

Exhibit No.: 106

Issue: Accounting Schedules, Adjustments, True-up, Misc. Tariff Changes and Rate Design  
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Witness: W. Scott Keith  
Type of Exhibit: Direct Testimony  
Missouri Public Service Commission

Sponsoring Party: Empire District Electric

Case No. ER-2014-0351

Date Testimony Prepared: August 2014

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

**Direct Testimony**

**of**

**W. Scott Keith**

**August 2014**



**SERVICES YOU COUNT ON**

Empire Exhibit No. 106

Date 4-14-15 Reporter XF

File No. ER-2014-0351

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OF  
W. SCOTT KEITH  
THE EMPIRE DISTRICT ELECTRIC COMPANY  
BEFORE THE  
MISSOURI PUBLIC SERVICE COMMISSION  
CASE NO. ER-2014-0351

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DIRECT TESTIMONY  
OF  
W. SCOTT KEITH  
THE EMPIRE DISTRICT ELECTRIC COMPANY  
BEFORE THE  
MISSOURI PUBLIC SERVICE COMMISSION  
CASE NO. ER-2014-0351

1 **INTRODUCTION**

2 **Q. STATE YOUR NAME AND BUSINESS 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  
19 exhibits for rate filings presented to various regulatory commissions and audits

1 leading to opinions on financial statements for various types of companies  
2 including utility companies.

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

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

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

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

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

22 A. Yes, I have. I have testified before regulatory commissions in the states of Kansas,  
23 Arkansas, Colorado, Indiana, Missouri, Oklahoma, and West Virginia. I have also

1 testified before the Federal Energy Regulatory Commission (“FERC”).

2 **PURPOSE**

3 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**  
4 **CASE BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION**  
5 **(“COMMISSION”)?**

6 A. My testimony will support various schedules containing financial and other  
7 information, all of which support the Company’s proposed rate increase. In  
8 addition, I will describe the Company’s request to recover the net cost of  
9 transmission charges incurred from the Regional Transmission Organizations  
10 (“RTO”). I will also support specific adjustments that the Company is making to  
11 the test year statement of operating income, describe a minor revision to Empire’s  
12 four-state cost allocation process, generally describe Empire’s rate design  
13 proposals, and outline Empire’s request for a true-up process in this case.

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

16 A. The schedules included in this filing are based upon a test year ending April 30,  
17 2014, updated for known and measureable changes through December 31, 2014.  
18 Empire is also requesting that these costs ultimately be trued-up through December  
19 31, 2014.

20 **SUPPORTING SCHEDULES**

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

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

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

8   **Q. PLEASE DESCRIBE EMPIRE'S OVERALL MISSOURI REVENUE**  
9   **DEFICIENCY.**

10 A. Empire is requesting an overall increase in Missouri jurisdictional revenue of \$24.3  
11 million, or 5.5 percent above current revenue. This increase is based upon an  
12 overall rate of return of 7.94 percent and a return on equity of 10.15 percent. The  
13 largest single factor driving the rate case is the increase in investment related to the  
14 new air quality control system ("AQCS") equipment installed at Empire's Asbury  
15 generating unit. In addition to the recovery of the fixed costs associated with this  
16 investment, Empire expects to see ongoing increases in RTO transmission charges.  
17 Another major factor included in this rate case is related to increases in property  
18 taxes and a new long-term maintenance contract covering the operation of Riverton  
19 Unit 12. Empire witness Kelly Walters will provide a more comprehensive  
20 analysis of the factors driving this case in her direct testimony.

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

22 A. Schedule WSK-1 is a summary of Empire's adjusted electric rate base, net  
23 operating income, and required rate of return before and after the proposed rate

1 increase in this case. For the test year in this case, Empire has used the various rate  
2 base component balances at April 30, 2014, and adjusted them for known and  
3 measureable changes through December 31, 2014. As indicated, the total original  
4 cost Missouri jurisdictional electric rate base is \$1,164,924,075, which is multiplied  
5 by the required rate of return of 7.94% to arrive at a Missouri jurisdictional after tax  
6 operating income requirement of \$92,492,408. This operating income requirement  
7 is subtracted from the Company's adjusted Missouri jurisdictional operating  
8 income of \$77,508,921, and results in a Missouri jurisdictional after tax operating  
9 income deficiency of \$14,983,487, or a Missouri jurisdictional pre-tax revenue  
10 deficiency of \$24,319,353, which is the overall rate increase requested in Empire's  
11 filing with the Commission.

12 **Q. PLEASE DESCRIBE THE RATE BASE IN SCHEDULE WSK-1.**

13 A. Schedule WSK-1 also displays Empire's adjusted rate base balances at December  
14 31, 2014. Materials and supplies and prepayments are the average of the thirteen  
15 consecutive month-end balances ending April 30, 2014. Regulatory assets adjusted  
16 for known and measurable changes are also displayed, including Empire's  
17 investment in pre-MEEIA energy efficiency programs of \$4.7 million, which is  
18 labeled as "Cust Programs Collaborative" on Schedule WSK-1. In addition,  
19 Empire has developed a cash working capital requirement that is included in rate  
20 base. Offsets to Empire's rate base are also displayed on Schedule WSK-1. These  
21 include: deferred income taxes, customer deposits, customer advances, interest  
22 synchronization offset, and an income tax offset.

23 **Q. PLEASE DESCRIBE SCHEDULE WSK-2, SUMMARIZED INCOME**

1           **STATEMENT.**

2    A.    Schedule WSK-2 is Empire's functional income statement with specific  
3           adjustments to normalize test year electric operations (April 30, 2014) for the  
4           impact of known and measureable changes through December 31, 2014. A number  
5           of adjustments have been made to this income statement. Included among the  
6           adjustments are those related to Empire customer growth since the last rate case,  
7           normal weather conditions, an increase in RTO transmission charges from the  
8           Southwest Power Pool ("SPP") and the Midwest System Operator ("MISO"), rate  
9           case expense, normalized fuel and energy costs for the Fuel Adjustment Clause  
10          ("FAC"), depreciation and amortization expense, including the ongoing  
11          depreciation associated with the early retirement of Riverton 7 and Asbury 2 due to  
12          tightening Environmental Protection Agency ("EPA") air quality standards,  
13          changes in the costs associated with vegetation management and infrastructure  
14          inspection expense, payroll costs, common stock expense, and general changes in  
15          other operating costs. Also reflected are Empire's total Company and Missouri  
16          jurisdictional operational results, as adjusted for purposes of this case. As  
17          indicated, after the posting of the various adjustments to the Missouri jurisdictional  
18          operations, current rates are expected to produce \$77.5 million in Net Operating  
19          Income ("NOI"). This level of ongoing NOI produces an overall return on  
20          Empire's Missouri jurisdictional rate base of 6.65 percent.

