

FILED

SEP 13 2012

**Missouri Public
Service Commission**

Exhibit No.: Empire 5
Issue: Accounting Schedules, Adjustments,
SPP Tracker, True-up, Interim Tariff
Witness: W. Scott Keith
Type of Exhibit: Direct Testimony
Sponsoring Party: Empire District Electric
Case No. ER-2012-0345
Date Testimony Prepared: July 2012

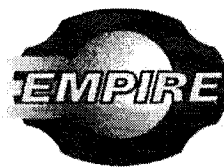
**Before the Public Service Commission
of the State of Missouri**

Direct Testimony

of

W. Scott Keith

July 2012



SERVICES YOU COUNT ON

Empire Exhibit No. 5
Date 9-10-12 Reporter KF
File No. ER-2012-0345

TABLE OF CONTENTS
OF
W. SCOTT KEITH
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION

<u>SUBJECT</u>	<u>PAGE</u>
INTRODUCTION	1
POSITION.....	1
PURPOSE.....	3
SUPPORTING SCHEDULES	4
ADJUSTMENTS TO COST OF SERVICE.....	8
JURISDICTIONAL ALLOCATIONS.....	12
RATE DESIGN	14
SPP TRANSMISSION COST.....	15
SPP TRANSMISSION TRACKER.....	16
TRUE-UP.....	23
INTERIM RATE RELIEF.....	25
LIST OF SCHEDULES.....	27

DIRECT TESTIMONY
OF
W. SCOTT KEITH
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2012-0345

1 **INTRODUCTION**

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

3 A. My name is W. Scott Keith, and my business address is 602 S. Joplin Avenue,
4 Joplin, Missouri.

5 **POSITION**

6 **Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR JOB TITLE?**

7 A. I am presently employed by The Empire District Electric Company (“Empire” or
8 the “Company”) as the Director of Planning and Regulatory. I have held this
9 position since August 1, 2005. Prior to joining Empire, from 1995 to July 2005, I
10 was Director of Electric Regulatory Matters in Kansas and Colorado for Aquila,
11 Inc.

12 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

13 A. In August 1973, I received a Bachelor of Business Administration degree with a
14 major in Accounting from Washburn University, Topeka, Kansas.

15 **Q. WHAT EXPERIENCE HAVE YOU HAD IN THE FIELD OF PUBLIC
16 UTILITIES?**

17 A. In 1973, I accepted a position in the firm of Troupe Kehoe Whiteaker & Kent as a
18 staff accountant. I assisted in or was responsible for fieldwork and preparation of

W. SCOTT KEITH
DIRECT TESTIMONY

1 exhibits for rate filings presented to various regulatory commissions and audits
2 leading to opinions on financial statements for various types of companies
3 including utility companies.

4 In September 1976, I accepted a position with the staff of the Kansas Corporation
5 Commission ("KCC"). My responsibilities at the KCC included the investigation
6 of utility rate applications and the preparation of exhibits and presentation of
7 testimony in connection with applications that were under the jurisdiction of the
8 KCC. The investigations I performed on behalf of the KCC included the areas of
9 accounting, cost of service, and rate design.

10 In March of 1978, I joined the firm of Drees Dunn & Company and continued to
11 perform services for various utility clients with that firm until it dissolved in March
12 of 1991.

13 From March of 1991 until June of 1994, I was self-employed as a utility consultant
14 and continued to provide clients with analyses of revenue requirements, cost of
15 service studies, and rate design. In connection with those engagements, I also
16 provided expert testimony and exhibits to be presented before regulatory
17 commissions.

18 As I mentioned earlier, I was employed by Aquila, Inc., as the Director of
19 Regulatory for its electric operations in Kansas and Colorado from 1995 to July
20 2005.

21 **Q. HAVE YOU PREVIOUSLY PARTICIPATED IN ANY REGULATORY**
22 **PROCEEDINGS?**

1 A. Yes, I have. I have testified before regulatory commissions in the states of Kansas,
2 Arkansas, Colorado, Indiana, Missouri, Oklahoma, and West Virginia. I have also
3 testified before the Federal Energy Regulatory Commission ("FERC").

4 **PURPOSE**

5 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
6 **CASE BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION**
7 **("COMMISSION")?**

8 A. My testimony will support various schedules containing financial and other
9 information, all of which support the Company's proposed rate increase. In
10 addition, I will describe the Company's request to implement a tracking mechanism
11 with respect to the Southwest Power Pool ("SPP") Schedules 1a and 11
12 transmission charges. I will also directly support specific adjustments that the
13 Company is making to the test year statement of operating income, describe a minor
14 revision to Empire's four-state cost allocation process, generally describe Empire's
15 rate design proposal, and outline Empire's request for a true-up process in this case.
16 Finally, I will describe the interim tariff (Rider INT) that Empire is requesting be
17 allowed to go into effect, without suspension, thirty days after filing.

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

20 A. The schedules included in this filing are based upon a test year ending March 31,
21 2012, updated for known and measureable changes through December 31, 2012 and
22 trued-up to December 31, 2012.

1 **SUPPORTING SCHEDULES**

2 **Q. WHAT SCHEDULES ARE YOU SPONSORING?**

3 A. I am sponsoring the following schedules, which were prepared by me or under my
4 supervision and direction:

- 5 • Schedule WSK-1, which displays the Missouri jurisdictional rate base and the
6 overall increase in revenue Empire is requesting as well as the overall rate of return;
- 7 • Schedule WSK-2, which displays Empire's adjusted statement of operations for this
8 case;
- 9 • Schedule WSK-3, which shows the adjustments Empire has made to the statement
10 of operations; and
- 11 • Schedule WSK-4, Empire's proposed interim tariff (Rider INT).

12 **Q. PLEASE DESCRIBE EMPIRE'S OVERALL MISSOURI REVENUE**
13 **DEFICIENCY.**

14 A. Empire is requesting an overall increase in Missouri jurisdictional revenue of \$30.7
15 million, or 7.56 percent above current rate revenue. After the normalization of
16 energy cost and fuel adjustment revenue, however, the overall increase in rates is
17 reduced to \$22.1 million, or 5.32 percent. This increase is based upon an overall
18 rate of return of 8.32 percent and a return on equity of 10.6 percent. The largest
19 single factor driving the rate case is the increase in transmission and distribution
20 investment due to the May 22, 2011 tornado that struck Joplin, Missouri. In
21 addition to the impact of the tornado, Empire expects to see a substantial increase in
22 SPP Schedules 1a & 11 transmission charges beginning in January 2013. Another

W. SCOTT KEITH
DIRECT TESTIMONY

1 major factor driving this rate case has to do with the early retirement of Empire's
2 Riverton coal fired units in 2016 and the increase in depreciation expense that is
3 required to fully depreciate these units prior to their retirement. Empire witness
4 Kelly Walters will provide a more comprehensive analysis of the factors driving
5 this case in her direct testimony.

6 **Q. PLEASE DESCRIBE SCHEDULE WSK-1, REVENUE REQUIREMENT.**

7 A. Schedule WSK-1 is a summary of Empire's adjusted electric rate base, net operating
8 income and required rate of return before and after the proposed rate increase in this
9 case. For the test year in this case, Empire has used the rate base balances at March
10 31, 2012, and updated them to reflect the expected Empire balances at December
11 31, 2012. As indicated, the total original cost Missouri jurisdictional electric rate
12 base is \$1,005,673,388, which is multiplied by the required rate of return of 8.32%
13 to arrive at a Missouri jurisdictional after tax operating income requirement of
14 \$83,651,905. This operating income requirement is subtracted from the Company's
15 Missouri jurisdictional adjusted operating income of \$64,726,562 and results in a
16 Missouri jurisdictional after tax operating income deficiency of \$18,925,343, or a
17 Missouri jurisdictional pre-tax revenue deficiency of \$30,717,288, which was
18 requested in Empire's filing with the Commission.

