

Exhibit No.: _____
Issue(s): Regulatory Plan Additional Amortizations
Southwest Power Administration Payment
Iatan 2 Investment Tax Credits
And Other Issues
Witness/Type of Exhibit: Robertson/Direct
Sponsoring Party: Public Counsel
Case No.: ER-2011-0004

DIRECT TESTIMONY
OF
TED ROBERTSON

Submitted on Behalf of the Office of the Public Counsel

EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2011-0004

February 23, 2011

TABLE OF CONTENTS

Testimony	Page
Introduction	1
Purpose of Testimony	2
Regulatory Plan Additional Amortizations	3
Southwest Power Administration Payment	5
Iatan 2 Investment Tax Credits	10
Other Issues	11

1
2
3
4
5
6
7
8

**DIRECT TESTIMONY
OF
TED ROBERTSON**

**EMPIRE DISTRICT ELECTRIC COMPANY
CASE NO. ER-2011-0004**

9 **I. INTRODUCTION**

10 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

11 A. Ted Robertson, PO Box 2230, Jefferson City, Missouri 65102-2230.

12
13 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

14 A. I am employed by the Missouri Office of the Public Counsel (OPC or Public
15 Counsel) as the Chief Public Utility Accountant.

16
17 Q. WHAT IS THE NATURE OF YOUR CURRENT DUTIES AT THE OPC?

18 A. My duties include all activities associated with the supervision and operation of
19 the regulatory accounting section of the OPC. I am also responsible for
20 performing audits and examinations of the books and records of public utilities
21 operating within the state of Missouri.

22
23 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND OTHER
24 QUALIFICATIONS.

25 A. I graduated in May, 1988, from Missouri State University in Springfield, Missouri,
26 with a Bachelor of Science Degree in Accounting. In November of 1988, I

1 passed the Uniform Certified Public Accountant Examination, and I obtained
2 Certified Public Accountant (CPA) certification from the state of Missouri in 1989.
3 My CPA license number is 2004012798.
4

5 Q. HAVE YOU RECEIVED SPECIALIZED TRAINING RELATED TO PUBLIC
6 UTILITY ACCOUNTING?

7 A. Yes. In addition to being employed by the Missouri Office of the Public Counsel
8 since July 1990, I have attended the NARUC Annual Regulatory Studies
9 Program at Michigan State University, and I have also participated in numerous
10 training seminars relating to this specific area of accounting study.
11

12 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC
13 SERVICE COMMISSION (COMMISSION OR MPSC)?

14 A. Yes, I have testified on numerous issues before this Commission. Please refer
15 to Schedule TJR-1, attached to this testimony, for a listing of cases in which I
16 have submitted testimony.
17

18 **II. PURPOSE OF TESTIMONY**

19 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

20 A. I am sponsoring the Public Counsel's position regarding Empire District Electric
21 Company's (Empire or Company) ratemaking treatment of the issues, Regulatory

1 Plan Additional Amortizations, Southwest Power Administration Payment, Iatan 2
2 Investment Tax Credits and Other Issues.

3
4 **III. REGULATORY PLAN ADDITIONAL AMORTIZATIONS**

5 Q. WHAT IS THE ISSUE?

6 A. In Empire, Case No. EO-2005-0263, the Commission approved a Stipulation and
7 Agreement in which the parties agreed Company would be able to collect from
8 ratepayers additional funds, i.e., Additional Amortizations To Maintain Financial
9 Ratios (Additional Amortizations), in the event that the Company's revenue
10 requirement in subsequent rate cases did not permit it to meet certain financial
11 ratios related to it maintaining its investment grade rating (criteria associated with
12 the issue are identified and described on pages 11 through 15 of the
13 aforementioned Stipulation and Agreement). Furthermore, the Regulatory Plan
14 authorized by the Commission in Case No. EO-2005-0263 required that the
15 additional amortizations cease effective with the current rate proceeding (Source:
16 Stipulation and Agreement (III) (i)). Thus, the issue is how should these monies
17 be accounted for in the ratemaking process, in this case, so that ratepayers
18 benefit from their payment.

19
20 Q. WHAT IS THE TOTAL AMOUNT OF THE ADDITIONAL AMORTIZATIONS TO
21 MAINTAIN FINANCIAL RATIOS COLLECTED BY COMPANY?

1 A. It is my understanding that the amount will approximate \$39.7 million as of the
2 effective law date of the instant case (Source: Empire General Ledger)

3
4 Q. DID THE REGULATORY PLAN AUTHORIZED IN EMPIRE, CASE NO. EO-
5 2005-0263, IDENTIFY THE PROCESS OR METHODOLOGY BY WHICH THE
6 MONIES COLLECTED WOULD BE TREATED TO BENEFIT RATEPAYERS?

