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Issue: Accounting Schedules, Income Statement and
Rate Base Adjustments
Witness: Jayna R. Long
Type of Exhibit: Direct Testimony
Sponsoring Party: Empire District Gas
Case No.
Date Testimony Prepared: June 2009

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

Direct Testimony

of

Jayna R. Long

June 2009

Empire Exhibit No. 3
Case No(s). 62-2009-0434
Date 1-08-10 Rptr KF

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JAYNA R. LONG
ON BEHALF OF
THE EMPIRE DISTRICT GAS COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION

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DIRECT TESTIMONY
OF
JAYNA R. LONG
THE EMPIRE DISTRICT GAS COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO.

1 **I. INTRODUCTION**

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

3 A. Jayna R. Long. My business address is 602 Joplin Street, Joplin, Missouri.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am employed by Empire District Electric Company ("Empire"), as a Regulatory
6 Analyst.

7 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS MATTER?**

8 A. I am appearing on behalf of The Empire District Gas Company ("EDG or Company").
9 EDG is a wholly owned subsidiary of Empire that was formed to hold the Missouri gas
10 assets acquired from Aquila, Inc. ("Aquila") on June 1, 2006.

11 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
12 **BACKGROUND.**

13 A. I hold a Bachelor of Science degree in Business Administration with majors in
14 accounting and marketing from Missouri Southern State University. I was employed by
15 Leggett & Platt, Inc. immediately following my graduation in 1993 where I held various
16 positions as an accountant at the Corporate Office and then was promoted to Division
17 Controller. I have also served as a Plant Controller for Invensys Inc. and Controller for

1 Clark Industries. In May 2001, I joined Empire as a Senior Internal Auditor where I
2 remained until October 2003. At that time, I accepted my current position.

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

5 A. The purpose of my testimony is to present certain schedules in support of the proposed
6 tariffs filed by EDG as required by the Commission's Minimum Filing Requirements. In
7 addition to the schedules, I will provide explanations of several adjustments made to
8 EDG's rate base and income statement test year.

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

11 A. The schedules included in this filing are based on the historical test year for the twelve
12 months ending December 31, 2008, adjusted for known and measurable changes.

13 **Q. PLEASE IDENTIFY THE SCHEDULES YOU ARE SPONSORING.**

14 A. I am sponsoring schedules JRL-1 through JRL-5, which generally consist of financial and
15 other information which supports EDG's Northwest, North and South operating district
16 revenue requirements.

17 **Q. ARE THESE DISTRICTS TREATED SEPARATELY FOR RATE PURPOSES?**

18 A. The North, Northwest, and South regions have separate purchase gas adjustment rates.
19 However, the North and South regions are currently combined into one operating district
20 for base rates. In this rate case, EDG is requesting the Northwest district also be
21 combined with the North and South district into the same base rates. This is addressed in
22 the testimony of EDG witness Overcast.

23 **Q. PLEASE CONTINUE.**

1 A. Schedule JRL-1 calculates a revenue deficiency based on an assumed return on equity of
2 11.3%, as discussed in the testimony of EDG witness Dr. Vander Weide. Schedule JRL-
3 2 shows the detailed components of rate base, which reflect the investments made by
4 Empire to provide gas service in the three operating areas. Schedule JRL-3 provides the
5 test year income statement along with all known and measurable changes, resulting in the
6 net income available.

7 **Q. WHAT IS SCHEDULE JRL-4?**

8 A. Schedule JRL-4 provides a brief description of all adjustments made to the income
9 statement, as well as indicating the sponsoring witness for that adjustment. Various
10 witnesses will be providing testimony supporting the adjustments.

11 **Q. WHAT IS SCHEDULE JRL-5?**

12 A. This schedule is the proof of revenue which includes the billing determinants that were
13 used by EDG.

14

15 **II. RATE BASE ADJUSTMENTS**

16 **Q. PLEASE IDENTIFY THE RATE BASE ADJUSTMENTS YOU ARE**
17 **SPONSORING.**

18 A. I am sponsoring two adjustments to rate base. The first adjustment is the allocation of
19 common plant to EDG's natural gas business. The second adjustment is to annualize
20 inventory.