19 **Q. PLEASE DESCRIBE THE RATE BASE IN SCHEDULE WSK-2.**

20 A. Schedule WSK-1 also displays Empire's adjusted rate base balances at December
21 31, 2012. Materials and supplies and prepayments are the average of the thirteen
22 consecutive month-end balances ending December 31, 2012. Regulatory assets

W. SCOTT KEITH
DIRECT TESTIMONY

1 adjusted for known and measurable changes also were included. In addition,
2 Empire has developed a cash working capital requirement that is included in rate
3 base. Offsets to Empire's rate base are also displayed on Schedule WSK-1. These
4 include: deferred income taxes, customer deposits, customer advances, interest
5 synchronization offset, an income tax offset and Accumulated Missouri Regulatory
6 Amortization.

7 **Q. PLEASE DESCRIBE SCHEDULE WSK-2, SUMMARIZED INCOME**
8 **STATEMENT.**

9 A. Schedule WSK-2 is Empire's functional income statement with specific
10 adjustments to normalize test year electric operations for the impact of known and
11 measureable changes through December 31, 2012. A number of adjustments have
12 been made to this income statement. Included among the adjustments are those
13 related to Empire customer growth since the last rate case, normal weather
14 conditions, a substantial increase in SPP Schedules 1a & 11 transmission charges,
15 rate case expense, the rate increase authorized by the Commission in Case No. ER-
16 2011-0004, normalized fuel and energy costs for the FAC, depreciation and
17 amortization expense, including the accelerated write-off of the Riverton coal units
18 to reflect their early retirement due to new environmental rules, the costs associated
19 with Empire's investment in new accounting and management systems, vegetation
20 management and infrastructure inspection expense, payroll costs, common stock
21 expense and uncollectible account expense. Also reflected are Empire's total
22 Company and Missouri jurisdictional operational results, as adjusted for purposes

W. SCOTT KEITH
DIRECT TESTIMONY

1 of this case. As indicated, after the posting of the various adjustments to the
2 Missouri jurisdictional operations, current rates are expected to produce
3 \$64,726,562 in Net Operating Income ("NOI"). This level of NOI produces an
4 overall return on Empire's Missouri jurisdictional rate base of 6.44 percent.

5 **Q. PLEASE DISCUSS SCHEDULE WSK-3.**

6 A. Schedule WSK-3 summarizes the adjustments Empire has made to the statement of
7 operations in this case. As summarized in schedule WSK-3, among the
8 adjustments to total Company and Missouri jurisdictional revenues are adjustments
9 that: (1) reflect customer numbers at December 31, 2012; (2) reflect normal weather
10 for the test year; (3) update unbilled related revenues; (4) reflect a full year of the
11 rate increase granted by the Commission in Case No. ER-2011-0004; and (5) reflect
12 an increase in SPP Schedule 11 revenue due to Empire's recent formula rate filing
13 at the FERC. The year-end customer adjustment annualizes revenues to reflect
14 what would have been received if the level of customers Empire expects to serve at
15 December 31, 2012 had been served by the Company for an entire year. Empire
16 witness Aaron Doll will describe the weather normalization and unbilled revenue
17 adjustments in greater detail in his direct testimony, and Joan Land of Empire will
18 explain the remaining retail revenue adjustments in greater detail in her direct
19 testimony. Later in this testimony, I will discuss the adjustment needed to capture
20 the benefits associated with the increase in Schedule 11 revenue that Empire
21 expects to see as a result of its recent formula rate filing with the FERC.

1 **ADJUSTMENTS TO COST OF SERVICE**

2 **Q. PLEASE EXPLAIN THE ADJUSTMENTS TO EXPENSES.**

3 A. Total Company costs, excluding the impact of income taxes, have been decreased
4 by \$5,263,543 for the Missouri retail jurisdiction. Included is an adjustment to
5 normalize test year payroll costs. The payroll adjustments results in a net increase
6 in annual payroll expense of \$3.1 million on a Missouri jurisdictional basis.
7 Empire witness Jayna Long explains the payroll adjustments in greater detail in her
8 direct testimony. Fuel and purchased power costs have been normalized to reflect
9 ongoing fuel and energy costs. Empire witness Todd Tarter will also discuss the
10 fuel and energy costs in greater detail in his direct testimony, along with a request
11 to continue the Fuel Adjustment Clause ("FAC"). The fuel and purchased power
12 energy adjustment resulted in a decrease in total production expense of \$7.5 million
13 attributable to the Company's Missouri jurisdictional operations. The fuel and
14 energy costs are an important part of this rate case due to their significance in terms
15 of cost and due to Empire's request to continue the Missouri FAC. Empire's fuel
16 and purchased power expenses represent the single most significant component of
17 Empire's operating costs.

18 **Q. PLEASE DESCRIBE THE ADJUSTMENTS MADE TO THE**
19 **TRANSMISSION EXPENSE LEVELS.**

20 A. Missouri jurisdictional transmission expenses were increased by \$5.0 million. The
21 most significant adjustment was to reflect the Missouri jurisdictional portion of
22 expected increases in SPP Schedules 1a & 11 transmission charges. I will discuss

1 the SPP transmission adjustment later in this testimony. Other adjustments to
2 transmission expense include payroll, remediation, and vegetation management.

3 **Q. PLEASE DESCRIBE THE ADJUSTMENTS MADE TO THE**
4 **DISTRIBUTION EXPENSES.**

5 A. Missouri jurisdictional distribution expenses were increased to reflect annualized
6 payroll costs and ongoing cost levels related to Empire's infrastructure remediation
7 and vegetation management programs. Empire witnesses Kelly Walters and Jayna
8 Long will discuss various aspects of all of these adjustments in greater detail in
9 their direct testimonies.

10 **Q. PLEASE CONTINUE WITH AN EXPLANATION OF THE**
11 **ADJUSTMENTS MADE TO CUSTOMER ACCOUNTS EXPENSE.**

12 A. Missouri jurisdictional customer accounts expense was adjusted to reflect an
13 increase in payroll expense. In addition, Missouri jurisdictional customer accounts
14 expense was decreased by \$822,814 to reflect a reduction in bad debts expense.
15 Empire witness Jayna Long will address these adjustments in greater detail in her
16 direct testimony.

17 **Q PLEASE DESCRIBE THE ADJUSTMENTS MADE TO CUSTOMER**
18 **ASSISTANCE AND SALES EXPENSES.**

19 A Each of the expense levels in these areas was increased to reflect the ongoing level
20 of payroll costs. Although the adjustment for Missouri Demand-Side Management
21 ("DSM") costs was not included in sales expense, the adjustment related to DSM
22 amortization is an increase in Missouri jurisdictional operating expenses of

1 \$340,403. Empire witness Aaron Doll will explain this adjustment in detail in his
2 direct testimony.

3 **Q. PLEASE DESCRIBE THE ADJUSTMENTS MADE TO ADMINISTRATIVE**
4 **AND GENERAL EXPENSES.**

5 A. Missouri jurisdictional administrative and general expenses were increased by a
6 total of \$2.4 million through a series of ten adjustments. Of the total, \$44,356 was
7 associated with a decrease in 401(k) costs. In addition, the ongoing FAS 87 and
8 FAS 106 costs have been adjusted based upon the tracking accounting agreed to in
9 Case No. ER-2010-0130. This resulted in a decrease in Missouri jurisdictional
10 costs of \$68,856. The methods used to calculate the adjustments for FAS 87 and
11 FAS 106 costs are discussed in the direct testimony of Empire witness Jeff Lee.
12 Missouri jurisdictional administrative and general expenses have been increased by
13 \$706,808 to reflect adjusted payroll expense. Rate case expenses were also
14 increased by \$185,753 to reflect the costs associated with the current rate case and a
15 requested amortization period of two years for the cost of the current rate case. The
16 Missouri jurisdictional administrative and general expense levels have also been
17 adjusted upward by \$1.1 million to reflect the ongoing level of healthcare expense
18 and \$405,954 to reflect the ongoing level of maintenance costs from the installation
19 of new accounting and work management systems. Empire witness Kelly Walters
20 will discuss this adjustment in greater detail in her direct testimony. Finally,
21 Missouri jurisdictional administrative and general expense levels have been
22 adjusted upward to reflect the ongoing level of outside services. I will discuss this

1 in further detail later in my testimony.

