

Exhibit No.:

Issues: Fuel and Purchased Power
Expense; Allowance for Funds
Used During Construction

Witness: V. William Harris

Sponsoring Party: MoPSC Staff

Type of Exhibit: True-Up Direct Testimony

Case No.: ER-2001-299

Date Testimony Prepared: August 7, 2001

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

TRUE-UP DIRECT TESTIMONY

OF

V. WILLIAM HARRIS

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2001-299

Jefferson City, Missouri
August 2001

Exhibit No. 136

Date 8/23/01 Case No. ER-2001-299

Reporter KRM

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OF

V. WILLIAM HARRIS

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2001-299

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1 **TRUE-UP DIRECT TESTIMONY**

2 **OF**

3 **V. WILLIAM HARRIS**

4 **THE EMPIRE DISTRICT ELECTRIC COMPANY**

5 **CASE NO. ER-2001-299**

6 Q. Please state your name and business address.

7 A. V. William Harris, Noland Plaza Office Building, Suite 110, 3675 Noland
8 Road, Independence, Missouri 64055.

9 Q. Are you the same V. William Harris who previously filed direct, rebuttal
10 and surrebuttal testimony in this case?

11 A. Yes.

12 Q. What is the purpose of your true-up direct testimony?

13 A. I will update the Staff's adjustments regarding the Company's fuel and
14 purchased power expense in accordance with item 4, page 2 of the *Unanimous*
15 *Stipulation And Agreement Regarding Fuel And Purchased Power Expense And Class*
16 *Cost Of Service And Rate Design*. I will also present the Staff's adjustment on certain
17 disallowed costs in accordance with item 7, page 2 of the *Unanimous Stipulation And*
18 *Agreement Regarding State Line Combined Cycle Unit Capital Costs* as it relates to the
19 Allowance for Funds Used During Construction (AFUDC).

20 **FUEL AND PURCHASED POWER EXPENSE**

21 Q. What updated adjustments are you sponsoring regarding the Company's
22 fuel and purchased power expense?

True-Up Direct Testimony of
V. William Harris

1 A. I am sponsoring the following updated fuel and purchased power
2 Adjustments to the Income Statement in Accounting Schedule 10:

3 Steam Power Production – Fuel Annualization S-7.2

4 Combustion Turbine Production – Fuel Annualization S-28.2

5 Purchased Power Energy Annualization S-36.1

6 Purchased Power Demand Charge Annualization S-36.2

7 Q. How did you determine the updated adjustment amounts?

8 A. I took the updated megawatt hours, provided by Staff witness
9 Janice Pyatte, times the \$20 base price agreed to in the Unanimous Stipulation And
10 Agreement to arrive at an updated fuel and purchased power expense of \$96,113,949.
11 I then subtracted the \$89,749,577 test year amount in the April filing to arrive at a total
12 (excluding purchased power demand charges) fuel and purchased power adjustment of
13 \$6,364,372. I calculated a distribution based on the megawatt hours in the Staff's fuel
14 run that was used to determine the agreed upon \$20 base price. I then took the
15 distribution percentages and multiplied them by the total \$6,364,372 adjustment to
16 determine individual adjustments to Account Numbers 501, 547 and 555. These amounts
17 are reflected in adjustments S-7.2, S-28.2 and S-36.1 respectively.

18 To determine the true-up amount of purchased power demand charges,
19 I began with the test year amount, removed four capacity contracts that had expired and
20 were no longer in effect on the true-up period ending date of June 30, and annualized the
21 remaining capacity contract still in effect at the end of the true-up period. (The contract
22 had increased significantly during the test year.) Adjustment S-36.2 reflects the

1 difference between this true-up amount and the test year purchased power demand
2 charges.

3 **AFUDC CAPITALIZED ON SLCC UNIT DISALLOWANCES**

4 Q. Please provide a brief history and description of AFUDC.

5 A. For many years, it was a common practice among utilities to include an
6 allowance for "overhead" construction costs in the rate base. Such an allowance included
7 the costs of incorporation, services (legal, engineering and administrative), and interest,
8 insurance and taxes during construction. Prior to the development of the Uniform System
9 of Accounts (USoA), the allowance used was frequently 15 percent of the total value of
10 the property and was generally accepted by regulatory commissions.

11 The USoA was developed (and made effective January 1, 1937) by the
12 Federal Power Commission (FPC), the forerunner of the Federal Energy Regulatory
13 Commission (FERC). The USoA provided for the capitalization of certain overhead
14 construction costs including "interest during construction" which was defined as "the net
15 cost of borrowed funds used for construction purposes and a reasonable rate upon the
16 utility's own funds when so used." These costs are added to the book cost of the plant
17 and included in rate base. When the plant goes into service, the utility begins
18 depreciating the amounts in rate base over the useful life of the plant.

19 In 1971 the FPC revised the USoA and replaced the term "interest during
20 construction" with "allowance for funds used during construction" (AFUDC).

21 Q. How did you determine the amount of AFUDC to include with the SLCC
22 Unit disallowances?

True-Up Direct Testimony of
V. William Harris

1 A. The disallowed costs agreed to by all parties in this case relate to the
2 installation of Heat Recovery Steam Generators (HRSGs) at the State Line Combined
3 Cycle (SLCC) Unit. I distributed the \$8.3 million disallowance proportionately over the
4 installation costs of the HRSGs and recalculated the AFUDC accruals. I then input the
5 recalculated AFUDC accruals into the Company's AFUDC model, which was in
6 accordance with the USoA and the formula for calculating AFUDC as outlined by FERC
7 Electric Plant Instruction No. 3(A)(17) and adopted by the Commission. I subtracted the
8 resulting AFUDC accruals from the ones actually booked by the Company to determine
9 the amount of the adjustment. Adjustment P-48.3 in Accounting Schedule 4,
10 Adjustments to Total Plant, reflects the amount of AFUDC the Staff has allocated to the
11 SLCC disallowance.

12 Q. Does this conclude your True-Up Direct testimony?

13 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

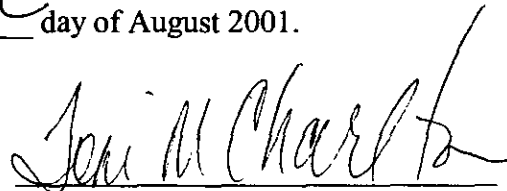
AFFIDAVIT OF V. WILLIAM HARRIS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

V. William Harris, being of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony-True-Up in question and answer form, consisting of 4 pages to be presented in the above case; that the answers in the foregoing Direct Testimony-True-Up were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.


V. William Harris

Subscribed and sworn to before me this 6th day of August 2001.



TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004