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

22    A.    Schedule WSK-3 summarizes the adjustments Empire has made to the statement of  
23          operations in this case. As summarized in schedule WSK-3, among the



1 adjustments to total Company and Missouri jurisdictional revenues are adjustments  
2 that: (1) reflect customer numbers at December 31, 2014; (2) reflect normal  
3 weather for the test year; (3) update unbilled related revenues; and (4) reflect  
4 changes in SPP/MISO transmission costs and revenues. The year-end customer  
5 adjustment annualizes revenues to reflect what would have been received if the  
6 level of customers Empire expects to serve at December 31, 2014, had been served  
7 by the Company for an entire year. Empire witness Steve Williams will describe  
8 the weather normalization and unbilled revenue adjustments in greater detail in his  
9 direct testimony, and Empire witness Joan Land will explain the remaining retail  
10 revenue adjustments in greater detail in her direct testimony. Empire witness Aaron  
11 Doll will discuss the adjustment needed to capture the costs/benefits associated  
12 with the changes in net transmission charges from SPP and MISO that Empire  
13 expects to see in calendar year 2014.

14 **ADJUSTMENTS TO COST OF SERVICE**

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

16 A. Total Company costs, excluding the impact of income taxes, have been decreased  
17 by \$7.9 million for the Missouri retail jurisdiction. Included is an adjustment to  
18 normalize test year payroll costs. The payroll adjustment results in a net increase in  
19 annual payroll expense of \$1.1 million on a Total Company basis. Empire witness  
20 Joan Land explains the payroll adjustments in greater detail in her direct testimony.  
21 Fuel and purchased power costs have been normalized to reflect ongoing fuel and  
22 energy costs. Empire witness Todd Tarter will discuss the fuel and energy costs in  
23 greater detail in his direct testimony, along with a request to continue the Fuel

1 Adjustment Clause ("FAC") and explain how Empire has proposed to modify the  
2 FAC so that it recovers future changes in energy costs and net RTO transmission  
3 charges that pertain to Empire's retail operations. The fuel and purchased power  
4 energy adjustment in this case resulted in a decrease in total production expense of  
5 \$29.4 million attributable to the Company's Missouri jurisdictional operations.  
6 The fuel and energy costs are an important part of this rate case due to their  
7 significance in terms of cost and due to Empire's request to continue the Missouri  
8 FAC. Empire's fuel and purchased power expenses and directly related RTO  
9 transmission charges represent a very significant component of Empire's operating  
10 costs, are beyond Empire's direct control, and can be volatile.

11 **Q. PLEASE DESCRIBE THE ADJUSTMENTS MADE TO THE**  
12 **TRANSMISSION EXPENSE LEVELS.**

13 A. Net Missouri jurisdictional RTO transmission charges were increased by \$2.7  
14 million. As I mentioned earlier, Empire witness Aaron Doll will discuss the RTO  
15 transmission adjustment to RTO expense and RTO revenue in his testimony.  
16 Other adjustments to transmission expense include payroll, remediation, and  
17 vegetation management.

18 **Q. PLEASE DESCRIBE THE ADJUSTMENTS MADE TO THE**  
19 **DISTRIBUTION EXPENSES.**

20 A. Missouri jurisdictional distribution expenses were adjusted to reflect annualized  
21 payroll costs, operation and maintenance costs, and ongoing cost levels related to  
22 Empire's infrastructure remediation and vegetation management programs. Empire  
23 witness Kelly Walters will discuss various aspects of vegetation and remediation

1 adjustments in greater detail in her direct testimony, while Empire witness Land  
2 will discuss the payroll adjustment and other miscellaneous adjustments in her  
3 direct testimony.

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

6 A. Missouri jurisdictional customer accounts expense was adjusted to reflect an  
7 increase in payroll expense. In addition, Missouri jurisdictional customer accounts  
8 expense was decreased by \$339,804 to reflect a reduction in bad debts expense.  
9 Empire witness Joan Land will address these adjustments in greater detail in her  
10 direct testimony.

11 **Q PLEASE DESCRIBE THE ADJUSTMENTS MADE TO CUSTOMER**  
12 **ASSISTANCE AND SALES EXPENSES.**

13 A Each of the expense levels in these areas was increased to reflect the ongoing level  
14 of payroll costs. Although Empire's pre-MEEIA energy efficiency program cost is  
15 not included in sales expense, there is an adjustment related to the amortization of  
16 the program costs over a six-year amortization period. This results in an increase in  
17 Missouri jurisdictional operating expenses of \$262,074. I will address the  
18 adjustment to pre-MEEIA program costs and amortization later in my testimony.

19 **Q. PLEASE DESCRIBE THE ADJUSTMENTS MADE TO ADMINISTRATIVE**  
20 **AND GENERAL EXPENSES.**

21 A. Missouri jurisdictional administrative and general expenses were decreased by a  
22 total of \$2.4 million through a series of ten adjustments. Of the total, \$53,509 was  
23 associated with an increase in 401(k) costs. In addition, the ongoing FAS 87 and

1 FAS 106 costs have been adjusted based upon the tracking accounting agreed to in  
2 Case No. ER-2010-0130. This resulted in a decrease in Missouri jurisdictional  
3 costs of \$2.3 million. The methods used to calculate the adjustments for FAS 87  
4 and FAS 106 costs are discussed in the direct testimony of Empire witness Jeff Lee.  
5 Missouri jurisdictional administrative and general expenses have been increased by  
6 \$243,370, to reflect adjusted payroll expense. Rate case expenses were also  
7 decreased by \$645,161, based upon the costs associated with the current rate case,  
8 the proposed amortization period of two years, and the elimination of rate case  
9 amortization costs associated with prior Missouri rate cases. The Missouri  
10 jurisdictional administrative and general expense levels have also been adjusted  
11 upward by \$537,109, to reflect the ongoing level of healthcare expense, and  
12 \$166,595, to reflect the ongoing level of maintenance costs associated with  
13 Empire's accounting and work management systems. Empire witness Kelly  
14 Walters will discuss the change in healthcare costs in greater detail in her direct  
15 testimony. Finally, Missouri jurisdictional administrative and general expense  
16 levels have been adjusted upward to reflect the ongoing level of outside services. I  
17 will discuss the changes in ongoing software maintenance costs associated with  
18 Empire's accounting/work management systems and normalized level of outside  
19 service expense in further detail later in my testimony.