2 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO DEPRECIATION EXPENSE.**

3 A. The depreciation expense adjustment resulted in an increase of \$8.0 million and
4 \$6.6 million for the total Company and the Missouri jurisdiction, respectively. A
5 significant portion of this increase is directly related to the early retirement of
6 several Riverton generating units in 2016 due to new environmental regulations and
7 the age/size of the units and to the additional capital costs incurred due to the Joplin
8 tornado. The case also includes a request for new depreciation rates, which
9 contribute to this increase in depreciation expense. The basis for the depreciation
10 adjustments, including the Riverton reserve deficiency, is discussed in greater detail
11 in the testimony of Empire witness Thomas Sullivan. In addition to the
12 depreciation expense, Empire's amortization expense has been adjusted in this case
13 through a series of several adjustments. The adjustment associated with a change
14 in stock issuance costs increases Missouri jurisdictional amortization expense by
15 \$1.2 million. Empire witness Robert Sager will discuss this adjustment in his direct
16 testimony. Adjustments to amortization are being supported by Empire witness
17 Jayna Long. These adjustments include annualizing intangible amortization
18 expense, which includes the annual amortization cost associated with Empire's
19 ERP project, amortizing the Plum Point and Iatan O&M tracker, and removing the
20 regulatory amortization from the test year.

21 **Q. PLEASE CONTINUE WITH YOUR DESCRIPTION OF SCHEDULE WSK-3.**

22 A. Taxes other than income taxes have been increased by \$2.1 million for the total

1 Company, or \$1.8 million for the Missouri jurisdiction, to reflect the impact of
2 Empire's adjusted plant in service balances. In addition, Missouri jurisdictional
3 taxes other than income have been adjusted upward by \$237,947 to include the
4 impact of the projected change in payroll taxes due to the annualized payroll
5 expense. Empire witnesses Jay Williams and Jayna Long discuss each of these
6 adjustments in greater detail in their respective direct testimonies. In addition,
7 Empire witness James Warren will address the income tax issues related to cost of
8 removal in his direct testimony.

9 Empire's statement of operations has also been adjusted to reflect the impact that
10 the various revenue and expense adjustments have on income taxes.

11 **Q. PLEASE EXPLAIN WHY THE ADJUSTMENTS FOR THE MISSOURI**
12 **JURISDICTION AND TOTAL COMPANY ARE THE SAME IN SOME**
13 **INSTANCES.**

14 A. Several of the adjustments are calculated for the Missouri jurisdiction only for
15 purposes of this case. For example, rate case expense was calculated for the
16 Missouri jurisdiction only.

17 **JURISDICTIONAL ALLOCATIONS**

18 **Q. PLEASE DESCRIBE THE JURISDICTIONAL ALLOCATION PROCESS**
19 **USED IN EMPIRE'S FILING.**

20 A. With the exception of a revision in the allocation of Empire's administrative and
21 general expenses, the jurisdictional allocation factors used in this rate case are
22 identical to those used in Case No. ER-2011-0004.

1 **Q. PLEASE DESCRIBE THE REVISION MADE TO THE JURISDICTIONAL**
2 **ALLOCATION OF ADMINISTRATIVE AND GENERAL EXPENSES.**

3 A. The jurisdictional allocation of administrative and general expenses has been
4 revised to follow the allocation of Empire's salaries and wages, rather than
5 operation and maintenance expenses other than administrative and general.

6 **Q. WHY DID EMPIRE REVISE ITS JURISDICTIONAL ALLOCATION**
7 **PROCESS WITH RESPECT TO ADMINISTRATIVE AND GENERAL**
8 **EXPENSES?**

9 A. The change was required to bring Empire's jurisdictional allocation methodology in
10 compliance with protocols used by the FERC. The prior Empire allocation
11 methodology resulted in an over allocation of administrative and general expenses
12 to Empire's FERC jurisdictional customers. FERC Staff and Empire's FERC
13 jurisdictional customers noted this problem in Empire's recent Generation Formula
14 Rate ("GFR") filing at the FERC. Empire agreed with the positions taken by FERC
15 Staff and our FERC jurisdictional customers that salaries and wages should be the
16 major allocation driver with respect to a significant portion of administrative and
17 general expenses, and Empire changed its internal jurisdictional allocation process
18 to reflect the FERC protocols in this area.

19 **Q. WHAT IS THE RESULT OF THIS REVISION TO EMPIRE'S INTERNAL**
20 **JURISDICTIONAL ALLOCATION PROCESS?**

21 A. It increased the allocation of administrative and general expenses to Empire's retail
22 jurisdictions and lowered the allocation of these costs to Empire's wholesale

1 customers.

2 **Q. HOW WOULD YOU CHARACTERIZE THE FERC'S POSITION ON THE**
3 **JURISDICTIONAL ALLOCATION OF ADMINISTRATIVE AND**
4 **GENERAL EXPENSES?**

5 A. It is not new or unusual, and, in fact, is longstanding. Due to Empire's infrequent
6 wholesale rate cases before the FERC, it did not become apparent to Empire until
7 the recent GFR rate case at the FERC that the Company's internal jurisdictional
8 allocation model contained this problem.

9 **RATE DESIGN**

10 **Q. HOW IS THE COMPANY PROPOSING TO SPREAD THE REQUESTED**
11 **INCREASE AMONG ITS CURRENT RATE CLASSES?**

12 A. Empire has proposed an equal percentage increase for all rate classes, but has
13 proposed a higher percentage increase in the customer charges for the residential
14 and commercial classes and a lower percentage increase in the energy charges for
15 these two customer classes. This proposal is supported by the results of the class
16 cost of service filed by Empire in Case No. ER-2011-0004. Empire witness Aaron
17 Doll will discuss the proposed rate design in greater detail in his direct testimony.
18 In addition, Empire has analyzed the costs associated with the various types of
19 lights for the street lights, tariff SPL and the private lights, tariff PL. As a result,
20 Empire has proposed a revenue shift between the various types of lights within the
21 SPL and PL tariffs. The results of the study and the magnitude of the revenue shift
22 are described in the direct testimony of Empire witness Sam McGarrah.

SPP TRANSMISSION COST

1 **Q. PLEASE DESCRIBE THE ADJUSTMENT MADE TO SPP'S**
2 **TRANSMISSION EXPENSE LEVELS.**

3 A. Empire expects to see significant increases in SPP Schedule 1a and Schedule 11
4 charges in calendar year 2013 and 2014. Due to this pending increase in SPP
5 charges, Empire has included an adjustment increasing its SPP transmission
6 expense by \$4.8 million on a total Company basis, \$4.1 Missouri jurisdictional, for
7 purposes of this case. This adjustment reflects an increase of \$1.1 million in SPP
8 Schedule 1a charges and \$3.7 million in SPP Schedule 11 charges. This level of
9 SPP costs for these two SPP cost categories represents what Empire expects to
10 incur in SPP Schedules 1a and 11 charges beginning in January of 2013.

11 **Q. ARE THESE TWO COMPONENTS OF SPP'S CHARGES TO EMPIRE**
12 **EXPECTED TO CONTINUE TO INCREASE EVEN MORE IN 2014?**

13 A. Yes. The ultimate cost of these two SPP charges to Empire is expected to be
14 double the level of 2013 charges by calendar year 2014, which is why in addition to
15 the proposed adjustment to ongoing SPP transmission costs in this case, Empire is
16 requesting authority to implement an accounting tracking mechanism or tracker for
17 SPP Schedule 1a and Schedule 11 costs. Empire witness Pat Bourne will provide
18 more details on the SPP transmission cost increases Empire can expect to see over
19 the next few years.

