORTIZATION TO MEET
3 FINANCIAL RATIO TARGETS AS PROVIDED FOR IN CASE NO.
4 EO-2005-0263?
5

6 A. Not in the initial rate filing. Empire is currently working with the
7 parties involved in the regulatory plan on how to best meet the
8 future capacity requirements. At this point, these plans may
9 include a new purchased power contract. According to Standard &
10 Poor's *Utilities & Perspectives*, May 12, 2003, "Standard & Poor's
11 Ratings Services views electric utility purchased-power
12 agreements ("PPA") as debt-like in nature...". From the point a
13 commitment on the new contract is made, the rating agencies may
14 adjust their financial ratio calculations to accommodate the new
15 power contract. If Empire finalizes the details of the new contract
16 within the true-up period, we recommend that this be taken into
17 account as a true-up adjustment.
18
19

20 Q. DOES THE PUBLIC COUNSEL BELIEVE THAT THE AMORTIZATION
21 SHOULD BE CALCULATED, AND IF APPROPRIATE, IMPLEMENTED IN
22 THE DEVELOPMENT OF RATES FOR THE INSTANT CASE?

23 A. Yes. The Stipulation and Agreement authorized in Case No. EO-2005-0263
24 contained provisions that provide Empire the opportunity to maintain its debt at
25 investment grade rating during the period associated with construction of the
26 Iatan 2 generating facility. On page two of the Stipulation and Agreement the
27 Regulatory Plan Term/Duration is defined as:
28

29 The approximately five (5) year period beginning with the
30 effective date of a Commission order that approves this
31 Stipulation and Agreement and ending with the effective date of
32 the initial rates that reflect inclusion of the Iatan 2 investment.
33
34

1 The effective date of the Commission's Order Approving Stipulation And
2 Agreement, Case No. EO-2005-0263, was August 12, 2005; therefore, the
3 financial ratios, and any other associated agreements identified in the Stipulation
4 and Agreement, should be analyzed to determine if an amortization is necessary
5 at this time.

6
7 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

8 A. Yes, it does.

**CASE PARTICIPATION
OF
TED ROBERTSON**

<u>Company Name</u>	<u>Case No.</u>
Missouri Public Service Company	GR-90-198
United Telephone Company of Missouri	TR-90-273
Choctaw Telephone Company	TR-91-86
Missouri Cities Water Company	WR-91-172
United Cities Gas Company	GR-91-249
St. Louis County Water Company	WR-91-361
Missouri Cities Water Company	WR-92-207
Imperial Utility Corporation	SR-92-290
Expanded Calling Scopes	TO-92-306
United Cities Gas Company	GR-93-47
Missouri Public Service Company	GR-93-172
Southwestern Bell Telephone Company	TO-93-192
Missouri-American Water Company	WR-93-212
Southwestern Bell Telephone Company	TC-93-224
Imperial Utility Corporation	SR-94-16
St. Joseph Light & Power Company	ER-94-163
Raytown Water Company	WR-94-211
Capital City Water Company	WR-94-297
Raytown Water Company	WR-94-300
St. Louis County Water Company	WR-95-145
United Cities Gas Company	GR-95-160
Missouri-American Water Company	WR-95-205
Laclede Gas Company	GR-96-193
Imperial Utility Corporation	SC-96-427
Missouri Gas Energy	GR-96-285
Union Electric Company	EO-96-14
Union Electric Company	EM-96-149
Missouri-American Water Company	WR-97-237
St. Louis County Water Company	WR-97-382
Union Electric Company	GR-97-393
Missouri Gas Energy	GR-98-140
Laclede Gas Company	GR-98-374
United Water Missouri Inc.	WR-99-326
Laclede Gas Company	GR-99-315
Missouri Gas Energy	GO-99-258
Missouri-American Water Company	WM-2000-222
Atmos Energy Corporation	WM-2000-312
UtiliCorp/St. Joseph Merger	EM-2000-292
UtiliCorp/Empire Merger	EM-2000-369
Union Electric Company	GR-2000-512
St. Louis County Water Company	WR-2000-844
Missouri Gas Energy	GR-2001-292
UtiliCorp United, Inc.	ER-2001-672
Union Electric Company	EC-2002-1
Empire District Electric Company	ER-2002-424

**CASE PARTICIPATION
OF
TED ROBERTSON**

<u>Company Name</u>	<u>Case No.</u>
Missouri Gas Energy	GM-2003-0238
Aquila Inc.	EF-2003-0465
Aquila Inc.	ER-2004-0034
Empire District Electric Company	ER-2004-0570
Aquila Inc.	EO-2005-0156
Aquila, Inc.	ER-2005-0436
Hickory Hills Water & Sewer Company	WR-2006-0250
Empire District Electric Company	ER-2006-0315