

Exhibit No.:
Issue: State Line Combined Cycle
Unit Capital Costs
Witness: Mark L. Oligschlaeger
Sponsoring Party: MoPSC Staff
Type of Exhibit: True-Up Direct Testimony
Case No.: ER-2001-299
Date Testimony Prepared: August 7, 2001

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

TRUE-UP DIRECT TESTIMONY

OF

MARK L. OLIGSCHLAEGER

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2001-299

Jefferson City, Missouri
August 2001

Exhibit No. 138
Date 8/23/01 *Case No.* ER-2001-299
Reporter KLM

1 **TRUE-UP DIRECT TESTIMONY**

2 **OF**

3 **MARK L. OLIGSCHLAEGER**

4 **THE EMPIRE DISTRICT ELECTRIC COMPANY**

5 **CASE NO. ER-2001-299**

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8
9 Q. Please state your name and business address.

10 A. Mark L. Oligschlaeger, P.O. Box 360, Suite 440, Jefferson City, MO
11 65102.

12 Q. Are you the same Mark L. Oligschlaeger who has previously filed direct
13 and surrebuttal testimony in this proceeding?

14 A. Yes, I am.

15 Q. What is the purpose of your true-up direct testimony?

16 A. The purpose of this testimony is to, along with other Staff witnesses,
17 present the Staff's rate recommendations concerning the amount of the cost overruns The
18 Empire District Electric Company (Empire or Company) incurred in constructing its
19 State Line Combined Cycle (SLCC) Unit.

20 Q. Have the parties made an agreement in this case that proposes specific rate
21 treatment of SLCC Unit capital costs?

22 A. Yes. In the "Unanimous Stipulation and Agreement as to State Line
23 Combined Cycle Unit Capital Costs" (Stipulation) filed May 25, 2001, the parties agreed
24 to the following treatment of SLCC capital costs:

- 25 1. An \$8.3 million disallowance was to be made to the
26 SLCC's Unit's costs relating to heating recovery steam
27 generator (HSRG) costs. An appropriate amount of

1 Allowance for Funds Used During Construction (AFUDC)
2 was to be added to the \$8.3 million amount to calculate the
3 total disallowance. This treatment is specified in Paragraph
4 of the Stipulation.

5
6 2. Assuming a final project cost of \$203.2 million, Empire
7 was to be provided an opportunity to explain the
8 approximately \$19 million in cost overruns that were
9 expected to be incurred for the SLCC Unit project in
10 addition to the \$12 million cost overrun associated with the
11 HRSGs. If Empire provided adequate explanations for the
12 non-HRSG cost overruns, the Staff would recommend that
13 the full amount of the \$19 million in non-HRSG overruns
14 be reflected in rates. If Empire did not present satisfactory
15 explanations for the \$19 million in non-HRSG cost
16 overruns, the Staff would only recommend rate recovery of
17 \$18 million of the non-HRSG cost overruns. If Empire
18 disagreed with the Staff's recommendation in the true-up
19 proceeding regarding rate recovery of the non-HRSG cost
20 overruns, Empire could seek recovery of additional
21 amounts in the true-up proceeding. This treatment is
22 specified in Paragraph 5 of the Stipulation.

23
24 3. In the event that the final and completed cost of the SLCC
25 unit exceeded \$203.2 million, Empire was to be provided
26 the opportunity to explain the amount of additional cost
27 overruns that caused the final cost of the SLCC Unit to
28 exceed \$203.2 million. If Empire did not present
29 satisfactory explanations for these additional cost overruns,
30 the Staff would not recommend rate recovery of these
31 amounts. If Empire disagreed with the Staff's
32 recommendation in the true-up proceeding regarding rate
33 recovery of the additional cost overruns, Empire could seek
34 recovery of additional amounts in the true-up proceeding.
35 This treatment is specified in Paragraph 7 of the
36 Stipulation.