7 A. Yes. On page 15 of the Regulatory Plan Stipulation and Agreement it states:

8
9 3. AMORTIZATION: TEN-YEAR RECOGNITION OF FUTURE
10 BENEFITS

11
12 In order to ensure that the benefits of offsetting the rate base
13 related to the amortizations contained in the Agreement
14 accrue to Empire's customers in future rate proceedings,
15 Empire agrees that any such benefits shall be reflected in its
16 rates, notwithstanding any future changes in the statutory
17 provisions contained in Chapters 386 and 393 RSMo, for at
18 least ten (10) years following the effective date of the Order
19 Approving Stipulation and Agreement in this proceeding.
20
21

22 Q. WHAT IS PUBLIC COUNSEL'S RECOMMENDATION ON HOW THE
23 ADDITIONAL AMORTIZATION SHOULD BE TREATED IN THE COMPANY'S
24 CURRENT AND SUBSEQUENT RATE CASES?

25 A. Public Counsel recommends that the Commission authorize the
26 assignment of the additional amortizations balance to the Iatan II
27 accumulated depreciation reserve accounts. Furthermore, the additional

1 amortizations should be separately booked into their own unique plant
2 account subaccounts which would include no comingling of any other
3 depreciation or other expenses associated with the plant account (so as to
4 be easily identified and monitored). Lastly, any such amounts so booked
5 will not be removed or otherwise eliminated from the individual
6 subaccounts before the associated plant is retired, and further subject to,
7 for plant retired earlier than ten years from the conclusion of the instant
8 case, inclusion in the individual subaccounts for a minimum of ten years
9 subsequent to their actual inclusion in the determination of rates.
10

11 **IV. SOUTHWEST POWER ADMINISTRATION PAYMENT**

12 Q. WHAT IS THE ISSUE?

13 A. On or about On September 16, 2010, Empire received a pre-tax payment of
14 \$26,563,700 from the Southwestern Power Administration. The payment was for
15 the estimated impact of the proposed White River Minimum Flows Project, which
16 will result in energy losses at Empire's hydro generating station, Ozark Beach,
17 located near Lake Taneycomo.
18

19 Q. WHAT IS THE WHITE RIVER MINIMUM FLOWS PROJECT?

1 A. According to the US Army Corp of Engineers report, " White River Basin, Arkansas
2 Minimum Flows November 2008 (Revised January 2009)," the project is
3 summarized as follows:
4

5 Executive Summary

6
7 Section 132(a) of the FY 2006 Energy and Water Development
8 Appropriations Act (EWDAA) (Public Law 109-103) authorized and
9 directs implementation of two of the Reallocation plans described in
10 the July 2004 White River Minimum Flows Reallocation Report:
11 BS-3 at Bull Shoals and NF-7 at Norfolk Lake. The authorization
12 requires a determination by the Assistant Secretary of the Army for
13 Civil Works (ASA(CW)) regarding reasonable continued use of
14 lakeside facilities and the determinations by the Administrator of the
15 Southwestern Power Administration (SWPA) regarding
16 compensation for hydropower losses at the Federal Energy
17 Regulatory Commission (FERC) Project License No. 2221 and the
18 offset of Federal hydropower losses at Bull Shoals and Norfolk
19 Lakes.
20

21 Plan BS-3 reallocates 5 feet of flood control storage at Bull Shoals
22 Lake for the minimum flows release of 800 cfs. The top of the
23 conservation pool elevation will be raised by 5 feet from 654.0 to
24 659.0; and the top of the seasonal pool held from May to July for
25 water temperature releases will be raised by 5 feet from 657.0 to
26 662.0. The minimum flow releases will be made through the main
27 turbine, so no new release facilities are required. However some
28 modifications to the Corps operational facilities are required. These
29 include modifying the computer language (SCADA) used to
30 remotely operate Bull Shoals turbines and minor modifications to
31 the existing monorail bulkheads.
32

33 Plan NF-7 reallocates 3.5 feet of storage at Norfolk Lake to be
34 evenly divided (50:50) between the conservation and flood control
35 pools to provide for the minimum flows release of 300 cfs. The top
36 of the conservation pool elevation will be raised by 1.75 feet to from
37 552.0 to 553.75; and the top of the seasonal pool held from May to

1 July for water temperature releases will be raised by 1.75 feet from
2 555.0 to 556.75.0. Plan NF-7 includes a siphon system that will be
3 constructed at the dam and operated in concert with the existing
4 Station Service Unit to make the minimum flows releases. The
5 siphon system includes a knife valve, a 24-inch diameter steel pipe
6 through and along the downstream face of the dam, and a multi-
7 layered intake system on the lakeside. The siphon system provides
8 the ability to remotely operate the discharge for the minimum flows
9 releases. It does not affect other operations of the dam or
10 powerhouse. Other modifications to lake project facilities include
11 modifying the computer language (SCADA) used to remotely
12 operate Norfolk turbines and installation of a new monorail
13 bulkhead.