20 **SPP TRANSMISSION REVENUE**

21 **Q. PLEASE EXPLAIN THE ADJUSTMENT MADE TO EMPIRE'S COST OF**

1 **SERVICE TO REFLECT AN INCREASE IN EMPIRE'S SCHEDULE 11**
2 **TRANSMISSION REVENUE.**

3 A. This is a new revenue stream for Empire and is related to SPP base plan funded
4 projects that have been built by Empire over the last few years. The additional
5 revenue is directly associated with Empire's recent transmission formula rate filing
6 at the FERC. This is additional revenue that will be billed to other SPP members
7 by SPP and assigned to Empire. On a total Company basis, this adjustment
8 increases Empire's transmission revenue by almost \$1.8 million per year.
9 Missouri's retail portion of this revenue increase is \$1.5 million and is used to
10 offset the Missouri retail cost of service. Empire's formula rate has not been
11 approved by the FERC, and the level of Schedule 11 revenue included in Empire's
12 case will need to be updated and included in the true-up process.

13 **SPP TRANSMISSION TRACKER**

14 **Q. WHAT IS THE COMPANY'S PROPOSAL REGARDING THE SPP**
15 **TRANSMISSION TRACKER?**

16 A. Empire requests that a transmission tracking mechanism be authorized in this case
17 to ensure the appropriate recovery of SPP Schedules 1a & 11 transmission costs.
18 The Company's request for a transmission tracker would be treated similarly to the
19 tracking mechanisms Empire uses for its pension and vegetation expense trackers,
20 although there are differences in the way carrying costs are calculated and how the
21 over/(under) cost recovery amounts are amortized for rate purposes.

22 **Q. DOES EMPIRE CONSIDER THE PROPOSED SPP TRANSMISSION**

1 **TRACKER, AND EXPENSE TRACKERS IN GENERAL, TO BE**
2 **VALUABLE REGULATORY TOOLS?**

3 A. Yes. Trackers are valuable and appropriate regulatory tools for costs that are
4 material and may fluctuate from year-to-year, and, in the case of SPP transmission
5 cost, are beyond the direct control of Empire's management. Use of the tracker will
6 ensure that in the years between rate cases Empire does not under-recover or over-
7 recover SPP Schedules 1a and 11 charges.

8 **Q. WHY IS THE USE OF A TRACKER APPROPRIATE FOR EMPIRE'S SPP**
9 **TRANSMISSION CHARGES?**

10 A. In the coming years, it is widely expected that SPP's billings to Empire for regional
11 transmission upgrade projects and SPP administrative fees will increase Empire's
12 SPP transmission charges significantly. The pending increases in SPP Schedule 11
13 charges are confirmed by Empire witness Pat Bourne.

14 **Q. IS THE TRANSMISSION SYSTEM IN THE SPP FOOTPRINT EXPECTED**
15 **TO EXPAND IN THE COMING YEARS?**

16 A. Yes. SPP's transmission upgrade plans are expected to significantly impact all SPP
17 members, including Empire, in the next several years. SPP's expansion plan
18 proposes regional transmission additions and includes a detailed list of projects in
19 order to achieve the plan. SPP employs a FERC-approved cost allocation
20 methodology to spread the cost of the transmission expansion among the SPP
21 membership.

22 **Q. AS A MEMBER OF SPP, HAS EMPIRE ACTIVELY PARTICIPATED IN**

1 **MEETINGS CONCERNING SPP'S EXPANSION PLAN AND THE**
2 **IMPACT THIS PLAN HAS ON COST ALLOCATION TO THE VARIOUS**
3 **SPP ZONES?**

4 A. Yes. As an SPP member Empire has been actively engaged at many committee
5 meetings at SPP, including the Cost Allocation Working Group ("CAWG") and the
6 Transmission Working Group ("TWG"). As part of this process, Empire has
7 sometimes taken positions that are at odds with the position ultimately taken by
8 SPP, including being active as part of a group of entities that protested some
9 aspects of SPP's filings at the FERC.

10 **Q. WHAT IS YOUR UNDERSTANDING OF THE FACTORS DRIVING SPP'S**
11 **TRANSMISSION EXPANSION?**

12 A. A major factor driving the additional investment in the transmission system within
13 the SPP footprint is the pressure to interconnect renewable energy resources in the
14 region, particularly wind generation. There are also significant transmission
15 upgrades within the SPP footprint which are necessary to capture the full potential
16 of wind resources in the region. In addition, there are transmission upgrades being
17 made or planned in the SPP footprint designed to reduce transmission congestion
18 on key transmission paths in order to facilitate more efficient power markets.

19 **Q. HOW DO EMPIRE'S ADJUSTED SPP TRANSMISSION CHARGES FOR**
20 **SCHEDULE 1A AND SCHEDULE 11 COMPARE TO TEST YEAR**
21 **LEVELS?**

22 A. They are significantly higher for these two SPP schedules of charges. During the

W. SCOTT KEITH
DIRECT TESTIMONY

1 test year ending March 31, 2012, SPP charged Empire \$1.8 million in
2 administration costs (Schedule 1a). This charge is expected to increase to \$2.9
3 million per year as the new SPP headquarters facilities are completed and SPP's
4 services are expanded to include areas such as the "next day market". In addition to
5 Schedule 1a charges, Empire expects SPP's Schedule 11 charges to increase from
6 \$1.6 million incurred during the test year to \$5.4 million by 2013. SPP Schedule 11
7 transmission charges are expected to continue to increase to around \$12.0 million
8 by calendar year 2014. SPP's Schedule 11 charges include the cost of regional
9 transmission improvements made by various SPP members.

10 **Q. IS THE SPP REGULATED?**

11 A. Yes. SPP is regulated by the FERC, and the charges for various types of
12 transmission service are subject to FERC approval. For example, the FERC has
13 already approved a maximum SPP Schedule 1a rate of \$0.35 per megawatt-hour.
14 Empire based its forecast of ongoing SPP 1a charges upon this FERC-approved
15 maximum rate.

16 **Q. ARE SPP SCHEDULE 1A AND SCHEDULE 11 COSTS THE SPP COSTS**
17 **THAT EMPIRE PROPOSES TO INCLUDE IN AN SPP TRANSMISSION**
18 **TRACKER?**

19 A. Yes, they are.

20 **Q. HOW WILL THE SPP TRANSMISSION TRACKER BE IMPLEMENTED**
21 **UNDER EMPIRE'S PROPOSAL?**

22 A. Under Empire's proposal, a base level of annual SPP Schedules 1a and 11 costs

1 will be established in Empire's cost of service in this case. The cost levels could be
2 established as part of the true-up process. Empire would then track its actual SPP
3 Schedules 1a and 11 charges on an annual basis and compare it with the base
4 established in the case, with the jurisdictional portion of any increase in costs
5 treated as a regulatory asset (Account 182) and the jurisdictional portion of any
6 decrease in costs treated as a regulatory liability (Account 254). During the next
7 rate case, the net regulatory asset/liability created would be included in Empire's
8 rate base.

9 **Q. DOES EMPIRE'S SPP TRACKING PROPOSAL INCLUDE A PROVISION**
10 **FOR THE ACCURAL OF CARRYING COST ON THE REGULATORY**
11 **ASSET/LIABILITY BETWEEN RATE CASES BEFORE THE**
12 **REGULATORY ASSET/LIABILITY IS INCLUDED IN RATE BASE?**

13 A. Yes. Empire's proposal includes a request for carrying costs to be accrued on
14 deferred amounts not yet reflected in the Company's rate base. The carrying costs
15 would be calculated monthly by applying the monthly value of the annual
16 Allowance for Funds Used During Construction ("AFUDC") rate to the deferred
17 SPP costs.

18 **Q. UNDER EMPIRE'S SPP TRACKER PROPOSAL, HOW IS THE SPP**
19 **REGULATORY ASSET/LIABILITY DEALT WITH IN THE NEXT RATE**
20 **CASE?**

21 A. Under Empire's proposal, the balance in the regulatory asset/liability established in
22 the case is amortized and the amortization is included as part the Company's cost of

1 service in the next rate proceeding. As proposed, the amortization period for the
2 SPP regulatory asset/liability would be equal to the length of time over which the
3 SPP costs were accumulated. In addition, the unamortized SPP regulatory
4 asset/liability is included in Empire's rate base.

