

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

FILED
AUG 7 2001
Missouri Public
Service Commission

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2001-299

Jefferson City, Missouri
August 2001

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TABLE OF CONTENTS OF
TRUE-UP DIRECT TESTIMONY OF
PHILLIP K. WILLIAMS, CPA, CIA

Rate Base: 2

Capital Structure: 3

Income Statement: 3

Maintenance Expense: 4

True-up Direct Testimony of
Phillip K. Williams

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

9 Q. Please explain the True-up Accounting Schedules.

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

14 **Rate Base:**

- 15 1. Plant in service, including the SLCC Unit through June 30, 2001 and
16 related items for which EDE has received an invoice, approved and
17 authorized for payment, and are auditable at any time through July 31,
18 2001.
- 19 2. Depreciation reserve.
- 20 3. Deferred taxes.
- 21 4. Fuel inventories for oil and coal prices.
- 22 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.

1 **Maintenance Expense:**

2 Q. Please explain Income Statement adjustment S-34.2.

3 A. Adjustment S-34.2 was made to annualize the cost of minor non-contract
4 o&m associated with the State Line plant. I estimated the cost for the State Line plant by
5 analyzing the historical o&m costs for the Energy Center and State Line combustion
6 turbines for the years 1996 through 2000 as an approximation of the cost that would be
7 incurred for the State Line facility in the future. I used a five-year average of o&m costs
8 for the Energy Center. I used a three-year average of o&m costs for the State Line units
9 because State Line 2 only began producing power during 1997, so five years of data was
10 not available. The Staff historically has used five-year averages for maintenance expense
11 annualizations. The combined averages were used in an attempt to approximate the
12 additional costs Empire will incur at the State Line facilities as a result of the addition of
13 the new SLCC Unit.

14 Q. Please explain adjustment S-34.3.

15 A. Adjustment S-34.3 was made to adjust test year maintenance expense for
16 the Energy Center to reflect a five-year average of o&m costs. This adjustment was
17 made during the true-up audit because the information to make the adjustment was not
18 provided by Empire in response to Staff Data Request No. 215 until the time of the
19 June 2001 hearings.

20 Q. Please explain adjustment S-34.4.

21 A. Adjustment S-34.4 was made to adjust test year expense to reflect the
22 Staff's annualization of the non-contract maintenance costs associated with the State Line

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

3 Q. Please explain adjustment S-34.5.

4 A. Adjustment S-34.5 was made to adjust test year expense to reflect the
5 Staff's annualization of the contract maintenance costs associated with the SLCC Unit.
6 For an explanation of the Staff's review of this contract, please refer to the true-up direct
7 testimony of Staff witness Elliot.

8 Q. Please explain adjustment S-34.6.

9 A. Adjustment S-34.6 was made to adjust test year expense to reflect the
10 Staff's annualization of the contract maintenance costs associated with the State Line
11 Unit 1 and Energy Center Units 1 and 2. For an explanation of the review of this
12 contract, please refer to the true-up direct testimony of Staff witness Elliot.

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

14 A. Yes, it does.

