Exhibit No. 45

Empire District Electric Company – Exhibit 45
Testimony of John Reed
Rebuttal
File No. ER-2024-0261

Exhibit No.: _____
Issue(s): FAC Recovery, Customer First Disallowance
Witness: John J. Reed
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Sponsoring Party: The Empire District Electric Company d/b/a Liberty
Case No.: ER-2024-0261
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Before the Public Service Commission
of the State of Missouri

Rebuttal Testimony

of

John J. Reed

on behalf of

The Empire District Electric Company d/b/a Liberty

August 18, 2025

Liberty™

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THE EMPIRE DISTRICT ELECTRIC COMPANY D/B/A LIBERTY
BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
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I. INTRODUCTION

Q Please state your name and business address.

A. My name is John J. Reed. My business address is 293 Boston Post Road West, Suite 500, Marlborough, Massachusetts 01752.

Q. On whose behalf are you testifying in this proceeding?

A. I am testifying on behalf of The Empire District Electric Company d/b/a Liberty ("Liberty" or the "Company").

Q. Did you submit direct testimony in this proceeding before the Missouri Public Service Commission ("Commission")?

A. Yes, I did. The purpose of my direct testimony was to recommend the Commission discontinue the sharing mechanism in the Company's currently authorized Fuel Adjustment Clause ("FAC") mechanism. In support of this recommendation, I addressed the issue of the incentives embedded within the FAC rate schedules.

My direct testimony concluded that the continuation of the FAC sharing provision is inconsistent with good regulatory policy and practice. I also recommended that certain transmission expenses be excluded from the FAC sharing mechanism.

II. PURPOSE OF REBUTTAL TESTIMONY

Q. What is the purpose of your rebuttal testimony in this proceeding?

A. The purpose of my rebuttal testimony is twofold: I will respond to the direct testimony of Ms. Lena M. Mantle on behalf of the Office of Public Counsel ("OPC") concerning issues around the Company's FAC. I address Ms. Mantle's recommendation to either eliminate the FAC or expand the FAC sharing mechanism, and I reaffirm my recommendation that the Commission maintain the FAC but eliminate the 95/5 sharing provision from Liberty's FAC.

Second, I will respond to Commission Staff ("Staff") witness Ms. Brooke Mastrogiannis on the inclusion of transmission expenses within the FAC.

Third, I will respond to Staff witnesses Mr. James Busch, Mr. Matthew Young, Mr. Charles Thomason, and Ms. Melanie Marek, as well as OPC witness Dr. Geoff Marke with respect to their proposed disallowances and penalties regarding the Company's Customer First system.

III. RESPONSE TO OPC WITNESS LENA MANTLE — FAC SHARING

Q. Ms. Mantle recommends that the Commission either eliminate Liberty's FAC or increase the sharing ratio to 50/50. Do you agree with either recommendation?

A. No. Both recommendations are inconsistent with sound regulatory policy and would undermine the fundamental purpose of the FAC. The FAC exists to allow timely recovery of large, volatile, and largely uncontrollable costs; namely, fuel and purchased power. Imposing a 50/50 sharing mechanism or eliminating the FAC altogether would expose the utility to unrecoverable costs that are not within its control, thereby distorting incentives and increasing financial risk without corresponding benefits to customers.

Q. Ms. Mantle argues that Liberty's management decisions, such as resource planning, maintenance scheduling, and participation in the SPP, have increased customer risk and justify greater cost sharing. How do you respond?

A. Ms. Mantle conflates long-term resource planning decisions with the short-term cost volatility the FAC is designed to address. The prudence of Liberty's resource planning is reviewed in base rate cases and certificate proceedings. The FAC, by contrast, is a mechanism for reconciling actual fuel and purchased power costs with those embedded in base rates. It is not a tool for retroactively penalizing or rewarding resource planning decisions, nor is it a tool to be used for penalizing management decisions around issues separate and apart from generation resourcing. Moreover, Liberty's participation in the SPP and its reliance on market-based dispatch are industry-standard practices that enhance regional reliability and economic efficiency. If Ms. Mantle is unhappy with Liberty's membership in SPP, attempting to address this through future FAC cases is not the forum to challenge that arrangement. Forcing a change of that magnitude would have massive impacts on Liberty's customers and there is no record in this case to support such a change.

Q. Ms. Mantle claims that the FAC allows Liberty to shift all risk to customers. Is this accurate?

A. No. The FAC does not eliminate regulatory oversight or accountability. Liberty remains subject to periodic prudence reviews by the Commission, which can disallow recovery of imprudent costs. The FAC simply ensures that customers pay for the actual cost of energy used to serve them, rather than outdated estimates embedded in base rates. This alignment of cost and recovery is a cornerstone of just and reasonable ratemaking.