5 **Q. ARE THERE OTHER FACTORS ASSOCIATED WITH THE SPP**
6 **TRANSMISSION TRACKER THAT WOULD HAVE TO BE ADDRESSED**
7 **IN EMPIRE'S NEXT RATE CASE?**

8 A. Yes. In a procedure similar to how ongoing pension costs are reset in each case, the
9 Company would reset the level of ongoing SPP Schedules 1a and 11 costs in base
10 rates in the next rate case, and the regulatory asset/liability would include accrued
11 carrying costs from the time the SPP costs are incurred until they are included in
12 rate base. In addition, the level of annual SPP transmission amortization would be
13 established.

14 **Q. IS EMPIRE'S SPP TRACKER PROPOSAL SIMILAR TO EMPIRE'S**
15 **OTHER REGULATORY TRACKERS FOR PENSION AND VEGETATION**
16 **COSTS?**

17 A. Yes, but with two major differences. Empire's pension and vegetation trackers use
18 a fixed amortization period of five years rather than matching the future
19 amortization period to the accumulation period between rate cases. In addition, the
20 pension and vegetation trackers also do not accrue carrying costs between rate
21 cases. However, the proposed accrual of carrying costs and the inclusion of the
22 deferred balance in rate base for the proposed SPP transmission tracker is consistent

1 with the procedures currently authorized for Empire's deferred Missouri DSM
2 costs.

3 **Q. DOES EMPIRE HAVE SPP COST RECOVERY MECHANISMS IN PLACE**
4 **IN ANY OF ITS OTHER JURISDICTIONS?**

5 A. Yes. Empire has riders in place in Arkansas and Oklahoma to recover a significant
6 portion of SPP's transmission fees. These riders enable Empire to adjust its
7 customers' bills outside of a general rate case to recover/refund changes in specific
8 SPP charges. In Arkansas, the rider includes changes in SPP Schedules 1a and 11
9 charges, while the Oklahoma rider includes changes in SPP Schedule 11 charges.
10 As I mentioned earlier, the Schedule 11 charges include the revenue requirement
11 associated with the regional transmission upgrades.

12 **OTHER ADJUSTMENTS**

13 **Q. WHAT OTHER RATE CASE ADJUSTMENTS ARE YOU SPONSORING?**

14 A. I am sponsoring adjustments related to the Missouri tornado cost deferral and
15 outside services.

16 **Q. PLEASE DESCRIBE THE TORNADO COST DEFERRAL ADJUSTMENT.**

17 A. This adjustment is related to the amortization of deferred costs related to the May
18 22, 2011 tornado that struck Joplin. This cost deferral was authorized by the
19 Commission in Case No. EU-2011-0387. In total, Empire has deferred costs of
20 \$1,975,980 in connection with the tornado. This balance includes \$503,523 in
21 depreciation, \$628,441 in carrying costs, and \$844,017 in operating costs. The
22 amortization period for these costs authorized by the Commission was ten years.

1 The adjustment in the current rate case couples the deferred cost balance at March
2 31, 2012, with the authorized amortization period of ten years to arrive at the
3 adjustment in this case of \$197,598. In addition, the ongoing level depreciation
4 expenses were adjusted upward by \$503,523 to eliminate the tornado depreciation
5 deferral that took place during the test year.

6 **Q. IS EMPIRE REQUESTING A CONTINUATION OF THE TORNADO**
7 **DEFERRAL AS PART OF THIS CASE?**

8 A. No. The increase in system investment due to the tornado has been reflected in
9 Empire' rate base in this case, as has the additional depreciation expense due to the
10 tornado. There is no need to continue the tornado deferral once Empire's rates are
11 changed on either an interim or permanent basis in this case.

12 **Q. PLEASE PROVIDE AN EXPLANATION OF THE OUTSIDE SERVICES**
13 **ADJUSTMENT.**

14 A. Empire has adjusted its outside service expense using a three-year average of
15 outside services expenses. This resulted in an adjustment to outside service
16 expense that increased Empire's cost by \$1,011,015 on a Missouri jurisdictional
17 basis. Included in this adjustment is a normalized level of annual IRP expenses.

TRUE-UP

18 **Q. IS EMPIRE REQUESTING A TRUE-UP IN THIS CASE?**

19 A. Yes. Empire is requesting that the financial information be subject to true-up as of
20 December 31, 2012.

21 **Q. WHAT IS THE PURPOSE OF A TRUE-UP?**

1 A. The true-up will enable all of the parties to the proceeding to use financial
2 information that is closer to the effective date of the new tariffs that will become
3 effective as part of this rate case. All of the major components used to develop the
4 new revenue requirement should be updated, including rate base, operating
5 revenues and operating expenses.

6 **Q. WHAT AREAS OF EMPIRE'S REVENUE REQUIREMENT SHOULD BE**
7 **TRUED-UP THROUGH DECEMBER 31, 2012?**

8 A. The revenue requirement should be updated to recognize all of the significant
9 changes that have occurred through December 31, 2012. Among those areas where
10 significant changes can occur are:

- 11 • Net Plant in Service, including the investment associated with Empire's new
12 phone, accounting and management systems;
- 13 • Revenue;
- 14 • SPP Transmission costs-Schedules 1a and 11;
- 15 • Schedule 11 transmission revenue;
- 16 • Operation and maintenance costs, especially those associated with Empire's
17 new phone, accounting and management systems;
- 18 • Payroll Cost including Benefits;
- 19 • Depreciation, including the impact of the early retirement of Riverton units
20 7 & 8;
- 21 • Vegetation Management Costs; and
- 22 • Remediation Costs.

1 **Q. IS THIS A COMPLETE LIST OF ALL OF THE ITEMS THAT MAY BE**
2 **INVOLVED IN THE TRUE-UP?**

3 A. No. Empire anticipates working with all of the parties that become involved in the
4 rate case to develop a complete list of items that will be included in the true-up.

INTERIM RATE RELIEF

5 **Q. HAS EMPIRE FILED TARIFF SHEETS TO IMPLEMENT ITS REQUEST**
6 **FOR INTERIM RATE RELIEF?**

7 A. Yes. Empire filed its proposed Electric Interim Rider, Rider INT, and these tariff
8 sheets are attached hereto as Schedule WSK-4. Empire is requesting that these
9 tariff sheets be allowed to take effect, without suspension by the Commission, thirty
10 days after filing. Empire witnesses Brad Beecher and Kelly Walters discuss
11 Empire's need for interim rate relief in their direct testimonies in this case.

12 **Q. PLEASE DESCRIBE THE SIGNIFICANT ELEMENTS OF THE**
13 **PROPOSED RIDER INT.**

14 A. The proposed Rider INT displays how each component will be increased on an
15 interim basis. It also provides for a refund under certain circumstances.

16 **Q. HOW DID EMPIRE ARRIVE AT AN INCREASE OF 1.53 PERCENT AS**
17 **ITS REQUESTED INTERIM RATE RELIEF AMOUNT?**

18 A. This percentage increase was developed by dividing the ongoing financial impact of
19 the tornado of \$6.2 million by the annual revenue generated by Empire's existing
20 base electric rates of \$404 million.

