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Exhibit No.:

Issues: Plant in Service, Depreciation Reserve, Cash Working Capital, Property Tax, Advertising, Banking Fees, Outside Services, Lobbying, Dues and Donations, Promotional Giveaways, Maintenance, Transmission Billing Adjustment

Witness: "Kofi" A. Boateng

Sponsoring Party: MoPSC Staff

Type of Exhibit: Direct Testimony

Case No.: ER-2006-0315

Date Testimony Prepared: June 23, 2006

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

"KOFI" AGYENIM BOATENG

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2006-0315

Jefferson City, Missouri
June 2006

STAFF Exhibit No. 34
Case No(s). ER-2006-0315
Date 9-05-06 Rptr RF

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

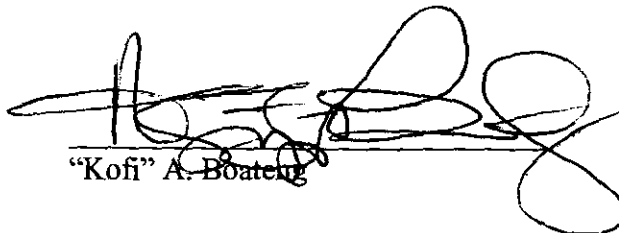
In the matter of The Empire District Company of)
Joplin, Missouri for authority to file tariffs)
increasing rates for electric service provided to)
customers in Missouri service area of the Company.)

Case No. ER-2006-0315

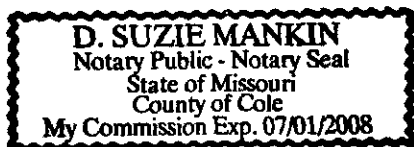
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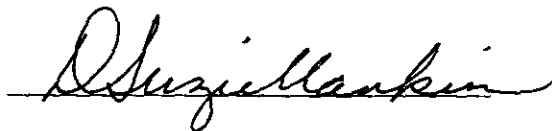
STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

"Kofi" A. Boateng, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 38 pages to be presented in the above case; that the answers in the foregoing 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.


"Kofi" A. Boateng

Subscribed and sworn to before me this 22nd day of June 2006.





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“KOFI” A. BOATENG

THE EMPIRE DISTRICT ELECTRIC COMPANY

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Direct Testimony of
"Kofi" A. Boateng

1 A. It is my responsibility to assist with audits and examinations of the books and
2 records of utility companies operating under the Commission's jurisdiction within the state of
3 Missouri.

4 Q. Have you previously worked on any other cases since your employment with
5 the Commission?

6 A. Yes. I have been assigned to a formal rate case and a number of small
7 informal rate cases. A listing of the cases that I have worked on since my employment began
8 with the Commission is given in Schedule 3, which is attached to this direct testimony.

9 Q. What knowledge, skills, experience, training or education do you have in
10 these areas of which you are testifying as an expert witness?

11 A. I have extensively reviewed workpapers and testimony of Staff and other
12 parties involved in other utility rate cases on the same issues I am sponsoring in this
13 proceeding. Additionally, I have reviewed workpapers and testimony from prior The Empire
14 District Electric Company (Empire or Company) rate cases brought before this Commission
15 relating to the issues I am sponsoring to ensure that the consistency of the Staff's method and
16 procedures are reasonably maintained. My prior academic education has also prepared me to
17 successfully sponsor the ratemaking areas I have been assigned in this case. I have received
18 certificates of training from the National Association of Regulatory Utility Commissioners
19 (NARUC)-sponsored seminars in water, gas and electric utility cost of service and regulation.
20 Further, I have attended in-house training seminars at the Commission specifically designed
21 for continuing education and training in the areas of regulatory issues. I have also worked
22 closely with Senior Staff members familiar with my areas of responsibility in this case.

1 **EXECUTIVE SUMMARY**

2 Q. Please provide a brief summary of each of the items for which you will be
3 sponsoring an adjustment or that you will be addressing in your direct testimony.

4 A. In this direct testimony, I discuss the rate base items of plant in service,
5 depreciation reserve and cash working capital. The income statement adjustments addressed
6 include advertising, promotional giveaways, dues and donations, maintenance, property
7 taxes, outside services, banking fees, lobbying, and Flint Creek billing adjustments.

8 The total plant in service booked at the end of the test year of 2005, and updated
9 through March 31, 2006 was \$1,260,344,773 while depreciation reserve amounted to
10 \$446,961,868. Since its last rate case, Case No. ER-2004-0570, Empire has, from July 1,
11 2004 through March 31, 2006, added about \$60 million of new assets to its rate base.

12 An analysis of cash working capital was done by the Staff by performing a lead/lag
13 study. The results of this lead/lag study was an overall positive cash working capital
14 requirement. This means that the shareholders supplied the cash working capital in the
15 aggregate during the test year. A net addition was made to Empire's rate base to account for
16 the overall positive impact.

17 **PURPOSE OF TESTIMONY**

18 Q. With reference to Case No. ER-2006-0315, have you made an examination
19 and analysis of the books and records of The Empire District Electric Company (Empire or
20 Company) in regard to Empire's request for an increase in revenues, the Staff's audit of that
21 request, and, as a consequence, the issues the Staff's examination raised in this case?

22 A. Yes, in conjunction with other members of the Commission's Staff (Staff), I
23 specifically examined and analyzed the following documentation: Company's responses to

Direct Testimony of
"Kofi" A. Boateng

1 Staff data requests, general ledger information related to my assigned issues and Company
2 workpapers. I also participated in meetings with Empire personnel during the audit.

3 Q. What is the purpose of your testimony?

4 A. The purpose of my testimony is to explain and sponsor the following
5 schedules and adjustments:

6	Accounting Schedule 2	Rate Base
7	Accounting Schedule 3	Plant-in-Service
8	Accounting Schedule 4	Adjustments to Plant-in-Service
9	Accounting Schedule 5	Depreciation Expense
10	Accounting Schedule 6	Depreciation Reserve
11	Accounting Schedule 7	Adjustments to Depreciation Reserve
12	Accounting Schedule 8	Cash Working Capital
13	Plant Adjustment Nos.	P-3.1, P-5.1, P-6.1, P-12.1, P-16.1, P-18.1,
14		P-19.1, P-21.1, P-23.1, P-24.1, P-32.1, P-43.1, P-46.1, P-47.1 P-50.1, P-51.1, P-53.1, P-60.1,
15		P-63.1, P-64.1, P-66.1, P-67.1, P-68.1, P-69.1, P-70.1, P-71.1, P-72.1, P-73.1, P-74.1, P-75.1,
16		P-76.1, P-79.1, P-80.1, P-81.1, P-83.1 and P-86.11.
17	Depreciation Reserve Adjustment Nos.	R-4.1, R-5.1, R-6.1, R-8.1, R-9.1,
18		R-10.1, R-11.1, R-12.1, R-13.1, R-14.1, R-15.1, R-16.1, R-18.1, R-19.1, R-20.1, R-21.1,
19		R-22.1, R-23.1, R-24.1, R-25.1, R-26.1, R-27.1, R-28.1, R-29.1, R-30.1, R-31.1, R-32.1,
20		R-34.1, R-35.1, R-36.1, R-37.1, R-38.3, R-38.1, R-39.1, R-40.1, R-41.1, R-41.3, R-42.1,
21		R-44.1, R-45.1, R-46.1, R-47.1, R-48.1, R-9.1, R-50.1, R-51.1, R-52.1, R-53.1, R-54.1,
22		R-55.1, R-56.1, R-57.1, R-58.1, R-59.1, R-60.1, R-61.1, R-62.1, R-63.1, R-64.1, R-65.1,

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1 R-66.1, R-67.1, R-68.1, R-69.1, R-70.1, R-71.1, R-72.1, R-73.1, R-74.1, R-75.1, R-76.1 and
2 R-77.1.

3 Income Statement Adjustment Nos. S-6.1, S-6.2, S-7.1, S-8.1,
4 S-9.1, S-10.1, S-11.1, S-12.1, S-12.2, S-13.1, S-13.2, S-13.3, S-14.1, S-14.2, S-14.3, S-15.1,
5 S-15.2, S-15.3, S-16.1, S-16.2, S-16.3, S-16.9, S-17.9, S-18.9, S-19.9, S-20.9, S-26.9, S-27.9,
6 S-28.9, S-29.1, S-30.1, S-34.1, S-34.4, S-38.1, S-39.1, S-40.1, S-41.1, S-42.9, S-43.1, S-44.9,
7 S-45.9, S-47.1, S-47.2, S-47.3, S-49.1S-74.1, S-89.7, S-49.2, S-56.1, S-58.1, S-69.1, S-73.1,
8 S-77.1, S-82.2 and S-89.1, S-89.2, S-49.4, S-56.3, S-67.2, S-71.2, S-72.2, S-73.3, S-76.2,
9 S-77.3, , S-79.1, S-80.1, S-81.1, S-82.1, S-83.1, S-84.1, S-85.5, S-91.1, S-82.3, S-60.1,
10 S-47.9, S-59.1, S-95.4, S-69.7 and S-44.1.

11 **RATE BASE**

12 Q. Please describe Accounting Schedule 2, Rate Base.

13 A. This Accounting Schedule represents the investment upon which the
14 Company is allowed to earn a rate of return. This Schedule includes the Company's adjusted
15 jurisdictional plant in service balance from Accounting Schedule 3, Total Plant in Service,
16 and deducts the Company's adjusted jurisdictional depreciation reserve from Accounting
17 Schedule 6, Depreciation Reserve, to compute the net plant in service amount. Added to net
18 plant in service are amounts for cash working capital, materials and supplies, prepayments,
19 fuel stock, and prepaid pension asset. Rate base deductions include the federal income tax
20 offset, state income tax offset, interest expense offset, customer advances for construction,
21 customer deposits, and deferred income taxes. The total of these items is the rate base
22 amount incorporated in the gross revenue requirement recommendation shown on
23 Accounting Schedule 1, Revenue Requirement.

Direct Testimony of
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1 Q. What components of rate base are you sponsoring in this proceeding?