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

21 A. The depreciation expense adjustment resulted in an increase of \$7.7 million for  
22 Empire's Missouri jurisdictional operations. Most of this increase is directly  
23 related to the new environmental air quality controls installed at the Asbury unit.

1 In addition to the depreciation expense, Empire's amortization expense has been  
2 adjusted in this case through a series of adjustments. The adjustment associated  
3 with a change in stock issuance costs increases Missouri jurisdictional amortization  
4 expense by \$260,187 million. The adjustments to ongoing amortization also  
5 include annualizing intangible amortization expense and annualizing the  
6 amortization expense levels associated with the Plum Point and Iatan O&M  
7 trackers and Joplin tornado amortization.

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

9 A. Excluding the elimination of franchise taxes, the taxes other than income taxes  
10 have been increased by approximately \$297,000, for the Missouri jurisdiction,  
11 primarily to reflect the impact of Empire's adjusted plant in service balances on  
12 ongoing ad valorem tax levels. In addition, Missouri jurisdictional taxes other than  
13 income have been adjusted downward by \$160,938, to include the impact of the  
14 projected change in payroll taxes due to the annualized payroll expense and the  
15 ongoing expense/capital ratio. Empire witnesses Rob Sager and Joan Land discuss  
16 each of these adjustments in greater detail in their respective direct testimonies.  
17 Empire's statement of operations has also been adjusted to reflect the impact that  
18 the various revenue and expense adjustments have on income taxes.

19 **Q. PLEASE EXPLAIN WHY THE ADJUSTMENTS FOR THE MISSOURI**  
20 **JURISDICTION AND TOTAL COMPANY ARE THE SAME IN SOME**  
21 **INSTANCES.**

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

1 Missouri jurisdiction only.

2 **JURISDICTIONAL ALLOCATIONS**

3 **Q. PLEASE DESCRIBE THE JURISDICTIONAL ALLOCATION PROCESS**  
4 **USED IN EMPIRE'S FILING.**

5 A. The basic development of the jurisdictional allocation factors for Empire has  
6 essentially remained unchanged since the 1980's. The individual accounts and  
7 jurisdictional allocation factors used for allocation purposes are routinely examined  
8 to ensure that the allocation basis is appropriate with the type of revenue and  
9 expenses recorded in the various FERC authorized accounts. Due to the evolving  
10 nature of transmission and power charges that Empire incurs from the SPP, this  
11 periodic allocation review has focused on the revenue and expense accounts  
12 associated with the SPP's transmission service and the revenue and expense  
13 accounts impacted by the SPP's next day market to make certain the allocation  
14 factors used to allocate the revenue and expenses to the various jurisdictions are  
15 reasonable.

16 **RATE DESIGN**

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

19 A. Empire has proposed rate increases in the various rate classes that move each class  
20 towards the cost of providing electric service to the class. Empire witness H.  
21 Edwin Overcast provides a detailed explanation of the cost of service in his  
22 testimony. Empire has used the cost of service supported by Empire witness  
23 Overcast as the starting point in its allocation of the overall deficiency. Empire

1 recommends that the revenue requirement be allocated using the results of the cost  
2 of service study with the following mitigation steps:

- 3 • For each class of service producing a return below the system average, with  
4 the exception of the lighting classes, an increase no greater than 1.40 times the  
5 average, given the fact that this is the beginning of back-to-back rate increases;
- 6 • No class gets an overall decrease in rates;
- 7 • All classes other than the lighting classes receive an increase of at least 25  
8 percent of the overall average increase due to non-energy efficiency related  
9 costs;
- 10 • The pre-MEEIA energy efficiency revenue requirement is recovered through a  
11 uniform rate per kilowatt-hour sold;
- 12 • For each class of service producing a return between the proposed return and  
13 125% of the proposed return, an increase no greater than 50% of the average  
14 proposed increase; and
- 15 • The cost of service results related to the Special Contract and Large Power  
16 classes be adjusted to reflect changes related to the nature of the service  
17 provided and the addition of new customers subsequent to the cost of service  
18 test year, respectively.

19 Empire also recommends changes in the elements of the rates including the  
20 customer charge, demand charge, and energy charge as applicable for each rate  
21 schedule to better reflect the nature of the costs (fixed) driving Empire's overall  
22 revenue requirement.

23 The following table displays the overall increase, excluding pre-MEEIA revenue of

1 \$23.7 million by each rate class.

Class	Current Rate Revenue	Increase	Percentage
Residential	\$199,875,347	\$15,535,762	7.65
Commercial Small	41,395,126	2,853,269	6.89
Small Heating	10,052,427	700,616	6.97
General Power	82,846,435	1,127,727	1.36
Special Contract	3,319,615	46,000	1.39
Total Electric Bldg	36,226,524	493,565	1.36
Feed Mill	82,683	1,116	1.35
Large Power	55,408,850	3,235,443	5.79
Traffic Signals	13,762	0	0
Municipal Lighting	2,264,411	0	0
Private Lighting	4,345,220	0	0
Special Lighting	120,077	0	0
Total	\$435,950,477	\$23,741,631	5.45

2 **Q. PLEASE SUMMARIZE THE CHANGE IN RATE COMPONENTS EMPIRE**  
3 **HAS INCLUDED IN ITS PROPOSED TARIFF SHEETS.**

4 A. I have incorporated the recommendations made by Empire witness Overcast  
5 concerning Empire's level of monthly fixed charges in Empire's proposed changes  
6 to monthly fixed charge rates and moved these charges toward the levels indicated  
7 by the cost of service. The following table displays the changes in fixed rate  
8 charges Empire has included in its proposed rates.