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

W. SCOTT KEITH
DIRECT TESTIMONY

1 A. Yes.

LIST OF SCHEDULES

<u>Schedule No.</u>	<u>Description</u>
WSK-1	Rate Base and Rate of Return
WSK-2	Statement of Utility Operating Income
WSK-3	Explanation of Test Year Adjustments to Operations
WSK-4	Electric Interim Rider (Rider INT)

The Empire District Electric Company
Rate Base and Rate of Return

	<u>Missouri</u> <u>Jurisdictional</u>
Electric Plant in Service	\$1,795,441,368
Less: Reserve for Depreciation	630,816,540
Net Electric Plant in Service	<u>1,164,624,828</u>
Fuel	15,065,027
Materials and Supplies (13-Month Average)	22,706,775
Prepayments (13-Month Average)	6,580,360
Cash Working Capital	12,004,645
Regulatory Assets:	
Iatan Deferred Carrying Costs	5,717,628
Cust Programs Collaborative	4,453,353
MBELA Energy Efficiency Costs	0
Reg Asset-Reliability	1,006,738
MO PlumPt Df Chgs ER-2010-0130	165,495
MO IatanII Df Chgs ER-2010-0131	10,387,401
Vegatation Tracker ER-2010-0130	1,699,102
Vegatation Tracker ER-2011-0004	4,512,527
May 2011 Tornado Strm Deferral	844,017
MO 2011 Tornado Depr Deferral	503,523
May 2011 Tornado Carrying Cost	628,441
PP O&M Tracker ER-2011-0004	-231,863
IatanII OM Tracker ER2011-0004	209,464
IatCom OM Tracker ER-2011-0004	1,319,560
PeopleSoft Costs ER-2011-0004	313,031
MO Pension-FAS87 Expense	268,388
Reg Pension Costs Amortization	3,187,318
Prepaid Pension Asset	16,193,722
<i>Less:</i>	
Regulatory Liabilities:	
MO FAS106 Elec over recd amt	118,492
Reg OPEB Costs Amortization	1,146,746
Fuel Construction Acctg Iatan2	8,265,647
SWPA Oz Beach - Missouri	20,038,783
Deferred Taxes	210,840,545
Customer Deposits (13-Month Average)	8,721,719
Customer Advances (13-Month Average)	5,881,990
Amortization from Intangibles	8,473,581
Interest Offset	3,434,376
Income Tax Offset	-435,788
Total Original Cost Rate Base	<u>\$1,005,673,388</u>
Net electric Operating Income Before Effect of Proposed Increase	\$64,726,562
Indicated Rate of Return Before Proposed Increase	6.44%
Proposed Increase (After Taxes)	\$18,925,343
Income Tax Gross-up Factor	1.62308
Proposed Increase (Revenue Requirement)	\$30,717,288
Net Electric Operating Income After Effect of Proposed Increase	\$83,651,905
Indicated Rate of Return After Effect of Proposed Increase	8.32%

The Empire District Electric Company
Test-Year Utility Operating Income

Account Name	Total Company			Missouri Jurisdictional		
	Actual	Adjustments	Pro Forma	Actual	Adjustments	Pro Forma
<i>Electric Utility Operating Revenues:</i>						
Retail Revenue	\$468,360,054	-\$10,342,979	\$458,017,075	\$416,550,240	-\$10,342,979	\$406,207,261
Sales for Resale - On-System	18,856,588	0	18,856,588	0	0	0
Sales for Resale - Off-System and Other	18,545,596	-18,545,596	0	15,142,175	-15,142,175	0
Total Sales of Electricity	505,762,238	-28,888,575	476,873,663	431,692,416	-25,485,154	406,207,261
Other Electric Operating Revenues	8,128,785	859,276	8,988,061	6,931,827	712,376	7,644,203
Total Sales of Electricity	513,891,023	-28,029,299	485,861,724	438,624,243	-24,772,779	413,851,465
<i>Electric Utility Operating Expenses:</i>						
Production	222,361,831	-23,942,876	198,418,955	182,580,891	-20,821,717	161,759,174
Transmission	11,134,258	5,965,901	17,100,159	9,178,515	4,983,010	14,161,524
Distribution	27,159,699	5,869,750	33,029,449	23,952,472	5,332,808	29,285,280
Customer Accounts	10,021,944	-482,897	9,539,047	8,875,321	-427,648	8,447,673
Customer Assistance	1,811,263	443,354	2,254,617	1,507,613	431,575	1,939,189
Sales	316,165	24,386	340,551	281,201	21,690	302,891
Administrative & General	38,659,599	2,749,552	41,409,151	32,837,109	2,399,946	35,237,054
Depreciation & Amortization	55,467,561	10,104,070	65,571,631	48,265,040	8,229,393	56,494,433
Taxes Other Than Income Taxes	27,472,663	-5,802,422	21,670,241	24,085,461	-6,143,272	17,942,189
Income Taxes - Federal	-7,419,112	1,707,198	-5,711,914	-6,655,936	3,275,127	-3,380,809
Income Taxes - State	-1,902,251	1,004,665	-897,586	-1,706,574	1,175,304	-531,270
Deferred Income Taxes	40,241,787	-9,513,997	30,727,790	36,136,474	-9,039,570	27,096,903
Interest on Customer Deposits	0	370,673	370,673	0	370,673	370,673
Loss on Plant Disallowance	149,748	0	149,748	0	0	0
Total Electric Utility Operating Expenses	425,475,154	-11,502,642	413,972,513	359,337,585	-10,212,682	349,124,903
<i>Net Electric Utility Operating Income</i>	88,415,869	-16,526,657	71,889,212	79,286,658	-14,560,096	64,726,562

The Empire District Electric Company
Explanation of Adjustments to Test-Year

		<u>Increase (Decrease)</u>	
		<u>Total Company</u>	<u>Missouri Jurisdictional</u>
		<u>Revenues</u>	<u>Expenses</u>
Adjustments to Retail Revenue			
To adjust customer growth	Land	2,171,886	2,171,886
To normalize weather	Doll	-3,509,933	-3,509,933
To reflect rate increase	Land	4,682,578	4,682,578
To reflect unbilled revenue	Land	-1,352,869	-1,352,869
To remove general ledger unbilled	Land	3,786,139	3,786,139
To reflect billing adjustments	Land	604,769	604,769
To eliminate franchise fees	Land	-8,156,989	-8,156,989
To correct error in gl journal entry	Land	3,807	3,807
To correct adjustment in Customer Watch	Land	21,690	21,690
To remove off-system revenue	Long	-18,545,596	-15,142,175
To remove FAC revenue	Land	-8,640,922	-8,640,922
To annualize excess facilities	Land	46,865	46,865
		<u>-28,888,575</u>	<u>-25,485,154</u>
Adjustment to Other Revenue			
To remove water revenue from other revenue	Land	-7,945	-7,945
To adjust renewable energy credits	Tarter	-919,879	-764,059
To increase Transmission Revenue for SPP Revenue	Keith	1,787,100	1,484,380
		<u>859,276</u>	<u>712,376</u>
Total Revenue Adjustment		-28,029,299	-24,772,779
To normalize plant O&M - 500	Mertens	-61,019	-50,683
To normalize plant O&M - 502	Mertens	99,731	81,249
To normalize plant O&M - 505	Mertens	99,762	82,863
To normalize plant O&M - 506	Mertens	190,734	158,425
To normalize plant O&M - 510	Mertens	720	587
To normalize plant O&M - 511	Mertens	58,226	48,363
To normalize plant O&M - 512	Mertens	662,509	539,735
To normalize plant O&M - 513	Mertens	76,490	62,315
To normalize plant O&M - 514	Mertens	-61,724	-51,268
To normalize plant O&M - 536	Mertens	1,652	1,346
To normalize plant O&M - 537	Mertens	6,413	5,327
To normalize plant O&M - 538	Mertens	-2,686	-2,231
To normalize plant O&M - 539	Mertens	2,370	1,969
To normalize plant O&M - 542	Mertens	3,403	2,827
To normalize plant O&M - 543	Mertens	27,757	23,055
To normalize plant O&M - 544	Mertens	6,000	4,984
To normalize plant O&M - 546	Mertens	-18,126	-15,056
To normalize plant O&M - 548	Mertens	28,700	23,838
To normalize plant O&M - 549	Mertens	234,688	194,934
To normalize plant O&M - 551	Mertens	-2,314	-1,922
To normalize plant O&M - 552	Mertens	-1,359	-1,129
To normalize plant O&M - 553	Mertens	-44,209	-36,720
To normalize plant O&M - 554	Mertens	-56,884	-47,248
To normalize plant O&M - 556	Mertens	2,550	2,118
To normalize test year payroll	Long	1,218,918	1,005,990
Normalize Construction Accounting - 421	Long	1,279,487	1,279,487
Normalize Construction Accounting - 501	Long	-2,526,330	-2,526,330
To annualize SWPA Payment to Customers	Long	-118,263	-118,263
To reverse FAC fuel	Tarter	-3,958,737	-4,248,124
To remove Unrealized Gain-Loss on Derivatives-501	Tarter	12,427	11,738
To remove Unrealized Gain-Loss on Derivatives-547	Tarter	-268,758	-253,854
To remove Off-System F&PP-501	Long	-3,905,799	-3,181,986
To remove Off-System F&PP-547	Long	-4,004,343	-3,262,268
To remove Off-System F&PP-555 (demand)	Long	-1,956,636	-1,625,198
To remove Off-System F&PP-555 (energy)	Long	-7,434,178	-6,056,495
To adjust demand for test year	Tarter	655,845	544,750
To adjust test year consumables level	Tarter	-339,468	-281,965
To reflect normalization of Fuel - 501	Tarter	6,628,073	5,399,776