21 **Allocation of Common Plant**

22 **Q. PLEASE EXPLAIN THE FIRST ADJUSTMENT TO ALLOCATE COMMON**
23 **PLANT TO EMPIRE'S NATURAL GAS BUSINESS.**

1 A. Empire records the common general plant on the electric company's books in their
2 entirety. A rate case adjustment is required to allocate a portion of the common general
3 plant to the gas operations. The allocation is based on a three part formula called the
4 Massachusetts formula, which is described in Empire's Cost Allocation Manual filed
5 with the Commission. The result of this allocation increases the general plant in service
6 and the provision for accumulated depreciation for general plant on the gas operations as
7 follows:

8

Description	Northwest	North/South
Plant in Service	\$159,496	\$1,537,481
Accumulated Depreciation	\$82,548	\$795,732
Net Plant in Service	\$76,948	\$741,749

9 **Q. HAS THIS ADJUSTMENT BEEN MADE IN PRIOR EMPIRE RATE CASES?**

10 A. Yes, an adjustment using consistent methodology to this was made by Empire and the
11 Missouri Public Service Commission Staff ("Staff") in Empire's last electric rate case,
12 Case No. ER-2008-0093.

13 **Inventory**

14 **Q. PLEASE DESCRIBE THE ADJUSTMENTS TO ANNUALIZE INVENTORY.**

15 A. During the test year, EDG purchased gas meters and charged the cost of these meters to
16 construction work in progress rather than directly into an inventory account at the time of
17 purchase. These costs were later reclassified during a review of the construction jobs in
18 progress by Empire's accounting department, and an accounting entry was made to
19 remove all of the remaining unused meters from construction-work-in-progress and

1 record the unused meters in an inventory account. This accounting entry was made
2 during the latter part of the test year. The rate case adjustment I am sponsoring reflects
3 the test year impact on the inventory balance of the correcting entry for a full year. The
4 net impact of this rate case adjustment is an increase in rate base of \$34,852 for the
5 Northwest district and \$275,922 for the North and South district.

6
7 **III. REVENUE ADJUSTMENTS**

8 **Q. PLEASE DESCRIBE THE REVENUE ADJUSTMENTS THAT HAVE BEEN**
9 **MADE TO THE TEST YEAR.**

10 A. The two operating districts were reviewed separately and adjustments made to reflect
11 normalized test year revenue in each district. The test year revenues have been adjusted
12 to reflect customer growth/loss as of March 31, 2009, normalized weather and the
13 elimination of Purchase Gas Adjustment Clause ("PGA") revenue. Furthermore, sales
14 and revenue have been adjusted to remove the revenue associated with unbilled sales and
15 franchise taxes.

16 **Customer Growth/Loss**

17 **Q. PLEASE EXPLAIN THE ADJUSTMENT RELATED TO THE CHANGING**
18 **NUMBER OF CUSTOMERS.**

19 A. Revenues have been adjusted to reflect the revenue that would have been generated if the
20 number of EDG customers existing at March 31, 2009 had been served by the Company
21 for the entire test year. For the residential customer class RS and small volume customers
22 SCF, SVF and SVTS, the differences between the March 31, 2009 level of customers and
23 the average customers adjusted for season in each month of the test year were multiplied

1 by the average weather normalized CCF per customer for that month. The resulting
2 change in CCF sales was then multiplied by the average class weather normalized margin
3 per CCF to obtain the revenue adjustment related to customer growth/loss. The formula
4 for this is shown below:

$$5 \quad RA = NCCF/C \times NR/C$$

$$C = TUC - (AC \pm SA)$$

Where: RA = Revenue Adjustment
NCCF = Weather normalized CCF
NR = Weather normalized billed revenue
TUC = Forecasted customer level at time of true-up
AC = Average customers for previous and current month
SA = Seasonal adjustment

6 **Q. PLEASE ELABORATE ON THE SEASONAL ADJUSTMENT MADE TO THE**
7 **NUMBER OF CUSTOMERS.**

8 A. The seasonal adjustment is made to reflect the decrease in customers during the summer
9 months when gas space heating is not in demand. The Company's historical customer
10 patterns show that a small number of customers completely turn off their gas service
11 during the warmer months and then have their gas service turned back on as temperatures
12 begin to cool in the fall.

13 **Q. HOW WAS THIS PATTERN OF DISCONNECT AND RECONNECT TAKEN**
14 **INTO ACCOUNT IN THE ADJUSTMENT?**

15 A. A report was compiled that listed all of the customers for the RS, SCF, SVF and SVTS
16 classes by month. Customers that turned off their service during the summer months
17 were identified by tracking those customers that had gas service at the beginning of the
18 year (January) and at the end of the year (December) but did not have gas service in

1 either July or August. For those customers that met these conditions, the months that the
2 customers were off the system were counted and used to reduce the customer count
3 during the months when they would not be taking service.

4 **Q. HOW WAS CUSTOMER GROWTH/LOSS COMPUTED FOR THE LARGE**
5 **VOLUME CUSTOMERS?**

6 A. The large volume customer classes LVF, LVI, and LVTS were reviewed on an individual
7 customer basis to calculate the impact of customer growth/loss on revenue. This
8 individual customer approach was used due to the fact that large customers have a high
9 usage per customer and any changes in customer load patterns due to anomalies can have
10 a significant impact on revenue.