Q. What are your conclusions regarding OPC's FAC sharing proposal?

A. In my view, Ms. Mantle's recommendation is punitive rather than grounded in sound regulatory theory or principle. A sharing provision of 95/5, let alone one set at 50/50, is counter to the goals of regulatory efficiency and limits a utility's opportunity to earn a fair return and creates a significant potential disconnect between the utility's costs and the customer's rates. As I outlined in my direct testimony, the underlying energy costs and revenues in the FAC are volatile, unpredictable and largely beyond the utility's control. The sharing provision at least partially divorces rates from costs and can materially affect the utility's opportunity to earn a fair return on equity, and places undue and unneeded importance on the estimate of fuel and purchase power costs included in base rates. Ms. Mantle's proposal appears to be a reaction to what in her view are incorrect resource planning decisions, although she does not detail which decisions she disagrees with in particular, only that actual fuel and purchased power expenses have not perfectly matched base rate fuel and purchased power expenses. Her proposal is therefore an application of punitive hindsight rather than sound regulatory and ratemaking principles.

Q. Is it common in other jurisdictions to not provide full cost recovery of prudently incurred fuel expenses?

A. No, this is quite uncommon. Nearly all traditionally regulated states in the United States have some form of energy cost recovery mechanism, and fuel and purchased power costs are traditionally considered "pass through" costs in utility ratemaking as these costs are large, volatile, and largely beyond the control of the utility. Specifically, the Company operates in three other retail jurisdictions and has a FERC approved generation tariff, each of which provides full cost recovery of prudently incurred fuel expenses.

IV. RESPONSE TO STAFF — TRANSMISSION EXPENSE IN THE FAC

Q. Staff recommends continuing to include only certain transmission costs in the FAC, which they also propose to be subject to a sharing mechanism. Do you agree with this recommendation?

A. I do not. Transmission costs are FERC-approved, essential to maintaining a reliable and resilient grid, and largely outside the Company's control. It is appropriate to include these costs in the FAC, but they should not be subject to a sharing mechanism. As I noted in my direct testimony, subjecting these costs to sharing is effectively a partial disallowance of a federally approved rate. These costs support regional reliability and access to lower-cost energy, and excluding full recovery undermines the regulatory framework designed to ensure utilities can meet their obligation to serve customers safely and efficiently.

Q. Staff argues that transmission costs related to purchased power and off-system sales should be included in the FAC, which they propose to be subject to a sharing mechanism. Do you agree?

A. No. The inclusion of transmission costs in an FAC subject to a sharing mechanism may have made sense in a pre-organized market environment, where utilities had more discretion over bilateral transactions and dispatch. However, in the current SPP market structure, transmission costs are regionally allocated and governed by FERC-approved tariffs. Liberty does not control the timing, scope, or cost allocation of these investments. As such, a mechanism that subjects them to a partial disallowance via a sharing provision is inappropriate.

Q. What is your recommendation regarding transmission costs and an FAC subject to a sharing mechanism?

A. I recommend that all transmission costs be included in the FAC, but not subject to a sharing mechanism. These costs are FERC-approved, essential to maintaining grid reliability, and largely outside the Company's control. Subjecting them to sharing would unfairly penalize Liberty for necessary expenses. Customers are already protected through regulatory oversight and prudence reviews, which ensure only reasonable justified costs are recovered.

V. RESPONSE TO STAFF AND OPC WITNESSES — CUSTOMER FIRST DISALLOWANCE

Q. What is the Company's Customer First initiative?

A. I understand that Customer First is a corporate-wide initiative to drive efficiency and prepare Liberty to meet the current and future needs of its stakeholders through the consolidation of various information technology systems onto one platform. It is a standard SAP-based platform of information technology systems that run and integrate all aspects of the Company's business and is used by many top performing utilities around the world. Company witnesses Timothy Wilson and Amy Walt further describe the initiative in their rebuttal testimony.

Q. What is your understanding of the Customer First implementation issues as they relate to customer billing?

A. The new system was intended to improve efficiency, streamline billing, and enhance customer experience by consolidating multiple legacy systems into one modern infrastructure. Despite its goals, the Customer First rollout has led to billing and customer service problems for a portion of Liberty's customers, including delayed and inaccurate bills, payment processing errors, and customer service disruption.

Q. What is your initial response to these issues?

A. I recognize the frustration that customers and the Commission are feeling with regard to Liberty's performance on its billing system implementation. This is not the performance that impacted customers should expect in Missouri, and I understand that the confusion, errors, and delays resulting from the Customer First rollout are inappropriate and need to be rectified.

Q. What do Staff and OPC witnesses recommend in response to these issues?

A. Staff and OPC witnesses have proposed several very substantial and ongoing financial consequences for these shortcomings, including a reduction in Return on Equity ("ROE"), disallowances in rate base, and disallowances in operations and maintenance ("O&M") expenses. I will detail my understanding of these recommendations here.

