

Exhibit No.:

*Issue: Revenues; Property Taxes;
Property Insurance;
Allocations; Emission Credit
Allowance*

Witness: Roy M. Boltz, Jr.

Sponsoring Party: MoPSC Staff

Type of Exhibit: Direct Testimony

Case No.: ER-2001-299

Date Testimony Prepared: April 3, 2001

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

ROY M. BOLTZ, JR.

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2001-299

*Jefferson City, Missouri
April 2001*

Exhibit No. 39

Date 5/29/01 Case No. ER-2001-299

Reporter KRM

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ROY M. BOLTZ, JR.
THE EMPIRE DISTRICT ELECTRIC COMPANY
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1 A. I am responsible for the areas of revenues, property taxes, property
2 insurance, emissions credit allowances and the jurisdictional allocations of administrative
3 and general expense (A & G Expense).

4 **Jurisdictional Allocation Factors**

5 Q. What jurisdictional allocation factors were used in this case?

6 A. The allocation factors, other than A & G expense allocators, utilized by
7 the Staff for purposes of this case have been developed by Staff witness Alan Bax of the
8 Engineering Section of the Commission's Energy Department, and are sponsored in the
9 direct testimony of Staff witness Dr. Eve Lissik. I have divided A & G expense into two
10 areas for the purpose of developing jurisdictional allocation factors. Costs such as the
11 Missouri regulatory costs and Missouri specific research and development costs should
12 be charged directly to Missouri A & G expense without allocation. All other costs
13 charged to A & G Expense are then allocated to the Missouri jurisdiction utilizing a
14 factor which is the composite of the total of all other operating and maintenance expenses
15 allocated to Missouri.

16 Q. Why is it necessary to allocate costs in this case?

17 A. Since Empire operates in several states, provides wholesale power to
18 several municipalities and engages in unregulated operations, an allocation process is
19 developed to identify costs to specific state jurisdictions, the Federal Energy Regulatory
20 Commission jurisdiction and unregulated operations.

21 Q. What Income Statement adjustments are you sponsoring?

22 A. I am sponsoring the following adjustments: S-1.1, S-1.2, S-1.3, S-1.4,
23 S-1.5, S-83.1, S-95.4 and S-95.5.

Revenues

Q. Please explain adjustment S-1.1.

A. Adjustment S-1.1 annualizes revenues to reflect customer growth for residential service, commercial service, small heating service, total electric buildings and general power service during the test year. The customer growth adjustment annualizes revenues to reflect the revenues that would have been received had the test year-end level of customers been served by the Company for the entire test year. The average number of customers in each month of the test year was adjusted to the December 31, 2000 level. The differences between the December 31, 2000 level of customers and the average number of customers actually billed in each month were multiplied by the average adjusted kilowatt-hours (KWH) per customer in that month. The change in KWH each month was multiplied by the average adjusted cost per KWH each month to obtain the revenue adjustment. Refer to Schedule 2 of the Direct Testimony of Staff witness Janice Pyatte of the Tariff/Rate Design Section of the Electric Department regarding the customer growth adjustments by rate classes.

Q. As for adjustment S-1.1, do the Staff's test year monthly customer levels reflect any customer movement between rate classes that took place during the test year?

A. Yes.

Q. Please explain adjustment S-1.3.

A. Adjustment S-1.3 adjusts revenues for the normalization of weather and reflects the number of billing days within the test year. Staff witness Pyatte determined the quantification of this adjustment. Please refer to Ms. Pyatte's direct testimony for an explanation of this adjustment.

1 Q. Please explain adjustment S-1.2.

2 A. This adjustment reflects the loss in load of ICI Explosives, a large electric
3 customer, that occurred during the test year. ICI Explosives was on a Special Contract
4 rate through May of 2000 and switched to a Large Power rate for the rest of the test year.
5 Staff witness Pyatte determined the quantification of this adjustment. Please refer to
6 Ms. Pyatte's direct testimony for an explanation of this adjustment.

7 Q. Please explain adjustment S-1.4.

8 A. Adjustment S-1.4 annualizes interruptible credits and excess facilities
9 charges. Ms. Pyatte determined the quantification of this adjustment. Please refer to
10 Ms. Pyatte's direct testimony for an explanation of this adjustment.

