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Witness: Kelly S. Walters
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Sponsoring Party: Empire District Gas Co.
Case No.
Date Testimony Prepared: June 2009

**Before the Public Service Commission
of the State of Missouri**

**Direct Testimony
of
Kelly S. Walters**

June 2009

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OF
KELLY S. WALTERS
THE EMPIRE DISTRICT GAS COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION

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DIRECT TESTIMONY
OF
KELLY S. WALTERS
THE EMPIRE DISTRICT GAS COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO.

1 **INTRODUCTION**

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

3 A. My name is Kelly S. Walters and my business address is 602 South Joplin Avenue,
4 Joplin, Missouri.

5 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS MATTER?**

6 A. I am appearing on behalf of The Empire District Gas Company (“EDG”). EDG is a
7 wholly owned subsidiary of The Empire District Electric Co. (“Empire” or “the
8 Company”) that was formed to hold the Missouri Gas assets acquired from Aquila,
9 Inc. on June 1, 2006.

10 **POSITION**

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

12 A. I am presently employed by Empire as Vice President-Regulatory and Services. I
13 have held this position since May, 2006.

14 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND**
15 **PROFESSIONAL EXPERIENCE.**

16 A. I graduated from Pittsburg State University in December 1986 with a Bachelor of
17 Science degree in Business Administration with a major in accounting. In October
18 2001, I received a Master of Arts degree in Human Resource Management from

1 Webster University. I began my employment at Empire in November 1988 in the
2 accounting department and held various positions within the accounting department
3 until July 1993 when I became Manager of Regulatory Accounting.

4 I left Empire in 1998 to assume the position of Manager of Financial Services at
5 Crowder College. In September 2001, I rejoined Empire as Director of Planning and
6 Regulatory. In this position I had responsibility for load research, strategic planning,
7 rates, and regulatory accounting. In April 2005, I was promoted to General Manager
8 of Regulatory and General Services and held this position at Empire until I took my
9 present position in May 2006.

10 **Q. HAVE YOU PREVIOUSLY PARTICIPATED IN ANY REGULATORY**
11 **PROCEEDINGS?**

12 A. Yes, I have. I have testified before regulatory commissions in the states of Missouri,
13 Kansas, Oklahoma and Arkansas.

14 **PURPOSE**

15 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

16 A. My testimony will provide overview of the rate case, including the primary factors
17 driving the need for an increase in rates and an introduction of the other EDG
18 witnesses.

19 **Q. WHAT TEST YEAR DID EDG USE IN DETERMINING RATE BASE,**
20 **OPERATING INCOME AND RATE OF RETURN?**

21 A. The test year used in EDG's rate case is based upon the twelve months ending
22 December 31, 2008, adjusted for known and measurable changes.

23 **Q. PLEASE DESCRIBE THE RATE INCREASE EDG IS REQUESTING.**

1 A. EDG is requesting an increase of \$2.9 million in Missouri jurisdictional revenue, or
2 an increase of 4.87 percent over current rates, including the delivered cost of
3 natural gas (transportation and commodity). This increase is based on an overall
4 rate of return of 8.98 percent and a return on equity of 11.3 percent. The factors
5 driving the need for a rate increase are the recovery of costs associated with
6 operating and maintaining the 1200-mile gas distribution system and the continued
7 decline in the delivery of natural gas on the system, which is caused in part by a
8 continuation of the decline per capita natural gas consumption and the contraction
9 in the number of customers taking service from the system. The existing rate
10 design is dependent upon the volume of natural gas delivered. Under this rate
11 design, a decline in throughput levels leads to a decline in the recovery of fixed
12 costs and a decline in the realized rate of return. Empire is proposing a change in
13 this rate design as part of this rate case (see EDG's witness Overcast's testimony).
14 Our rate design proposal will move towards a decoupling of cost recovery and
15 return from the volume of natural gas delivered on the system.

16 **Q. AS PART OF THIS RATE CASE IS EDG PROPOSING TO ADD SEVERAL**
17 **NEW ENERGY EFFICIENCY PROGRAMS?**

18 A. Yes. EDG witness Sherrill McCormack will outline these programs in her direct
19 testimony. EDG considers its proposed energy efficiency programs to be directly
20 linked with the rate design proposals (decoupling) being supported by Dr.
21 Overcast.