2 A. I am sponsoring Total Plant in Service from Accounting Schedule 3,
3 Depreciation Reserve from Accounting Schedule 6 and Cash Working Capital from
4 Accounting Schedule 8, which I will explain in detail later in this testimony. In addition, I
5 am sponsoring the following items, which are not supported by a separate schedule: federal
6 and state income tax offsets and interest expense offset. A discussion of the federal income
7 tax offset, state income tax offset and interest expense offset can be found within the Cash
8 Working Capital section of this direct testimony. Staff Auditing witness Paula Mapeka will
9 discuss materials and supplies, prepayments, customer deposits, and customer advances in
10 her direct testimony; Staff Auditing witness Dana E. Eaves discusses the prepaid pension
11 asset, pension regulatory asset – additional contribution, and pension regulatory asset –
12 tracker in his direct testimony; Staff Auditing witness Janis E. Fischer discusses fuel
13 stocks/inventories and gas stored underground line items in her direct testimony, and Staff
14 Auditing witness Amanda C. McMellen of the Auditing Department addresses the deferred
15 income tax rate base offset, in her direct testimonies.

16 **PLANT IN SERVICE & DEPRECIATION RESERVE**

17 Q. Please explain Accounting Schedule 3.

18 A. Accounting Schedule 3, Plant in Service, lists Empire's total plant balances by
19 production station and account for the test year ending December 31, 2005, in "Column B."
20 The Staff's total Company and Missouri jurisdictional adjustments detailed in Accounting
21 Schedule 4, Adjustments to Total Plant, are listed in "Column C" and "Column E,"
22 respectively. The Missouri jurisdictional allocation factors appear in "Column D" and the
23 Staff's adjusted Missouri jurisdictional plant in service balances are shown in "Column F."

Direct Testimony of
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1 The Company has added about \$60 million of new plant to its rate base since July 1, 2004,
2 the end of the update period in its last rate case, Case No. ER-2004-0570.

3 Q. Please explain Accounting Schedule 4.

4 A. Accounting Schedule 4, Adjustments to Plant in Service, details the Staff's
5 individual adjustments listed in "Column C" and "Column E" of Accounting Schedule 3.

6 Q. Please what are the adjustments found in Accounting Schedule 4, Adjustments
7 to Plant in Service?

8 A. Plant adjustments P-3.1, P-5.1, P-6.1, P-12.1, P-16.1, P-18.1, P-19.1, P-21.1,
9 P-23.1, P-24.1, P-32.1, P-43.1, P-46.1, P-47.1, P-50.1, P-51.1, P-53.1, P-60.1, P-63.1, P-64.1,
10 P-66.1, P-67.1, P-68.1, P-69.1, P-70.1, P-71.1, P-72.1, P-73.1, P-74.1, P-75.1, P-76.1, P-79.1,
11 P-80.1, P-81.1, P-83.1 and P-86.1, update plant through March 31, 2006, the end of update
12 period.

13 Q. Are there additional Staff adjustments to plant-in-service?

14 A. Yes. Staff is disallowing a portion of the construction cost associated with the
15 installation of Energy Center Units 3 and 4 (EC3&4). Staff Auditing witness Paul R.
16 Harrison is addressing the Energy Center Unit 3 and 4 (EC3&4) plant disallowance in detail
17 in his direct testimony.

18 Q. Please explain Accounting Schedule 6.

19 A. Accounting Schedule 6, Depreciation Reserve, lists Empire's total
20 depreciation reserve balances by production station and account for the test year ending
21 December 31, 2005 in "Column B." The Staff's total Company and Missouri jurisdictional
22 depreciation reserve adjustments detailed in Accounting Schedule 7, Adjustments to
23 Depreciation Reserve, are listed in "Column C" and "E," respectively. The Missouri

Direct Testimony of
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1 jurisdictional allocation factor in "Column D" are used to determine the Staff's adjusted
2 Missouri jurisdictional balances shown in "Column F."

3 Q. Please explain Accounting Schedule 7.

4 A. Accounting Schedule 7, Adjustments to Depreciation Reserve, details the
5 Staff's individual adjustments making up the total company and Missouri jurisdictional
6 adjustments listed in "Column C" and "E" of Accounting Schedule 6, respectively.

7 Q. Please explain the adjustments found in Accounting Schedule 7, Adjustments
8 to Depreciation Reserve.

9 A. The purpose of Reserve adjustments R-4.1, R-5.1, R-6.1, R-8.1, R-9.1,
10 R-10.1, R-11.1, R-12.1, R-13.1, R-14.1, R-15.1, R-16.1, R-18.1, R-19.1, R-20.1, R-21.1,
11 R-22.1, R-23.1, R-24.1, R-25.1, R-26.1, R-27.1, R-28.1, R-29.1, R-30.1, R-31.1, R-32.1,
12 R-34.1, R-35.1, R-36.1, R-37.1, R-38.3, R-39.1, R-40.1, R-41.3, R-42.1, R-44.1, R-45.1,
13 R-46.1, R-47.1, R-48.1, R-9.1, R-50.1, R-51.1, R-52.1, R-53.1, R-54.1, R-55.1, R-56.1,
14 R-57.1, R-58.1, R-59.1, R-60.1, R-61.1, R-62.1, R-63.1, R-64.1, R-65.1, R-66.1, R-67.1,
15 R-68.1, R-69.1, R-70.1, R-71.1, R-72.1, R-73.1, R-74.1, R-75.1, R-76.1 and R-77.1 is to
16 adjust test year balances through the update period to reflect total reserve balances as of
17 March 31, 2006, and to exclude reserve for plant that was previously retired and plant that is
18 fully depreciated.

19 Q. Are there any additional adjustments to depreciation reserve?

20 A. Yes. The Staff is proposing Reserve adjustments R-38.1 and R-41.1 to
21 eliminate depreciation that has accumulated on the portion of Energy Center Units 3 and 4
22 plant which Staff is disallowing. These adjustments are also discussed in Staff witness
23 Harrison's direct testimony

1 **CASH WORKING CAPITAL**

2 Q. What is cash working capital (CWC)?

3 A. CWC is the amount of cash necessary for the Company to pay the day-to-day
4 expenses incurred to provide electric service to Empire's customers.

5 Q. Is the method you used to calculate Empire's CWC requirement the same
6 method the Staff has used in previous rate cases?

7 A. Yes, the method has been used by the Staff and adopted by the Commission in
8 numerous rate proceedings dating back to the 1970's, including the Company's most recent
9 rate cases (Case Nos. ER-97-81, ER-2001-299, ER-2002-424 and ER-2004-570).

10 Q. How did the Staff determine the CWC requirement?

11 A. Staff calculated the CWC requirement by performing a lead/lag study.

12 Q. What is the purpose of a lead/lag study?

13 A. The lead/lag study determines the amount of cash that is necessary on a
14 day-to-day basis in order for Empire to provide service to its ratepayers. The lead/lag study
15 analyzes the cash flows related to the payments received from the Company's customers for
16 the provision of service and the disbursements made by the Company to its suppliers and
17 vendors for goods and services necessary to provide electric service. The lead/lag study
18 takes into account the number of days it takes Empire to make payments after receiving
19 goods or services from a vendor, compared with the number of days it takes the Company to
20 receive payments for the electric service provided to its customers. A lead/lag study also
21 determines who provides CWC.

22 Q. What are the sources of CWC?

23 A. The shareholders and the ratepayers are the sources of CWC.

Direct Testimony of
"Kofi" A. Boateng

1 Q. How do the shareholders supply CWC?

2 A. When Empire spends cash to pay for an expense before the ratepayer provides
3 the cash, the shareholders are the source of the CWC. This CWC represents a portion of the
4 shareholders' total investment in the Company. The shareholders are compensated for the
5 CWC funds by the inclusion of these funds in the rate base, thereby providing a return on
6 their investment.

7 Q. How do the ratepayers provide CWC?

8 A. Ratepayers supply CWC when they pay for the electric service received
9 before Empire pays for expenses incurred in providing that service. The ratepayers are
10 compensated for the funds supplied through a reduction to rate base by the amount of CWC
11 the ratepayers provide. Like the shareholders, this allows the general body of ratepayers to
12 be credited for a rate of return equivalent to that earned on a utility's investment.

13 Q. How does the Staff interpret lead/lag studies?

14 A. A positive CWC requirement indicates that in the aggregate, the shareholders
15 provide the CWC for the test year. This also means that, on the average, the Company paid
16 the expenses incurred to provide the electric service to the ratepayers before the ratepayers in
17 turn paid for that service.

18 A negative CWC requirement indicates that, in the aggregate, the ratepayers provide
19 the cash working capital during the test year. This means that, on average, the ratepayers
20 paid for their electric service before the Company paid the expense incurred to provide that
21 service.

22 Q. Please explain the components of the Staff's calculation of CWC, which
23 appear on Accounting Schedule 8, Cash Working Capital.

Direct Testimony of
"Kofi" A. Boateng

1 A. The components of the Staff's calculation are as follows:

2 1) Column A (Account Description): lists the types of cash expenses,
3 which the Company pays on a day-to-day basis.

4 2) Column B (Test Year Expenses): provides the amount of annualized
5 expense included in the cost of service. It shows the dollars associated with
6 the items listed in Column A on an adjusted Missouri jurisdictional basis.

7 3) Column C (Revenue Lag): indicate the number of days between the
8 midpoint of the provision of service by the Company and the payment for the
9 service by the ratepayer. The revenue lag addressed in this case is explained
10 later in this direct testimony.

11 4) Column D (Expense Lag): indicates the number of days between the
12 receipt of and the payment for, the goods and services (i.e., cash expenditures)
13 used to provide service to the ratepayer. The expense lags addressed in this
14 case are discussed later in this direct testimony.

15 5) Column E (Net Lag): results from the subtraction of the Expense Lag
16 (Column D) from the Revenue Lag (Column C).

17 6) Column F (Factor): expresses the CWC lag in days as a fraction of the
18 total days in the test year. This is accomplished by dividing the Net Lags in
19 Column E by 365.

20 7) Column G (CWC Requirement): represents the average amount of
21 cash necessary to provide service to the ratepayer. This is computed by
22 multiplying the annualized amount in the Test Year Expenses column by the
23 CWC Factor (Column F).

