Exhibit No.:

Issues: Accounting Schedules;

Maintenance Expense

Witness: Phillip K. Williams, CPA, CIA

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** 

PHILLIP K. WILLIAMS, CPA, CIA

THE EMPIRE DISTRICT ELECTRIC COMPANY

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

Jefferson City, Missouri August 2001

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1	TRUE-UP DIRECT TESTIMONY		
2	OF		
3	PHILLIP K. WILLIAMS, CPA, CIA		
4	THE EMPIRE DISTRICT ELECTRIC COMPANY		
5	CASE NO. ER-2001-299		
6	Q. Please state your name and business address.		
7	A. My name is Phillip K. Williams, and my business address is Noland Plaza		
8	Office Building, Suite 110, 3675 Noland Road, Independence, Missouri 64055.		
9	Q. By whom are you employed and in what capacity?		
10	A. I am a Regulatory Auditor for the Missouri Public Service Commission		
11	(Commission).		
12	Q. Are you the same Phillip K. Williams who previous filed direct testimony		
13	in this proceeding?		
14	A. Yes, I am.		
15	Purpose of Testimony		
16	Q. What is the purpose of your true-up direct testimony?		
17	A. The purpose of this testimony is to present the True-up Accounting		
18	Schedules and to address the issue of operations and maintenance (o&m) expense for		
19	The Empire District Electric Company's (Empire) State Line Combined Cycle (SLCC)		
20	Unit. I will also be addressing the Staff's inclusion of an annualized level of o&m		
21	expense for the State Line 1 Unit and Energy Center 1 and 2 Units.		
22	Accounting Schedules		
23	Q. What is the period for the true-up audit in this case?		

# True-up Direct Testimony of Phillip K. Williams

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A. The true-up audit in this case was performed for the period ending June 30, 2001. On January 4, 2001 the Commission authorized a true-up to reflect certain items including the SLCC Unit and related costs, if operational, and other material changes to the revenue requirement through the June 30, 2001 time frame. Additionally the Staff has included in the true-up invoices, for plant in service as of June 30, 2001, which have been submitted and approved for payment during July 2001. The Staff has also included certain employee changes that occurred during July 2001, which will be addressed by Staff Accounting witness Janis E. Fischer.

- Q. Please explain the True-up Accounting Schedules.
- A. The True-up Accounting Schedules were calculated to include adjustments to the test year to reflect known and measurable changes for the true-up period, through June 30, 2001. The items that were agreed to be incorporated in the true-up were identified in my direct testimony and appear as follows:

#### Rate Base:

- 1. Plant in service, including the SLCC Unit through June 30, 2001 and related items for which EDE has received an invoice, approved and authorized for payment, and are auditable at any time through July 31, 2001.
- 2. Depreciation reserve.
- 3. Deferred taxes.
- 4. Fuel inventories for oil and coal prices.
- 5. Related cash working capital effects.

#### Capital Structure:

- 1. Rate of return embedded cost of long-term debt, short-term debt and preferred stock.
- 2. Capital structure.

#### **Income Statement:**

- 1. Revenues and kilowatt hour sales to account for customer growth.
- 2. Payroll employee levels, current wage rates, payroll related benefits and payroll taxes.
- 3. Fuel prices for gas, oil, coal and freight and purchased power prices and system load to reflect the Unanimous Stipulation And Agreement Regarding Fuel And Purchased Power Expense And Class Cost Of Service And Rate Design filed June 4, 2001.
- 4. Rate case expense.
- 5. Depreciation expense.
- 6. Income tax effects.

Additionally, the allocation factors were trued-up through June 30, 2001 to maintain the relationship of the allocators and related items at a consistent point in time.

No adjustments were made in the true-up audit for property taxes or for property insurance. The Staff does not believe it is necessary to reflect any changes for property taxes beyond the level already included in the Staff's direct case. Property insurance was not adjusted, because the test year insurance included costs related to the SLCC Unit.

#### Maintenance Expense:

- Q. Please explain Income Statement adjustment S-34.2.
- A. Adjustment S-34.2 was made to annualize the cost of minor non-contract o&m associated with the State Line plant. I estimated the cost for the State Line plant by analyzing the historical o&m costs for the Energy Center and State Line combustion turbines for the years 1996 through 2000 as an approximation of the cost that would be incurred for the State Line facility in the future. I used a five-year average of o&m costs for the Energy Center. I used a three-year average of o&m costs for the State Line units because State Line 2 only began producing power during 1997, so five years of data was not available. The Staff historically has used five-year averages for maintenance expense annualizations. The combined averages were used in an attempt to approximate the additional costs Empire will incur at the State Line facilities as a result of the addition of the new SLCC Unit.
  - Q. Please explain adjustment S-34.3.
- A. Adjustment S-34.3 was made to adjust test year maintenance expense for the Energy Center to reflect a five-year average of o&m costs. This adjustment was made during the true-up audit because the information to make the adjustment was not provided by Empire in response to Staff Data Request No. 215 until the time of the June 2001 hearings.
  - Q. Please explain adjustment S-34.4.
- A. Adjustment S-34.4 was made to adjust test year expense to reflect the Staff's annualization of the non-contract maintenance costs associated with the State Line

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HRSG and Steam Turbine units. This cost estimate was provided by Staff witness David W. Elliot of the Energy Department. Please refer to his true-up direct testimony.

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Q. Please explain adjustment S-34.5.

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Staff's annualization of the contract maintenance costs associated with the SLCC Unit.

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For an explanation of the Staff's review of this contract, please refer to the true-up direct

Adjustment S-34.5 was made to adjust test year expense to reflect the

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Q. Please explain adjustment S-34.6.

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A. Adjustment S-34.6 was made to adjust test year expense to reflect the

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Staff's annualization of the contract maintenance costs associated with the State Line

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Unit 1 and Energy Center Units 1 and 2. For an explanation of the review of this

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Q. Does this complete your true-up direct testimony?

contract, please refer to the true-up direct testimony of Staff witness Elliot.

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A. Yes, it does..

testimony of Staff witness Elliot.

## **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 PHILLIP K. WILLIAMS			
STATE OF MISSOURI ) COUNTY OF COLE )			
Phillip K. Williams, being of lawful age, on his oath states: that he has participated in the preparation of the foregoing True-Up Direct Testimony in question and answer form, consisting of pages to be presented in the above case; that the answers in the foregoing True-Up Direct Testimony 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.			
	Chillip K. Williams  Phillip K. Williams		

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

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