Mr. Thomason posits a disallowance of Customer First-related costs, and argues that "[t]he principle of just and reasonable rates does not support full cost recovery for a system that has been and still is unreliable, not fully useful, and has negatively impacted other aspects of the cost of service calculation. For these reasons, Staff is recommending a disallowance for Customer First, as described more fully in the direct testimonies of Staff witnesses James A. Busch, Matthew Young and Melanie Marek."[1]

Mr. Busch recommends a 100 basis point reduction in ROE for Liberty's entire rate base. Mr. Busch proposes a "recommendation that the Commission reduce what would have normally been its authorized revenue requirement by an amount that would

[1] Case No. ER-2024-0261, Direct Testimony of Charles Tyrone Thomason, at p. 72.

be equivalent to a reduction in ROE by 100 basis points."[2] He further breaks down the 100 basis point reduction as a 50 basis point reduction due to the inability to maintain safe, adequate, and reliable service, a 25 basis point reduction due to the inability to bill its customers a just and reasonable rate, and a 25 basis point reduction due to Customer First's lack of being used and useful.[3] To be clear, this reduced 100 basis point reduction in authorized return is not directed only at Liberty's investment in the Customer First system, which is approximately 6%[4] of Liberty's rate base, or the CIS portion of the Customer First system, which is approximately 2.5% of Liberty's rate base,[5] rather is proposed to apply to the ***entirety*** of Liberty's generation, transmission, distribution plant and all other rate base components. Mr. Busch further recommends that his proposed ROE disallowance be applied entirely to the residential class when allocating revenue responsibility for any increases authorized in this case.[6] In addition, this reduced return would continue to apply until new base rates were established for Liberty, which likely would be for multiple years. As shown below in Table 2, this could possibly result in a $53.2 million reduction in Liberty's earnings over an assumed three-year rate life.

Mr. Young recommends a reduction to plant-in-service by $60 million and accumulated depreciation reserve by $1 million, as well as an offset to the ongoing amortization expense to reflect the removal of CIS as well as the September 30, 2024, book balance of ADIT driven by the CIS.[7] This roughly $60 million rate base disallowance would amount to nearly $10 million per year in reduced revenues and

[2] Case No. ER-2024-0261, Direct Testimony of James A. Busch, at p. 2.
[3] Case No. ER-2024-0261, Direct Testimony of James A. Busch, at pp. 10-11.
[4] $149M/$2.414B = 6%
[5] $60M/$2.414B=2.5%
[6] Case No. ER-2024-0261, Direct Testimony of James A. Busch, filed July 21, 2025, at p. 3.
[7] Case No. ER-2024-0261, Direct Testimony of Matthew R. Young, at pp. 18-19.

would remain in effect until Liberty's base rates are reset, i.e., potentially for multiple years.

Ms. Melanie Marek provides testimony regarding a disallowance of executive compensation regarding incentives related to customer billing. She states, "[i]n regards to the Customer First implementation, Staff recommends disallowance because a benefit to the ratepayers has not yet been fully realized from the Customer First program. Staff's position is the incentive payments made for the successful implementation of the Customer First Program are not currently relevant to Empire's operations."[8]

OPC witness Dr. Geoff Marke recommends the Commission factor in an additional 25-basis point reduction to its allowed ROE to recognize the poor customer experience Liberty has provided, as well as specific cost disallowance recommendations for Liberty's "Customer First" billing program, "the return on" portion of its meter accounts, and O&M expenses related to contractual customer service representatives, among other items. Dr. Marke also recommends that the entire Customer First project ($146 million) be excluded from rate base.

A summary of these recommended disallowances are shown in the tables below.

[8] Case No. ER-2024-0261, Direct Testimony of Melanie Marek, at p. 8.

Table 1: Marke Recommended Disallowances

Category	**Recommended Cost Disallowances and Actions**[9]
Customer First Software	All costs associated with this platform be removed from the revenue requirement. ***Result: Disallowance of $23,729,203 per year in the requested revenue requirement until Liberty's base rates are reset***
Meters (new AMI Meters)	100% disallowance on the "return on" calculation associated with accounts 370 and 370.1. ***Result: Reduced revenue requirement amounts of $1,428,817 and $2,793,881 per year, respectively, until Liberty's base rates are reset. .***
Customer Service Representatives	Disallowance of any costs related to ContactPoint360 ("CP360"), the contractual call center representatives Liberty utilized as a result of the improper roll-out of Customer First. *Costs: Unknown pending discovery responses and/or true-up information.*
Meter Readers	Disallowance of any costs associated with contractual meter readers following the roll- out of Customer First. *Costs: Unknown pending discovery responses and/or true-up information.*
Excessive Postage and Billing Costs	Due to the damaging performance of Customer First, excessive billing and postage were generated to customers and should be disallowed. *Costs: Unknown pending discovery responses and/or true-up information.*
Customer Experience Disallowance	**An explicit 25-basis point reduction to the ROE, which equates to approximately $4.43 million per year until Liberty's base rates are reset.**
Late Fees	Suspend late fees until Customer First is operating correctly and reimburse customers who paid late fees since the roll-out of Customer First.
Property Tax on Bill	The Company should respond to allegations that customers were being charged property taxes for counties or cities where they did not reside in rebuttal testimony and provide empirical evidence of the scale and scope of the problem.
Disconnection Policy	Recommend the Company notify its customers that they will not be disconnecting customers until their billing practices are solved.