Direct Testimony of
"Kofi" A. Boateng

1 Q. Please describe the revenue lag.

2 A. The revenue lag is the amount of time between the provision of service by the
3 Company and the Company's receipt of the payment for that service from the ratepayers.
4 The overall revenue lag in this case is the sum of three subcomponent lags. They are the
5 following:

6 1) Usage Lag: The midpoint of the average time elapsed from the
7 beginning of the first day of a service period through the last day of that
8 service period.

9 2) Billing Lag: The period of time between the end of the last day of a
10 service period and the day the bill is placed in the mail by a utility.

11 3) Collection Lag: The period of time between the day the bill is placed
12 in the mail by a utility and the day the utility receives payment from the
13 ratepayer for services performed.

14 Q. Did Empire use any of these three subcomponent lags discussed above in
15 developing its total revenue lag?

16 A. Yes. The Company's and the Staff's subcomponent results and overall results
17 are compared below:

	<u>Company</u>	<u>Staff</u>
18 Usage Lag	15.21 days	15.21 days
19 Billing Lag	4.28 days	4.28 days
20 Collection Lag	<u>18.66 days</u>	<u>21.93 days</u>
21		
22		
23 Total	<u>38.15 days</u>	<u>41.42 days</u>

24 Source: Company and Staff workpapers

Direct Testimony of
"Kofi" A. Boateng

1 Q. Did Empire perform the computation of the revenue lag referenced above?

2 A. No. The Company's revenue lag is based on the Staff Cash Working Capital
3 study from the Company's prior rate case, No. ER-2002-0424.

4 Q. Please define how you are using the term "service period" in this testimony.

5 A. In reference to the revenue lag, a service period is merely the amount of time,
6 in days, in which the customer receives utility service for billing purposes. In discussion of
7 expense lags, this term denotes the period in which a utility receives materials or services
8 from its suppliers. The Staff's revenue and expense lags utilized in this case are the result of
9 analyses of the Company's current records. Where there have been no significant changes in
10 the Company's operations since the last rate case that would affect the current CWC study,
11 the Staff adopted the lags used in the previous rate case.

12 Q. Please explain how the usage lag was determined.

13 A. The usage lag was determined by dividing the number of days in a typical
14 year (365) by the number of months in a year (12) to yield the average number of days in a
15 month (30.42). This 30.42 was then divided by two to yield an average usage lag of 15.21.
16 Two was used as the divisor since the Company bills monthly; the Staff assumed service is
17 delivered to the customer evenly throughout the month.

18 Q. Please explain how Staff determines the billing lag.

19 A. The billing lag is determined as the time it takes between when Empire read
20 the meter and when the bills are subsequently mailed to the customer. Staff accepted the
21 Company's proposed billing lag based on the Company's representation there have not been
22 any significant changes in its billing cycle since its last rate case.

23 Q. Please explain the Staff's approach to determining the collection lag.

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"Kofi" A. Boateng

1 A. The collection lag is the average number of days that elapse between the day
2 that the bill was mailed and the day when Empire receives payment for that bill. To measure
3 this lag, the Staff sampled billings from over 900 residential accounts, over 700 commercial
4 accounts, over 300 industrial accounts and 35 level-pay customers. The Staff arrived at an
5 average collection lag of 21.93days, through the sample billings.

6 Q. How did the Staff select the sample of customer accounts that it analyzed?

7 A. The Company provided a list of customers grouped by customer class and
8 divided between regular and level-pay customers, at the Staff's request. After receiving that
9 list, the Staff asked the Company to provide a list of regularly billed residential customers
10 starting with any customer numbered between 1 and 100, and continuing with every 1000th
11 customer number thereafter. The Staff then obtained the billing records for each customer on
12 that list starting with January for the first record, February for the second record and so forth,
13 through December, then repeating the cycle. These records made up the residential billing
14 sample that the Staff analyzed. For each bill in the sample, the Staff collected the beginning
15 and ending meter read dates, the amount billed and the date the bill was paid. These steps
16 were followed for each residential customer bill in the sample.

17 At the Staff's request, the Company provided a list of commercial and small
18 commercial accounts starting with any customer numbered between 1 and 100, and
19 continuing with every 100th customer number thereafter. Together with all of the industrial
20 customer accounts, this made up the commercial and industrial customers, for which the
21 Staff obtained the billing data that it analyzed. The Staff analyzed the commercial and
22 industrial customer bills in the same way as it analyzed the sampled residential bills.

Direct Testimony of
"Kofi" A. Boateng

1 Q. What was the scope of the Staff's work in the calculation of expense lags in
2 this case?

3 A. The Staff attempted to calculate expense lags in areas where significant
4 expense dollar amounts were involved, or in areas where significant changes in payment
5 pattern occurred since previous rate cases.

6 Q. What expense lags did Staff calculate in this case?

7 A. The Staff calculated the following expense lags in this audit: (1) fuel;
8 (2) purchased power; (3) payroll expense; (4) federal, state and FICA taxes withheld;
9 (5) employee and employer 401 (k) contributions; (6) property taxes; (7) sales and use taxes;
10 (8) cash vouchers and (9) federal and state unemployment taxes.

11 Q. What expense lags did the Staff accept from the prior case?

12 A. The Staff did not recalculate the expense lags for medical care expenses,
13 vacation expense, gross receipts taxes, and federal and state income taxes offsets. The Staff
14 believes that there were not sufficient changes to the accounts payable functions for
15 payments of these expenses to warrant the time and resources required to perform a full
16 expense lag analysis.

17 Q. Please explain the base payroll expense lag calculation on Line 2 of
18 Accounting Schedule 8.

19 A. The base payroll expense lag is the time elapsed between the midpoint of the
20 period in which employees earn wages (i.e., weekly, bi-weekly - the payroll period) and the
21 date the wages are paid by Empire. The base payroll expense lag utilized in this case is
22 10.5000 days.

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1 Q. Please explain the payroll related expense lags listed on Accounting
2 Schedule 8.

3 A. The expense items listed on Accounting Schedule 8, Lines 2 through 8, relate
4 to payroll. Payroll has been subdivided into the following components: base payroll,
5 FICA-employee portion, federal income tax withholding, state income tax withholding,
6 401(k) -employee portion, medical care and vacation payroll.

7 Q. What is the basis for the expense lag days assigned to tax withholdings?

8 A. The expense lag days for tax withholdings are based upon the same payroll
9 periods used for base payroll. The respective expense lag day computations consider the
10 time elapsed between the average date the respective payroll is earned by the employee and
11 the tax due dates.

12 Q. Please explain the expense lag calculation for 401(k) employee portion.

13 A. The expense lag for the employee portion of 401(k) is based on the same
14 payroll periods as base payroll; the time elapsed between the midpoint of the period in which
15 employees earn wages and the date the wages are paid by Empire. It also takes into
16 consideration the time elapsed between the date wages are paid by Empire, and the date the
17 funds withheld for the 401(k) are deposited and paid to providers.

18 Q. Please explain the vacation expense lag.

19 A. The vacation expense lag attempts to reflect the time period from when
20 employees "earn" vacations and when Empire has to actually "pay" out the cash to these
21 employees for vacations. The Company records vacation to an employee's account at the
22 beginning of the year for work performed in the previous year and allows an employee to
23 carry over a portion of each year's vacation time from one year to the next. The Company's

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1 response to Staff Data Request No. 118 in the ER-2004-0570 indicates that Empire
2 employees do not take vacation evenly throughout the year. For these reasons, the Staff
3 utilized an expense lag of 365 days as a conservative estimate of the time elapsed between
4 when vacation was "earned" and actually "paid" to its employees by Empire. The Staff
5 adopted the vacation expense lag utilized in Case No. ER-2004-0570, since, according to the
6 Company (response to Staff Data Request No. 237 in Case No. ER-2006-0315), there has
7 been no significant change in policy related to vacation since the last rate case.

8 Q. Please explain the expense lag for purchased power as found on Accounting
9 Schedule 8 at Line 5.

10 A. The expense lag for purchased power is the time elapsed from the midpoint of
11 the period when Empire receives purchased power from suppliers and the date payments for
12 such services are due.

13 Q. Please explain the expense lags for fuels (i.e., coal, gas, oil, petroleum coke
14 and wind energy).

15 A. The expense lag for fuels is the time elapsed between the midpoint of the
16 period when Empire receives the fuels from suppliers and the date on which payments for
17 such fuels are due. Empire uses different types of fuel sources to generate power: coal, gas,
18 oil, and petroleum coke and wind energy.

19 Q. Please explain the cash voucher expense lag on Accounting Schedule 8 at
20 Line 14.

21 A. The cash vouchers line item is designed to include all Operation and
22 Maintenance (O&M) expenses within the study that are not specifically analyzed in a
23 separate line item. The expense lag represents the amount of time elapsed between the

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1 receipt of and payment for goods and services necessary to provide service to ratepayers. The
2 Staff's calculation for cash voucher expense lag in this case is 26.5213 days.

3 Q. Please explain the expense lag for the employer's portion of FICA tax on
4 Accounting Schedule 8 at Line 9.

5 A. The employer's portion of FICA (social security) taxes is the amount of taxes
6 paid by the employer on payroll paid to the employees. The expense lag for employer's
7 portion of FICA is computed as the period of time between the midpoint of the pay period for
8 which the taxes are withheld, and the date the tax withholdings must be paid to the taxing
9 authorities.

10 Q. Please explain the expense lag for federal and state unemployment taxes on
11 Accounting Schedule 8 at Lines 15 and 16, respectively.

12 A. The expense lags for federal and state unemployment taxes represent the
13 length of time between the average day services are rendered by the employee and the date
14 Empire pays the tax associated with that service.

15 Q. Please explain the expense lag for property taxes as shown on Accounting
16 Schedule 8 at Line 17.

17 A. The property tax lag days were calculated by using the midpoint of the service
18 period (a calendar year) and the required due date for property taxes paid by Empire.

19 Q. Please explain the expense lag for corporate franchise tax.

20 A. Corporation franchise taxes are paid annually. The expense lag considers the
21 time elapsed between the midpoint of the taxable period (a calendar year) and the statutory
22 due date (April 15 of the following year). Staff determined the expense lag for corporation
23 franchise taxes is -77.50 days.

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1 Q. Please explain the expense lag for gross receipts tax on Accounting
2 Schedule 8 at Line 18.

