Exhibit No.: 5
Issues: Rate Base Adjustments, Income Statement Adjustments, SERP
Witness: Sheri Richard
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: The Empire District Electric Company
Case No.: ER-2019-0374
Date Testimony Prepared: March 2020

Before the Public Service Commission
of the State of Missouri

Rebuttal Testimony

of

Sheri Richard

on behalf of

The Empire District Electric Company
a Liberty Utilities Company

March 2020

Liberty Utilities
EMPIRE DISTRICT

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OF
SHERI RICHARD
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Sheri Richard. My business address is 602 South Joplin Avenue, Joplin, MO, 64802.

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

A. I am employed by Liberty Utilities Service Corp. as the Director of Rates and Regulatory Affairs for Liberty Utilities' Central Region, which includes The Empire District Electric Company ("Liberty-Empire" or "Company"), as well as gas, water and wastewater utilities serving in the Central Region.

Q. ARE YOU THE SAME SHERI RICHARD THAT FILED DIRECT TESTIMONY IN THIS CASE ON BEHALF OF LIBERTY-EMPIRE?

A. Yes. I submitted Direct Testimony on August 14, 2019, and Corrected Direct Testimony on August 23, 2019. When I refer to my Direct Testimony herein, I am referring to my Corrected Direct Testimony.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS PROCEEDING?

A. My rebuttal testimony will address certain adjustments proposed by the Commission Staff ("Staff") and the Office of Public Counsel ("OPC") to the Company's test year rate base, income statement balances, and jurisdictional allocators, and recommendations surrounding the treatment of Asbury in this proceeding. In addition, I will address the direct testimony of Mr. William L. Gipson on the behalf of The Empire District Electric SERP Retirees ("EDESR") and The Empire District Electric Retirees and Spouses Association, LLC ("EDRA").

Q. WHAT ARE THE SPECIFIC RATE BASE ISSUES BEING ADDRESSED BY YOU IN THIS REBUTTAL TESTIMONY?

A. The table below provides an outline of the rate base topics I address along with the respective party sponsoring the issue.

Rate Base	
Sponsoring Party	**Topic**
Staff	Plant In Service Balance at 09/30/2019
Staff	Accumulated Depreciation Balance at 09/30/2019
Staff	Riverton 12 Tracker at 9/30/2019
Staff	DSM Regulatory Asset at 9/30/2019
Staff	Low Income Pilot Program Regulatory Asset at 9/30/2019
Staff	Tornado Regulatory Asset at 9/30/2019
Staff and OPC	Accumulated Deferred Income Tax Balance at 09/30/2019
Staff	Other Rate Base Balances at 09/30/2019

II. RATE BASE ADJUSTMENTS

Q. PLEASE DESCRIBE THE ADJUSTMENTS PROPOSED BY STAFF REGARDING PLANT IN SERVICE?

A. Staff witness Barron made an adjustment to the total Company's test year plant in service to update plant to September 30, 2019. Staff also proposed an adjustment to remove certain common plant assets. Both of these adjustments included applying allocation factors, different than the Company's, to total company plant in service accounts. See below for further discussion related to allocation factors.

Q. DO YOU AGREE WITH STAFF'S ADJUSTMENT TO PLANT IN SERVICE?

A. No. While the Company agrees plant in service should be updated for known and measurable changes as of the end of the true-up period, Staff utilized inappropriate allocation factors when allocating these balances to Missouri retail customers and applied the allocation factors to the plant balances incorrectly.

Q. PLEASE EXPLAIN FURTHER.

A. Staff applied an allocation factor to the entire general plant balances, FERC Accounts 389-398, instead of applying the allocation factor only to those specific assets within the plant accounts that are shared among the various lines of business. These accounts not only include electric only plant but also include plant that serves other regulated and unregulated business ("common plant").