11 **Q. WHAT WERE THE RESULTS OF YOUR ANALYSIS OF CUSTOMER**
12 **GROWTH ON THE GAS SYSTEM?**

13 A. Our analysis indicated that the revenue needed to be adjusted downward in each of the
14 operating districts. The Northwest district required a reduction in revenue of \$6,158 and
15 the North and South district required a reduction in revenue of \$273,831.

16 **Weather**

17 **Q. HOW WAS REVENUE ADJUSTED FOR WEATHER?**

18 A. The test year sales levels and revenues were adjusted to reflect normal weather. The
19 method used to determine the weather normalized sales levels is presented in the direct
20 testimony of EDG witness Aaron Doll. To arrive at the related impact on revenue, the
21 current rates were applied to the sales volume adjustment derived by EDG witness Doll.
22 The revenue adjustment related to weather resulted in a decrease in revenue for each of

1 the operating districts or \$181,798 for the Northwest district and a decrease of \$605,524
2 for the North and South district.

3 **Unbilled Revenue**

4 **Q. PLEASE DESCRIBE THE ADJUSTMENT RELATED TO UNBILLED**
5 **REVENUE.**

6 A. Unbilled revenue is accrued each month in the general ledger to reflect an estimate of the
7 revenue earned during the calendar month, but not yet billed due to cycle billing. For rate
8 case purposes, the impact of unbilled revenue has been eliminated from the test year.
9 This elimination results in a decrease in revenue of \$221,167 for the Northwest district
10 and a decrease in revenue of \$1,146,175 for the North and South district.

11 **City Franchise Taxes**

12 **Q. PLEASE EXPLAIN THE ADJUSTMENT TO ELIMINATE CITY FRANCHISE**
13 **TAXES.**

14 A City franchise tax is not a revenue source designed to be collected through the application
15 of a Commission-approved tariff. It is a municipal tax that EDG is obligated to collect
16 and remit to the various municipalities where the Company provides gas service.
17 Although there is no impact on EDG's earnings related to city franchise taxes because it
18 is offset by an equal amount of expense, it is more appropriate for rate case purposes, if
19 EDG's revenue requirement reflects only the revenue that will be generated through the
20 application of approved Commission tariffs and does not reflect the revenue or expense
21 associated with franchise taxes. The adjustment decreases revenue \$309,311 on the
22 Northwest district and \$2,423,973 on the North and South district. In both service areas
23 the adjustment has been reflected as both a reduction in revenue and a reduction in taxes

1 other than income taxes.

2 **PGA Revenue**

3 **Q. PLEASE DISCUSS WHY THE ACUTAL PURCHASE GAS ADJUSTMENT**
4 **CLAUSE ("PGA") REVENUE WAS ELIMINATED FROM THE REVENUE**
5 **REQUIREMENT.**

6 A. EDG's PGA tariff enables EDG to bill its customers for the actual cost of gas as a
7 separate line item on their bill with no margin to EDG. Therefore the revenue and gas
8 cost related to the PGA have been eliminated from the test year. The following table
9 shows the amounts to be eliminated from the test year.

	Northwest	North/South
PGA Revenue	(\$4,507,654)	(\$36,703,907)
Gas Cost in Expense	(\$4,700,643)	(\$37,929,499)

10 It should be noted that a projected cost of natural gas and the related PGA revenue have
11 been included in the rate case to present a complete picture of the impact of EDG's rate
12 increase on our customers' average bill. In addition, a cost of natural gas and the related
13 revenue has to be included in the filing to properly establish the ongoing level of
14 uncollectible account expense.

15 **Q. DO YOU HAVE ANY OTHER REVENUE ADJUSTMENTS?**

16 A. Yes. An adjustment was made to correct the revenue discrepancy that occurred from
17 customer switches in pricing plans. This resulted in a decrease in the Northwest district
18 of \$6,158 and an increase in the North and South district of \$7,297. An adjustment was
19 also included in revenue to account for the contracted demand of an LVI customer

1 increasing the North and South revenue by \$172,800.