3 A. Gross receipts taxes are paid based upon the individual requirements of the
4 taxing entities. The lag for this item must include the appropriate time span between the
5 midpoint of the tax period and the time Empire pays the gross receipts taxes to the taxing
6 entities.

7 Q. Please explain the sales and use taxes expense lag on Accounting Schedule 8
8 at Line 19.

9 A. The expense lag for sales and use taxes take into consideration the time
10 elapsed between the midpoint of the taxable month and the date sales tax is required to be
11 paid to the state of Missouri.

12 Q. Why does the revenue lag depicted on Accounting Schedule 8 for sales and
13 use taxes and gross receipts taxes differ from the revenue lag calculation you discussed
14 above?

15 A. Empire acts as an agent of the taxing authority in collecting sales and use
16 taxes and gross receipts taxes from the ratepayer and in paying the proper institution on a
17 timely basis. Empire does not provide any service to the ratepayer associated with these
18 taxes. Since the expense lags for gross receipts taxes is measured from the date of billing,
19 the revenue lag equals only the period of time required to collect revenues. The sales and use
20 taxes were calculated to be 22.19 days.

21 Q. Please identify any other components of CWC that do not directly appear in
22 the Staff's Accounting Schedule 8.

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1 A. The federal income tax offset, state income tax offset and interest expense
2 offset do not directly appear in the Staff's Accounting Schedule 8, Cash Working Capital.
3 These items appear as separate line items in the Staff's Accounting Schedule 2, Rate Base.
4 These cash payments are known and certain obligations of Empire with payment periods and
5 payment dates established by statute or bond indentures. Staff believes amounts collected
6 from ratepayers, which the Company intends to use for the payment of taxes and interest,
7 represent a source of cash for Empire which has use of such funds until they are passed on to
8 the appropriate taxing authority or bondholder. Therefore, Staff believes it is appropriate to
9 include taxes and interest as offsets in a lead/lag analysis.

10 Q. Why are the federal income tax offset, state income tax offset and interest
11 expense offset included in the Staff's Accounting Schedule 2, Rate Base, rather than
12 Accounting Schedule 8, Cash Working Capital?

13 A. The expense component used for these offsets is tied directly to the
14 mechanical computation of the revenue requirement. The Staff's computer-generated
15 revenue requirement is based on a computer program with the capability of extracting
16 appropriate amounts for federal income tax, state income tax and interest expense based on
17 amounts obtained from Accounting Schedule 11, Income Tax. The computer program
18 applies the CWC factor for each respective component and places the CWC revenue
19 requirement directly in Accounting Schedule 2.

20 Q. Please explain the federal and state income tax offsets.

21 A. The federal and state income tax offsets represent the period of time between
22 the midpoint of the taxable period (a calendar year) and the required dates taxes are due to
23 the federal and state taxing authorities. Currently, 100% of the estimated federal tax must be

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1 paid during the year in four quarterly installments, which are due by the 15th day of April,
2 June, September and December. However, based on the timing of the receipt of Empire's
3 revenues, in the past the Company has made a significantly larger tax payment in the fourth
4 quarter than it has in the first, second, and third quarters. As a result, the expense lag is
5 longer than it would be if Empire made equal quarterly installments.

6 For state income tax, 90% of the estimated state income tax must be paid during the
7 year in four quarterly installments, which are due by the 15th day of April, June, September
8 and December. The remaining 10% is due by March 15th of the following year. The
9 payments made on April 15 and June 15 are considered paid in advance, while payments
10 made on September 15, December 15 and March 15 of the following year are considered
11 paid in arrears.

12 The federal and state income tax expense lags are 90.35 days and 62.05 days,
13 respectively. The Staff adopted these lags from the CWC study in Case No. 2004-0570. The
14 Staff subtracted these expense lags from the revenue lags to produce net CWC lags, which
15 when divided by 365 days, produce the CWC factors used for calculating the federal and
16 state income taxes offsets appearing on Accounting Schedule 2, Rate Base.

17 Q. Please explain the interest expense offset.

18 A. The interest expense lag is computed by determining the time elapsed between
19 the midpoint of the interest period and the required due date for the payment of interest on
20 long-term debt. A similar calculation is performed for short-term debt and trust preferred
21 stock. Staff then calculated a dollar-weighted average to derive an overall interest expense
22 lag of 83.755 days. This expense lag was subtracted from the revenue lag and then divided

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1 by 365 days to determine the CWC factor used for calculating the interest offset appearing on
2 Accounting Schedule 2, Rate Base.

3 Q. What was the result of the Staff's lead/lag calculation?

4 A. The aggregate of the individual calculations, including the offsets for interest
5 and income taxes, result in total net shareholders-supplied funds and illustrate the excess of
6 CWC supplied by the shareholders over the amount supplied by the ratepayers.

7 ADVERTISING

8 Q. Please explain adjustments S-74.1 and S-89.7.

9 A. Adjustments S-74.1 and S-89.7 disallow certain advertising costs incurred by
10 the Company.

11 Q. Please describe the past treatment of advertising expenses by the Commission.

12 A. As part of *In re Kansas City Power and Light Company*, 28 Mo. P.S.C. (N.S.)
13 228 (1986) (hereinafter *KCPL*), the Commission adopted an approach that classifies
14 advertisements into five categories and provides separate rate treatment for each category.
15 The five categories of advertisements adopted by the Commission for purposes of this
16 approach are:

17 1. General - informational advertising that is useful in the
18 provision of adequate service;

19 2. Safety - advertising which conveys the ways to use the
20 Company's service safely and to avoid
21 accidents;

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3. Promotional - advertising used to encourage or to promote the use of the particular commodity the utility is selling;
4. Institutional - advertising used to improve the Company's public image; and
5. Political - advertising which is associated with political issues.

The Commission adopted these categories of advertisements because it believed that a utility's revenue requirement should include the reasonable and necessary cost of general and safety advertisements, should disallow the cost of institutional or political advertisements, and should include the cost of promotional advertisements only to the extent that the utility can provide cost justification for the advertisement (*Ibid.*, pp. 269-271).

Q. What standard did the Staff use to evaluate the Company's advertising expense in this case and to develop the adjustments?

A. The Staff utilized the standards as initially established in the *KCPL* case and in subsequent cases, to determine the test year level of allowable advertising expense for the general, safety, institutional, promotional and political advertising categories. The Staff proposes to disallow advertisements that are institutional, promotional, unrelated to the electric industry or that ask for charitable donations. The Staff proposes to allow all general and safety-related advertisements to the extent that they are related to the electric industry and beneficial to Missouri ratepayers.

Q. How did you apply the standard established in the *KCPL* case to your examination of advertising expense in this case?

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1 A. I categorized all of the Company's advertisements on an ad-by-ad basis using
2 the *KCPL* standard to determine the amount to be allowed or disallowed. I began by
3 reviewing each advertisement to determine which of the following primary messages the
4 advertisement was designed to communicate:

- 5 1. the promotion of a service or product (Promotional);
- 6 2. the dissemination of information necessary to obtain safe and
7 adequate electric service (General and Safety);
- 8 3. the promotion of the Company image (Institutional); or
- 9 4. the endorsement of a political candidate or any political
10 message (Political).

11 Once I determined the primary message, I classified the advertisements accordingly.
12 Schedule I, attached to this testimony, is that itemized analysis of the Company's advertising
13 costs and a copy of all the Company's advertisements for the test year, as provided in
14 response to Staff Data Request No. 80.

15 Q. How did the Staff develop its advertising adjustments?

16 A. The Staff requested that the Company supply the cost of all advertisements on
17 a per-ad basis. Based on its categorization, the Staff disallowed the expense associated with
18 advertisements that it classified as institutional or promotional, as well as general
19 advertisements unrelated to the electric industry or Missouri ratepayers.

20 Q. What media does the Company utilize to place its advertisements?

21 A. The Company uses the following media:

- 22 1. Radio
- 23 2. Television

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1 3. Print (newspapers), and

2 4. Other print media

3 Q. Describe the institutional advertisements that the Staff disallowed.

4 A. The Staff disallowed the following advertisements as institutional in nature:
5 Christmas Elves, selected Committed to Service advertisements, Contact Info, selected
6 Today at 50 Plus advertisements, Community Recognition and Logo Ad. The Christmas
7 Elves advertising program requests donations of items for elderly customers. Committed to
8 Service advertisements was disallowed because it was designed to build the Company's
9 image and provided no information on electrical safety or information necessary for Empire
10 customers. Two of the Today at 50 Plus advertisements were disallowed; they were the
11 Gatekeeper Christmas Elves and become a Christmas Elf. Community Recognition and
12 Logo advertisements sponsored and provided support for local causes and events. None of
13 these advertising programs were necessary for the provision of safe and adequate service.

14 **DUES AND DONATIONS**

15 Q. Please explain adjustments S-6.2, S-30.1, S-49.2, S-56.1, S-58.1, S-69.1,
16 S-73.1, S-77.1, S-82.2 and S-89.1

17 A. These adjustments decrease test year expenses relating to various dues and
18 donations the Company has included in its cost of service. Such dues and donations have
19 been excluded because they are not necessary for the provision of safe and adequate service,
20 and thus do not have any direct benefit to ratepayers. To allow the Company to recover these
21 expenses through rates causes the ratepayer to involuntarily contribute to these organizations.

22 Q. Do you have any specific comments on certain disallowances of dues and
23 donations?

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1 A. Yes. The dues to State and National Chambers of Commerce were disallowed
2 on the basis that the activities of these groups duplicate the efforts of the local chambers of
3 commerce located within the Company's four state service territory. Dues for memberships
4 in local chamber of commerce were allowed because such memberships generally benefit the
5 Company and its customers, through the Company's participation in the local communities it
6 serves. The Commission has historically allowed in rates one chamber of commerce
7 membership in each of the Missouri communities that a utility serves. The Downtown
8 Branson Main Street Association, the Leadership Missouri Alumni and the Associated
9 Industries of Missouri dues were disallowed because the Company was unable to identify a
10 direct benefit to the ratepayers, so these costs are the responsibility of the shareholders.

11 Q. Please describe adjustment S-89.2.

12 A. Adjustment S-89.2 represents the Staff's disallowance of Empire's test year
13 membership dues to Edison Electric Institute (EEI).