[9] Case No. ER-2024-0261, Direct Testimony of Geoff Marke, at pp.54-58.

Table 2: Staff and OPC Recommended Disallowances

Annual Cost Disallowances to Requested Revenue Requirement	**OPC**	**Staff**	**Staff**	**Staff**
	Marke	**Young**	**Marek**	**Busch**
Customer First Software Revenue Requirement Disallowance	$23,729,203[10]	$5,895,421[11]		
Customer First Software ADIT Offset Revenue Requirement Disallowance		$253,730[12]		
Return on Meters	$4,222,698[13]			
O&M expenses related to contractual customer service representatives and general disallowance to align with position on rate base		$1,308,017[14]		
ROE: 25-point basis reduction	$4,431,573[15,16]			
Net Rate Base disallowance	$145,600,000[17]	$56,416,905[18]		
Amortization Expense disallowance		$3,009,459[19]		
Incentive Compensation related to Customer First			$2,113,492[20]	
ROE: 100-point basis reduction				$17,726,292[21]
Total Annual Rev Req Reduction	**$32,383,474**	**$9,959,166[22]**	**$2,113,492**	**$17,726,292**
Three Year Rev Req Reduction	**$97,150,422**	**$29,877,499**	**$6,340,476**	**$53,178,876[23]**

[10] Case No. ER-2024-0261, Direct Testimony of Geoff Marke, at p. 54; Total Company Balance.
[11] Young Workpaper "Customer First Disallowance_Young_ER-2024-0261_Direct.xls"; Total Company balance.
[12] Young Workpaper "Customer First Disallowance_Young_ER-2024-0261_Direct.xls"; Total Company balance.
[13] Case No. ER-2024-0261, Direct Testimony of Geoff Marke, at p. 54. 100% disallowance on the "return on" calculation associated with accounts 370 and 370.1, which results in reduced revenue requirement amounts of $1,428,817 and $2,793,881 (Total Company balances).
[14] Young Workpaper "Customer First O&M_Young_ER-2024-0261_Direct.xls." 40% of annualized C1 O&M; Total Company balance.
[15] Case No. ER-2024-0261, Direct Testimony of Geoff Marke, at p. 56.
[16] $4,431,573 assumes the same assumptions as Mr. Busch (i.e., $17,726,292/4)
[17] Case No. ER-2024-0261, Direct Testimony of Geoff Marke, at p. 54; Total Company balance.

Q. Are these recommendations commensurate with the harm experienced by customers?

A. No, and none of the witnesses that have proposed these disallowances have provided any analysis of the impacts of these disallowance on Liberty or any comparison of the impact of these recommendations on Liberty to the impact of the underlying events on customers. These recommendations could exceed $100 million in revenue impacts to Liberty, which may reflect the level of frustration felt by Staff and intervenor witnesses, but do not match the level of financial impacts experienced by customers. The financial consequences to the Company must be considered in context of the problem and must be commensurate with the issues. While the shortcomings of the transition to the Customer First system should have financial consequences for Liberty, and they already have had through lost collections and unpaid bills for service, the proposed levels of disallowances are open-ended, punitive and completely out of line with industry standards for such an action. Below I discuss a key example of financial consequences experienced by another utility that reflects customer billing and customer service performance. I would further note, as detailed by Company witness Mr. Wilson in his rebuttal testimony, that the Customer First system is used for many purposes, and yet appears to be lumped into one category and treated the same regardless of the

[18] Young Workpaper "Customer First Disallowance_Young_ER-2024-0261_Direct.xls"; Total Company balance of C1 net plant and ADIT disallowance.
[19] Young Workpaper "Customer First Disallowance_Young_ER-2024-0261_Direct.xls"; Total Company balance.
[20] Marek Workpaper "Incentive Compensation – Marek – ER-2024-0261 – Direct -CONFIDENTIAL.xlsx". Total Company balance based on Staff C1 disallowance of 7.5% of Parent Scorecard metric.
[21] Case No. ER-2024-0261, Direct Testimony of James A. Busch, at p. 8; Missouri jurisdictional balance.
[22] Sum of Net Plant, ADIT Offset, Amortization Expense, O&M Expense C1 Disallowance; Total Company balance.
[23] Assumes ROE penalty for three rate years; Missouri jurisdictional balance.

function it is performing. This aspect of OPC's proposed treatment is punitive and not supported in the record.