The Empire District Electric Company
Explanation of Adjustments to Test-Year

		<u>Increase (Decrease)</u>	
		<u>Total Company</u>	<u>Missouri Jurisdictional</u>
		<u>Revenues</u>	<u>Expenses</u>
To reflect normalization of Fuel - 547	Tarter	-11,780,093	-9,597,036
To reflect normalization of Purchase Power Energy	Tarter	1,301,595	1,060,387
Total Production		-23,942,876	-20,821,717
To normalize test year payroll	Long	207,752	172,561
To increase transmission for SPP increase	Keith	4,894,270	4,065,220
To Normalize remediation	Walters	-183,066	-152,056
To increase vegetation to normalized level	Walters	883,508	733,849
To amortize vegetation tracker	Walters	163,436	163,436
Total Transmission		5,965,901	4,983,010
To normalize test year payroll	Long	771,711	690,429
To Normalize remediation - 593	Walters	354,435	317,103
To Normalize remediation - 594	Walters	97,441	87,178
To increase vegetation to normalized level-593	Walters	3,693,055	3,304,073
To increase vegetation to normalized level-594	Walters	181,159	162,078
To amortize vegetation tracker - 593	Walters	735,852	735,852
To amortize vegetation tracker - 594	Walters	36,096	36,096
Total Distribution		5,869,750	5,332,808
To normalize test year payroll	Long	446,218	395,166
To increase bad debt expense	Long	-929,115	-822,814
To remove paystation fees	Baker	-69,500	-61,548
Total Customer Accounts		-482,897	-427,648
To normalize test year payroll	Long	102,951	91,172
To adjust DSM Programs	Doll	340,403	340,403
Total Customer Assistance		443,354	431,575
To normalize test year payroll	Long	24,386	21,690
Total Sales Expense		24,386	21,690
To normalize test year 401k costs	Long	-51,360	-44,356
To normalize test year payroll	Long	818,408	706,808
To reflect change in Line of Credit Banking Fees	Long	-1,037,968	-896,428
To reflect FAS 87 tracker expense	Lee	322,895	278,864
To reflect FAS 106 tracker expense	Lee	-402,623	-347,720
To adjust outside services/resource planning	Keith	1,170,648	1,011,015
To reflect increase in healthcare expense	Walters	1,273,748	1,100,056
To reflect maintenance costs for ERP	Walters	380,051	328,226
To reflect maintenance costs for 2nd Day Market Software	Mertens	90,000	77,727
To reflect amortization of rate case expenses	Long	185,753	185,753
Total Administrative & General		2,749,552	2,399,946
To annualize depreciation expense	Sullivan	4,774,876	3,886,547
To recognize Riverton Reserve Deficiency	Sullivan	3,285,177	2,728,694
To annualize intangible amortization expense	Long	1,603,567	1,369,647
To amortize Plum Point and Iatan O&M Tracker	Long	648,581	648,581
To amortize the Joplin Tornado May 2011	Keith	197,598	197,598
To reverse Joplin Tornado Depr Adjustment to Capitalize	Keith	503,523	503,523
To normalize construction Accounting - 403	Long	667,033	667,033
To Reverse Regulatory Amortization	Long	-3,013,236	-3,013,236
To reflect amortization of common stock expense	Sager	1,436,952	1,241,005
Total Depreciation Expense		10,104,070	8,229,393
To annualize property taxes	Williams	2,079,050	1,775,770
To recognize FICA taxes from wage increase (decrease)	Long	277,160	239,365
To Eliminate Franchise Fees	Land	-8,156,989	-8,156,989
To recognize FUTA tax from wage increase (decrease)	Long	-3,964	-3,423
To recognize SUTA tax from wage increase (decrease)	Long	2,322	2,005
Total Taxes Other Than Income Taxes		-5,802,422	-6,143,272

The Empire District Electric Company
Explanation of Adjustments to Test-Year

	<u>Increase (Decrease)</u>			
	<u>Total Company</u>		<u>Missouri Jurisdictional</u>	
	<u>Revenues</u>	<u>Expenses</u>	<u>Revenues</u>	<u>Expenses</u>
To adjust book taxes		<u>1,707,198</u>		<u>3,275,127</u>
Total Taxes - Federal		1,707,198		3,275,127
To adjust book taxes		<u>1,004,665</u>		<u>1,175,304</u>
Total Taxes - State		1,004,665		1,175,304
To adjust book taxes		<u>-9,513,997</u>		<u>-9,039,570</u>
Total Provision for Deferred Income Tax		-9,513,997		-9,039,570
To include interest on Missouri customer deposits		<u>370,673</u>		<u>370,673</u>
Total Interest on Customer Deposits	Long	370,673		370,673
 Total Adjustments		<u>-28,029,299</u>	<u>-24,772,779</u>	<u>-10,212,682</u>

SCHEDULE WSK-4

THE EMPIRE DISTRICT ELECTRIC COMPANY

P.S.C. Mo. No. 5 Sec. 4 3rd Revised Sheet No. 21

Canceling P.S.C. Mo. No. 5 Sec. 4 2nd Revised Sheet No. 21

**ELECTRIC INTERIM RIDER
RIDER INT**

APPLICATION:

This Electric Interim Rider is applicable to all rates and charges for electric service billed under the following Missouri electric rate schedules:

DESCRIPTION	SCHEDULE DESIGNATION
Residential Service	Schedule RG
Commercial Service	Schedule CB
Small Heating Service	Schedule SH
General Power Service	Schedule GP
Large Power Service	Schedule LP
Feed Mill & Grain Elevator Service	Schedule PFM
Total Electric Building Service	Schedule TEB
Special Transmission Service Contract: Praxair	Schedule SC-P
Special Transmission Service	Schedule ST
Municipal Street Light Service	Schedule SPL
Private Lighting Service	Schedule PL
Special Lighting Service	Schedule LS
Miscellaneous Service	Schedule MS

PERCENTAGE INCREASE:

Each base rate or charge for electric service will be increased by 1.53 percent.

RATE:

In addition to the charges which Empire makes for electric service set forth in its approved and effective rate schedules, the amounts shown on Sheet Nos. 21a, 21b, 21c and 21d will be added.

CONDITIONS:

Rider INT shall remain in effect until the permanent rates authorized by the Missouri Public Service Commission (MPSC) in Case No. ER-2012-0345 become effective. The revenue generated by Rider INT shall be subject to refund, and the Company shall refund with annual simple interest equal to the Company's short term interest rate, the amount, if any, by which the revenues produced by Rider INT exceed the aggregate revenues that the Company would have received under the permanent rates approved by the MPSC in ER-2012-0345. Such refund, if any, shall be made based upon the billing units of the customer to which the interim charges applied.

