

Exhibit No. 109  
Issues: Rate Base and Income Statement  
Adjustments  
Witness: Joan E. Land  
Type of Exhibit: Direct Testimony  
Sponsoring Party: Empire District Electric  
Case No. ER-2014-0351  
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**Before the Public Service Commission  
of the State of Missouri**

**Direct Testimony  
of  
Joan E. Land**

**August 2014**



**SERVICES YOU COUNT ON**

Empire Exhibit No. 109  
Date 4-14-15 Reporter KF  
File No. ER-2014-0351

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JOAN E. LAND  
ON BEHALF OF  
THE EMPIRE DISTRICT ELECTRIC COMPANY  
BEFORE THE  
MISSOURI PUBLIC SERVICE COMMISSION  
CASE NO. ER-2014-0351

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DIRECT TESTIMONY  
OF  
JOAN E. LAND  
THE EMPIRE DISTRICT ELECTRIC COMPANY  
BEFORE THE  
MISSOURI PUBLIC SERVICE COMMISSION  
CASE NO. ER-2014-0351

1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Joan E. Land, and my business address is 602 S. Joplin Avenue, Joplin,  
4 Missouri.

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

6 A. I am employed by The Empire District Electric Company (“Empire” or “Company”) as a  
7 Regulatory Analyst.

8 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND**  
9 **PROFESSIONAL EXPERIENCE.**

10 A. I graduated from the University of Central Oklahoma in May 2000 with a Bachelor of  
11 Science in Accounting. During my graduate studies, I was employed by the University of  
12 Oklahoma Health Sciences Center as an accountant for the office of Senior Vice  
13 President and Provost. I have also served as Senior Accountant for Tamko Building  
14 Products. I joined Empire in October 2008, and held various accounting positions in  
15 revenue and fuel departments. In December 2010, I accepted my current position.

16 **Q. HAVE YOU PREVIOUSLY PARTICIPATED IN ANY REGULATORY**  
17 **PROCEEDINGS?**

18 A. Yes. I have testified before regulatory commissions in the states of Missouri, Oklahoma

1 and Arkansas.

2 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE BEFORE**  
3 **THE MISSOURI PUBLIC SERVICE COMMISSION (“COMMISSION”)?**

4 A. I will sponsor certain adjustments made to Empire’s supporting schedules in this case.

5 **II. RATE BASE ADJUSTMENTS**

6 **Q. PLEASE IDENTIFY THE RATE BASE ADJUSTMENTS YOU ARE**  
7 **SPONSORING.**

8 A. I am sponsoring the following adjustments to rate base:

- 9 • Allocation of common plant to Empire’s natural gas business;
- 10 • Remove water company inventory;
- 11 • Normalize materials and supplies, clearing accounts, and prepayments;
- 12 • Reflect cash working capital requirement in rate base.

13 **Allocation of Common Plant**

14 **Q. PLEASE EXPLAIN THE ADJUSTMENT TO ALLOCATE COMMON PLANT**  
15 **TO EMPIRE’S NATURAL GAS BUSINESS.**

16 A. The entire amount of Empire’s common general plant investment is recorded on the  
17 electric company’s books. An adjustment is required during an electric rate case to  
18 allocate a portion of the common general plant to the Company’s gas operations. The  
19 allocation is based on a three part formula (the Massachusetts formula), which is  
20 described in Empire’s Cost Allocation Manual (“CAM”). Empire’s CAM is the subject of  
21 Commission File No. AO-2012-0062. The result of this allocation decreases Empire’s  
22 electric general plant in service by \$2,035,664, and decreases the provision for  
23 accumulated depreciation for general plant by \$1,254,531, on a total company basis.

1 Q. HAS THIS ADJUSTMENT BEEN MADE IN PRIOR EMPIRE RATE CASES?

2 A. Yes, an adjustment using the same methodology has been utilized in the last several  
3 Empire rate cases in Arkansas, Missouri, Kansas and Oklahoma.

4 Water Inventory

5 Q. PLEASE DESCRIBE THE ADJUSTMENT TO REMOVE WATER INVENTORY.

6 A. The material and supplies inventory recorded on Empire's balance sheet includes  
7 inventory for both the electric and water businesses. These inventories are tracked  
8 separately on a manual spreadsheet. An adjustment of \$34,879, total company, was  
9 needed to reduce materials and supplies levels for the amount related to Empire's water  
10 business.

11 Q. HAS THIS ADJUSTMENT BEEN MADE IN PRIOR EMPIRE RATE CASES?

12 A. Yes, this adjustment has been made in the last several Empire rate cases in Arkansas,  
13 Missouri, Kansas and Oklahoma.