Q. HOW SHOULD STAFF HAVE APPLIED THE ALLOCATION FACTORS?

A. Staff should have first applied an allocation factor ("mass rate") to common plant, as the Company did in its Adjustment RB ADJ 2. The Company made this adjustment to remove a portion of common plant utilized by other businesses, which includes certain buildings such as the Joplin Corporate Office, the Joplin Kodiak Operations office and the Ozark Call Center. Then a jurisdictional allocation factor should have been applied to all remaining general plant to allocate to Liberty-Empire's Missouri ("MO") electric retail jurisdiction. Utilizing the correct allocation factors and applying them correctly results in an adjustment which reduces plant by ($4,582,715) on a total Company basis and ($3,908,557) for the Missouri jurisdiction based on the balances at September 30, 2019. This same method of adjustment should be applied to the January 31, 2020 balances for the true-up period.

Q. DOES THE COMPANY AGREE WITH STAFF'S ADJUSTMENT TO ACCUMULATED DEPRECIATION RESERVE?

A. No. As with the plant in service adjustment, the Company agrees with updating the accumulated depreciation reserve accounts to September 30, 2019 and later to update to January 31, 2020. However, for the same reasons as stated above, the adjustment to remove accumulated depreciation related to common plant is incorrect. The correct adjustment reduces accumulated depreciation reserve by $3,057,293 on a total Company basis and $2,607,538 for the Missouri retail jurisdiction based on the balances at September 30, 2019. This same method of adjustment should be applied to the January 31, 2020 balances for the true-up period.

Q. DOES THE COMPANY AGREE WITH STAFF'S ADJUSTMENT TO THE RIVERTON 12 REGULATORY ASSET?

A. In part. I agree that Staff appropriately updated the total company balance to September 30, 2019, and it is my understanding that the balance will be further updated to reflect the balance at January 31, 2020. However, I do not agree with the jurisdictional allocation factor used by Staff; see below for more discussion on allocation factors.

Q. PLEASE DESCRIBE THE PURPOSE FOR THE RIVERTON 12 TRACKER?

A. The Riverton 12 Tracker was established to normalize or smooth costs of the Riverton 12 long term maintenance agreement ("LTSA"). The annual cost includes three parts: equivalent operating hours ("EOH"), the annual fixed fee, and the amortized initial fee.

Q. PLEASE EXPLAIN EOH AND HOW IT IS UTILIZED IN CALCULATING LTSA EXPENSE?

A. An EOH can be derived in three ways. First, each hour the unit operates is one (1) EOH. Second, each time the unit is started, the unit will incur ten (10) EOH. Third, if the unit trips unexpectedly during operation, the unit will incur a number of EOH dependent upon the load the unit was operating at when it tripped. As part of the LTSA, Liberty-Empire is charged a dollar amount for each EOH the unit operates. This is a variable fee based on operating characteristics of the unit.

Q. HAVE THE CIRCUMSTANCES CHANGED SINCE THE INCEPTION OF THE TRACKER?

A. No. Since the implementation of the Southwest Power Pool Integrated Market, the hours of unit operation have continued to vary significantly from year to year. In addition, the unit starts and trips are also inconsistent from year to year. It is evident, based on the tracker balance, the tracker has served to protect customers from fluctuations and smooth costs.

Q. IS IT THE COMPANY'S RECOMMENDATION TO CONTINUE THE TRACKER?

A. Yes, it is. Due to the continued uncertainty of operations and the potential for significant variations in the EOH charges, the extension of the tracker should be granted in order to continue to protect customers by smoothing the LTSA costs. In addition, the tracker should be rebased to reflect the Company's pro forma level of costs included in the calculation of base rates.

Q. WHAT IS THE COMPANY'S PROPOSAL FOR THE NEW BASE AMOUNT FOR THE RIVERTON 12 TRACKER?

A. In its direct testimony, the Company proposed a new base tracker amount of \$8,731,672. However, that balance did not properly reflect the Missouri only allocated portion of the tracker. Therefore, the Company has corrected this issue, and the Missouri portion of the tracker is \$7,328,282. See Rebuttal Schedule SR-1 for the corrected adjustment.

Q. DOES THE COMPANY AGREE WITH STAFF'S ADJUSTMENT TO THE DSM COST REGULATORY ASSET?

A. No. Based on a discussion between the Company and Staff, it appears Staff inadvertently excluded some costs from the Regulatory Asset balance (also known as Customer Programs Collaborative). It is my understanding that Staff will address this correction in their surrebuttal testimony and will further adjust the balance to January 31, 2020.