Q. Has the Company taken any steps to address the billing problems?

A. Yes. Liberty has taken several remedial actions. As discussed in the rebuttal testimony of Amy Walt and Candice Kelly, the billing backlog is decreasing, billing error counts are coming down, and the Company is forgoing unrecovered revenue that it improperly did not include in customer bills. The Company has also refunded or is in the process of refunding all known overcollections due to billing errors and has corrected/reissued or in the process of correcting/reissuing all bills that are known to have had errors. The Company has waived late payment fees for bills impacted by the billing issues, suspended shutoffs, and offered flexible payment plans. These efforts, while not erasing the harm, constitute restitution and demonstrate a commitment to improvement.

Q. What is the status of the improvements?

A. As Company witnesses Ms. Walt and Ms. Kelly describe in their rebuttal testimonies, Liberty has made progress. The level of late bills has improved, and the Company has hired Ms. Walt as a new Chief Customer Officer who is committed to owning the challenges following the Customer First transition, rebuilding trust, delivering accurate and timely billing and providing a level of service that reflects the Company's values and customer expectations. The Company plans to work with Staff to continue to provide updates, including billing exception data and performance tables, and will provide further analysis as needed. Liberty has committed significant resources to resolving the issues. These efforts reflect a serious and appropriate response to the challenges.

Moreover, Liberty has demonstrated a willingness to engage constructively with Staff and intervenors on these issues. These actions support the approach for a measured regulatory response.

Q. Within the context of this rate case proceeding, what is your perspective on the appropriate regulatory response to the billing system and customer service concerns raised?

A. Based on my review and professional experience, I do not believe the substantial and ongoing disallowances as proposed by Staff and OPC witnesses are warranted. The Company is actively demonstrating a commitment to improving its billing system and customer service performance and has taken meaningful steps to address the concerns raised. In my view, regulatory responses should prioritize forward-looking solutions that promote accountability and improvement, rather than punitive measures that may undermine progress. However, if the Commission determines that an alternative approach is necessary within the context of this rate case, I recommend a constructive framework that balances regulatory oversight with continued investment in customer service enhancements. Specifically, the billing-related portion of the Customer First program could be included in rate base **without a return on equity applied initially**. Under this approach, the Company would be allowed to begin recording a monthly amount in a regulatory asset account – equal to the return on equity that would have been earned on the asset balance – **only after** meeting Commission-approved performance metrics related to billing accuracy, billing timeliness, call center responsiveness and customer experience index. This recorded balance would then be eligible for recovery in a future rate case. Such a performance-based structure aligns financial recovery with demonstrated service improvements, protects customers, and provides a clear incentive for the Company to meet or exceed regulatory expectations. It encourages accountability, transparency, and continuous improvement.

Q. Please explain how the rest of your comments are organized.

A. I will address a) the financial context of the proposed disallowances the harm that would be done to the Company should these disallowances be approved (including the reaction of capital markets, b) the prudence and "used and useful" standards, c) industry experience elsewhere with customer billing system or performance incentive plans, as well as d) my view of the appropriate regulatory remedy and forum.

A. Financial Context

Q. How should Staff's proposed disallowances be contextualized in terms of the situation at hand and the real or perceived economic harm to customers?

A. The proposed disallowances, whether in the form of reduced ROE, rate base exclusions, or O&M cost disallowances, must be evaluated in proportion to the actual economic harm experienced by customers. Staff witnesses have suggested financial consequences that, if adopted in full, could result in a reduction exceeding $100 million. For a utility of Liberty's size, this could be devastating. Company witness Mr. Daniel Dane discusses the potential impact to the Company's credit and market reactions in more detail.

It is important to recognize that not all of the costs associated with the Customer First system, or even the CIS portion of the system, should be unrecoverable, nor do the system's failures equate to direct economic harm to customers that approach the magnitude of the proposed disallowances. Many of the issues, while serious, have been mitigated through Company actions such as absorbing underbilled amounts, waiving late fees for bills impacted by the billing issues, suspending disconnections, and offering payment plans. Moreover, as Ms. Walt explains, the Company is in the process of obtaining a third-party review of its system and processes which will build on recent improvements to customer billing. For context, it is also important to understand that the CIS portion of the Customer First system, which provides billing and many more services, represents approximately 2.5%[24] of Liberty's electric rate base, and using the best data it had available at the time Liberty had estimated that approximately 10% of its customers experienced billing errors over the period since the implementation of the new system began. Even if this percentage was twice as high, the "proportion" of the billing system that could be asserted as temporarily not having been used and useful is less than 8% of the cost of the CIS system, not the 100% that Staff proposes to disallow, and that specific portion of the CIS represents approximately 0.5% of Liberty's electric rate base.[25] There is no support in the record for any other element of Liberty's rate base being subjected to a reduction in the return on or of capital or even the entirety of Customer First itself. Viewed from another perspective, if Liberty's estimate is correct that about 10% of its customers experienced billing errors, that would be 19,000 customers, and Staff and OPC's proposed disallowances of over $100 million would represent compensation of more than $5,200 per affected customer.[26] That is a completely unjustifiable level of compensation or financial penalty, on top of the costs that Liberty has already absorbed.