14 Q. What is EEI?

15 A. According to information obtained from EEI's website (www.eei.org), EEI is
16 an association of investor-owned electric utilities and industry affiliates across the globe,
17 which purports to lead, represent and serve the industry by: advocating public policies which
18 foster and adequate, reliable, secure, and economical supply of electricity for the United
19 States; providing the public and its members information, data, and statistics relating to
20 electric energy and its value to enhance economic productivity; conducting forums for
21 information exchange, training, and management development; and among other functions
22 like lobbying legislators and regulators on behalf of its members.

23 Q. Has the Commission in the past excluded EEI membership dues from rates?

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1 A. Yes. The Commission in the recent years has consistently disallowed all dues
2 paid to EEI by electric companies. In Case No. ER-83-49, Kansas City Power and Light
3 Company (KCPL), the Commission restated its position that EEI dues:

4 ... would be excluded as an expense until the company could better
5 quantify the benefit accruing to both the company's ratepayers and
6 shareholders. (Report & Order, p.15).

7 Q. Did the Company quantify and allocate EEI benefits between shareholders
8 and ratepayers in this case?

9 A. As of the time of filing this direct testimony, the Staff has not received a
10 response to a data request it sent to the Company. Based upon the Company's response, the
11 Staff may need to supplement its position.

12 **PROMOTIONAL GIVEAWAYS**

13 Q. Please describe adjustments S-49.4, S-56.3, S-67.2, S-71.2, S-72.2, S-73.3,
14 S-76.2 and S-77.3.

15 A. These adjustments decrease expenses for Company promotional giveaway
16 items distributed during the test year.

17 Q. Please describe the items that the Company offers as promotional giveaways.

18 A. The Company distributed many types of items (e.g., magnets, measuring
19 tapes, travel mugs, desk items, etc.) during the test year. Some of the items display the
20 Empire logo. The Staff believes that the cost of promotional giveaways provides no direct
21 benefit to the ratepayer and, therefore, should be absorbed by the shareholders. Additionally,
22 the Commission has previously disallowed giveaway items that were similar in nature in
23 several rate cases, including Missouri Cities Water Company, et al., Case No. WR-92-207.

1 **OUTSIDE SERVICES**

2 Q. Please describe adjustment S-82.3.

3 A. Outside (independent) contractors and vendors provide various services such
4 as legal, auditing, and consulting to assist Empire in carrying out its operational activities
5 only when needed rather than to provide services on full-time basis. The Staff reviewed the
6 cost of outside services charged to USOA accounts 923.005 through 923.514, during the test
7 year 2005. Staff's adjustment S-82.3 reflects the normalization and annualization of these
8 costs booked over 5-year period, calendar years 2001-2005. The Staff reduced expenses
9 booked by Empire for costs related to the legal fees for the Enron North America Corp. fuel
10 contract dispute, and the Kansas City Power & Light Company arbitration posted during the
11 five-year period examined. It is inappropriate to allow specific recovery in rates of amounts
12 related to past non-recurring regulatory events or non-regulatory events

13 Respecting the Enron matter, Enron claimed that Empire owed a sum of money for
14 future physical purchases of natural gas as a result of Empire's early termination of a fuel
15 contract with Enron. Enron disputed the lawfulness of the termination. Empire terminated
16 the contract as a result of the fall of Enron's credit rating. Empire and Enron eventually
17 settled the dispute. The Staff has disallowed all legal fees pertaining to the Enron dispute,
18 which was a nonrecurring event. Regarding the KCPL matter, the Staff has disallowed as a
19 nonrecurring event all legal fees pertaining to an arbitration respecting an interchange
20 agreement between Empire and KCPL which is no longer in effect.

21 **MAINTENANCE EXPENSES**

22 Q. Please describe the kind of adjustments that are involved in the maintenance
23 expenses.

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1 A. Staff's adjustments relating to maintenance expense are based on the
2 Company's respective production stations (Iatan, Asbury, Riverton, State Line Combined
3 Cycle, State Line 1 and Energy Center 1 and 2), as well as transmission and distribution
4 maintenance activities.

5 **IATAN MAINTENANCE EXPENSE**

6 Q. Please explain adjustments S-6.1, S-7.1, S-8.1, S-9.1, S-10.1, S-11.1, S-3,
7 S-13.3, S-14.3, S-15.3, S-16.3, S-38.1, S-39.1, S-40.1, S-41.1, S-47.3, S-49.1, S-79.1, S-80.1,
8 S-81.1, S-82.1, S-83.1, S-84.1, S-85.5 and S-91.1.

9 A. These adjustments were made to annualize the Iatan generating unit
10 maintenance expense based upon a six-year average of maintenance expense.

11 Q. Why did the Staff choose a 6-year average?

12 A. The Staff used a six-year average because Empire's response to Staff Data
13 Request No. 104 showed Iatan is on a six-year major maintenance cycle.

14 Q. Is Empire responsible for all of Iatan's maintenance costs?

15 A. No. Empire owns only 12% of the Iatan unit, with Kansas City Power &
16 Light Company (KCPL) and Aquila Networks, Inc. owning the remainder. Empire is billed
17 for 12% of Iatan's actual maintenance costs by KCPL, the unit's operator. The Staff's
18 normalization of Iatan maintenance expense reflects only Empire's share of those costs.

19 **ASBURY MAINTENANCE OUTAGE COSTS**

20 Q. Please explain adjustments S-12.1, S-13.1, S-14.1, S-15.1, S-16.1 and S-47.1

21 A. The Staff made these adjustments to normalize the level of non-labor
22 maintenance expense for the Asbury Plant. The Staff analyzed the previous five years of
23 maintenance expense and calculated an average of these costs. The test year was then

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1 adjusted to the five-year average level to normalize the expense. The Staff chose a five-year
2 average to normalize this maintenance expense because the Asbury plant is on a five-year
3 maintenance boiler/turbine overhaul schedule, per the Company's response to Staff Data
4 Request No. 104.

5 **RIVERTON MAINTENANCE EXPENSE**

6 Q. Please explain the adjustments to Riverton maintenance expense.

7 A. Staff made adjustments S-12.2, S-13.2, S-14.2, S-15.2, S-16.2, S-34.1, S-47.2
8 and S-60.1 to normalize the level of non-labor maintenance expense for the Riverton Plant.
9 During the test year, the Riverton Seven Unit underwent a five-year maintenance turbine
10 outage, as did the Riverton Eight Unit in 2003. As a result of these outages, the expenses
11 relating to these two years were significantly higher than other years. The Staff analyzed the
12 previous five years of maintenance expense and calculated an average of these costs for the
13 Riverton units. The test year was then adjusted to the five-year average to normalize the
14 expense. The Staff chose a five-year average because both of the Riverton Seven and Eight
15 units have five-year maintenance turbine overhaul schedules, according to the Company's
16 response to Staff Data Request No. 104.

17 **STATE LINE COMBINED CYCLE MAINTENANCE CONTRACT**

18 Q. Please explain adjustment S-34.4.

19 A. Staff's Adjustment S-34.4 adjusts test year expense to reflect the actual
20 maintenance costs associated with Empire's contract with Siemens Westinghouse Power
21 Corporation (Siemens) for maintenance of the State Line Combined Cycle turbine for the 12
22 months ended March 2006.

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1 Q. Why did Empire enter into a contract with a third party to handle maintenance
2 activities for its State Line Combined Cycle (SLCC) unit?

3 A. The Company built a combined cycle unit at its State Line generating station
4 that became operational during June 2001. Empire believed the cost of a major overhaul of
5 the turbine at the new Combined Cycle unit would be a major expense in any given year that
6 could have a significant impact on earnings. To avoid this, the Company entered into a
7 contract with Siemens. Under the terms of the contract, Siemens provides the major
8 maintenance on the SLCC unit. Because of the existence of a contract for these costs, the
9 costs are measurable and can be spread out over time, thereby eliminating the fluctuations of
10 these maintenance dollars that might impact earnings from one year to the next.

11 The Siemens contract outlines the scope of work to be performed, program parts list,
12 program parts supplied, the repair schedule, the payment schedule and additional insured
13 endorsement, a cancellation schedule and a change order format.

14 Q. Based on the Staff review, how do the parties estimate/measure maintenance
15 cost under this maintenance contract?

16 A. The contract is based on major combustor inspections, which are scheduled
17 for every 400 equivalent starts or 8,000 equivalent base hours; and turbine hot path
18 inspections, which are scheduled for every 800 equivalent starts or 24,000 equivalent base
19 hours according to a response to Staff's Data Request No. 104. The contract is designed to
20 correspond with these two significant maintenance events. The period between these
21 inspections is dependent on certain factors, such as operating characteristics, equivalent starts
22 and equivalent base hours the units experience. The Company entered into this contract to

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1 normalize the level of payments for the maintenance inspection, instead of incurring a large
2 expense each time an inspection is required.

3 Q. What are the payment terms of this contract?

4 A. There are two components to this contract, a fixed payment and a variable
5 payment, both made in quarterly installments. The variable fee is based on each unit
6 experiencing a specified number of equivalent starts and equivalent base load hours per
7 contract year. If the Company experiences different levels of hours, either lesser or greater
8 than the numbers cited in the contract, a true-up of the variable payment will take place at the
9 end of each contract year, which is June. Both the fixed and variable payments according to
10 the maintenance agreement are subject to increase.

11 Q. Please describe the true-up element in the contract.

12 A. Because it is unlikely that the equivalent starts and equivalent base hours
13 specified in the contract would ever be exactly equal to the actual operations, a true-up
14 process takes place at the end every contract year. For instance, if the SLCC runs more hours
15 and/or starts than those contained in the contract then the Company will owe an increased
16 sum of money to Siemens. The increase is due because time between inspections must
17 decrease since the unit has run more frequently in that contract year. The exact opposite is
18 true if the SLCC runs fewer hours and starts than the contract terms. In this case, Siemens
19 would owe Empire a credit since the unit was run less frequently, and the time between
20 inspections would be farther apart. During the last several years, the SLCC unit has operated
21 efficiently without major outage, so the Company obtained some savings with respect to its
22 relationship with Siemens because fewer inspections took place.

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1 Q. Please explain why the Staff chose to base its adjustment for SLCC
2 maintenance on actual costs incurred for the 12 months ended March 31, 2006?