14
15 The Arkansas Game & Fish Commission (AGFC), the non-Federal
16 sponsor, will provide relocations or modifications for public and
17 private lake facilities to allow for reasonable continued use of those
18 facilities at both Lakes. The estimated cost to provide modified or
19 replacement lakeside facilities is approximately \$18,103,000.

20
21 At both lakes, there will be an offset to reduce SWPA's debt to the
22 Treasury for the Federal hydropower purpose. The project at Bull
23 Shoals Lake also includes the FERC licensee compensation, to be
24 paid by the Corps. SWPA has calculated the energy and capacity
25 losses, as well as the dollar value to be compensated. The
26 compensation is determined by the Administrator of SWPA on the
27 basis of present values of the estimated lifetime replacement cost
28 of the electrical energy and capacity at the time of implementation.
29 The current estimate for the Federal hydropower offset is
30 \$86,712,100, and the estimate for the FERC Licensee
31 compensation is \$33,935,100. Final dollar amounts will depend on
32 the official date of implementation of Minimum Flows Project at
33 each lake and the value of the specified parameters in effect at that
34 time.

35
36 There are benefits and dis-benefits associated with the
37 implementation of White River Minimum Flows Project. The
38 accompanying Environmental Impact Statement (EIS) evaluated
39 the effects of the Minimum Flows Project on the human and natural
40 environment. The EIS concluded that the trout tailwater fishery
41 below Bull Shoals and Norfolk dams will benefit from the increased

1 wetted perimeter and dissolved oxygen (DO) levels resulting from
2 increased minimum flows. The downstream recreation benefits
3 associated with the improved trout fishery are increased by over \$4
4 million annually. There will be no change to the water supply use of
5 the two lakes. Negative effects to lakeside facilities will be
6 minimized by relocating or modifying affected facilities to ensure
7 reasonable continued use, in compliance with the authorizing
8 language. The dis-benefits are to the hydropower and flood control
9 purposes of the lakes. Negative impacts to hydropower will be
10 compensated through the SWPA offset and FERC licensee
11 compensation. The small reduction in flood control benefits were
12 deemed to be insignificant when compared to the total flood
13 damages the lakes are estimated to prevent.

14
15 The total cost for project design and construction and the FERC
16 licensee compensation is estimated to be \$58,241,000. This is will
17 be cost shared at approximately \$40,138,000 Federal and
18 \$18,103,000 non-Federal. The Minimum Flows Project facilities will
19 be provided by the Corps, and the estimated total cost is
20 approximately \$6,203,000. The offset to the Federal hydropower
21 debt at Bull Shoals and Norfolk Lakes is estimated to be \$86,
22 712,100. The AGFC will serve as the non-Federal Sponsor and
23 strongly supports the Minimum Flows Project.
24
25

26 Q. WHY WILL THE PROJECT CAUSE EMPIRE TO INCUR ENERGY LOSSES?

27 A. Beginning on page 49 of the aforementioned US Army Corp of Engineers report it
28 states:
29

30 5.2.1.3 Energy Calculations - FERC No. 2221
31

32 Federal Energy Regulatory Commission (FERC) Project No. 2221,
33 the non-Federal Ozark Beach hydroelectric project owned and
34 operated by Empire District Electric Company, will be directly
35 affected by the authorized minimum flow plan. Ozark Beach is on
36 the White River and impounds Lake Taneycomo between Table

1 Rock Dam and Bull Shoals Lake. The implementation of the
2 authorized plan will result in a reduction of the amount of gross
3 head (headwater elevation minus the tailwater elevation) available
4 for generation at the non-Federal project at Ozark Beach. The
5 reduction in gross head will result in an annual energy loss of 6,029
6 MWh of on-peak energy and 2,969 MWh of offpeak energy, or an
7 annual total energy loss of 8,998 MWh. Also associated with the
8 loss of gross head, there will be a capacity loss of 3.00 MW at the
9 project.

10
11 5.2.1.4 Value of Replacement Costs

12
13 Having calculated the losses, SWPA used the Platts "High Fuel
14 Value" case energy cost projections from Platts Power Outlook
15 Research Service to identify the costs for replacement energy. On-
16 peak and off-peak energy values are inflated at the selected rate of
17 inflation for the years beyond the Platts twenty-year forecast. The
18 hydropower compensation and offset calculations are considered
19 estimates for the purposes of this Project Report. The actual
20 replacement costs will be re-calculated at the time Minimum Flows
21 will be implemented at each lake. Currently, the calculated value of
22 the offset for losses to Federal hydropower is \$86,712,100;
23 \$48,622,900 at Bull Shoals and \$38,089,200 at Norfolk. The
24 calculated value of the compensation for losses to the non-Federal
25 hydropower project at Bull Shoals is \$33,935,100. The loss values
26 were calculated on the basis of the present value of the estimated
27 future lifetime (50 years assumed by Southwestern) replacement
28 cost of the electrical energy and capacity assuming an
29 implementation date of January 1, 2011, for the White River
30 Minimum Flows Project. The final calculation will depend on the
31 official date of implementation as specified by the Corps of
32 Engineers and the value of the specified parameters in effect at that
33 time.

