

# EXHIBIT

Exhibit No.:	
Issue(s):	Experimental Regulatory Plan Amortization
Witness:	Ted Robertson
Type of Exhibit:	True-Up Direct
Sponsoring Party:	Public Counsel
Case Number:	ER-2006-00315
Date Testimony Prepared:	September 27, 2006

## TRUE-UP DIRECT TESTIMONY

OF

**TED ROBERTSON**

**FILED<sup>3</sup>**

NOV 28 2006

Missouri Public  
Service Commission

Submitted on Behalf of  
the Office of the Public Counsel

**THE EMPIRE DISTRICT ELECTRIC COMPANY**

**Case No. ER-2006-0315**

*Public Counsel* Exhibit No. 153 NP  
Case No(s). ER-2006-0315  
Date 11/20/06 Rptr LV

September 27, 2006

**NP**

In the Matter of the Empire District Electric  
Company of Joplin, Missouri for Authority  
to File Tariffs Increasing Rates for Electric  
Service Provided to Customers in the  
Missouri Service Area of the Company

**My commission expires August 10, 2009.**

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**TRUE-UP TESTIMONY  
OF  
TED ROBERTSON**

**EMPIRE DISTRICT ELECTRIC COMPANY  
CASE NO. ER-2006-0315**

**I.     INTRODUCTION**

Q.     PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A.     Ted Robertson, P. O. Box 2230, Jefferson City, Missouri 65102.

Q.     ARE YOU THE SAME TED ROBERTSON THAT HAS PREVIOUSLY FILED  
DIRECT, REBUTTAL AND SURREBUTTAL TESTIMONY IN THIS CASE?

A.     Yes.

Q.     WHAT IS THE PURPOSE OF YOUR TRUE-UP TESTIMONY?

A.     The purpose of this true-up testimony is to address Empire's off-balance sheet obligations debt-equivalency valuation for the amortization requirement identified in the Stipulation & Agreement for the Experimental Regulatory Plan, Empire Case No. EO-2005-0263.

**II.    EXPERIMENTAL REGULATORY PLAN AMORTIZATION**

Q.     HAS PUBLIC COUNSEL RECALCULATED THE OFF-BALANCE SHEET  
OBLIGATIONS' DEBT-EQUIVALENT VALUES TO COINCIDE WITH THE  
END DATE OF THE TRUE-UP PERIOD FOR THE INSTANT CASE?

1 A. Yes. The off-balance sheet obligations' debt-equivalent values that OPC is  
2 recommending are shown on Schedule TJR-1 attached to this testimony.

3  
4 Q. WHAT OFF-BALANCE SHEET OBLIGATIONS DID PUBLIC COUNSEL  
5 INCLUDE IN ITS ANALYSIS?

6 A. Public Counsel included in its analysis of the off-balance sheet obligations the  
7 operating lease costs for Empire's Unit Trains along with three purchased power  
8 contracts, 1) Western Resources, Inc., Jeffrey Energy Center, 2) Elk River  
9 Windfarm, and 3) Plum Point.

10  
11 Q. PLEASE DESCRIBE HOW PUBLIC COUNSEL CALCULATED THE OFF-  
12 BALANCE SHEET OBLIGATIONS' DEBT-EQUIVALENT VALUES.

13 A. To determine the debt-equivalent values of the off-balance sheet obligations, I  
14 first calculated their discounted present value as of June 30, 2006. Consistent  
15 with Standard & Poor's requirements, the debt-equivalent value for the Unit Train  
16 leases is equal to their actual discounted present value. However, Standard &  
17 Poor's further adjusts the purchased power contract's discounted present values by  
18 an additional risk factor percentage (the risk factors utilized by Standard & Poor's  
19 for purchased power contracts range from as low as 10% to as high as 50%) in  
20 order to determine their respective debt-equivalent values. Therefore, consistent  
21 with Public Counsel's belief that the risk of an earnings stream deficiency and/or  
22 default associated with these contracts is low, I further adjusted the three

1 purchased power contracts by a risk factor ratio of 10% to arrive at their debt-  
2 equivalent values.

3  
4 Q. DID YOU ALSO CALCULATE AN OPERATING LEASE DEPRECIATION  
5 ADJUSTMENT?

6 A. Yes. This amount is also provided on Schedule TJR-1.

7  
8 Q. HAS PUBLIC COUNSEL DETERMINED THE AMORTIZATION THAT  
9 SHOULD BE INCLUDED IN THE INSTANT CASE AS OF THE TRUE-UP  
10 DATE?