Class	Existing	Proposed	Change
<b>Residential:</b>			
Customer Charge	\$12.52	\$18.75	\$6.23
<b>Commercial:</b>			
Customer Charge	\$21.32	\$32.00	\$10.68
<b>General Power:</b>			
Customer Charge	\$67.00	\$76.00	9.00
Facilities Demand Charge	\$1.998	\$4.533	\$2.535
<b>Special Contract:</b>			



Customer Charge	\$246.47	\$2,450.00	\$2,212.53
Facilities Demand Charge	\$0.481	\$4.50	\$4.019
<b>Total Electric Buildings:</b>			
Customer Charge	\$66.99	\$62.00	(\$4.99)
Facilities Demand	\$1.997	\$4.60	\$2.603
<b>Feed Mills:</b>			
Customer Charge	\$27.65	\$76.40	\$48.75
<b>Large Power:</b>			
Customer Charge	\$247.73	3,790.00	\$3,542.27
Facilities Demand	\$1.649	\$4.50	\$2.851
<b>Miscellaneous Service:</b>			
Customer Charge	\$19.51	\$29.25	\$9.74

1 Q. HAS EMPIRE INCLUDED A PROPOSED TARIFF SHEET THAT  
2 DECOUPLES BASE RATE REVENUE PRODUCTION FROM THE  
3 VOLUME OF ELECTRICITY SOLD?

4 A. No. Empire witness Overcast discusses an example of decoupling in his testimony,  
5 but with the movement towards more fixed cost recovery in the form of increased  
6 fixed charges in the basic rate design in this case, Empire is not proposing  
7 additional decoupling of rates in this case. If the movement towards greater  
8 recovery of Empire's fixed costs in the form of fixed charges stalls in future cases,  
9 Empire will reexamine this option.

10 **RTO TRANSMISSION COST**

11 Q. PLEASE DESCRIBE EMPIRE'S PROPOSAL RELATED TO THE  
12 RECOVERY OF RTO TRANSMISSION CHARGES THROUGH EMPIRE'S  
13 FAC.

1 A. Empire currently incurs FERC transmission charges with SPP and MISO. These  
2 charges are expected to change significantly as each of the transmission systems  
3 controlled by SPP and MISO see increases in investment to improve reliability and  
4 facilitate the interconnection of supply resources, including renewable resources.  
5 Empire witness Aaron Doll discusses the specific adjustment in this area that  
6 Empire has included in this case, and Empire witness Todd Tarter addresses the  
7 modifications to Empire's FAC that are needed to reflect the pass through of future  
8 changes in net RTO transmission charges related to Empire's Missouri retail  
9 operations.

10 **Q. IS EMPIRE'S PROPOSAL TO USE THE FAC FOR RTO COST**  
11 **RECOVERY UNUSUAL OR UNIQUE IN MISSOURI?**

12 A. No. These types of RTO charges and various methods of recovery have been  
13 presented to this Commission on several occasions recently, including Empire's  
14 most recent rate case, a Kansas City Power and Light request for an accounting  
15 authority order ("AAO") to defer and recover these costs, and in Ameren UE's last  
16 rate case.

17 **Q. HAS THE COMMISSION ALLOWED THESE RTO COSTS TO BE**  
18 **REFLECTED IN THE FAC AS A RESULT OF THESE PROCEEDINGS?**

19 A. Yes. The Commission allowed Ameren to include and recover changes in RTO  
20 transmission charges as part of its Missouri FAC. In addition, the Commission,  
21 while rejecting a KCPL-requested AAO concerning RTO transmission fees,  
22 indicated that addressing recovery of changes in these costs through the FAC in the  
23 future would be appropriate.

1 Q. DID EMPIRE USE A COMMISSION-APPROVED FAC TARIFF AS A  
2 GUIDE IN THE DEVELOPMENT OF ITS PROPOSED FAC  
3 MODIFICATIONS?

4 A. Yes. Empire used Ameren's approved Missouri FAC tariff as a starting point in the  
5 development of its proposed FAC tariff modifications.

6 Q. DO EMPIRE'S PROPOSED FAC MODIFICATIONS INCLUDE RTO  
7 TRANSMISSION REVENUE AND EXPENSE?

8 A. Yes. Empire has included both the RTO expense and revenue from SPP and MISO  
9 in its proposed FAC modifications, only ultimately excluding any of the RTO  
10 revenue and expense associated with its firm sale for resale municipalities.  
11 Empire's FAC will reflect changes in net RTO transmission costs, not just changes  
12 in RTO expenses.

13 Q. ARE RTO TRANSMISSION COSTS SIGNIFICANT AND BEYOND THE  
14 CONTROL OF EMPIRE'S MANAGEMENT?

15 A. Yes. The net cost of RTO transmission is in excess of \$8 million per year, and  
16 these costs are not controlled by Empire.

17 **OTHER ADJUSTMENTS**

18 Q. WHAT OTHER RATE CASE ADJUSTMENTS ARE YOU SPONSORING?

19 A. I am sponsoring the following adjustments to Empire's case:  
20 • Allocation of the common investment in Empire's Kodiak facility;  
21 • Pre-MEEIA investment and related amortization;  
22 • Normalized Outside Service expense;  
23 • Elimination of NERC penalties; and

- 1           • Annualized software maintenance cost.

2           **Q. PLEASE DESCRIBE EMPIRE'S KODIAK FACILITY.**

3           A. The Kodiak facility is primarily used as a base of operations for Empire's local  
4           distribution line crews and related support staff. This facility replaced several  
5           buildings and facilities at several locations in and around Joplin that were at the end  
6           of their useful lives. In addition to housing distribution personnel that are directly  
7           related to maintaining service in Empire's Joplin service area, the facility houses  
8           some operations that are common to all of Empire's operations, such as Empire's  
9           Joplin call center, which provides support for Empire's operations in other states,  
10          and for The Empire District Gas Company.

11          **Q. WHAT IS THE KODIAK ADJUSTMENT DESIGNED TO ACCOMPLISH?**

12          A. The adjustment has been designed to remove the investment in Kodiak that is  
13          related to Empire's non-Missouri operations, thus reducing Empire's Missouri  
14          jurisdictional investment in plant in service. This adjustment reduces Empire's  
15          investment in Missouri jurisdictional electric distribution rate base by \$1,152,591.

16          **Q. PLEASE DESCRIBE THE ADJUSTMENT TO PRE-MEEIA ENERGY  
17          EFFICIENCY COSTS AND AMORTIZATION.**

18          A. This adjustment is related to the amortization of the expected pre-MEEIA deferred  
19          energy efficiency cost balance at December 31, 2014, of \$4.7 million. The deferred  
20          costs at December 31, 2014, are amortized over a ten-year or six-year period and  
21          results in an increase in the amortization of pre-MEEIA energy efficiency cost of  
22          \$262,074.