22 **Q. WHAT HAS BEEN THE TREND IN SYSTEM VOLUMES OVER THE**
23 **LAST SEVERAL YEARS?**

1 A. Overall system gas deliveries have been on a downward trend. The overall system
2 deliveries have declined since 2000, with the gas volume on the North/South
3 system dropping from slightly over 10 million Mcf per year in 2000 to around 8
4 million Mcf in 2008, a decline of around 21 percent. A similar pattern of decline
5 has taken place on the Northwest system, with gas deliveries declining from
6 slightly over 1.2 million Mcf in 2000 to slightly over 1 million Mcf in 2008, or
7 around a 20 percent decrease.

8 **Q. HOW DO THE CURRENT LEVEL OF GAS DELIVERIES COMPARE TO**
9 **THE DELIVERY VOLUME USED IN THE LAST RATE CASE**
10 **INVOLVING THESE PROPERTIES, Case No. GR-2004-0072?**

11 A. The current gas volumes are lower than those used in the last rate case. The rate
12 design workpapers in the last case included normalized annual gas deliveries of
13 8,295,315 Mcf for the North/South system and 1,055,386 Mcf for the Northwest
14 system. Since the last rate case, the delivery levels have declined around 4 percent
15 on the North/South system and 3.5 percent on the Northwest system. The decline
16 in gas deliveries has also contributed to a shortfall in cost recovery and an
17 inadequate return on the gas system investment.

18 **Q. PLEASE DESCRIBE THE DECLINE IN PER CAPITA CONSUMPTION**
19 **THAT HAS TAKEN PLACE ON THE SYSTEM.**

20 A. The average annual gas usage per customer ("UPC") for the residential class is
21 expected to be 69.8 Mcf on the South system, 80.3 Mcf on the North system and
22 78.1 Mcf on the Northwest system, with the bulk of residential customer
23 consumption, around 80 percent, occurring during the winter heating season,

1 November through March. The trend in lower residential UPC has been ongoing in
2 the natural gas distribution industry for many years, and the decline of residential
3 UPC on our gas system coincides with that being experienced by the industry.

4 **Q. HOW DOES EDG'S UPC COMPARE TO THE INDUSTRY UPC?**

5 A. EDG's UPC essentially mirrors the statistics compiled by the Energy Information
6 Administration ("EIA") in a report dated August of 2007. For example, EIA
7 reported that annual UPC for the residential class had declined to slightly over 75
8 Mcf by the calendar year ended 2005. The annual decline in UPC for the
9 residential class compiled by EIA has been very steady since 1996.

10 **Q. PLEASE DESCRIBE THE TREND IN THE NUMBER OF CUSTOMERS**
11 **SERVED BY THE NATURAL GAS DELIVERY SYSTEM(S) SINCE THEIR**
12 **ACQUISITION BY EMPIRE.**

13 A. The number of customers taking gas service from the systems has steadily declined
14 since we acquired the property on June 1, 2006. The trend of the contraction is
15 displayed in the following table:

System	12-31-06	12-31-07	12-31-08
South	31,154	30,465	29,987
North	10,157	9,918	9,799
Northwest	5,894	5,780	5,688
Total	47,205	46,163	45,474

16 As indicated, the customers taking natural gas service have declined by 1.49
17 percent during the test year, calendar year 2008..

18 **WITNESSES**

19 **Q. WHO ARE THE OTHER WITNESSES PRESENTING TESTIMONY ON**
20 **EDG'S BEHALF IN THIS RATE CASE?**

1 A. The following witnesses will be presenting direct testimony on behalf of EDG in
2 this rate case:

- 3 • William Gipson-Policy
- 4 • Jayna Long-Supporting Accounting Schedules and overall revenue requirement
- 5 • Kelly Emanuel-Cash Working Capital and tariff changes not related to rate base
- 6 • Aaron Doll-Weather Normalization
- 7 • Edwin Overcast-Class Cost of Service and Rate Design
- 8 • James Vander Weide-Cost of Capital
- 9 • Laurie Delano-Supporting Schedules for Pension and Post Retirement Benefits
- 10 • Rob Sager-Capital Structure and Stock Issuance Cost
- 11 • Sherry McCormack-DSM and Low-Income Programs
- 12 • Thomas Sullivan-Depreciation
- 13 • Steve Teter-Right of Way


14 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

15 A. Yes.

AFFIDAVIT OF KELLY S. WALTERS

STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 4th day of June, 2009, before me appeared Kelly S. Walters, to me personally known, who, being by me first duly sworn, states that she is the Vice President -- Regulatory and Services of The Empire District Electric Company and acknowledged that she has read the above and foregoing document and believes that the statements therein are true and correct to the best of her information, knowledge and belief.



Kelly S. Walters

Subscribed and sworn to before me this 4th day of June, 2009.



Notary Public

My commission expires: Nov. 16, 2010