11 A. No. The determination of the actual amortization is subject to several variables;  
12 such as, the Commission's ultimate decision on the remaining contested issues in  
13 the instant case. Once those issues are decided, the procedure to calculate the  
14 amortization is not in dispute and is rather mechanical.

15  
16 Q. IS THERE ANY OTHER ISSUE CONCERNING THE VALUATION OF THE  
17 OFF-BALANCE SHEET OBLIGATIONS' DEBT-EQUIVALENCY WHICH  
18 PUBLIC COUNSEL BELIEVES RELEVANT?

19 A. Yes. During the hearing in the instant case, both the MPSC Staff and Company  
20 alleged that the Standard & Poor's report upon which their recommendations were  
21 based treated the Elk River Windfarm as an operating lease. Public Counsel  
22 believes that assumption is not mathematically possible.

1 Q. PLEASE EXPLAIN WHY YOU BELIEVE THAT THE ELK RIVER  
2 WINDFARM IS NOT BEING TREATED AS AN OPERATING LEASE BY  
3 STANDARD & POOR'S.

4 A. Standard & Poor's defined methodology for calculating the debt-equivalent value  
5 of an operating lease states they are to be assigned a value equal to their  
6 discounted present value without further adjustment. According to my  
7 calculations (attached as Schedule TJR-2), the discounted present value of the Elk  
8 River Windfarm alone, at June 30, 2006, is almost double the total debt-  
9 equivalent value (includes all off-balance sheet obligations) recommended by  
10 Staff and Company. Therefore, I believe that the total debt-equivalent value  
11 recommended by Staff and Company cannot be based on a calculation wherein  
12 the Elk River Windfarm is treated as an operating lease. For if it were, the actual  
13 total debt-equivalent value would approach an amount nearly 2.25 times what  
14 those parties currently recommend this Commission accept.

15  
16 Q. IF THE ELK RIVER WINDFARM IS NOT BEING TREATED AS AN  
17 OPERATING LEASE, HOW DOES THE STAFF AND COMPANY  
18 RECOMMENDATION DIFFER WHEN COMPARED TO PUBLIC  
19 COUNSEL'S RECOMMENDATION FOR THE OFF-BALANCE SHEET  
20 OBLIGATIONS' DEBT-EQUIVALENT VALUES?

21 A. The sole difference, I believe, is the assignment of an appropriate risk factor to  
22 the purchased power agreements. Standard & Poor's utilizes a range of risk

1 factors to determine the debt-equivalency values of these contracts. Staff and  
2 Company's recommendation appears to utilize a 30% risk factor to value the  
3 contracts whereas Public Counsel has utilized a 10% risk factor.

4  
5 Q. DOES PUBLIC COUNSEL CONTINUE TO BELIEVE THAT A 10% RISK  
6 FACTOR IS THE MOST REASONABLE TO USE?

7 A. Yes. Public Counsel continues to believe that the likelihood Empire will default  
8 on any one of these contracts is very near to nil. That means that the earnings  
9 stream required to satisfy their payment, for the Missouri-regulated operations  
10 portion, is almost guaranteed, and as such, they should be valued utilizing a risk  
11 factor at the bottom of the risk range defined by Standard & Poor's. Utilization of  
12 a higher risk factor will result in higher costs than necessary being reimbursed by  
13 ratepayers.

14  
15 Q. DOES THE RISK OF POSSIBLE THIRD PARTY DEFAULTS ASSOCIATED  
16 WITH EMPIRE'S PURCHASED POWER CONTRACTS INCREASE THE  
17 LIKELIHOOD THAT THE REGULATED UTILITY WILL NOT BE ABLE TO  
18 SATISFY ITS DEBT OBLIGATIONS?

19 A. No. In the state of Missouri there are various other regulatory processes available  
20 to address the financial impact of such events on Empire should they occur. For  
21 example, if such an event would occur, and to my knowledge none are imminent,  
22 the utility could, at its option, request emergency rate relief and/or seek an



1            accounting authority order to track any additional costs incurred. The structure of  
2            the regulatory processes in Missouri effectively eliminate any additional risk the  
3            utility could incur should a third party to an Empire purchase power contract fail  
4            to meet its responsibilities.

5  
6            Q.    DOES THIS CONCLUDE YOUR TRUE-UP TESTIMONY?

7            A.    Yes, it does.

Schedules TJR-1 and TJR-2  
have been deemed  
"Highly Confidential"  
in their entirety.