[24] Rate base of $2,414,765,020. CIS plant value of $149,287,965 * 40% = $60M.
$60M/$2.414B = 2.5%.

[25] 20% of $60M = $12M / $2.414B = 0.5%.

[26] $100,000,000 / 10% of 190,000 customers. Assumes Total Company customer count. I understand that the majority of Liberty's customers are Missouri jurisdictional.

Q. What are the implications for capital markets and investor confidence if the proposed disallowances are approved?

A. Regulatory decisions that impose large, retrospective disallowances can have unintended consequences in capital markets. Investors rely on predictable regulatory frameworks when evaluating utility risk. As described in the testimony of Mr. Dane, a disallowance of tens of millions of dollars or more, especially if perceived as punitive, could elevate Liberty's cost of capital and impair its ability to attract investment. This is particularly relevant given the Company's ongoing infrastructure needs and its efforts to modernize customer systems.

A more measured approach, such as what I discussed earlier in my testimony, sends a clear signal that the Commission expects accountability for customer service functions while preserving regulatory stability and financial viability. This approach aligns with industry practice and avoids the chilling effect that large, backward-looking penalties can have on capital formation and capital access.

Q. Do Staff and OPC's proposed disallowances conform to proper regulatory principles?

A. No. The recommendations from Staff and OPC conflate dissatisfaction with customer service outcomes with the legal and economic standards that underpin the return on capital committed to public utility service. Staff's opinion that Liberty has not provided safe and reliable service at just and reasonable rates is premised on definitions of those terms that I have never seen used in my 49 years of experience in the utility industry. The fact that numerous billing errors have occurred for a subset of Liberty's customers does not equate to Liberty having violated its fundamental obligations as a public utility. The billing mistakes happened, the bills have been or are in the process of being fixed, and Liberty has been forthright in admitting that these errors are not consistent with the expected levels of service for its operations in Missouri and there have been changes at the highest level of the parent company to bring more focus to these issues. This is a performance issue for one aspect of Liberty's utility service, albeit an important one. It is not a matter that warrants a harsh reaction that could threaten Liberty's ability to raise capital and invest in its system.

B. Prudence and "Used and Useful"

Q. Please generally describe the regulatory standard for prudence.

A. Under traditional cost-based ratemaking, a utility is permitted to include prudently-incurred costs in the revenue requirement used to set its rates. The standard for the evaluation of whether costs are, or are not, prudently incurred is well understood in Missouri and has been recently confirmed by the Commission.

Q. What is the recent Commission decision that you are referring to that confirms its use of the prudence standard?

A. In 2022, in a case involving Liberty, the Commission was clear about the prudence standard it follows:

> Liberty's witness, John J. Reed, provides a succinct description of the regulatory prudence standard in his surrebuttal testimony. The Commission will adopt that description:
>
> > "The standard for the evaluation of whether costs are, or are not, prudently incurred is built on four principles. First, prudence relates to actions and decisions. Costs themselves are neither prudent nor imprudent. It is the decision or action that led to cost incurrence that must be reviewed and assessed, not the results of those decisions. In other words, prudence is a measure of the quality of decision-making, and does not reflect how the decisions turned out. The second feature is a presumption of prudence, which is often referred to as a rebuttable presumption. The burden of showing that a decision is

> outside of the reasonable bounds falls, at least initially, on the party challenging the utility's actions. The third feature is the total exclusion of hindsight from a properly constructed prudence review. A utility's decisions must be judged based upon what was known or reasonably knowable at the time of the decision being made by the utility.
>
> Information that was not known or reasonably knowable at the time of the decision being made cannot be considered in evaluating the reasonableness of a decision and subsequent information on "how things turned out" cannot influence the evaluation of the prudence of a decision. The final feature is that decisions being reviewed need to be compared to a range of reasonable behavior; prudence does not require perfection, nor does prudence require achieving the lowest possible cost. This standard recognizes that reasonable people can differ and that there is a range of reasonable actions and decisions that is consistent with prudence. Simply put, a decision can only be labelled as imprudent if it can be shown that such a decision was outside the bounds of what a reasonable person would have done under those circumstances."[27]

Q. What happens when a utility's action or inaction is deemed imprudent?

A. Generally, when an action or inaction is deemed imprudent, the investments or costs associated with the imprudent action are disallowed from cost recovery. In the case of capital investments, a prudence disallowance would reduce rate base, meaning: 1) no return on the disallowed amount; 2) no depreciation expense on the disallowed amount; 3) a lower overall revenue requirement; and 4) a lower rate overall. If an action is ruled imprudent, a regulator should: 1) define the range of reasonable behavior; 2) consider what the costs would have been if a "minimally prudent" course of action had been

[27] Case No. EO-2022-0040 and File No. EO-2022-0193, Report and Order, Issue Date: August 18, 2022, at pp. 28-29.

followed; and 3) disallow only the amount of costs above that "minimally imprudent" level.