23          **Q. PLEASE PROVIDE AN EXPLANATION OF THE OUTSIDE SERVICES**

1           **ADJUSTMENT.**

2           A. Empire has adjusted its outside services expense using a three-year average of  
3           outside services expenses. This resulted in an adjustment to outside service  
4           expense that decreased Empire's cost by \$293,370.

5           **Q. PLEASE PROVIDE AN EXPLANATION OF THE ADJUSTMENT TO**  
6           **NERC PENALTIES.**

7           A. This adjustment eliminates all of the NERC penalties incurred during the test year.  
8           This adjustment reduces Empire's operating expenses by \$12,500.

9           **Q. PLEASE DESCRIBE THE ADJUSTMENT MADE TO SOFTWARE**  
10           **MAINTENANCE COSTS.**

11          A. This adjustment represents the annualized cost associated with Empire's software  
12          maintenance being provided by various outside vendors for Empire's accounting  
13          and work management systems. This adjustment results in an increase in  
14          maintenance cost of \$217,348.

15          **TRUE-UP**

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

17          A. Yes. Empire is requesting that the financial information be subject to true-up as of  
18          December 31, 2014.

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

20          A. The true-up will enable the Commission and all of the parties to the proceeding to  
21          use financial information that is closer to the effective date of the new tariffs that  
22          will become effective as part of this rate case. All of the major components used to  
23          develop the new revenue requirement should be subject to true-up, including rate

1 base, operating revenues, and operating expenses.

2 **Q. WHAT AREAS OF EMPIRE'S REVENUE REQUIREMENT SHOULD BE**  
3 **TRUED-UP THROUGH DECEMBER 31, 2014?**

4 A. The revenue requirement should be updated to recognize all of the significant  
5 changes that have occurred through December 31, 2014. Among those areas where  
6 significant changes can occur are:

- 7 • Net electric Plant in Service, including most importantly the investment  
8 associated with Empire's Asbury unit environmental controls;
- 9 • Revenue;
- 10 • RTO Transmission costs/revenue;
- 11 • Payroll Cost including Benefits;
- 12 • Depreciation;
- 13 • Pension and OPEB Costs; and
- 14 • Health Insurance.

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

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

19 **PRE-MEEIA ENERGY EFFICIENCY**

20 **Q. HOW DOES EMPIRE PROPOSE TO RECOVER THE COSTS**  
21 **ASSOCIATED WITH ITS PRE-MEEIA ENERGY EFFICIENCY**  
22 **PROGRAMS?**

23 A. The annualized cost of these energy efficiency programs will be billed as a separate

1 line item on our customers' bills at a rate of \$0.0043 per kilowatt-hour ("KWH").  
2 This represents an increase of \$0.0016 per KWH from the charge on our customers'  
3 bills today. Those customers who have opted-out or will opt-out under the  
4 Commission's MEEIA rule will not be billed for these pre-MEEIA energy  
5 efficiency costs.

6 **Q. HOW DOES THIS APPROACH TO PRE-MEEIA ENERGY EFFICIENCY**  
7 **COST RECOVERY ALLOCATE THE COST RECOVERY TO RATE**  
8 **CLASSES?**

9 A. It basically spreads the increase to each class based upon the usage, excluding those  
10 customers who have opted-out of Empire's pre-MEEIA energy efficiency  
11 programs. The following table shows how this will spread Empire's pre-MEEIA  
12 energy costs to the various rate classifications.

Rate	Existing	Proposed	Change
Residential	\$ 480,858	\$731,107	\$251,867
Commercial Small	84,411	133,844	49,729
Small Heating	24,966	38,178	13,297
General Power	211,132	339,148	128,766
Special Contract	0	0	-
Total Electric Bldg	98,505	151,955	53,786
Feed Mill	125	199	74
Large Power	105,805	185,597	80,202
Traffic Signals			
Municipal Lighting			
Private Lighting			
Special Lighting			
Total	\$1,005,802	\$1,580,028	\$577,722

13 **Q. IS EMPIRE REQUESTING THE CONTINUATION OF ITS PRE-MEEIA**  
14 **ENERGY EFFICIENCY PROGRAMS?**

15 A. No. Empire recommends that all of the existing pre-MEEIA energy efficiency

1 programs be terminated and the existing tariff cancelled when the new rates coming  
2 out of this case are approved by the Commission.

3 **Q. WHY?**

4 A. Under current Commission rules, all electric energy efficiency programs should be  
5 approved under the Commission's MEEIA rules. Empire's existing energy  
6 efficiency programs have not been approved under MEEIA. In addition, Empire  
7 has a MEEIA filing in front of the Commission (Case No. EO-2014-0030) with a  
8 portfolio of energy efficiency programs that would replace the existing programs.  
9 Empire's MEEIA filing also has an improved cost recovery mechanism that  
10 enables Empire to continue to offer energy efficiency alternatives to our customers  
11 without the financial disincentives associated with the existing pre-MEEIA cost  
12 recovery methodology.

13 **ITC COST RECOVERY**

14 **Q. PLEASE DESCRIBE THE CURRENT STATUS OF THE RECOVERY OF**  
15 **INVESTMENT TAX CREDIT ("ITC") INADVERTENTLY REFLECTED AS**  
16 **A REDUCTION IN EMPIRE'S COST OF SERVICE IN A PAST RATE**  
17 **CASE.**

18 A. As part of the settlement reached in the last Empire Missouri rate case (Case No.  
19 ER-2012-0345), Empire received authorization to recover and track the recovery of  
20 ITC that was inadvertently reflected in the Empire revenue requirement in ER-  
21 2011-0004. As result of this process, Empire has recovered all of the ITC  
22 inadvertently reflected in the revenue requirement in ER-2011-0004, and Empire's  
23 records reflect an over-recovery of \$31,895, at April 30, 2014.



1 **Q. HOW DOES EMPIRE RECOMMEND THAT THE OVER-RECOVERY OF**  
2 **ITC BE RETURNED TO THE CUSTOMERS?**

3 A. Empire recommends that the balance in the ITC recovery account at February 28,  
4 2015, be included in the FAC calculation at that date as a reduction in energy costs.  
5 This treatment will ensure the return of this money to Empire's Missouri  
6 customers, and eliminates the swings in cost recovery that ultimately takes place  
7 trying to reflect this sort of non-recurring issue in a general rate case using a  
8 historical test year to establish a revenue requirement.