34
35 (Emphasis added by OPC)

36
37
38 Q. HAS THE PROJECT BEEN IMPLEMENTED?

1 A. No. It is my understanding that the project will be implemented sometime in the
2 2011 - 2012 timeframe.

3
4 Q. DOES EMPIRE BELIEVE THAT THE PAYMENT BELONGS TO RATEPAYERS?

5 A. Yes. Beginning on page 8, line 7, of Ms. Kelly S. Walter's Direct Testimony she
6 states:

7
8 Q. DOES EMPIRE BELIEVE THE PAYMENT OF \$26,563,700
9 SHOULD BE FLOWED THROUGH TO RATEPAYERS?

10
11 A. Yes. Empire will work with the parties in this case to determine
12 the best way to flow the payment, net of tax, back to our
13 customers.
14
15

16 Q. WHAT IS THE PUBLIC COUNSEL'S RECOMMENDATION REGARDING HOW
17 THE FUNDS SHOULD BE FLOWED THROUGH TO RATEPAYERS?

18 A. Public Counsel recommends that the \$26,563,700 (net of appropriate tax
19 impacts) be used as an offset to Company's rate base and that the unamortized
20 balance be amortized to the income statement over the life of the associated
21 replacement energy and capacity purchases.
22

23 **V. IATAN 2 INVESTMENT TAX CREDITS**

24 Q. WHAT IS THE ISSUE?

1 A. On or about October 31, 2008, the Company submitted an application to the
2 Internal Revenue Service and the Department of Energy requesting
3 investment tax credits under Code Section 48A related to its investment in
4 the Iatan II plant. Empire's application was originally denied because the
5 Kansas City Power & Light Company had previously applied and was
6 awarded the entire amount of tax credits (\$125 million) available to the
7 project. However, Empire requested an allocation of the credits through an
8 arbitration process and the arbitration panel agreed that the credits should be
9 reallocated to Iatan II joint owners that directly pay federal taxes. The
10 Internal Revenue Service granted the reallocation of the credits which
11 amounts to \$17,712,500 of federal tax credits available to Empire.

12
13 Q. WHAT IS THE PUBLIC COUNSEL'S RECOMMENDATION REGARDING HOW
14 THE INVESTMENT TAX CREDITS SHOULD BE FLOWED THROUGH TO
15 RATEPAYERS?

16 A. Public Counsel recommends that the \$17,712,500 be amortized ratably
17 through the income statement over the life of the Iatan II plant which is to be
18 determined by the instant case.

19
20 **VI. OTHER ISSUES**

21 Q. WHAT IS THE ISSUE?

1 A. Public Counsel has several data requests outstanding as of the filing date of this
2 direct testimony which concern primarily the Company's alleged depreciation
3 reserve deficiency associated with its Riverton coal-fired generating facility and
4 various write-off costs of abandoned projects. Public Counsel will address these
5 issues in later testimony as necessary.

6
7 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

8 A. Yes, it does.
9
10

**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
Central Jefferson County Utilities	WC-2007-0038
Missouri Gas Energy	GR-2006-0422
Central Jefferson County Utilities	SO-2007-0071
Aquila, Inc.	ER-2007-0004
Laclede Gas Company	GR-2007-0208
Kansas City Power & Light Company	ER-2007-0291
Missouri Gas Utility, Inc.	GR-2008-0060
Empire District Electric Company	ER-2008-0093
Missouri Gas Energy	GU-2007-0480
Stoddard County Sewer Company	SO-2008-0289
Missouri-American Water Company	WR-2008-0311
Union Electric Company	ER-2008-0318
Aquila, Inc., d/b/a KCPL GMOC	ER-2009-0090
Missouri Gas Energy	GR-2009-0355
Empire District Gas Company	GR-2009-0434
Lake Region Water & Sewer Company	SR-2010-0110
Lake Region Water & Sewer Company	WR-2010-0111
Missouri-American Water Company	WR-2010-0131
Kansas City Power & Light Company	ER-2010-0355
Kansas City Power & Light Company	ER-2010-0356
Timber Creek Sewer Company	SR-2010-0320
Empire District Electric Company	ER-2011-0004