Q. DID THE COMMISSION STAFF MAKE ANY RECOMMENDATIONS RELATED TO THE LOW INCOME PILOT PROGRAM ("LIPP")?

A. Yes. Staff recommended the Commission order 1) the continuation of the LIPP program at the current funding level until the Company's next general rate case; and 2) to remove the program spending cap at $250,000 and authorize Liberty-Empire to use a regulatory asset or regulatory liability account to track incurred program expenses above or below the $250,000 program total as it is currently structured.

Q. DOES THE COMPANY HAVE ANY COMMENTS REGARDING STAFF'S RECOMMENDATION FOR THE LIPP?

A. Yes. It appears that Staff inadvertently omitted the regulatory asset balance for the approved LIPP costs from Case No. ER-2016-0023 for inclusion in Staff's rate base calculation. Since Staff supports this program and has raised no issues with the regulatory asset amount included in the Company's filing, it should be included in the rate base derivation and return calculation.

Q. DESCRIBE STAFF'S RATE BASE TREATMENT OF THE TORNADO COSTS DEFERRED BY LIBERTY-EMPIRE IN ACCORDANCE WITH THE ACCOUNTING AUTHORITY ORDER GRANTED BY THE COMMISSION?

A. Staff did not include within rate base the balance of the unamortized regulatory asset.

Q. DOES THE COMPANY AGREE WITH THIS APPROACH?

A. No. The exclusion of this balance from Liberty-Empire's rate base will deny the Company a return on the investment it made in the system to restore electric service and result in an immediate understatement of Liberty-Empire's cost of service to Missouri retail customers. This approach is unfair and at odds with the Commission's order[1] originally authorizing the deferral related to costs, including additional carrying cost.

Q. DO YOU AGREE WITH STAFF'S ADJUSTMENT TO ACCUMULATED DEFERRED INCOME TAX?

A. Yes, for the most part. The Company agrees with the vast majority of the Total Company Accumulated Deferred Income Tax balances recommended by Staff. However, Staff has recommended the exclusion of general ledger account 190.125. To my knowledge, no additional details were provided in Staff's Direct Testimony on why Staff believes this balance should be excluded. Furthermore, the Missouri retail jurisdictional allocation factors recommended by Staff and the Company are different as described below which is causing a difference in the ultimate recommended September 30, 2019 Missouri rate base balance. Finally, it is the Company's understanding ADIT will be updated to reflect balances as of January 31, 2020 in the true-up process.

Q. DOES THE COMPANY AGREE WITH OPC'S ADJUSTMENT TO ACCUMULATED DEFERRED INCOME TAX FOR A NET OPERATING LOSS ("NOL")?

[1] EU-2011-0387 Order Issued November 30, 2011

A. No. The NOL in question resulted from the Company's use of accelerated tax depreciation, specifically from 50% first-year bonus depreciation afforded utilities before enactment of the Tax Cuts & Jobs Act ("TCJA"). In the computation of tax expense recovered from customers through a normalized revenue requirement, accelerated tax depreciation is excluded, as are other book-to-tax differences which will eventually be taxable or deductible ("timing differences"). Normalized income tax expense is based on a Company's net-income-before-income-taxes adjusted by items of income and expense that will never be taxable or deductible on the Company's income tax return ("permanent differences"). Although a company's current income tax expense, which is expected to be settled with taxing authorities within a year, would decrease from the impact of accelerated tax depreciation, deferred income tax expense and ADIT would increase by the same amount to reflect the liability for future higher cash income tax payments when book depreciation expense exceeds tax depreciation expense.