9 **MISCELLANEOUS TARIFF CHANGES**

10 **Q. PLEASE DESCRIBE THE OTHER MISCELLANEOUS TARIFF**  
11 **CHANGES EMPIRE IS PROPOSING AS PART OF THIS RATE CASE.**

12 A. Empire is proposing some minor changes to the Praxair tariff as part of this case.  
13 These changes involve the total hours of interruption Empire may call on per  
14 contract year. The existing tariff allows Empire to interrupt Praxair's service a total  
15 of one hundred (100) hours. The change we are proposing limits the number of  
16 hours Empire may interrupt Praxair in a contract year to fifty (50) hours for  
17 contract year ending October 31, 2016, seventy-five (75) hours for contract year  
18 ending October 31, 2017, and one hundred (100) hours for contract years after  
19 November 1, 2017. In addition, we are proposing several changes to the line  
20 extension tariff sheets to enable us to be more flexible with new non-residential  
21 customers. Empire witness Brent Baker will discuss the proposed changes to the  
22 line extension policy in his direct testimony.

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

1 A. Yes.

2

1 **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

SCHEDULE WSK-1

The Empire District Electric Company  
Rate Base and Rate of Return

	<u>Missouri</u> <u>Jurisdictional</u>
Plant in Service	\$2,019,692,915
Less: Reserve for Depreciation	674,661,177
Net Electric Plant in Service	<u>1,345,031,738</u>
Fuel	14,175,551
Materials and Supplies (13-Month Average)	23,281,939
Prepayments (13-Month Average)	6,906,255
Cash Working Capital	10,882,440
<u>Regulatory Assets:</u>	
Iatan Deferred Carrying Costs	5,416,979
Cust Programs Collaborative	4,698,463
Reg Asset-Reliability	397,338
MO PlumPt Df Chgs ER-2010-0130	159,830
MO IatanII Df Chgs ER-2010-0130	9,999,008
Vegetation Tracker ER-2010-0130	931,202
Vegetation Tracker ER-2011-0004	3,946,906
May 2011 Tornado Sturm Deferral	752,582
MO 2011 Tornado Depr Deferral	1,199,727
May 2011 Tornado Carrying Cost	1,636,781
IatanII OM Tracker ER2011-0004	230,806
IatCom OM Tracker ER-2011-0004	727,706
PeopleSoft Costs ER-2011-0004	263,468
Vegetation Tracker ER-2012-0345	1,061,502
MO Pension-FAS87 Expense	1,591,455
Reg Pension Costs Amortization	2,037,507
IatanII OM Tracker ER2012-0345	117,280
IatCom OM Tracker ER-2012-0345	632,192
Prepaid Pension Asset	16,105,735
<u>Less:</u>	
<u>Regulatory Liabilities:</u>	
PP O&M Tracker ER-2012-0345	364,947
PP O&M Tracker ER-2011-0004	311,586
MO FAS106 Elec over recd amt	640,740
Reg OPEB Costs Amortization	777,886
Fuel Construction Acctg Iatan2	7,956,588
SWPA Oz Beach - Missouri	14,498,687
Deferred Taxes	230,336,430
Customer Deposits (13-Month Average)	9,770,865
Customer Advances (13-Month Average)	4,178,234
Amortization from Intangibles	12,033,497
Interest Offset	3,814,416
Income Tax Offset	2,576,437
Total Original Cost Rate Base	<u>\$1,164,924,075</u>
Net electric Operating Income Before Effect of Proposed Increase	\$77,508,921
Indicated Rate of Return Before Proposed Increase	6.65%
Proposed Increase (After Taxes)	\$14,983,487
Income Tax Gross-up Factor	1.62308
Proposed Increase (Revenue Requirement)	\$24,319,353
Net Electric Operating Income After Effect of Proposed Increase	\$92,492,408
Indicated Rate of Return After Effect of Proposed Increase	7.94%

SCHEDULE WSK-2

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	\$502,280,885	-\$13,427,704	\$488,853,180	\$451,976,588	-\$12,688,257	\$439,288,331
Sales for Resale - On-System	20,745,313	0	20,745,313	0	0	0
Sales for Resale - Off-System and Other	26,333,613	-21,761,232	4,572,381	21,715,982	-17,945,374	3,770,608
Total Sales of Electricity	549,359,811	-35,188,937	514,170,875	473,692,571	-30,633,631	443,058,940
Other Electric Operating Revenues	14,302,207	35,382	14,337,589	10,314,742	489,792	10,804,534
Total Sales of Electricity	563,662,018	-35,153,554	528,508,464	484,007,312	-30,143,838	453,863,474
<i>Electric Utility Operating Expenses:</i>						
Production	225,636,984	-20,383,151	205,253,833	186,037,937	-16,285,290	169,752,647
Transmission	18,687,248	3,458,290	22,145,539	15,733,956	3,458,256	19,192,212
Distribution	28,975,677	-508,249	28,467,428	26,207,800	-547,852	25,659,948
Customer Accounts	10,078,778	-154,775	9,924,003	8,948,094	-137,411	8,810,683
Customer Assistance	2,519,841	291,266	2,811,107	2,051,393	287,991	2,339,384
Sales	285,265	3,055	288,320	256,649	2,748	259,397
Administrative & General	44,964,185	-2,648,647	42,315,538	38,347,588	-2,356,449	35,991,139
Depreciation & Amortization	65,402,489	2,703,064	68,105,553	56,634,078	7,665,889	64,299,967
Taxes Other Than Income Taxes	33,130,562	-9,207,467	23,923,094	29,112,045	-8,514,394	20,597,651
Income Taxes - Federal	12,501,309	8,105,926	20,607,235	11,260,031	8,168,681	19,428,713
Income Taxes - State	3,193,570	44,710	3,238,280	2,876,474	176,609	3,053,083
Deferred Income Taxes	22,177,862	-12,048,531	10,129,331	20,192,268	-13,637,803	6,554,466
Interest on Customer Deposits	0	415,262	415,262	0	415,262	415,262
Loss on Plant Disallowance	0	0	0	0	0	0
Gain on Sale of Unit Train	0	0	0	0	0	0
Total Electric Utility Operating Expenses	467,553,771	-29,929,246	437,624,524	397,658,315	-21,303,762	376,354,553
<i>Net Electric Utility Operating Income</i>	96,108,247	-5,224,308	90,883,939	86,348,998	-8,840,077	77,508,921