Q. Is the Customer First system "used and useful"?

A. Yes. Despite the challenges in how the Company has implemented its use, the system is operational and producing bills, as well as many other functions that Mr. Wilson describes. It meets the basic regulatory standard of being "used and useful," which is important when considering rate base treatment.

Q. If the Commission were to make a finding of imprudence with regard to Customer First, what then would be the remedy?

A. If the Commission were to make a finding of imprudence regarding Liberty's implementation of Customer First, the appropriate remedy must be carefully tailored to reflect both the nature of the imprudence and the regulatory principles that govern cost recovery.

As discussed earlier, the prudence standard is not a measure of outcomes, but of decision-making quality at the time the decision was made. Even if the Commission concludes that Liberty's actions fell outside the bounds of reasonable utility behavior, the remedy should not be punitive or permanent. Instead, it should reflect the incremental cost above what would have been incurred under a minimally prudent course of action, resulting in a one-time disallowance of the calculated *excess* costs above the minimally prudent implementation.

In that type of situation, the Commission may disallow the *excess* portion of the capital and O&M costs associated with the Customer First rollout, reflecting the difference between actual expenditures and those that would have been incurred under a minimally prudent implementation. A complete capital disallowance would reflect a conclusion that the imprudent decision was found to have resulted in the investment having no prospective value to customers. That is certainly not the case here.

In this case, the Customer First system is used and useful: it is operational, producing bills (among many other day-to-day functions for operations, finance, human resources and procurement), and largely serving its intended function. Therefore, a permanent disallowance of capital costs would be inconsistent with regulatory precedent and is not supported by the facts here. Moreover, the system is not a stranded asset, nor is it failing to deliver some level service to all customers. The challenges appear to relate to execution, implementation and transition, not to the underlying ability of the system itself to be used and useful over its economic life. As stated by Ms. Walt in her rebuttal testimony, the SAP system installed by Liberty is a state-of-the-art enterprise solution used by top tier utilities across the country. As occurs with many other investments, there have been significant start up and transition issues with the Customer First system, but there is no indication that those issues will expand to affect the majority of Liberty's customers or persist for years to come. In fact, all of the indicators point to the opposite, which is that the billing issues are on the decline and that the Company has made a commitment to address them and be held accountable for sustained improved performance.

C. Industry Context

Q. What is the broader regulatory context for this issue?

A. Across the industry, billing system failures have typically resulted in one-time disallowances or temporary ROE adjustments, not permanent rate base exclusions or permanent ROE penalties. Regulatory commissions have recognized that billing system transitions are complex and that performance should be evaluated over time.

The appropriate response is to incentivize performance and improvement, not to impose disproportional punitive measures that could destabilize utility operations, shake investor confidence, and ultimately lead to higher costs for customers. The Commission's role in the current rate proceeding is to ensure that rates remain just and reasonable, that the utility is able to recover prudently incurred costs, and that the utility is held accountable for its performance through appropriate regulatory tools and means.

Q. Have other utilities been subject to financial consequences for customer service and billing issues?

A. Yes. Maine provides an extreme example. In its February 19, 2020, Order in Docket No. 2018-00194, the Maine Public Utilities Commission concluded an investigation into Central Maine Power Company's ("CMP") rates and revenue requirements. In that order, "based upon a finding of imprudence, the Commission imposed a management-efficiency adjustment, temporarily reducing CMP's allowed ROE by 100 basis points beginning March 1, 2020… This ROE adjustment would remain in place for a minimum of 18 months and would be lifted only after CMP could demonstrate compliance with four specified service quality indices over that time period."[28] The four Service Quality Indices Metrics (SQI Metrics) included percentage of business calls answered within 30 seconds, call abandonment rate, bill-error rate, and percentage of estimated bills. CMP was required to file quarterly reports with updates to each of the SQI Metrics and could not seek relief from the ROE adjustment until meeting all four SQI Metrics for a rolling 18-month period. In February 2022, the Commission lifted the ROE adjustment, but not before the adjustment "cost shareholders about

[28] Docket No. 2021-00318, Central Maine Power Company Request to Remove Management Efficiency Adjustment, Order on Reporting Requirements, April 4, 2023, at p. 1.

$12.5 million in lost profits."[29] This figure represents approximately $19 per overall customer.[30] CMP is still required to report SQI metrics quarterly so that the Commission can continue to monitor service performance, now through the reporting obligations of Commission Rule Chapter 320.[31]

I note that while CMP's financial consequence was one of the largest financial consequences I have seen for regulated utilities regarding billing system issues, the remedy proactively tied the ROE penalty to future performance improvements, and was limited to a set period of time (i.e., was not imposed in perpetuity). There were also no further disallowances for the investment in the billing system or O&M expenses.

D. The Appropriate Remedial Action

Q. If the Commission desired to handle the issues surrounding the Customer First billing system with remedial actions what would your recommendation be?