2

3 **IV. EXPENSE ADJUSTMENTS**

4 **Q. PLEASE IDENTIFY THE EXPENSE ADJUSTMENTS THAT HAVE BEEN**
5 **MADE TO THE TEST YEAR.**

6 A. I am sponsoring adjustments to income statement expense for the test year as follows:

- 7 ■ Normalize Maintenance Expense
- 8 ■ Annualize Commission Assessment Fees
- 9 ■ Annualize Postage Increase
- 10 ■ Amortize Rate Case Expense
- 11 ■ Include Customer Deposit Interest
- 12 ■ Annualize Bad Debt Expense
- 13 ■ Annualize Payroll and Payroll Taxes
- 14 ■ Amortize Chillicothe AAO
- 15 ■ Annualize Property Taxes

16 **Q. DOES THIS LIST INCLUDE ALL OF THE INCOME STATEMENT**
17 **ADJUSTMENTS?**

18 A. No. Other EDG witnesses will sponsor income statement adjustments as well. Those
19 adjustments (and the sponsoring witnesses) are:

- 20 ■ Stock Issuance Cost (Mr. Sager)
- 21 ■ Right-of-Way Clearing (Mr. Teter)
- 22 ■ Depreciation Expense (Mr. Sullivan)
- 23 ■ Energy Efficiency (Ms. McCormack)

1 ■ Pension/Post Retirement Benefits ("OPEB") (Ms. Delano)

2 Previously, I discussed the removal of City Franchise Fees and Gas Cost from expense. I
3 will not discuss these adjustments again in this section.

4 **Maintenance**

5 **Q. PLEASE EXPLAIN THE ADJUSTMENT MADE TO MAINTENANCE**
6 **EXPENSE.**

7 A. The adjustment normalizes non-payroll maintenance expense for distribution accounts for
8 the test year. The maintenance expense was decreased for the Northwest district by
9 \$5,876 and increased for the North and South district by \$59,743. The adjustment is
10 needed to remove any fluctuations from the level which would be expected to occur
11 normally.

12 **Q. HOW WAS THIS DONE?**

13 A. After removing the payroll costs from maintenance expense, a monthly average of
14 maintenance cost was calculated using the last 31 months of accounting information. The
15 difference between the annualized average monthly cost and the test year actual cost
16 resulted in the required adjustment.

17 **Q. WHY DID YOU USE ONLY 31 MONTHS?**

18 A. The information used to calculate the adjustment was limited to the time that Empire has
19 owned and operated the gas company.

20 **Q. WHY WERE PAYROLL COSTS REMOVED PRIOR TO CALCULATING THE**
21 **MONTHLY AVERAGES?**

22 A. Payroll is annualized in a separate adjustment. The costs were removed to avoid double
23 counting the payroll costs.

Commission Assessment Fees

Q. WHY WAS AN ADJUSTMENT TO THE COMMISSION ASSESSMENT FEES NEEDED?

A. During the test year, the Commission assessment fees may change. The adjustment annualizes the most current amount known. The adjustment increased the Northwest district expense by \$99 and the North and South district expense by \$749.

Postage

Q. PLEASE EXPLAIN THE ADJUSTMENT FOR POSTAGE EXPENSE.

A. The adjustment was made to annualize postage expense to reflect the increases in postage rates which took effect May 12, 2008 and May 11, 2009. The Northwest district increase to expense was \$1,592 and the North and South district increase was \$11,127.

Rate Case Amortization

Q. DID THE COMPANY MAKE ANY ADJUSTMENTS TO AMORTIZE RATE CASE COSTS?

A. Yes. EDG estimated the total rate case costs based on similar costs from studies in previous electric rate cases. The total costs were amortized over three years. Rate case amortization for the Northwest district is \$14,067 and for the North and South district \$106,933.

Q. ARE THERE ANY OTHER COMMENTS CONCERNING RATE CASE EXPENSE THAT YOU WOULD LIKE TO MAKE?

A. Yes. The Office of the Public Counsel and certain Industrial Interveners have appealed or filed other actions in connection with the last two Empire electric rate case orders in the Western District Court of Appeals, the Missouri Supreme Court, the Cole County

1 Circuit Court, and most recently in the Jasper County Circuit Court. Empire, like
2 virtually all other large utilities in the State of Missouri, has been forced to spend a
3 significant amount of money defending the orders that were issued by this Commission.

4 **Q. PLEASE CONTINUE.**

5 A. In anticipation of similar actions with regard to our gas operations and in order to keep
6 EDG whole, we are requesting a Rate Case Expense Recovery ("RCER") Rider.

7 **Q. HOW WOULD THE RATE CASE EXPENSE RECOVERY RIDER WORK?**

8 A. As proposed, the Rider will allow EDG to accumulate the cost of the rate case and related
9 actions in a regulatory asset and then recover the cost beyond those included in base rates
10 based on Mcf usage over the next three years. The surcharge will appear as a separate
11 line item on the customer statements. The RCER rider has been included in the tariff
12 sheets proposed by EDG in this case.

13 **Q. HAS SUCH A RIDER BEEN IMPLEMENTED IN OTHER JURISDICTIONS?**

14 A. Yes. We designed our tariffs from similar riders approved for Entergy and CenterPoint
15 Energy, both in Texas.

16 **Q. IS THIS THE ONLY METHOD AVAILABLE FOR RECOVERY OF THESE
17 COSTS?**

18 A. No. An adjustment could be made to the test year to project the amount of rate case and
19 related expense EDG will incur. Because it is difficult to project the expenses associated
20 with the appeal process and because we have very limited control of the expenses
21 associated with the appeal process, we believe the Rider is the more appropriate choice
22 for recovery of these costs.