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>Adjustments to Retail Revenue</u>			
To adjust customer growth	Williams	168,894	168,894
To reflect customer expansions	Williams	3,132,506	3,132,506
To normalize weather	Williams	-11,279,390	-11,279,390
To reflect unbilled revenue	Williams	1,051,989	1,051,989
To reflect billing adjustments	Williams	-73,016	-73,016
To reflect rate increase prior case	Land	25,911	25,911
To remove general ledger unbilled	Land	1,284,328	1,284,328
To eliminate franchise fees	Land	-9,551,258	-8,811,811
To annualize excess facilities	Land	59,659	59,659
To annualize energy efficiency opt-out customers	Land	-13,185	-13,185
To remove FAC revenue	Tarter	1,765,858	1,765,858
Total Retail Revenue Adjustments		-13,427,704	-12,688,257
<u>Adjustments to Sales for Resale</u>			
To adjust off system & IM revenue (447)	Tarter	-21,761,232	-17,945,374
Adjustment to Other Revenue			
To remove water revenue - Reconnects (451)	Land	-1,800	-1,800
To remove water revenue - Late Fees (450)	Land	-6,470	-6,470
To remove water revenue - Return Check Fees (456)	Land	-880	-880
To adjust renewable energy credits (456)	Tarter	-321,911	-270,108
To adjust Transmission Revenue/SPP	Doll	366,443	769,050
		<u>35,382</u>	<u>489,792</u>
Total Revenue Adjustment		-35,153,554	-30,143,838
To normalize plant O&M - 500	Mertens	46,937	39,384
To normalize plant O&M - 502	Mertens	166,954	137,672
To normalize plant O&M - 505	Mertens	-46,672	-39,161
To normalize plant O&M - 506	Mertens	-56,886	-47,732
To normalize plant O&M - 510	Mertens	-3,154	-2,601
To normalize plant O&M - 511	Mertens	12,871	10,800
To normalize plant O&M - 512	Mertens	591,352	487,635
To normalize plant O&M - 513	Mertens	304,092	250,758
To normalize plant O&M - 514	Mertens	-49,603	-41,621
To normalize plant O&M - 535	Mertens	8,872	7,444
To normalize plant O&M - 536	Mertens	-17,746	-14,634
To normalize plant O&M - 537	Mertens	-116	-97
To normalize plant O&M - 538	Mertens	2,341	1,964
To normalize plant O&M - 539	Mertens	361,682	303,478
To normalize plant O&M - 541	Mertens	-1,999	-1,677
To normalize plant O&M - 542	Mertens	5,222	4,382
To normalize plant O&M - 543	Mertens	-7,237	-6,072
To normalize plant O&M - 544	Mertens	31,381	26,331
To normalize plant O&M - 545	Mertens	-5,875	-4,930
To normalize plant O&M - 546	Mertens	3,574	2,999
To normalize plant O&M - 548	Mertens	-40,500	-33,983
To normalize plant O&M - 549	Mertens	48,462	40,663

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

		Increase (Decrease)	
		Total Company	Missouri Jurisdictional
		Revenues	Expenses
To normalize plant O&M - 550	Mertens		4
To normalize plant O&M - 551	Mertens	10,318	8,658
To normalize plant O&M - 552	Mertens	-26,505	-22,240
To normalize plant O&M - 553	Mertens	558,574	468,686
To normalize plant O&M - 554	Mertens	-134,464	-112,826
To normalize plant O&M - 556	Mertens	93	78
To reflect LTP annual cost - Riverton - 553	Mertens	4,687,245	3,932,956
To rebase O&M tracker - 500	Mertens	-19,228	-16,134
To rebase O&M tracker - 502	Mertens	-392,059	-323,296
To rebase O&M tracker - 505	Mertens	-276,858	-232,305
To rebase O&M tracker - 506	Mertens	54,045	45,348
To rebase O&M tracker - 507	Mertens	19,498	16,360
To rebase O&M tracker - 510	Mertens	2,406	1,984
To rebase O&M tracker - 511	Mertens	-118,797	-99,680
To rebase O&M tracker - 512	Mertens	-31,281	-25,795
To rebase O&M tracker - 513	Mertens	-290,930	-239,904
To rebase O&M tracker - 514	Mertens	-23,646	-19,841
To rebase O&M tracker - 556	Mertens	-6,698	-5,620
To rebase O&M tracker - 557	Mertens	-54,057	-45,358
To normalize test year payroll	Land	330,664	275,992
To remove dues/donations - 506	Land	-184	-154
To remove dues/donations - 549	Land	-362	-304
To remove FAC over/under accounts - 501	Tarter	6,477,126	5,721,893
To remove TCR Unreal/Unrecov Exp (555700)	Tarter	64,807	54,378
To remove Derv Unrecov Fuel Exp (547300)	Tarter	195,969	185,532
To adjust AQCS Consumables (506)	Tarter	2,892,345	2,426,898
To reflect normalization of Fuel/PP (501)	Tarter	3,323,033	2,740,209
To reflect normalization of Fuel/PP (547)	Tarter	-16,483,151	-13,592,184
To reflect normalization of Fuel/PP (555)	Tarter	-22,495,008	-18,549,626
Total Production		-20,383,151	-16,285,290
To normalize test year payroll	Land	63,973	53,678
To normalize plant O&M - 560	Mertens	26	22
To normalize plant O&M - 562	Mertens	19,358	16,243
To normalize plant O&M - 563	Mertens	5	4
To normalize plant O&M - 570	Mertens	1,734	1,455
To normalize plant O&M - 571	Mertens	3	3
To rebase O&M tracker - 566	Mertens	-36	-30
To rebase O&M tracker - 570	Mertens	1,268	1,064
To adjust SPP/MISO transmission expense	Doll	3,485,820	3,504,994
To remove NERC penalties	Keith	-12,500	-10,488
To normalize inspection & remediation - 571	Walters	45,530	38,203
To rebase vegetation tracker - 571	Walters	-141,680	-141,680
To amortize vegetation tracker - 571	Walters	-5,211	-5,211
Total Transmission		3,458,290	3,458,256
To normalize test year payroll	Land	244,752	219,354
To normalize plant O&M - 582	Mertens	13	12
To normalize plant O&M - 583	Mertens	21	19
To normalize plant O&M - 586	Mertens	3	3
To normalize plant O&M - 588	Mertens	431	386
To normalize plant O&M - 593	Mertens	3	3