Q. WHY SHOULD ADIT BE REDUCED BY THE NOL, AS THE COMPANY HAS PROPOSED?

A. As mentioned in the preceding response, the benefit of accelerated tax depreciation increases ADIT. If the use of accelerated tax depreciation reduces current income tax expense to a negative number, an NOL results. Federal and Missouri tax law provide that NOLs cannot be carried back to earlier years where they could create cash refunds of previously-paid income taxes and provide the Company with a no-cost source of capital. Rather, NOLs are carried forward to possibly offset future current income tax expense and cash outflows. For ADIT purposes, NOLs constitute a deferred tax asset which reduces overall ADIT. The IRS has issued numerous private letter rulings which provide that an NOL deferred tax asset resulting from accelerated tax depreciation should be offset against a Plant deferred tax liability also resulting from accelerated tax depreciation for ratemaking purposes.[2] The Company believes this is an appropriate treatment, since the ADIT created by bonus depreciation did not reduce current income tax payments and did not provide the company with a no-cost source of capital.

Q. ARE THERE REGULATORY ASSET OR LIABILITIY BALANCES NO PARTY ADDRESSED IN THEIR DIRECT TESTIMONY?

A. Yes. It appears that no party other than Liberty-Empire addressed the Company's adjustment to establish a regulatory asset for Asset Retirement Obligations, nor did any party address the following regulatory assets balances as of September 30, 2019:

- MO Pension FAS87 Regulatory Asset, and
- MO FAS 106 Regulatory Asset.

In Staff's Accounting Schedule 02, the above regulatory assets do not appear to be listed. It is not clear to the Company what treatment Staff is implying.

Q. ARE THERE RATE BASE ADJUSTMENTS THAT THE COMPANY DOES NOT OPPOSE WHICH HAVE BEEN RECOMMENDED BY STAFF IN THIS CASE?

A. Yes. The Company does not oppose the Commission Staff's adjustment to update the following items to balances as of September 30, 2019, with the understanding these balances will be updated to reflect the true up process at January 31, 2020, and based on the Company's Missouri jurisdictional allocations:

- Intangible Amortization Reserve Balance,

[2] PLR 8818040, PLR 8903080, PLR 9336010, PLR 201436037, PLR 201436038, PLR 201438003, PLR 201519021, PLR 201534001, PLR 201548017, and PLR 201709008.[3] Per Staff Direct Report in Docket No. ER-2019-0374 Page 36 line 20 – 22.

- Solar Rebate Regulatory Asset,
- Missouri Solar Initiative Regulatory Asset,
- Pension Prepaid Asset,
- Peoplesoft, Regulatory Asset,
- Vegetation Management Regulatory Asset,
- Iatan and Plum Point O&M Regulatory Assets,
- SWPA Regulatory Liability, and
- Excess Accumulated Deferred Income Taxes Regulatory Liability.

III. INCOME STATEMENT ADJUSTMENTS

Q. WHAT ARE THE SPECIFIC INCOME STATEMENT ISSUES ADDRESSED IN YOUR REBUTTAL TESTIMONY?

A. The table below provides an outline of the income statement topics I address along with the respective party sponsoring the issue.

Income Statement	
Sponsoring Party	**Topic**
Staff/OPC	Adjustments to Revenues
Staff/OPC	Adjustments to Purchase Power Costs
Staff	Adjustments to Plant Operation and Maintenance Expenses
Staff	Adjustment to Credit Card Fees
Staff	Adjustment to Low Income Pilot Program Expense
Staff	Adjustments for Bad Debt Expense
Staff	Adjustments to Dues and Donations
Staff	Adjustments to Advertising Expense
Staff	Adjustments for EDI
Staff	Adjustments to Payroll Related Expenses
Staff	Adjustments for Incentive Compensation
Staff	Adjustments to Insurance Expense
OPC	Adjustment to Disallow Meals and Travel
Staff	Adjustments to Depreciation Expense

Staff	Adjustment for Kansas Ice Storm Amortization
Staff	Adjustment for Riverton 12 Tracker Amortization
Staff/OPC	Adjustments for Rate Case Expense
Staff/OPC	Adjustments for the TCJA Stub Period Amortization
Staff	Adjustments to Property Tax
Staff	Adjustments to Software Maintenance Expense
Staff	Adjustments to Revenues and Expenses Not at Issue
Staff/OPC	Adjustments to Revenues and Expenses Not Addressed by Parties
Staff	Adjustments to Annualize Dental, Vision, Healthcare, and Life Insurance benefits
Staff	Adjustments to Office Supplies
Staff	Adjustments to Income Taxes