3 A. Based upon review of actual costs incurred by Empire under the Siemens
4 contract for the SLCC unit for the last three years, the amount of expense incurred for the
5 12 months ended March 31, 2006 appears to be a reasonable ongoing level.

6 **STATE LINE 1 AND ENERGY CENTER 1 AND 2 MAINTENANCE CONTRACTS**
7 **AND MAINTENANCE EXPENSES**

8 Q. Please describe this maintenance contract with Siemens for the State
9 Line (SL) 1 unit and the Energy Center (EC) 1 and 2 units.

10 A. Empire entered into a contract with Siemens related to maintenance
11 requirements for these units on June 29, 2001. Under the contract, Empire makes initial
12 payments to Siemens based upon certain estimated operating milestones (number of unit
13 starts, number of hours running). These payments are later trued-up on an annual basis to
14 reflect Siemens actual maintenance activities for these three units.

15 Q. Did Staff make any adjustment relating to the Company's maintenance
16 agreement with Siemens for the SL 1, and EC 1 & 2 units in the test year?

17 A. No. The Staff did not make any adjustment to this particular maintenance
18 contract, since the Company did not make any payment to Siemens under this contract in the
19 test year due to past overpayments to Siemens. The Staff is proposing an allowance of zero
20 dollars in this case for this maintenance contract, since no payments were made in the test
21 year and no payments are expected in 2006.

22 Q. When did Empire last make a payment to Siemens under this maintenance
23 agreement and why?

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1 A. According to Empire's response to Data Request No. 0279 (1) :

2 The last payment was made in December of 2004. The
3 payment schedule was set up to cover major maintenance
4 activities through 2009. The maintenance cycle is based on
5 equivalent starts on each unit. Since the adoption of the OPSA
6 in 2002, the involved units have been economically dispatched
7 less than originally planned (due to such factors as new
8 generation coming online, fuel costs, power purchases, etc.)
9 The units being used less has meant less starts, which in-turn
10 requires less major maintenance.

11 The response continued,

12 As a new maintenance cycle was projected, the payments were
13 adjusted to avoid a large true-up at the end of the contract. The
14 major maintenance outage planned for State Line Unit 1 this
15 yers [year] should reduce the OPSA balance to nearly zero, and
16 no additional major maintenance is planned through 2009 at
17 this time.

18 This data request response is attached as Schedule 2 to this direct testimony.

19 Q. When does Empire expect to resume payments to Siemens for maintenance
20 activities under this contract?

21 A. In the immediate future, Empire does not anticipate any major maintenance
22 plans for EC 1, EC 2 and SL 1 units up until 2009, subject to any unforeseen contingencies,
23 which might cause them to run the systems more than expected. In this event however, these
24 units may need additional major maintenance and cause the payments under the contracts to
25 be resumed.

26 **TRANSMISSION, DISTRIBUTION AND GENERAL MAINTENANCE**

27 Q. Please explain adjustments S-16.9, S-17.9, S-18.9, S-19.9, S-20.9, S-26.9,
28 S-27.9, S-28.9, S-29.1, S-42.9, S-43.1, S-44.9, S-45.9, S-47.9, and S-59.1.

Direct Testimony of
"Kofi" A. Boateng

1 A. These adjustments normalize non-payroll maintenance expense for
2 transmission (Accounts 568 – 573), distribution (Accounts 590 – 597), and General Plant
3 Maintenance (Account 935) during the test year.

4 Q. What are normalization adjustments?

5 A. Normalization adjustments reflect the removal of events or items within the
6 test year that are non-recurring, or exhibit a fluctuation from the level, which would normally
7 be expected to occur. Normalization adjustments need to be made to the test year to achieve
8 the appropriate forward-looking focus of the investment/revenue/expense relationship.

9 Q. How did the Staff determine normalize transmission, distribution and general
10 plant maintenance expense for the test year ended December 31, 2005?

11 A. After removing Company payroll costs for transmission, distribution, and
12 general plant maintenance, a 60-month average (encompassing calendar years 2001 through
13 2005) was calculated for non-payroll transmission, distribution, and general accounts for
14 Empire. These adjustments restate the test year 2005 results to reflect the average costs
15 described above.

16 Q. Why was a five-year average maintenance costs used for the plant?

17 A. I observed the trends in the fluctuations of balances for each applicable
18 maintenance account. To best smooth the volatility in the yearly balances, a five-year
19 average was used as a reasonable cost going forward for transmission, distribution, and
20 general maintenance accounts.

21 Q. Why was payroll removed prior to calculating the average of maintenance
22 expense?

Direct Testimony of
"Kofi" A. Boateng

1 A. Payroll is annualized separately in the ratemaking process. Therefore, any
2 payroll costs recorded in the maintenance accounts must be removed to avoid double
3 counting of such payroll costs. Staff witness McMellen will be sponsoring the Staff's payroll
4 adjustments in this case.

5 **PROPERTY TAX EXPENSE**

6 Q. Please explain Adjustment No. S-95.4.

7 A. Adjustment No. S-95.4 annualizes property tax expense. This adjustment was
8 calculated by developing a property tax rate to be applied to total electric plant in service at
9 December 31, 2005. To develop the property tax rate, Staff divided the amount of total
10 property taxes due in 2005 (less the amount associated with unit trains) by the total plant-in-
11 service on January 1, 2005. This property tax rate was then applied to total electric plant in
12 service on December 31, 2005 to arrive at annualized property taxes. The annualized
13 property tax expense was then subtracted from test year property tax expense to arrive at the
14 adjustment. Staff's adjustment in this rate case is \$290,457

15 Q. Please briefly explain how property taxes are assessed.

16 A. Utility companies are required to file with their respective taxing authorities a
17 valuation of its utility property at the beginning of each assessment year, which is January 1.
18 Several months later, based on the information provided, the taxing authority will in turn
19 send the company what is generally known as "assessed value" for every category of the
20 company's property. The taxing authority will again issue to the utility company a property
21 tax rate later in the year. The final process is when the tax authority issues out property tax
22 bill to the company with "due dates", mostly by December 31, based on the property tax rate
23 applied to the assessed values.

Direct Testimony of
"Kofi" A. Boateng

1 Q. In the computation of the property taxes adjustment, did the Staff take into
2 account the increases/decreases to plant that occurred during the update period?

3 A. No. Because of the distinctive nature of how property taxes are assessed, the
4 Staff has consistently held the position that there is no inherent relationship between changes
5 in a utility's plant balances and changes in the amount of property taxes it is assessed to pay
6 over the same period of time. For this reason, any plant additions that occur beyond the
7 January 1 assessment date will not get valued until the company files valuation of its
8 property for the next assessment year. In this instance, any plant additions that Empire added
9 to its plant in service on January 2, 2006, will not be assessed by the taxing authorities until
10 January 1, 2007, and will not result in property tax payment until on or about December 31,
11 2007.

12 Q. What are unit trains?

13 A. Unit trains are used by electric utilities to transport coal to its generating
14 stations. The property taxes assessed on Empire's unit trains are discussed in the direct
15 testimony of Staff witness Fischer.

16 **BANKING FEES**

17 Q. Please explain Adjustment No. S-69.7

18 A. The Staff is proposing Adjustment No. S-69.7 to annualize the cost associated
19 with banking fees paid by the Company for its commercial lines of credit. The Staff
20 annualized the cost of the banking fees based upon the current contract for the syndicated
21 bank line of credit as provided by the Company in response to Staff Data Request Nos. 144
22 and 145. The Staff further offset the cost of these banking fees by the amount of interest

Direct Testimony of
"Kofi" A. Boateng

1 | earned on overnight investments made by the Company during 2005. Staff has followed this
2 | methodology in previous cases.

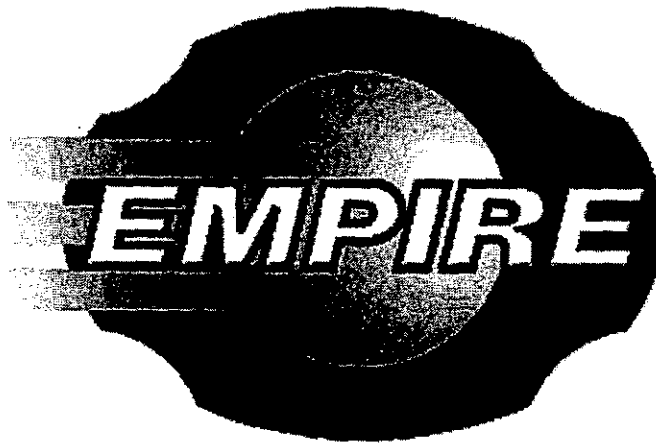
3 | **FLINT CREEK ADJUSTMENT**

4 | Q. Please explain Adjustment No. S-44.1

5 | A. This adjustment was made to reduce the transmission contract billing from the
6 | cost of service. This represents a billing for service in a prior period.

7 | Q. Does this conclude your direct testimony?

8 | A. Yes, it does.



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For Their
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And Service
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Never underestimate the
POWER of ELECTRICITY!

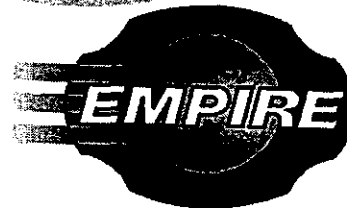
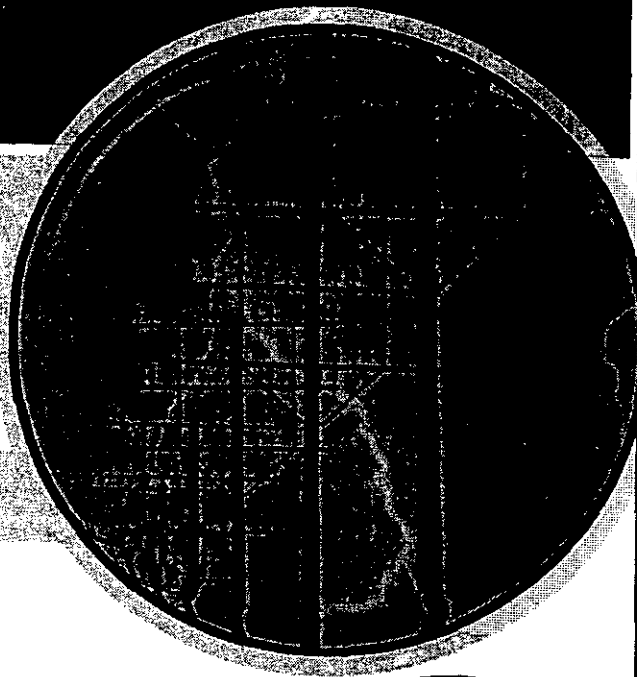
Electricity

It has the power to
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save lives...

claim lives.