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

		Increase (Decrease)	
		Total Company	Missouri Jurisdictional
		Revenues	Expenses
To normalize plant O&M - 594	Mertens		5
To remove dues/donations - 588	Land		-200
To annualize lease expense - 593	Land		-48,446
To normalize inspection & remediation - 593	Walters		179,118
To normalize inspection & remediation - 594	Walters		5,942
To rebase vegetation tracker - 593	Walters		-818,879
To rebase vegetation tracker - 594	Walters		-39,441
To amortize vegetation tracker - 593	Walters		-30,120
To amortize vegetation tracker - 594	Walters		-1,451
Total Distribution			<u>-508,249</u>
To normalize test year payroll	Land		115,810
To increase bad debt expense	Land		-382,741
To remove dues/donations - 903	Land		-65
To annualize insurance premiums - 905	Land		31,871
To annualize software mtce - 903	Keith		22,307
To annualize postage expense - 903	Land		58,044
Total Customer Accounts			<u>-154,775</u>
To normalize test year payroll	Land		29,549
To remove dues/donations - 907	Land		-357
To adjust DSM expense	Keith		262,074
Total Customer Assistance			<u>291,266</u>
To remove dues/donations - 912	Land		-2,358
To normalize test year payroll	Land		5,413
Total Sales Expense			<u>3,055</u>
To normalize test year 401k costs	Land		62,645
To normalize test year payroll	Land		284,925
To rebase O&M tracker - 920	Mertens		-9,927
To rebase O&M tracker - 921	Mertens		-64,505
To rebase O&M tracker - 922	Mertens		1,181
To rebase O&M tracker - 923	Mertens		-164,277
To rebase O&M tracker - 924	Mertens		166,473
To rebase O&M tracker - 925	Mertens		-20,826
To rebase O&M tracker - 926	Mertens		-135,850
To rebase O&M tracker - 935	Mertens		-6
To reflect FAS 87 tracker expense	Lee		-1,554,398
To reflect FAS 106 tracker expense	Lee		-1,110,935
To normalize outside services	Keith		-293,370
To annualize healthcare expense - 926	Walters		628,819
To annualize insurance premiums - 924	Land		31,444
To annualize insurance premiums - 925	Land		52,036
To annualize insurance premiums - 926	Land		3,009
To annualize insurance premiums - 930	Land		4,553
To annualize lease expense - 931	Land		274
To remove dues/donations - 921	Land		-57,513
To remove dues/donations - 930	Land		-22,280
To annualize software mtce - 921	Keith		195,041
To annualize rate case & PSC assessment	Land		-645,161
Total Administrative & General			<u>-2,648,647</u>
			<u>4</u>
			<u>-179</u>
			<u>-43,419</u>
			<u>160,531</u>
			<u>5,325</u>
			<u>-818,879</u>
			<u>-39,441</u>
			<u>-30,120</u>
			<u>-1,451</u>
			<u>-547,852</u>
			<u>102,818</u>
			<u>-339,804</u>
			<u>-58</u>
			<u>28,296</u>
			<u>19,804</u>
			<u>51,532</u>
			<u>-137,411</u>
			<u>26,234</u>
			<u>-317</u>
			<u>262,074</u>
			<u>287,991</u>
			<u>-2,121</u>
			<u>4,870</u>
			<u>2,748</u>
			<u>53,509</u>
			<u>243,370</u>
			<u>-8,479</u>
			<u>-55,097</u>
			<u>1,009</u>
			<u>-140,318</u>
			<u>142,194</u>
			<u>-17,789</u>
			<u>-116,037</u>
			<u>-5</u>
			<u>-1,327,697</u>
			<u>-948,911</u>
			<u>-250,584</u>
			<u>537,109</u>
			<u>26,858</u>
			<u>44,447</u>
			<u>2,570</u>
			<u>3,889</u>
			<u>234</u>
			<u>-49,125</u>
			<u>-19,031</u>
			<u>166,595</u>
			<u>-645,161</u>
			<u>-2,356,449</u>



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 annualize depreciation expense	Keith	2,174,119	7,260,422
To annualize intangible amortization expense	Keith	172,141	148,217
To amortize Plum Point and Iatan O&M Tracker -4	Keith	-625,618	-625,618
To annualize construction accounting - 403003	Keith	80,079	80,079
To annualize construction accounting - 403009	Keith	70,491	70,491
To annualize construction accounting - 403011	Keith	1,101	1,101
To annualize tornado amortization - 403012	Keith	183,564	183,564
To recognize plant reserve deficiency	Sager	342,574	287,446
To reflect amortization of common stock expense	Keith	304,613	260,187
Total Depreciation Expense		<u>2,703,064</u>	<u>7,665,889</u>
To annualize property taxes	Sager	548,342	472,135
To rebase O&M Tracker	Mertens	-16,134	-13,781
To recognize FICA taxes from wage increase	Land	-148,639	-126,961
To Eliminate Franchise Fees	Land	-9,551,258	-8,811,811
To recognize FUTA tax from wage increase	Land	-44,107	-37,675
To recognize SUTA tax from wage increase	Land	4,329	3,697
Total Taxes Other Than Income Taxes		<u>-9,207,467</u>	<u>-8,514,394</u>
To adjust book taxes		<u>8,105,926</u>	<u>8,168,681</u>
Total Taxes - Federal		8,105,926	8,168,681
To adjust book taxes		<u>44,710</u>	<u>176,609</u>
Total Taxes - State		44,710	176,609
To adjust book taxes		<u>-12,048,531</u>	<u>-13,637,803</u>
Total Provision for Deferred Income Tax		-12,048,531	-13,637,803
To include interest on Missouri customer deposits	Land	415,262	415,262
Total Interest on Customer Deposits		<u>415,262</u>	<u>415,262</u>
Total Adjustments		<u><u>-35,153,554</u></u>	<u><u>-29,929,246</u></u>
		<u><u>-30,143,838</u></u>	<u><u>-21,303,762</u></u>

