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Missouri Public
Service Commission

Exhibit No.:

Issue:

Storm Damage Tracker

Witness:

Paul R. Harrison

Sponsoring Party:

MoPSC Staff

Type of Exhibit:

Surrebuttal Testimony

Case No.:

ER-2006-0315

Date Testimony Prepared:

July 28, 2006

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

PAUL R. HARRISON

EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2006-0315

Jefferson City, Missouri
July 2006

STAFF Exhibit No. 43
Case No(s) ER-2006-0315
Date 9-05-06 Rpt PF

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

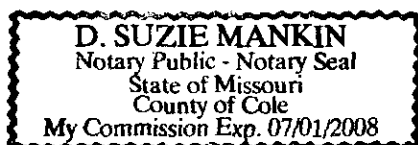
AFFIDAVIT OF PAUL R. HARRISON

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Paul R. Harrison, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 5 pages to be presented in the above case; that the answers in the foregoing Rebuttal 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.

Paul R. Harrison
Paul R. Harrison

Subscribed and sworn to before me this 27th day of July 2006.



Suzie Mankin

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1 captured and booked as a regulatory asset or liability. If the actual storm damage expenses
2 during a calendar year are more than the expenses included in rates, Empire will record the
3 difference as a regulatory asset. If the actual storm damage expenses are less than the expense
4 levels included in rates, the difference will be recorded as a regulatory liability. The resulting
5 net regulatory asset or liability will be included in the calculation of rate base and the balance
6 amortized to expense in Empire's next rate case.

7 Q. How have Empire's storm damage expenses normally been treated in previous
8 rate cases?

9 A. In previous cases, a normalized level of storm damage expenses has been
10 included in Empire's cost of service for the purpose of setting rates.

11 Q. What amount of storm damage expense did Empire include in this case?

12 A. Per the Company's response to Staff Data Request (DR) No. 0065.1, Empire
13 has booked \$173,598 for non-labor maintenance storm damage costs during the test year (the
14 12 months ended December 31, 2005). In comparison, Empire's historical average over the
15 past nine years for storm damages has been approximately \$171,915.

16 Q. How are storm damage costs currently booked by Empire?

17 A. In order to isolate and identify its storm damage expenses, in January of 2004
18 Empire started booking all of its transmission and distribution storm damage expenses in just
19 one account, Uniform System of Accounts No. 593.560 (Storm Damage). In addition, Empire
20 records its construction and retirement-related storm damage costs by work orders and these
21 costs are then closed out and included in plant in service and depreciation reserve. No party
22 to this proceeding, including the Staff, has proposed to disallow any of these test year costs

1 from rates. Therefore, test year storm damage costs booked to plant, depreciation reserve and
2 maintenance expense will presumably be included in the cost of service for this case.

3 Q. What is the Staff's position on the storm tracker proposal?

4 A. The Staff opposes establishment of a storm damage tracking mechanism for
5 Empire for a number of reasons.

6 First, the Staff believes that the establishment of a storm tracker would relieve Empire
7 of the entire financial risk associated with storm damage and inappropriately place it upon the
8 ratepayer. Empire's proposal would work exactly like an Accounting Authority Order
9 (AAO), except Empire would have automatic pre-approval to book all of its storm damage as
10 a regulatory asset/liability and include the deferred amount in the calculation of the cost of
11 service for the next rate case. This tracker would guarantee Empire complete recovery of any
12 storm damage costs in its next rate case.

13 In addition, the Company has insurance that reimburses it for any major or,
14 catastrophic storm damage to its substations and its transmission feeders, thus reducing any
15 need for a storm damage tracker mechanism. At least equally important is the fact that
16 automatic and guaranteed recovery of the storm damage tracker mechanism from Empire's
17 customers in rates would reduce the incentive for the Company to seek partial or complete
18 recovery of the storm damage costs from the Company's insurers, prior to seeking recovery
19 from its captive customers.

20 Q. What are the other reasons that the Staff is opposed to the rate recovery of
21 Empire's proposed storm damage tracking mechanism?

22 A. The information provided by Empire on this issue has not shown that
23 traditional ratemaking approaches are inadequate to handle its storm damage costs. During

1 the Staff's field work in this case, the Staff submitted Data Request No. 0065.1, which asked
2 Empire to provide a ten-year history of the storms that had passed through Empire's service
3 territory and the amount of storm damage costs that had been incurred. This data indicates
4 that, historically, Empire averages approximately \$171,915 in storm damage costs charged to
5 the Missouri jurisdiction. Also, during this period, there were several years that Empire's
6 transmission and distribution systems did not receive any significant storm damage. In most
7 years Empire's storm damage costs are not substantial enough to justify consideration of
8 extraordinary rate measures such as trackers.

9 Furthermore, since the storm damage tracking mechanism is intended to be used as a
10 true-up or tracking mechanism, and current customers are required either to pay for the cost of
11 service not recovered from past customers or to be reimbursed for past over-payments in rates
12 (e.g., past rates were set too low or too high for storm damage costs), my legal counsel has
13 informed me that Empire's proposal could constitute single-issue and retroactive ratemaking.

14 Finally, it has been a longstanding practice of this Commission to permit utility
15 companies to request recovery of major or catastrophic storms damages through the use of an
16 AAO. If such an event occurs, and its costs are determined to be extraordinary, the Staff
17 concurs that an AAO deferral of costs for possible future recovery should be permitted for
18 Empire in order to provide the utility with the incentive to do what is necessary to help
19 prevent disruption of, or restore, safe and adequate service. The traditional parameters for the
20 request of an AAO would still apply, which is that the costs must be determined to be
21 extraordinary per the criteria set out in previous AAOs authorized by the Commission, and
22 that ratemaking determinations for the deferred costs will be postponed until the Company
23 files its next rate case.

1 Q. How does the Staff recommend that Empire treat any storm damage costs it
2 may incur in the future?

3 A. The Staff believes that traditional ratemaking approaches continue to be
4 adequate and appropriate to allow recovery of Empire's storm damage expenses. Empire
5 should be prepared to demonstrate that it has maximized recovery from third party insurers
6 for storm damage costs before seeking recovery from customers. In addition, if Empire's
7 storm damage costs meet the Commission's requirements for AAOs, Empire is free to seek a
8 Commission AAO for very large and extraordinary storm damage costs.

9 Q. Does this conclude your rebuttal testimony?

10 A. Yes, it does.