A. My recommendation is for the remedial action to be in two parts. The first action is a reduction in the allowable annual revenue in the amount of $4,110,305, until such time as the performance metrics described below are met.[32]

Second, I believe the Commission should approve performance metrics related to billing accuracy, billing timeliness, call center responsiveness and customer experience index that when met would authorize the Company to record a monthly amount in a regulatory asset account – equal to the return on equity that would have

[29] *State utility regulators lift penalty against CMP, and launch investigation into its management,* Maine Public, February 17, 2022.
[30] CMP serves approximately 670,000 customers.
[31] Docket No. 2021-00318, Central Maine Power Company Request to Remove Management Efficiency Adjustment, Order on Reporting Requirements, April 4, 2023, at p. 3.
[32] CIS Portion of Customer First Net Base Rate $58,954,209 x 10% ROE x 53.1% equity (Company's proposed weighted ROE) x 1.3130 (Gross Revenue Conversion Factor) = $4,110,305.

been earned on the asset balance. This recorded balance would then be eligible for recovery in a future rate case.

Q. Should these issues be addressed through base rates, which will remain in effect for years to come?

A. In my professional opinion, embedding a long-term permanent disallowance in base rates is not an appropriate regulatory response. While I understand the desire expressed by Staff and OPC witnesses for the Commission to send a clear message regarding unacceptable performance, a permanent reduction to base rates is overly punitive and may not effectively incentivize the improvements needed. A more balanced and constructive approach would be to implement an initial reduction to base rates that reflects the Commission's concerns, while providing the Company a clear path to earn back the foregone return. Specifically, I recommend that the billing-related portion of the Customer First program be included in rate base, with ***no equity return*** applied initially. Once the Company meets Commission-approved performance metrics it would begin recording all or a part of the missed earnings in a regulatory asset account. That balance would then be eligible for recovery in a future rate case during which the Commission can evaluate and assess the Company's customer service and billing improvements. This approach would ensure accountability and customer protection while aligning cost recovery with demonstrated performance improvements. It also provides clear incentive for the Company to meet or exceed service expectations, without locking in a multi-year disallowance that may outlast the underlying issues and greatly exceeds the actual financial impact on customers.

Q. Please describe the performance incentive scheme in more detail.

A. I believe the Commission should authorize in this rate case a regulatory asset account initially set at $0. The Company would be incentivized to earn back the missed earnings each year if performance metric targets have been achieved. The Commission should establish a sliding scale of performance measurement, whereby the Company can earn back up to, but not more than, the initial reduction of $4,110,305 per year, reflecting the Company's progress towards achieving performance targets. This "earn back" would be tied directly to the utility's performance on a set of clearly defined metrics. The goal is to create a mechanism that both holds the Company accountable and encourages measurable improvements in service quality and customer outcomes. Due to the complexity and importance of setting appropriate benchmarks or targets, I believe the Company and stakeholders should confer on the appropriate and reasonably achievable performance metrics and targets in the separate investigation that the Commission has established, and that the Commission should rule on the establishment of those targets. This process would provide for reasonable and achievable metrics that are aligned with regulatory goals, while also reflecting the unique challenges and opportunities facing Liberty. A collaborative approach will also help build consensus and transparency around what constitutes meaningful progress.

VI. CONCLUSION

Q. Please summarize your recommendations regarding the Company's FAC mechanism.

A. I recommend the Commission discontinue the sharing mechanism in the Company's FAC mechanism, and that 100% of the Company's Schedule 11, Schedule 12, and Schedule 1-A transmission expenses be eligible for inclusion in the FAC mechanism.

Q. Please summarize your opinions regarding the Company's Customer First Billing system issues and Staff's proposed disallowances.

A. While the Customer First billing system challenges are serious and warrant scrutiny, it does not justify a financial consequence of the magnitude being proposed. It is clear that Staff and OPC's proposed remedies are being justified using standards that do not align with established regulatory principles for just and reasonable ratemaking. A $100 million penalty is not just grossly disproportionate, it is punitive beyond reason. Considering the nature and scope of the billing errors, regulatory precedent from other jurisdictions would guide us to an initial revenue reduction in base rates of approximately $4 million per year, with the opportunity for the Company to begin recording the missed earnings in a regulatory asset account only when the Company meets Commission-approved performance metrics – focused on accuracy, timeliness, call center responsiveness and customer experience. Such a figure would still send a strong regulatory signal while remaining proportionate to the utility's size and the impact to customers.

My recommendation is that the Commission pursue a constructive remedy that reflects the seriousness of the Customer First implementation issues without resorting to disproportionate or punitive measures. This structure holds the Company accountable for past shortcomings while encouraging measurable improvements in customer service.

Q. Does this conclude your rebuttal testimony at this time?

A. Yes, it does.

VERIFICATION

I, John J. Reed, under penalty of perjury, on this 18th day of August 2025 declare that the foregoing is true and correct to the best of my knowledge and belief.

/s/ John J. Reed