23 **Q. HAVE YOU MADE AN ADJUSTMENT TO RATE CASE EXPENSE?**

1 A. Yes. The adjustment we made to the test year for rate case expense reflects the cost
2 associated with the rate case before the Commission. It does not take into consideration
3 the cost associated with subsequent appeals or other related actions.

4 **Customer Deposit Interest**

5 **Q. PLEASE EXPLAIN THE CUSTOMER DEPOSIT INTEREST ADJUSTMENT.**

6 A. Empire's adjustment annualizes interest expense related to customer deposits. Customer
7 deposits are interest bearing so the customer deposits are deducted from rate base, but the
8 associated interest on the customer deposits is included in the overall cost of service. To
9 calculate this adjustment or reclassification, a 5% interest rate (prime + 1%) was
10 multiplied by the balance in customer deposits. The customer deposit interest to be
11 included in the cost of service is \$6,302 for Northwest district and \$55,147 for the North
12 and South district.

13 **Bad Debt**

14 **Q. HAVE YOU PROPOSED AN ADJUSTMENT TO BAD DEBT EXPENSE?**

15 A. Yes, we have increased the bad debt expense or uncollectible expense by \$469,891.

16 **Q. PLEASE EXPLAIN HOW THIS ADJUSTMENT WAS COMPUTED.**

17 A. The adjustment was computed by taking the twelve month ending bad debt expense for
18 each of the twelve months in the test year divided by the twelve month ending revenue.
19 The results of each of these twelve calculations was then averaged and multiplied by the
20 revenue requirement of the filed rate case.

21 **Q. WHY WAS THIS METHOD CHOSEN?**

22 A. EDG believes that using a historical average has been the traditional method approved by
23 the Commission. Other natural gas distribution companies operating in Missouri have

1 attempted to modify this method so that the portion of bad debt expense associated with
2 the cost of gas could be recovered as a component of the PGA. While EDG believes this
3 method has merit, the Commission has to-date not approved this modification. Therefore,
4 EDG has chosen to use a more traditional calculation.

5 **Q. WHY DID EDG APPLY THE RATE TO THE TEST YEAR REVENUE**
6 **REQUIREMENT?**

7 A. Bad Debt expense should be applied in the same manner used to reflect the additional
8 income taxes that are associated with the rate increase. For example, if \$2.2 million of
9 additional revenue is recommended this will need to be increased by the effect of the bad
10 debt factor to arrive at the overall net increase required of \$2.2 million. The Commission
11 Staff accepted this method used by Empire in its last rate electric case, Case No. ER-
12 2008-093. Using the method, the calculation of the adjustment resulted in an overall
13 increase of \$96,990 for the Northwest district and \$372,902 for the North and South
14 district.

15 **Payroll and Payroll Taxes**

16 **Q. WHAT ADJUSTMENT WAS NEEDED FOR THE PAYROLL AND PAYROLL**
17 **TAXES?**

18 A. The adjustment was made to normalize test year payroll, payroll taxes and 401k cost.
19 This adjustment increases the test year expense for the Northwest district by a total of
20 \$6,625 and the North and South district by \$51,251. The adjusted payroll expense
21 included in the filing reflects the wages at February 25, 2009, adjusted for known
22 changes, positions currently authorized but unfilled and the union increase that will occur
23 in June 2009, when a new union contract will be completed.

1 **Chillicothe AAO Amortization**

2 **Q. PLEASE DISCUSS THE CHILICOTHE AAO.**

3 A. In the case which led to the acquisition of the involved gas properties by Empire, Case
4 No. GO-2006-0205, the parties to the case agreed to allow EDG to reflect on its balance
5 sheet the liability and offsetting regulatory asset for the gas plant site at Chillicothe. The
6 Stipulation and Agreement reflected the following for the Chillicothe manufactured gas
7 site:

8 (a) The Signatories agree that EDG may reflect on its balance sheet the liability and
9 offsetting regulatory asset, not to exceed \$260,000, for the owned former
10 manufactured gas plant site at Chillicothe (the Chillicothe site), being transferred as
11 part of the Purchase Agreement, in accordance with American Institute of Certified
12 Public Accountants Technical Practice Aid Statement Of Position 96-1. Nothing in
13 this Stipulation prohibits EDG from seeking Commission approval to modify the
14 \$260,000 amount. Nothing in this Stipulation precludes the non-EDG Signatories
15 from opposing any such request.