14 Normalize Other Rate Base Items

15 Q. PLEASE DESCRIBE THE ADJUSTMENTS TO MATERIALS AND SUPPLIES  
16 (M&S), CLEARING ACCOUNTS, AND PREPAYMENTS.

17 A. A 13-month average level ending April 30, 2014, was used for a majority of the accounts.  
18 Some 13-month average levels, however, needed to be adjusted to reflect a more current  
19 ongoing level. As a result of these adjustments, materials and supplies increased by  
20 \$139,566, clearing accounts decreased by \$165,983, and prepayments increased by  
21 \$240,880, on a total company basis.

22 Cash Working Capital (CWC)

23 Q. PLEASE EXPLAIN THE CWC REQUIREMENT REFLECTED IN RATE BASE.

1 A. Because of no known significant changes, the Company is using the same revenue and  
2 expense lags determined by the Commission Staff in Empire's previous rate case (Case  
3 No. ER-2012-0345) to determine the CWC requirement in rate base. The Company has  
4 updated the adjusted test year amounts associated with each of the CWC categories.

5 **III. REVENUE ADJUSTMENTS**

6 **Q. PLEASE DESCRIBE THE REVENUE ADJUSTMENTS YOU ARE**  
7 **SPONSORING.**

8 A. Missouri jurisdictional revenues have been adjusted to reflect the rate increase authorized  
9 by the Commission in Case No. ER-2012-0345. Revenues have also been adjusted to  
10 reflect customers who have opted out of the energy efficiency programs. In addition,  
11 adjustments were made to annualize excess facilities, remove revenues related to  
12 Empire's water business, remove general ledger unbilled revenues, and eliminate city  
13 franchise taxes. Each adjustment is discussed in further detail below.

14 **Rate Increase**

15 **Q. WHY WAS AN ADJUSTMENT MADE TO REVENUE FOR THE RATE**  
16 **INCREASE AUTHORIZED BY THE COMMISSION IN CASE NO. ER-2012-**  
17 **0345?**

18 A. As a result of the Commission's decision in that case, a rate increase became effective on  
19 April 1, 2013. Due to Empire's billing cycles, the test year in this case of April 30, 2014, is  
20 not reflective of an entire year at the increased rates. Therefore, an adjustment is needed to  
21 reflect a full year of the rate increase. This adjustment results in an increase in Missouri  
22 jurisdictional revenues of \$25,911.

23 **Energy Efficiency Opt Out Customers**

1 Q. PLEASE DESCRIBE THE ADJUSTMENT RELATED TO ENERGY  
2 EFFICIENCY PROGRAM REVENUE.

3 A. Missouri jurisdictional revenues have been adjusted to reflect the amount of revenue that  
4 would have been generated if those customers who have opted out of the Company's  
5 energy efficiency programs as of April 30, 2014, had been opted-out for the entire test  
6 year. This adjustment results in a decrease of \$13,185 in revenue.

7 Other Revenue Adjustments

8 Q. WHAT OTHER ADJUSTMENTS WERE MADE TO REVENUE?

9 A. Four other adjustments were made to revenue. These adjustments include normalization  
10 of excess facilities revenue, removal of miscellaneous revenues related to Empire's water  
11 business, reversal of unbilled revenue, and elimination of city franchise taxes.

12 The excess facilities revenue is a charge based on the Rider XC. This charge is related to  
13 the excess facilities that Empire installs at the request of a customer. If this occurs,  
14 Empire and the customer enter into a contract for the additional charge (excess facilities)  
15 to the customer. Those amounts under contract at April 30, 2014, were annualized and  
16 compared to the excess facilities revenue actually recorded during the test year. The  
17 difference between these two amounts resulted in an adjustment of \$59,659 in additional  
18 excess facilities revenue.

19 Reconnect charges, late fees, and returned check fees related to the water business are  
20 recorded in other revenue. In order to eliminate them from the electric rate case, an  
21 adjustment of \$9,150 has been made.

22 An adjustment was made to reverse unbilled revenue recorded on Empire's financial  
23 statements. This adjustment resulted in an increase to rate revenue of \$1,284,328. The

1 computation of estimated unbilled sales reflected in the test year is discussed by Empire  
2 witness Stephen Williams.

3 City franchise tax is not a revenue source for Empire. It is a municipal tax Empire is  
4 obligated to collect and remit to the various municipalities where the Company provides  
5 electric service. There is no impact on Empire's earnings related to the collection of city  
6 franchise taxes, because it is offset by an equal amount of expense, so it is more  
7 appropriate if Empire's revenue requirement reflects only the revenue generated through  
8 the application of approved Commission tariffs and does not reflect the revenue  
9 associated with franchise taxes. A Missouri jurisdictional adjustment of \$8,811,811, to  
10 eliminate the taxes from revenue has been reflected as both a reduction in revenue and a  
11 reduction in taxes other than income taxes.