REVENUES

Q. PLEASE DESCRIBE STAFF'S ADJUSTMENTS TO REVENUE?

A. Staff made several adjustments to revenue including removing TCJA related revenues, unbilled revenue, franchise tax revenue, and fuel related revenues. These adjustments are similar to those made by the Company, but at a different amount due to timing or methodology. In addition, Staff normalized revenues for weather, customer growth, and for customer switching to a different rate class. There are several adjustments produced that were based on data corresponding to the period year ending July 2019 instead of being updated to the update period year ending September 2019. Staff indicates in their direct testimony they were unable to fully calculate revenues through the entirety of the update period due to a delay in receiving data, but goes on to indicate they anticipate updating revenues for the remainder of the update period and true-up period.[3]

Q. FOCUSING SPECIFICALLY ON THE REVENUES PROPOSED BY STAFF, CAN YOU EXPLAIN HOW THEIR POSITION WAS DETERMINED?

[3] Per Staff Direct Report in Docket No. ER-2019-0374 Page 36 line 20 – 22.

A. Staff apparently is using total jurisdictional revenues for the 12 months ended July, 2019 and then proposed further adjustments to that period's revenues.[4] Several of the adjustments proposed by Staff (FAC, Franchise revenues) are adjustment amounts based on the Company's test year period ending March, 2019, and Staff applied those adjustments to their selected period of 12 months ended July, 2019. This process clearly violates the fundamental matching principle in ratemaking and results in a significant error.

Q. WHICH OF STAFF'S RETAIL REVENUE ADJUSTMENTS ARE BASED ON THE TEST YEAR PERIOD ENDING MARCH 31, 2019?

A. Staff's adjustments to remove unbilled revenue of $6,391,485 as shown in Staff Accounting Schedule 10 (Rev-2 adjustments 1-6), to remove Franchise Tax revenue of $9,923,350 (Rev-2 adjustments 7-9), and to remove FAC revenue of $17,047,207 (Rev-2 adjustments 10-17) are based on the test year end March 2019.

Q. WHAT ARE THE APPROPRIATE ADJUSTMENTS FOR STAFF'S PERIOD ENDING JULY, 2019 AND THE DEFINED UPDATE PERIOD OF SEPTEMBER, 2019?

A. Using Staff's period of the year ending July 2019, these adjustments should be $10,396,322, $9,360,252, and $11,797,930 respectively. Using the defined update period of 12-months ending September, 2019, the adjustments should be $11,369,352, $9,354,224, and $8,831,370, respectively.

Q. WHAT IS THE OVERALL MAGNITUDE OF STAFF'S ERROR?

[4] See adjustment 22 in Staff's accounting schedules.

A. Focusing just on the FAC and franchise error, by using the March balance amounts as an adjustment for FAC and Franchise revenues instead of the July, 2019 amounts, Staff is understating the base revenue requirement by $5.8 million.

Q. GENERALLY, IF STAFF'S ADJUSTMENTS FOR THESE ITEMS WERE BASED ON THE CORRECT PERIOD FOR THESE THREE ADJUSTMENTS, DO YOU AGREE, IN PRINCIPLE WITH THOSE ADJUSTMENTS?

A. Yes. However, it should be noted that Staff's adjustment to remove unbilled and the Company's adjustment to remove unbilled are implemented differently based on a difference in the parties' treatment of a secondary issue with reported revenue associated with a change in the reporting of cycle 21, or calendar month, billed customers.

Q. YOU DESCRIBED THIS REPORTING ISSUE ON PAGE 24 OF YOUR DIRECT TESTIMONY, PLEASE SUMMARIZE THE ORIGIN OF THIS SPECIFIC REPORTING ISSUE?

A. In October, 2018, the Company changed its revenue reporting for these customers resulting in a one-time shift of reported revenue from October to November. The Company then recorded unbilled revenue to reflect the revenue for these customers.

Q. HOW DID THE COMPANY ADJUST REVENUE TO ACCOUNT FOR THIS ISSUE?

A. The Company adjusted its unbilled revenue associated with the cycle 21 customers in order to reflect 12 months of revenue for the cycle 21 customers.