16 (b) EDG may request recovery in a future rate case of actually incurred
17 expenditures for the remediation of the Chillicothe site acquired in this transaction.
18 EDG agrees not to seek recovery in any future rate case for remediation
19 expenditures that EDG has not actually incurred. To the extent that actually
20 incurred remediation expenditures are found to be imprudent or unnecessary, EDG
21 agrees that such expenditures are not to be recovered from EDG's gas customers.
22 Nothing in this Stipulation precludes the non-EDG Signatories to this Stipulation
23 from opposing the recovery of any such expenditures in a future rate case.

24
25 **Q. HAS EMPIRE INCURRED ANY COSTS IN THE REMEDIATION OF THE**
26 **MANUFACTURED GAS SITE IN CHILICOTHE?**

27 A. Yes. EDG has incurred costs of \$67,140 in connection with this site and included the
28 balance as a component of rate base. In addition, we are proposing an adjustment to the
29 income statement that will amortize the balance over five years for the North and South
30 district in the amount of \$13,428.

31 **Property Taxes**

32 **Q. PLEASE EXPLAIN THE PROPERTY TAX.**

1 A. The property tax adjustment annualizes EDG's property tax expense. The rate applied to
2 the property plant in service as adjusted is the property tax rate that Empire anticipates
3 incurring for 2009. The estimated rate is based on historical rates and expected changes
4 in assessed valuations. The adjustment resulted in a decrease of \$14,848 for the
5 Northwest district and a decrease of \$4,690 for the North and South district.
6

7 **V. UPDATE/TRUE-UP**

8 **Q. IS EDG REQUESTING THAT THE TEST YEAR BE UPDATED IN THIS CASE?**

9 A. Yes. Empire is requesting the financial information be updated through June 2009.

10 **Q. WHAT IS THE PURPOSE OF THE UPDATE?**

11 A. The update will enable all of the parties to the proceeding to use financial information
12 that is closer to the effective date of the new tariffs that will become effective as part of
13 this rate case. All of the major components used to develop the new revenue requirement
14 should be updated, including rate base, customer counts, operating revenues and
15 operating expenses.

16 **Q. IS EDG ALSO REQUESTING A TRUE-UP AUDIT?**

17 A. EDG is still considering this possibility. Accordingly, EDG requests that the
18 Commission reserve hearing dates for this. EDG anticipates that it will have a better idea
19 as to the necessity for a true-up by September 2009. If a true-up becomes necessary,
20 EDG anticipates working with all of the parties that become involved in the rate case to
21 develop a complete list of items that will be included.


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

23 A Yes, it does.

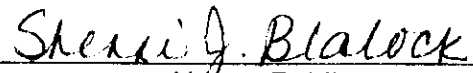
AFFIDAVIT OF JAYNA R. LONG

STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

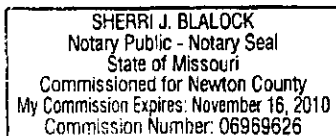
On the 4th day of June, 2009, before me appeared Jayna R. Long, to me personally known, who, being by me first duly sworn, states that she is a Regulatory Analyst of The Empire District Electric Company and acknowledges that she has read the above and foregoing document and believes that the statements therein are true and correct to the best of her information, knowledge and belief.


Jayna R. Long

Subscribed and sworn to before me this 4th day of June, 2009.


Notary Public

My commission expires: Nov 16, 2010



The Empire District Gas Company
Revenue Requirement
Twelve Months Ending 12/31/08

Line	Total Co	Northwest	North & South
1 Rate Base	57,732,319	6,711,930	51,020,388
2 Rate of Return	8.98%	8.98%	8.98%
3 Required Return	5,181,510	602,400	4,579,110
4 Adjusted Test Year Net Operating Income	3,373,304	259,484	3,113,820
5 Earnings Deficiency	1,808,206	342,916	1,465,290
6 Income Tax Gross-up Factor	1.6231	1.6231	1.6231
7 Net Revenue Deficiency	2,934,858	556,579	2,378,278