12 **IV. EXPENSE ADJUSTMENTS**

13 **Q. PLEASE IDENTIFY THE EXPENSE ADJUSTMENTS YOU ARE SPONSORING**  
14 **TO EMPIRE'S TEST YEAR COST OF SERVICE.**

15 A. I am sponsoring the following adjustments to income statement expense:

- 16 • Annualize payroll and payroll related taxes;
- 17 • Normalize bad debt expense;
- 18 • Annualize rate case and commission assessment expenses;
- 19 • Include customer deposit interest expense;
- 20 • Annualize lease expense;
- 21 • Annualize postage expense;
- 22 • Annualize insurance premiums.

23 **Payroll and Payroll Taxes**



1 Q. WHAT ADJUSTMENT WAS NEEDED FOR PAYROLL EXPENSE AND  
2 PAYROLL TAXES?

3 A. The adjustment was made to annualize test year payroll, payroll taxes, and 401k costs.  
4 The adjusted expense included in the filing reflects the wages at April 30, 2014, positions  
5 currently authorized but unfilled, and pay increases that will occur prior to the effective  
6 date of new rates in this case. The adjustment increases Missouri jurisdictional test year  
7 expense by \$818,886.

8 **Bad Debt Expense**

9 Q. PLEASE EXPLAIN THE ADJUSTMENT TO BAD DEBT EXPENSE.

10 A. An average of actual Missouri jurisdictional write-offs compared to the Missouri  
11 jurisdictional retail sales of electricity was calculated for the five years ending April 30,  
12 2014. This resulted in a five-year ratio of bad debt expense of 0.5071 percent. This ratio  
13 is applied to the normalized retail sales revenue developed for this rate case to arrive at an  
14 adjusted bad debt expense of \$2,227,631. The adjusted level of ongoing bad debt  
15 expense was then compared to the bad debt expense in the test year to arrive at a  
16 Missouri jurisdictional decrease of \$339,804.

17 **Rate Case and Commission Assessment Expense**

18 Q. WHAT ADJUSTMENT WAS NEEDED FOR RATE CASE AND PSC  
19 ASSESSMENT EXPENSE?

20 A. Rate case expense was adjusted to reflect the costs associated with the current rate case  
21 assuming a two-year amortization period. Test year was also adjusted to reflect current  
22 year costs of the Commission's annual assessment. The adjustment decreases Missouri  
23 jurisdictional test year expense by \$645,161.

1 Q. WHY IS A TWO-YEAR AMORIZATION PERIOD FOR THE RATE CASE  
2 EXPENSES APPROPRIATE IN THIS RATE CASE?

3 A. Empire anticipates filing its next electric rate case in 2015. The next case will be related  
4 to the Riverton Unit 12 combined cycle conversion project, which is scheduled to be  
5 completed in the summer of 2016.

6 Customer Deposit Interest

7 Q. WHY IS AN ADJUSTMENT FOR INTEREST ON CUSTOMER DEPOSITS  
8 NEEDED?

9 A. This adjustment moves the interest associated with the Missouri jurisdictional deposits  
10 above the line, which is consistent with past practices in Empire's rate cases in Missouri.  
11 The interest was calculated by applying 4.25% to the 13-month average customer  
12 deposits included in rate base.

13 Lease Expense

14 Q. PLEASE EXPLAIN THE ADJUSTMENT TO LEASE EXPENSE.

15 A. An adjustment is needed to reflect the expiration of a lease as well as changes in lease  
16 amounts not reflected in the test year. As a result, lease expense decreased \$48,172, on a  
17 total company basis.

18 Postage

19 Q. PLEASE EXPLAIN THE ADJUSTMENT TO POSTAGE.

20 A. Test year postage expense was annualized to reflect the U.S. Postal Service increase that  
21 went into effect on January 26, 2014. Postage expense increased \$58,044 on a total  
22 company basis.

23 Insurance Expense

1 Q. PLEASE EXPLAIN THE ADJUSTMENT TO INSURANCE EXPENSE.

2 A. An adjustment was made to recognize the increased level of ongoing insurance premium  
3 costs. This resulted in an increase of \$122,913, on a total company basis.

4 **Dues and Donations**

5 Q. PLEASE EXPLAIN THE ADJUSTMENT TO DUES AND DONATIONS.

6 A. The Company removed various dues and donations from the cost of service. As a result,  
7 test year expenses decreased \$83,318 on a total company basis.

8 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

9 A. Yes.