37
38 All of the amounts referenced from the Stipulation in the above discussion are total
39 SLCC Unit project (60% Empire, 40% Westar Generating, Inc.).

40 Q. What Staff witnesses are responsible for discussing in true-up direct
41 testimony the rate treatment of SLCC HRSG costs under the Stipulation?

1 A. Staff Accounting witnesses Amanda C. McMellen and V. William Harris
2 address the adjustments relating to the Staff's disallowance for SLCC HRSR costs,
3 including associated AFUDC, in their true-up direct testimony.

4 Q. What Staff witnesses are responsible for discussing in true-up testimony
5 rate treatment of non-HSRG SLCC cost overruns, in an amount up to \$19 million?

6 A. Staff Accounting witness Cary G. Featherstone and Staff witness David
7 W. Elliott of the Energy Department address non-HSRG cost overruns in their true-up
8 direct testimony.

9 Q. What Staff witness is responsible for discussing in true-up testimony any
10 SLCC Unit cost overruns associated with the final and completed cost of the SLCC Unit
11 that exceed \$203.2 million?

12 A. I am responsible for discussing this provision of the Stipulation.

13 Q. What criteria has this Commission stated that Empire must meet before
14 the SLCC Unit capital costs are to be reflected in rates in this true-up proceeding?

15 A. To be eligible for inclusion in rate base in the true-up proceeding, SLCC
16 Unit costs must be "booked in Empire's accounts payable system and approved and
17 authorized for payment prior to July 31, 2001" (Order Setting Test Year, Setting True-up
18 Hearing, and Adopting Procedural Schedule, January 4, 2001, p.4).

19 Q. Under these criteria, what is the total project SLCC cost, as of July 31,
20 2001?

21 A. As of July 31, 2001, the total project SLCC Unit costs amount to
22 approximately \$203.1 million (before AFUDC). This amount consists of approximately
23 \$198.070 million booked to the SLCC work order by Empire as of June 30, 2001, and

1 approximately \$5.044 million in SLCC invoices booked in Empire's accounts payable
2 system and approved and authorized for payment as of July 31, 2001.

3 Q. Is \$203.1 million expected to be the final and completed total cost of the
4 SLCC Unit?

5 A. No. While all major construction activities are completed, and the SLCC
6 Unit is considered to be operational and in-service as of the end of June 30, 2001, there
7 are still some construction costs that either are yet to be incurred for the SLCC Unit
8 project, or have yet to be included in Empire's accounts payable system.

9 Q. Based upon the actual cost of the SLCC Unit as of July 31, 2001, does the
10 Staff consider that the provision in the Stipulation providing Empire the opportunity to
11 explain and justify cost of the SLCC Unit in excess of \$203.2 million to be inapplicable?

12 A. Yes. Since the cost of the SLCC unit at July 31, 2001 (\$203.1 million) is
13 slightly less than the total estimated cost of the SLCC Unit at the time the Stipulation was
14 entered into (\$203.2 million), the Staff believes the provisions of Paragraph 7 of the
15 Stipulation are not applicable in the true-up proceeding.

16 Q. If the final and complete cost of the SLCC Unit ultimately exceeds \$203.1
17 million (or \$203.2 million), can Empire seek recovery of the additional capital costs of
18 the SLCC Unit in future rate proceedings?

19 A. Yes, under the terms of the Stipulation. The Staff expects that the
20 Company will provide evidence of the reasonableness of any additional cost overruns it
21 may seek to recover in future cases. In those cases, the Staff would review those cost
22 overruns for prudence and reasonableness before making any recommendations
23 regarding rate recovery of those amounts.

1 Q. Have you prepared a schedule that shows the amount of the SLCC Unit
2 capital costs that the Staff has determined should be granted rate base treatment in this
3 proceeding, consistent with the Stipulation?