The Empire District Gas Company
Rate Base
Twelve Months Ending 12/31/08

Line	Total Co			Northwest			North & South		
	Actual	Adjustments	Test Year	Actual	Adjustments	Test Year	Actual	Adjustments	Test Year
1 Plant In Service	86,771,623	1,696,977	88,468,600	8,155,532	159,496	8,315,028	78,616,091	1,537,481	80,153,572
2 Accumulated Depreciation	38,754,702	878,280	39,632,982	3,292,688	82,546	3,375,236	35,462,014	795,732	36,257,746
3 Net Plant in Service	48,016,920	818,697	48,835,617	4,862,844	76,948	4,939,792	43,154,077	741,749	43,895,825
4 Add to Net Plant in Service:									
5 Cash Working Capital	2,485,148	0	2,485,148	316,566		316,566	2,168,582		2,168,582
6 Materials & Supplies - 13 Mo Avg	159,600	310,774	470,373	30,007	34,852	64,859	129,593	275,922	405,514
7 Gas Storage - 13 Mo Avg	6,572,717	0	6,572,717	1,407,218	0	1,407,218	5,165,499	0	5,165,499
8 Prepayments - 13 Mo Avg	87,871	0	87,871	8,259	0	8,259	79,612	0	79,612
9 Regulatory Assets	5,102,788	0	5,102,788	576,706	0	576,706	4,526,082	0	4,526,082
						0			0
10 Subtract from Net Plant in Services:						0			0
11 Customer Advances for Construction - 13 Mo Avg	(317,323)	0	(317,323)	(7,377)	0	(7,377)	(309,946)	0	(309,946)
12 Customer Deposits - 13 Mo Avg	(994,045)	0	(994,045)	(115,658)	0	(115,658)	(878,387)	0	(878,387)
13 Deferred Income Taxes	(1,822,871)	0	(1,822,871)	(177,420)	0	(177,420)	(1,645,452)	0	(1,645,452)
14 Regulatory Liabilities	(2,436,904)	0	(2,436,904)	(278,954)	0	(278,954)	(2,157,950)	0	(2,157,950)
15 Interest Offset	(226,625)	0	(226,625)	(26,347)		(26,347)	(200,277)		(200,277)
16 Income Tax Offset	(24,428)	0	(24,428)	4,287		4,287	(28,715)		(28,715)
17 Rate Base	56,602,848	1,129,471	57,732,319	6,600,130	111,800	6,711,930	50,002,717	1,017,671	51,020,388

The Empire District Gas Company
Income Statement
Twelve Months Ending 12/31/08

Line	Total Co			Northwest			North & South		
	Actual	Adjustments	Test Year	Actual	Adjustments	Test Year	Actual	Adjustments	Test Year
1 Revenues from Natural Gas Sales	62,566,155	(46,211,688)	16,354,467	7,056,739	(5,228,550)	1,828,189	55,509,416	(40,983,138)	14,526,278
2 Miscellaneous Revenues	2,871,813	8,246	2,880,059	470,765	(1,579)	469,186	2,401,048	9,825	2,410,873
3 Total Revenue	65,437,968	(46,203,442)	19,234,526	7,527,505	(5,230,129)	2,297,376	57,910,463	(40,973,313)	16,937,150
4 Cost of Natural Gas Sold & Trans	42,630,142	(42,630,142)	-	4,700,643	(4,700,643)	-	37,929,499	(37,929,499)	-
5 Gas Used in Other Utility Operations	18,343	-	18,343	(4,167)	-	(4,167)	22,511	-	22,511
6 System Control and Load Dispatching	77,687	-	77,687	8,936	-	8,936	68,750	-	68,750
7 Field Meas & Reg Station Equip Maint	254	-	254	-	-	-	254	-	254
8 Transmission Operations	107,289	62,444	169,733	-	24,938	24,938	107,289	37,506	144,795
9 Transmission Maintenance	-	-	-	-	-	-	-	-	-
10 Distribution Operations	1,943,769	45,054	1,988,822	465,161	5,157	470,319	1,478,607	39,897	1,518,504
11 Distribution Maintenance	727,302	55,371	782,673	70,024	(2,058)	67,965	657,278	57,429	714,707
12 Customer Accounts Expenses	2,588,992	485,563	3,074,555	262,306	98,920	361,225	2,326,686	386,644	2,713,330
13 Customer Assistance Expenses	175,628	105,344	280,972	22,180	13,184	35,364	153,448	92,159	245,607
14 Sales Expenses	30,332	(22)	30,310	3,827	(3)	3,824	26,505	(20)	26,485
15 Administrative and General Expenses	5,259,616	(672,347)	4,587,268	774,544	(136,730)	637,814	4,485,072	(535,617)	3,949,455
16 Interest on Customer Deposits	-	61,449	61,449	-	6,302	6,302	-	55,147	55,147
17 Total Operating & Maintenance Expense	53,559,353	(42,487,287)	11,072,066	6,303,454	(4,690,933)	1,612,521	47,255,899	(37,796,354)	9,459,544
18 Depreciation and Amortization	1,940,287	420,486	2,360,773	183,635	41,543	225,178	1,756,652	378,943	2,135,595
19 Stock Issuance Cost Amortization	-	740,170	740,170	-	86,052	86,052	-	654,118	654,118
20 Chillicothe AAO Amortization	-	13,428	13,428	-	-	-	-	13,428	13,428
21 Other Taxes	3,661,086	(2,751,434)	909,652	431,774	(324,000)	107,774	3,229,313	(2,427,434)	801,879
22 Total Operating Exp before Taxes	59,160,726	(44,064,638)	15,096,088	6,918,863	(4,887,339)	2,031,525	52,241,863	(39,177,299)	13,064,564
23 Current Federal Taxes	(2,926,615)	3,139,121	212,506	(283,765)	246,467	(37,297)	(2,642,850)	2,892,653	249,803
24 Current State Taxes	(459,879)	493,272	33,394	(44,590)	38,729	(5,861)	(415,289)	454,544	39,255
25 Deferred Taxes	4,243,710	(3,724,476)	519,234	411,470	(361,944)	49,526	3,832,240	(3,362,532)	469,708
26 Total Taxes	857,217	(92,083)	765,133	83,116	(76,748)	6,368	774,101	(15,335)	758,766
27 Operating Income	5,420,025	(2,046,721)	3,373,304	525,526	(266,042)	259,484	4,894,499	(1,780,679)	3,113,820