Unlike other
dangers, there are
no warning signals for
power lines. Whether
on the ground or in
the air, stay away!
Give electricity the
respect it deserves.



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Don't cross the line! We care about your safety.

Never underestimate the **POWER of ELECTRICITY!** Electricity

It has the power to improve, save, and claim lives.

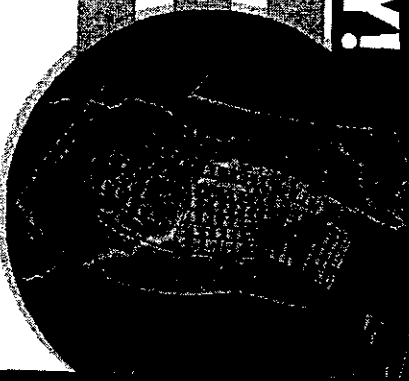
Give electricity the respect
it deserves.

Stay away from all power lines!

Don't cross the line!
We care about your safety.



Electricity you can rely on



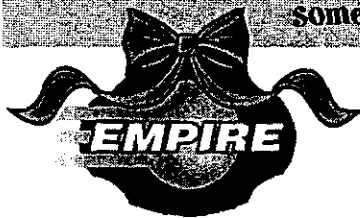


warm
a heart...
brighten
a life...

become a Christmas Elf

Pick up a "wish list" at your local Empire District office for an elderly neighbor who lives alone. Fill all or part of the list and deliver to Empire by **December 10** for distribution by the Area Agency on Aging.

Help make the holidays a
little brighter for
someone who is alone!



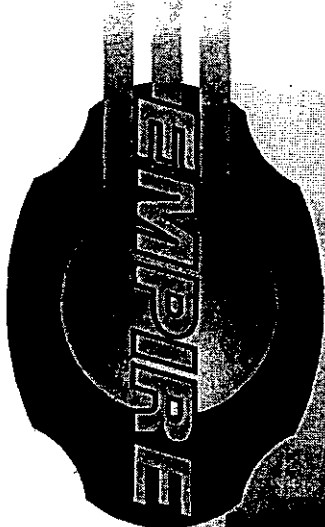
SERVICES YOU COUNT ON

AREA
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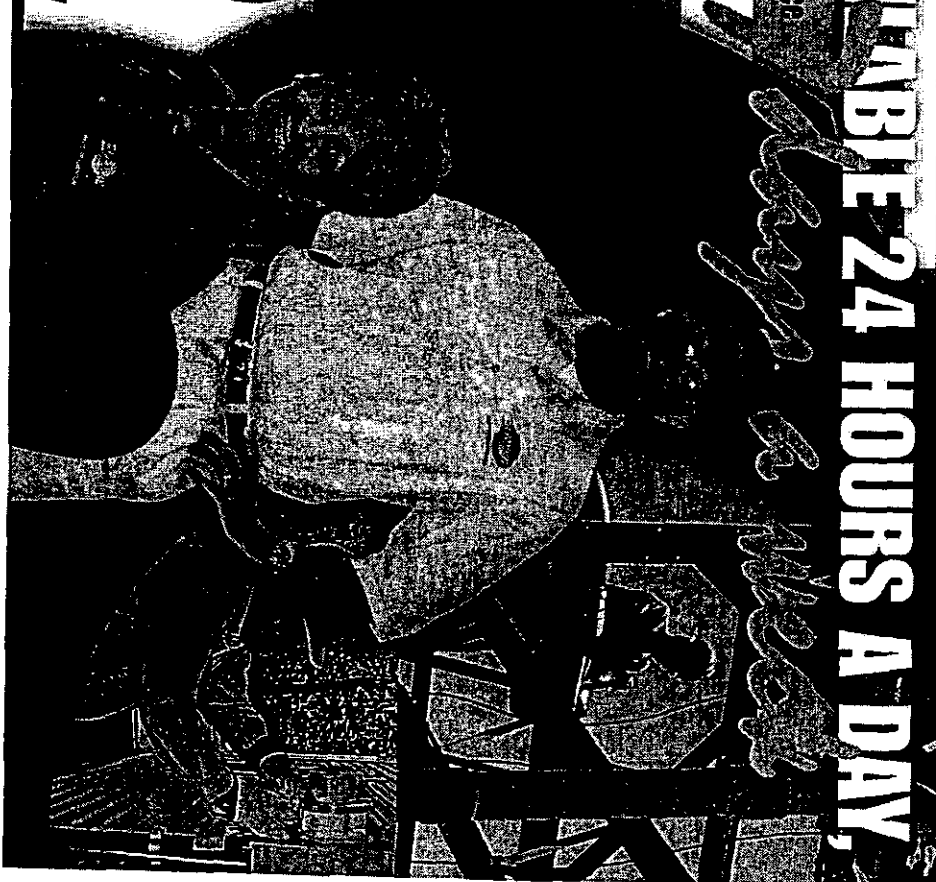
SERVICES AVAILABLE 24 HOURS A DAY,

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COMMITTED TO

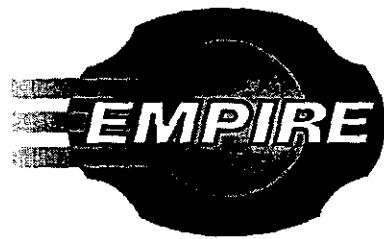
*customer
service.*



Since 1909, Empire District Electric Company has been committed to service... both for our customers and our communities.

As part of our commitment to customers, we provide the energy services needed to power your life and the convenient payment options you want.

Try the average monthly payment plan that can be automatically deducted from your bank account. Or, pay with a credit card by phone or online.



SERVICES YOU COUNT ON

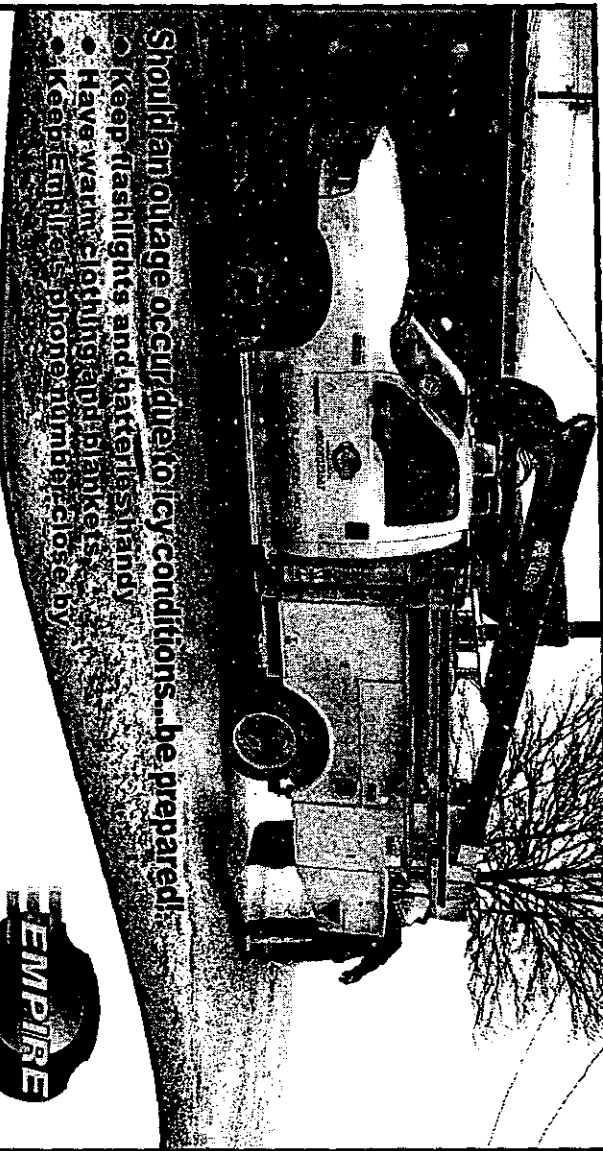
www.empiredistrict.com

1-800-206-2300



It's your choice!

At Empire-District, we're committed to service!



Should an outage occur due to icy conditions... be prepared!

- Keep flashlights and batteries handy
- Have warm clothing and blankets
- Keep Empire's phone number close by



SERVICES YOU COUNT ON

Empire District... committed to SERVICE!

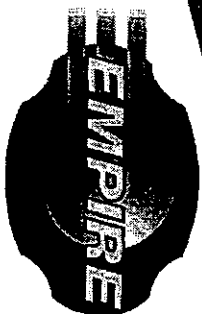
Ready to respond 24/7.

1-800-206-2300

As a customer, I expect electric service at my convenience, in sufficient quantity and reasonably priced. The service has always been available and I expect it to continue. My confidence is with Empire.

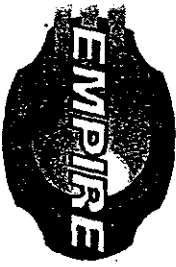
- M. Elise Crain
Ozark, Missouri

Service
Reliability



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Tree Planting Tips

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Fall Tree Planting

Late fall is the ideal time to plant trees. If you are planning to work on your landscaping, remember these tips.