4 A. Yes. Schedule 1 depicts the Staff's calculation of the total SLCC Unit
5 capital costs that the Staff is recommending be included in rate base by the Commission.
6 Schedule 1 shows two columns of numbers; the first column being SLCC Unit costs on a
7 total project basis; the second column showing Empire's share of the total SLCC Unit
8 project, approximately 60% in most instances. Schedule 1 shows the June 30, 2001 work
9 order balance, the July 2001 approved invoice total, the HRSG disallowance and the
10 amount of "retainage" to be subtracted from the rate allowance amount, all amounts
11 presented for both total project and the Empire share of the project costs. (Retainage
12 represents SLCC costs that are included in the work order total, but for various reasons
13 have not been paid by Empire to project vendors. The Staff's position on retainage is
14 further described in Staff witness McMellen's true-up direct testimony.) Finally,
15 Schedule 1 shows the amount of AFUDC related to the SLCC Unit project that needs to
16 be added to the plant balance for inclusion in rates (netted against the AFUDC associated
17 with the HRSG disallowance). AFUDC amounts are shown on Schedule 1 relating to
18 Empire's share of the project only, as AFUDC is not calculated on a total project basis.

19 Schedule 1 shows that the total recommended rate base addition amount for the
20 SLCC Unit for Empire in this proceeding is \$121.205 million on a total Company basis.
21 On a Missouri jurisdictional basis, the SLCC Unit cost the Staff recommends be included
22 in rate base in this proceeding is \$98.54 million, based upon the Staff's recommended
23 production plant allocation factor of 81.3%.

True-Up Direct Testimony of
Mark L. Oligschlaeger

1 Q. Is the Staff still waiting for answers to discovery concerning SLCC Unit
2 capital costs?

3 A. Yes. As of the date of this filing, answers to certain data requests are still
4 outstanding from the Company. While Empire provided considerable information to the
5 Staff concerning reasons for cost overruns, much of the information provided cut off at
6 April 2001. The Staff has received supplemental information concerning the cost
7 overruns incurred at the SLCC Unit in May and June of 2001, but the Company as of the
8 date of the true-up direct filing has not responded to all of the Staff's inquiries. For some
9 of the Company's SLCC Unit vendors, the last several months have been the focus of
10 intense work activities, especially concerning start-up activities at the SLCC Unit.

11 The Staff does not expect that the answers to these data requests will change its
12 conclusions and recommendations concerning rate recovery of SLCC Unit capital costs.
13 Nonetheless, the Staff reserves the right to file testimony in later phases of the true-up
14 proceeding modifying its position on rate recovery of SLCC Unit capital costs if the
15 responses to the data requests that are currently outstanding warrant such a change in
16 position.

17 Q. Does this conclude your true-up direct testimony?

18 A. Yes, it does.

CASE NO. ER-2001-299
EMPIRE SLCC UNIT
STAFF RECOMMENDED RATE BASE ALLOWANCE
(000's Omitted)

	<u>Total Project</u>	<u>Empire Share</u>
SLCC Work Order Through June 30, 2001	\$198,069	\$118,893
 Add: Approved July 2001 Invoices	 <u>\$ 5,044</u>	 <u>\$ 2,137</u>
 July 31, 2001 Cost of SLCC Unit, Before HRSG Disallowance, Retainage and AFUDC	 \$203,113	 \$121,030
 Less: HRSG Disallowance	 <u>\$ 8,300</u>	 <u>\$ 4,980</u>
 July 31, 2001 Cost of SLCC Unit, before Retainage and AFUDC	 \$194,813	 \$116,050
 Less: Retainage as of July 31, 2001	 <u>\$ 5,910</u>	 <u>\$ 3,546</u>
 Cost of SLCC before AFUDC	 \$188,903	 \$112,504
 Add: AFUDC Allowance (Net of AFUDC Associated with HRSG Disallowance)		 <u>\$ 8,701</u>
 Staff Recommended Rate Base Allowance for SLCC		 \$121,205

Schedule 1