The Empire District Gas Company
Summary of Adjustments
Twelve Months Ending 12/31/08

Rate Base	Total	NW	N&S
General Plant - PIS	1,696,977	159,496	1,537,481
General Plant - AD	(878,280)	(82,548)	(795,732)
Meter Reclass	310,774	34,852	275,922
Total Rate Base	1,129,471	111,800	1,017,671

Income Statement	Total	NW	N&S
Customer Growth /Loss & Misc	(103,933)	(10,199)	(93,734)
Weather	(787,322)	(181,798)	(605,524)
Remove Unbilled	(1,367,342)	(221,167)	(1,146,175)
Remove Franchise Fee	(2,733,284)	(309,311)	(2,423,973)
Remove Fuel Revenue	(41,211,561)	(4,507,654)	(36,703,907)
Total Revenue	(46,203,442)	(5,230,129)	(40,973,313)
Remove Fuel Expense	(42,630,142)	(4,700,643)	(37,929,499)
Remove Franchise Fees	(2,733,284)	(309,311)	(2,423,973)
Maintenance	53,867	(5,876)	59,743
Stock Issuance Cost	740,170	86,052	654,118
PSC Assessment Fees	848	99	749
ROW Clearing	62,159	24,906	37,254
Postage	12,719	1,592	11,127
Rate Case Expense	121,000	14,067	106,933
Depreciation/Amortz Expense	420,486	41,543	378,943
Customer Deposit Interest	61,449	6,302	55,147
Bad Debt	469,891	96,990	372,902
Elip/DSM Amortz	105,351	13,185	92,166
Payroll/401K/Payroll Taxes	57,875	6,625	51,251
Amortize Chillicothe AAO	13,428	-	13,428
FAS 87/106	(800,917)	(148,020)	(652,897)
Property Taxes	(19,538)	(14,848)	(4,690)
Total Expenses b/f Taxes	(44,064,638)	(4,887,339)	(39,177,299)
Taxes	(92,083)	(76,748)	(15,335)
Total Operating Income	(2,046,721)	(266,042)	(1,780,679)

Empire District Gas Company
 Proof of Revenue
 For the Year Ending December 31, 2008

Class	Billing Determinants			Proposed Rates			Calculated Revenue					Current Revenue	
	Customers	CCF	Demand	Delivery Service Charge	Energy	Demand	Delivery Service Charge	Energy	Demand	Special Contract	Total Revenue		
Residential	464,612			\$ 30.00			13,938,676				13,938,676	11,695,138	19.18%
Sm Commercial/Sm Vol Transport													
Up to 5,000	49,986			\$ 64.00			3,199,070				3,199,070	2,909,697	9.95%
5,001 to 20,000	8,321	5,414,459		\$ 110.00	\$ 0.11000		915,262	595,591			1,510,852	1,377,017	9.72%
20,001 to 40,000	1,549	3,192,882		\$ 200.00	\$ 0.11000		309,748	351,217			660,965	595,033	11.08%
Total											5,370,888	4,881,747	10.02%
Large Volume	1,094	43,063,089	2,337,807	\$ 400.00	\$ 0.02000	\$ 0.60000	437,605	861,262	1,402,684	(37,157)	2,664,394	2,452,967	8.62%
Total	525,562	51,570,430					18,800,361	1,808,069	1,402,684	(37,157)	21,973,957	19,029,852	15.47%
										RR	21,964,712	19,029,852	15.42%
										Difference	9,245	0	
											0.04%		

Class	Test Yr Customers	Zero/Low Usage Loss	Adjusted Customers
Residential	467,576	(2,964)	464,612
Sm Comm	62,556	(5,568)	56,988
Lg Vol Firm	408		408
Lg Vol Int	47		47
Tran Sm Vol	2,868		2,868
Tran Lg Vol	639		639
	534,093	(8,532)	525,561