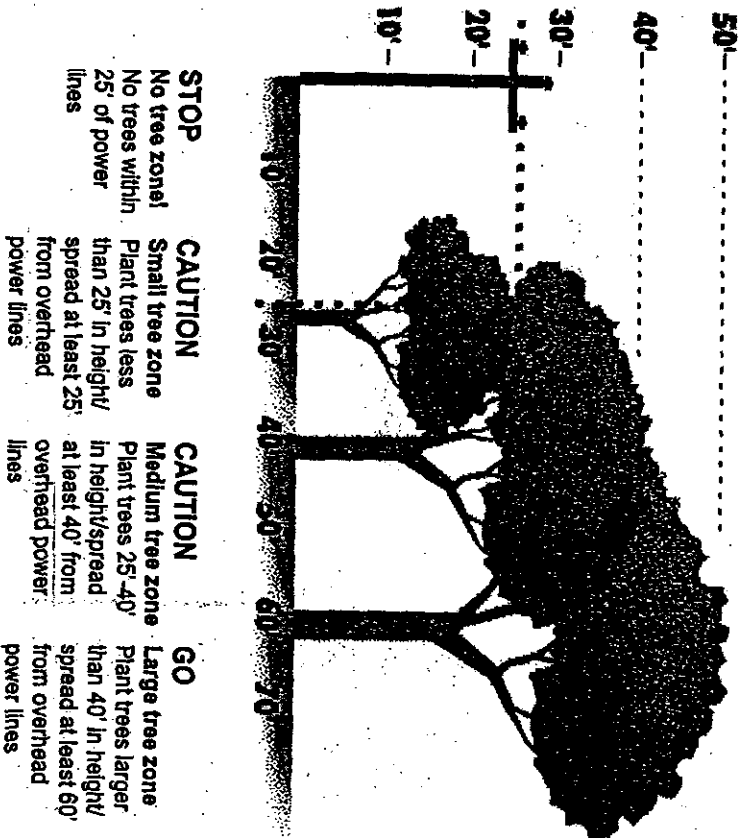
Planting trees for efficiency:

Deciduous trees (trees that shed their leaves in winter) are best planted on the west or southwest side of your home. There, they shade your home in summer, helping to cool it naturally. In the winter, the bare branches of these trees will let most of the sunshine through to warm your home.

Evergreen trees planted on the north and west of your home can help shield outside walls from winds in winter. This can help reduce your heating costs.

How trees affect electrical service:

Tree limbs can short-circuit your electricity when they rub against your power lines. This may cause your lights to flicker or your digital clocks to stop. The best way to make sure your trees never rub on your lines is to do some simple planning before you plant.



Choosing trees:

Plant small trees at least 25 feet away from power lines. Flowering trees including dogwood, redbud and crabapple; small fruit trees: cedar.

Medium-size trees should be kept at least 40 feet away from power lines. Sugar maple; Norway maple; English oak.

Large trees should be kept at least 60 feet away from power lines. Pine; pin oak; walnut; hickory; sweet gum; pecan.

Safety:

Before digging or planting, please locate your electrical service. If it's underground, call Empire at 800-206-0300.

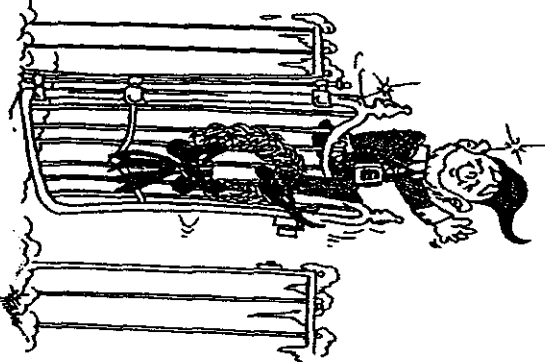
Cutting a power line can be deadly. Never trim tree limbs near power lines, call us first. Our linemen will be happy to come to your home to take down lines while you trim.

"Warm a heart, brighten a life... Become a Christmas Elf"

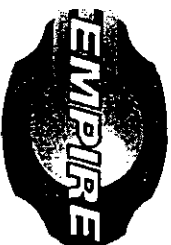
It's time, once again, for the Christmas Elves to swing into action. Empire District Electric Company and the Area Agencies on Aging are teaming up with volunteers from the area to brighten the Christmas holiday for hundreds of older adults who are living alone without family or friends to remember them at Christmas.

You can join in the fun. Beginning November 22, the names of seniors who are alone, along with a small wish list, will be available in local Empire offices or at the Vantage Point at 2701 S. Bird in Joplin. Simply select a name, fill part or all of the wish list, and return the wrapped gifts by December 10 for delivery by volunteers from the Area Agencies on Aging.

The wish lists are small and often contain requests for food (non-perishables only), gloves, stationery and stamps, etc. We do ask that you limit the size and weight of the boxes; large or heavy boxes are difficult for volunteers and recipients to handle.



Thanks to you, our Christmas Elves, the holidays will be a little brighter for some of our loneliest neighbors.



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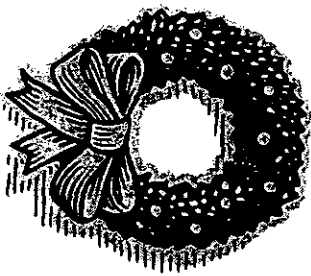
Deck the Halls, Safely

417-624-0300
800-206-2300

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Holiday decorating is a tradition that builds memories and gives pleasure to family and friends. To prevent electrical accidents from spoiling the fun, safety practices should always be observed when working with electric cords and decorations, both inside and out. The following tips can help keep the holidays safe:

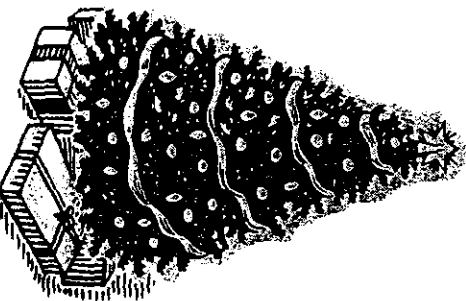
OUTDOOR DECORATING



- ☆ Check for overhead power lines when decorating outdoors.
- ☆ Use a dry, wooden ladder when working with electricity.
- ☆ Never use lights marked "for indoor use only" outside.
- ☆ Use only 3-wire grounded, UL-approved extension cords.
- ☆ Waterproof electrical connections by wrapping with electrical tape, and keep connections off the ground.
- ☆ Remember to always unplug all lights, indoors and outdoors, when away from home or sleeping.

INDOOR DECORATING

- ☆ Use only UL-approved lighting.
- ☆ Examine light cords for frayed wiring or wiring pulled from the sockets.
- ☆ Limit the number of light strings to three or less when using extension cords. This prevents overheating.
- ☆ Don't run extension cords under rugs.
- ☆ Keep light bulbs from touching branches of live trees and never use wire to fasten lights to branches.
- ☆ Never use lights on a metallic tree.
- ☆ Be sure all Christmas light sockets have bulbs. Empty or broken sockets present a risk of shock.
- ☆ Do not use flammable decorations on the tree.
- ☆ Keep trees away from fireplaces, radiators, TV sets, and other heat



Missouri Public Service Commission

Data Request

Data Request No. 0279
Company Name Empire District Electric Company, The-Investor(Electric)
Case/Tracking No. ER-2006-0315
Date Requested 5/18/2006
Issue Expense - Operations - Maintenance
Requested From Angela M Cloven
Requested By Dana Eaves
Brief Description Payments to Siemens Westinghouse for maintenance contract

Description Per the maintenance agreement with Siemens Westinghouse for the Energy Center 1, Energy Center 2 and State Line units: 1) When did Empire last make a payment to Siemens under this contract? Why haven't payments been made since that time? 2) When does Empire expect to resume payments to Siemens for maintenance activities under this contract? 3) What is the amount of Empire's projected payments, if any, to Siemens under this contract for calendar year 2006?

Due Date 6/5/2006

Response provided by: Tim Wilson –

Response

1. The last payment was made in December of 2004. The payment schedule was set up to cover major maintenance activities through 2009. The maintenance cycle is based on equivalent starts on each unit. Since the adoption of the OPSA in 2002, the involved units have been economically dispatched less than originally planned (due to such factors as new generation coming online, fuel costs, power purchases, etc.) The units being used less has meant less starts, which in-turn requires less major maintenance. As a new maintenance cycle was projected, the payments were adjusted to avoid a large true-up at the end of the contract. The major maintenance outage planned for State Line Unit 1 this year should reduce the OPSA balance to nearly zero, and no additional major maintenance is planned through 2009 at this time.
2. As of right now there are no major maintenance plans for these units through 2009. That being said, for the same reasons we've had less maintenance than expected (due to such factors as new generation coming online, fuel costs, power purchases, etc.) something could turn around (such things as unplanned outages on other units, fuel costs, etc) and cause us to run them more than expected resulting in the need for additional major maintenance and resuming payments.
3. As of right now there are no expected payments for 2006.

The attached information provided to Missouri Public Service Commission Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the Missouri Public Service Commission Staff if, during the pendency of Case No. ER-2006-0315 before the Commission, any matters are discovered which would

materially affect the accuracy or completeness of the attached information.

If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the Empire District Electric Company, The-Investor(Electric) office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies or data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control or within your knowledge. The pronoun "you" or "your" refers to Empire District Electric Company, The-Investor(Electric) and its employees, contractors, agents or others employed by or acting in its behalf.

Security	Public
Rationale	NA

With Proprietary and Highly Confidential Data Requests a Protective Order must be on file.

CASE PROCEEDING PARTICIPATION**"KOFI" A. BOATENG**

PARTICIPATION		
COMPANY	CASE NO.	FILING TYPE/ISSUES
Suburban Water and Sewer Company	WR-2005-0455	Staff Memorandum
Noel Water Company, Inc.	WR-2005-0452	Staff Memorandum
Aqua Missouri/CU Company, Inc.	QW-2005-0011	Staff Memorandum
Aqua Missouri/CU Company, Inc.	QS-2005-0010	Staff Memorandum
Aqua Missouri/RU Company	QW-2005-0009	Staff Memorandum
Aqua Missouri Development	QS-2005-0008	Staff Memorandum
Aquila, Inc., d/b/a Aquila Networks-L&P	HR-2005-0450	Testimony / Materials and Supplies, Prepayments, Customer Deposits, Customer Deposits Interests, Customer Advances, PSC Assessments, Rate Case Expense
Aquila, Inc., d/b/a Aquila Networks-MPS and Aquila Networks-L&P	ER-2005-0436	Testimony / Materials and Supplies, Prepayments, PSC Assessments, Rate Case Expense
Public Service Commission of the State of Missouri v. Cass County Telephone Company Limited Partnership	TC-2005-0357	Stipulation and Agreement
Southtown Utilities, Inc.	WA-2005-0268	Staff Memorandum
New Florence Telephone Company	TC-2006-184	Stipulation and Agreement