DATE OF ISSUE July 6, 2012
ISSUED BY Kelly S. Walters, Vice President, Joplin, MO

DATE EFFECTIVE August 5, 2012

THE EMPIRE DISTRICT ELECTRIC COMPANY

SCHEDULE WSK-4

P.S.C. Mo. No. 5 Sec. 4 Original Sheet No. 21a

Canceling P.S.C. Mo. No. _____ Sec. _____ Sheet No. _____

**ELECTRIC INTERIM RIDER
RIDER INT**

Rider INT Charges

	Winter	Summer
<u>Schedule RG</u>		
Customer Charge	\$ 0.19	\$ 0.19
1st 600 kWh	\$ 0.0016	\$ 0.0016
Over 600 kWh	\$ 0.0013	\$ 0.0016
<u>Schedule CB</u>		
Customer Charge	\$ 0.31	\$ 0.31
1st 700 kWh	\$ 0.0018	\$ 0.0018
Over 700 kWh	\$ 0.0016	\$ 0.0018
<u>Schedule SH</u>		
Customer Charge	\$ 0.31	\$ 0.31
1st 700 kWh	\$ 0.0017	\$ 0.0017
Over 700 kWh	\$ 0.0013	\$ 0.0017
<u>Schedule GP</u>		
Customer Charge	\$ 0.96	\$ 0.96
Demand Charge	\$ 0.08	\$ 0.10
Facilities Charge	\$ 0.029	\$ 0.029
1st 150 hrs of use	\$ 0.0011	\$ 0.0013
Next 200 hrs of use	\$ 0.0009	\$ 0.0010
All additional kWh	\$ 0.0009	\$ 0.0009
Interval Data Recorder	\$ 3.54	\$ 3.54
Transformer Ownership	\$ 0.005	\$ 0.005

DATE OF ISSUE July 6, 2012
ISSUED BY Kelly S. Walters, Vice President, Joplin, MO

DATE EFFECTIVE August 5, 2012

THE EMPIRE DISTRICT ELECTRIC COMPANY

SCHEDULE WSK-4

P.S.C. Mo. No. 5 Sec. 4 Original Sheet No. 21b

Canceling P.S.C. Mo. No. _____ Sec. _____ Sheet No. _____

**ELECTRIC INTERIM RIDER
RIDER INT**

Rider INT Charges

Winter Summer

Schedule LP

Customer Charge	\$ 3.56	\$ 3.56
Demand Charge	\$ 0.11	\$ 0.20
Facilities Charge	\$ 0.024	\$ 0.024
1st 350 hrs of use	\$ 0.0009	\$ 0.0010
All additional kWh	\$ 0.0005	\$ 0.0005
Transformer Ownership	\$ 0.0049	\$ 0.0049

Schedule PFM

Customer Charge	\$ 0.40	\$ 0.40
1st 700 kWh	\$ 0.0026	\$ 0.0026
Over 700 kWh	\$ 0.0024	\$ 0.0026

Schedule TEB

Customer Charge	\$ 0.96	\$ 0.96
Demand Charge	\$ 0.04	\$ 0.05
Facilities Charge	\$ 0.029	\$ 0.029
1st 150 hrs of use	\$ 0.0011	\$ 0.0015
Next 200 hrs of use	\$ 0.0009	\$ 0.0011
All additional kWh	\$ 0.0009	\$ 0.0010
Interval Data Recorder	\$ 3.54	\$ 3.54
Transformer Ownership	\$ 0.005	\$ 0.005

Schedule SC-P

Customer Charge	\$ 3.54	\$ 3.54
On Peak Demand Charge	\$ 0.23	\$ 0.34
Substation Facilities Charge	\$ 0.007	\$ 0.007
On Peak Energy Charge	\$ 0.0005	\$ 0.0007
Shoulder Period Energy Charge	\$ -	\$ 0.0006
Off-Peak Energy Charge	\$ 0.0004	\$ 0.0005
IR Credit	\$ 0.06	\$ 0.06

Schedule ST

Customer Charge	\$ 3.54	\$ 3.54
On Peak Demand Charge	\$ 0.23	\$ 0.34
Substation Facilities Charge	\$ 0.007	\$ 0.007
On Peak Energy Charge	\$ 0.0005	\$ 0.0007
Shoulder Period Energy Charge	\$ -	\$ 0.0006
Off-Peak Energy Charge	\$ 0.0004	\$ 0.0005

DATE OF ISSUE July 6, 2012
ISSUED BY Kelly S. Walters, Vice President, Joplin, MO

DATE EFFECTIVE August 5, 2012

THE EMPIRE DISTRICT ELECTRIC COMPANY

SCHEDULE WSK-4

P.S.C. Mo. No. 5 Sec. 4 Original Sheet No. 21c

Canceling P.S.C. Mo. No. _____ Sec. _____ Sheet No. _____

ELECTRIC INTERIM RIDER
RIDER INT

Schedule SPL

Annual Charges:

	<u>Rider INT</u>
	<u>Annual</u>
Incandescent-4,000 Lumen	\$ 0.94
Incandescent-10,000 Lumen	\$ 1.94
Mercury Vapor 7,000 Lumen	\$ 1.28
Mercury Vapor 11,000 Lumen	\$ 1.53
Mercury Vapor 20,000 Lumen	\$ 2.20
Mercury Vapor 53,000 Lumen	\$ 3.70
High Pressure Sodium 6,000 Lumen	\$ 1.20
High Pressure Sodium 16,000 Lumen	\$ 1.50
High Pressure Sodium 27,500 Lumen	\$ 1.95
High Pressure Sodium 50,000 Lumen	\$ 2.78
High Pressure Sodium 130,000 Lumen	\$ 4.49
Metal Halide 12,000 Lumen	\$ 1.87
Metal Halide 20,500 Lumen	\$ 2.30
Metal Halide 36,000 Lumen	\$ 3.07
Metal Halide 110,000 Lumen	\$ 6.79

DATE OF ISSUE July 6, 2012
ISSUED BY Kelly S. Walters, Vice President, Joplin, MO

DATE EFFECTIVE August 5, 2012

THE EMPIRE DISTRICT ELECTRIC COMPANY

SCHEDULE WSK-4

P.S.C. Mo. No. 5 Sec. 4 Original Sheet No. 21d

Canceling P.S.C. Mo. No. _____ Sec. _____ Sheet No. _____

ELECTRIC INTERIM RIDER
RIDER INT

Rider INT

Schedule PL

	<u>Monthly</u>
Mercury Vapor 6,800 Lumen	\$ 0.23
Mercury Vapor 20,000 Lumen	\$ 0.38
Mercury Vapor 54,000 Lumen	\$ 0.72
Sodium Vapor 6,000 Lumen	\$ 0.21
Sodium Vapor 16,000 Lumen	\$ 0.30
Sodium Vapor 27,500 Lumen	\$ 0.44
Sodium Vapor 50,000 Lumen	\$ 0.51
Metal Halide 12,000 Lumen	\$ 0.35
Metal Halide 20,500 Lumen	\$ 0.47
Metal Halide 36,000 Lumen	\$ 0.53
Mercury Vapor 20,000 Lumen	\$ 0.53
Mercury Vapor 54,000 Lumen	\$ 0.87
Sodium Vapor 27,500 Lumen	\$ 0.51
Sodium Vapor 54,000 Lumen	\$ 0.70
Sodium Vapor 140,000 Lumen	\$ 1.03
Metal Halide 12,000 Lumen	\$ 0.36
Metal Halide 20,500 Lumen	\$ 0.48
Metal Halide 36,000 Lumen	\$ 0.71
Metal Halide 110,000 Lumen	\$ 1.04
Regular Wood Pole	\$ 0.03
Transformer	\$ 0.03
Guy and anchor	\$ 0.03
Overhead Conductor	\$ 0.000

Schedule LS

1st 1,000 kWh per month	\$ 0.0025
All additional kWh	\$ 0.0020
Minimum Bill	\$ 0.67

Schedule MS

Customer Charge	\$ 0.28
All kWh used	\$ 0.0015

DATE OF ISSUE July 6, 2012
ISSUED BY Kelly S. Walters, Vice President, Joplin, MO

DATE EFFECTIVE August 5, 2012

AFFIDAVIT OF W. SCOTT KEITH

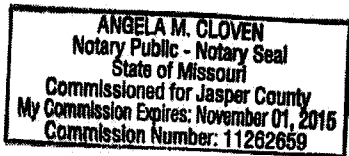
STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 2nd day of July, 2012, before me appeared W. Scott Keith, to me personally known, who, being by me first duly sworn, states that he is the Director of Planning and Regulatory of The Empire District Electric Company and acknowledges that he has read the above and foregoing document and believes that the statements therein are true and correct to the best of his information, knowledge and belief.

W. Scott Keith

W. Scott Keith

Subscribed and sworn to before me this 2nd day of July, 2012.



A. M. Cloven

Notary Public

My commission expires: 11/01/2015.