11 Q. Please explain adjustments S-1.5 and S-95.4.

12 A. Adjustment S-1.5 eliminates Missouri municipal franchise taxes recorded
13 on the Company's books during the test year as revenues. The Staff's annualized and
14 normalized revenues are based on tariffs that do not include municipal franchise taxes.
15 To be consistent with the tariffs, the Staff also eliminated, in adjustment S-95.4, test year
16 Missouri municipal franchise taxes recorded as expense on the Company's books in
17 Taxes Other Than Income Taxes. The Company collects the franchise taxes from its
18 customers and then pays these amounts to the various municipalities. The net effect of
19 this collection and remittance is zero, on the Company's income statement.

20 **Property and Liability Insurance**

21 Q. Please explain adjustment S-83.1.

22 A. Adjustment S-83.1 adjusts property and liability insurance to reflect the
23 most recent paid policy premiums.

1 **Property Taxes**

2 Q. Please explain adjustment S- 95.5.

3 A. Adjustment S-95.5 annualizes property tax expense. This adjustment was
4 calculated by developing a property tax rate to be applied to total electric plant in service
5 as of December 31, 2000. The property tax rate was developed by dividing the amount
6 of total company electric property taxes paid in 2000 by the total electric property as of
7 January 1, 2000. This property tax rate was then applied to total electric plant in service
8 at December 31, 2000 to arrive at annualized property taxes. From this amount, the
9 amount of property taxes charged to construction (capitalized) was deducted to arrive at
10 annualized property tax expense. The annualized property tax expense was then
11 subtracted from test year property tax expense to arrive at the adjustment.

12 **Sale Of Emission Credits**

13 Q. Is there any other item you would like to comment on?

14 A. Yes. The Staff has included in its Income Statement under the category of
15 Revenues a line item that reflects a gain on sale of emission credits. The Clean Air Act
16 Amendments (CAA) of 1990 capped the total tons of sulfur dioxide emissions at
17 8.9 million tons annually in the United States. In order for a new facility to have
18 allowances to emit sulfur dioxide, they must be purchased from a party that has
19 allowances available for sale. The auction system implemented under the CAA allows
20 the Environmental Protection Agency (EPA) to hold a percentage of each company's
21 allowances and to offer those to the highest bidder at an auction each year. The proceeds
22 from the auction are then returned to the companies on a pro rata basis. The Staff has
23 included this gain on the sale of Empire's emission credits as revenue.

Direct Testimony of
Roy M. Boltz, Jr.

1 Q. Does this conclude your direct testimony?

2 A. Yes, it does.

RATE CASE PROCEEDING PARTICIPATION

ROY M. BOLTZ, JR.

<u>COMPANY</u>	<u>CASE NO.</u>
Arkansas Power & Light	ER-81-364
Associated Natural Gas Company	GR-90-152
Bowling Green Gas	GR-82-104
Capital City Water Company	WR-94-297
Capital City Telephone	TC-78-145
Central Telephone Company	18,698
Central Telephone Company	TR-78-258
Empire District Electric Company	ER-79-19
Empire District Electric Company	ER-80-143
Empire District Electric Company	ER-81-209
Empire District Electric Company	ER-83-42
Empire District Electric Company	ER-94-174
Empire District Electric Company	ER-97-81
Gas Service Company	GR-78-70
General Telephone Company	TR-81-47
Grand River Mutual Telephone Company	TR-87-25
Great River Gas Company	GR-79-145
Great River Gas Company	GR-83-363
Laclede Gas Company	GR-83-233
Missouri-American Water Company	WR-95-205
Missouri-American Water Company	SR-95-206

<u>COMPANY</u>	<u>CASE NO.</u>
Missouri Edison Company	GR-82-197
Missouri Edison Company	ER-82-198
Missouri Gas Energy	GR-96-285
Missouri Utilities Company	GR-79-270
Missouri Utilities Company	ER-80-215
Ozark Telephone Company	TT-2001-117
	TC-2001-402
Saline Sewer Company	SR-82-262
Sho-Me Power Corporation	18,654
Sho-Me Power Corporation	ER-80-83
Sho-Me Power Corporation	ER-83-80
Steelville Telephone Exchange	TR-96-123
Union Electric Company	18,314
Union Electric Company	ER-84-168
United Cities Gas Company	GR-91-249
United Telephone Company	TC-78-146
GTE North Incorporated	TR-89-182
St. Joseph Light & Power Company	EC-92-214
St. Joseph Light & Power	ER-93-41
St. Joseph Light & Power	GR-93-42
United Water Missouri, Inc.	WR-99-326
Western Resources, Inc. D/b/a Gas Service	GR-93-240