Q. HOW DID STAFF ADJUST FOR THE CYCLE 21 ISSUE?

A. Staff removed the entire amount of reported unbilled revenue and then added back in an adjustment for the cycle 21 in a separate adjustment. The difference between the

July unbilled revenue totaling $10,396,322 as discussed above and the Company's adjustment to remove unbilled revenue totaling $3,678,896 for the update period includes about $7.8 million associated with the cycle 21 issue for the Update Period less about $1.1 million difference due to Staff's using the 12-month period ending July, 2019 and the Company's using the 12-month period ending September, 2019.

Q. IN WHAT ADJUSTMENT DID STAFF ADD BACK IN THE REVENUE ASSOCIATED WITH THE CYCLE 21 CUSTOMERS?

A. Staff's adjustment 18 to Retail Revenue adjusts for the cycle 21 unbilled revenue. Of the $12.8 million adjustment, about $7.9 million is related to the replacement of this revenue. See below for an explanation of the remaining amount for adjustment 18.

Q. CONSIDERING THE COMBINATION OF STAFF'S UNBILLED ADJUSTMENT AND THE PORTION OF THE ADJUSTMENT ASSOCIATED WITH THE CYCLE 21 ISSUE, IS STAFF'S ADJUSTMENT REASONABLE?

A. Yes. The Company believes Staff's adjustment to remove unbilled revenue is reasonable, and when updated to September 30, 2019, it would align with the Company's adjustment.

Q. IF THIS INFORMATION IS UPDATED TO REFLECT THE TRUE-UP PERIOD OF 12-MONTHS ENDING JANUARY, 2020, WILL THE CYCLE 21 REPORTING CHANGE BE AN ISSUE?

A. No. This issue occurred in October, 2018, which is not a part of the defined true-up period.

Q. DOES THE COMPANY AGREE WITH STAFF'S ADJUSTMENT 18 – ADJUSTMENT FOR BILLING DETERMINANT?

A. Yes, in part. As I outlined above, the Company believes the portion of the adjustment associated with $7.9 million of unbilled revenue associated with the cycle 21 reporting issue is appropriate. However, the remaining $4.9 million of this adjustment is calculated based on a change in billing determinants not related to the cycle 21 issue. This amount is the result of calculating revenue associated with billing determinants, provided by the Company, which did not reconcile to the Company's booked revenue.

Q. DO YOU AGREE WITH THE $4.9 MILLION INCLUDED IN ADJUSTMENT 18?

A. No. The Company's booked revenue is accurate and Staff does not need to make an adjustment. The Company will provide billing determinants to staff that reconcile to the Company's books.

Q. DOES THE COMPANY HAVE CONCERNS WITH STAFF'S ADJUSTMENT 19 TO ADJUST FOR CUSTOMERS THAT SWITCHED RATE CLASSES?

A. No. This adjustment reflects four customers that switched rate classes between RG, CB, SH, TEB and GP classes.

Q. IS THE COMPANY CONCERNED WITH STAFF'S ADJUSTMENTS 20 AND 21 TO NORMALIZE WEATHER AND ANNUALIZE CUSTOMER GROWTH?

A. The Company, outside of the differences in the timing of the periods, is not concerned with Staff's adjustments for weather normalization and to annualize customer growth.

Q. DOES THE COMPANY AGREE WITH STAFF'S ADJUSTMENT 22 TO ADJUST FOR THE UPDATE PERIOD?

A. No, the Company is concerned with the time period differences in Staff's adjustment. Staff's adjustment to reduce revenue by $16,961,127 reflects the revenue impact between TYE March, 2019 and 12-months ending July, 2019. To adjust for the update period ending September, 2019, this revenue adjustment should reflect a reduction of $25,199,578.

Q. DOES STAFF'S ADJUSTMENT TO REMOVE REVENUE FOR INCOME TAX DUE TO TCJA (REV-2 ADJUSTMENTS 23-34) CORRESPOND TO THE COMPANY'S ADJUSTMENT FOR THE SAME PURPOSE?

A. Essentially, the adjustments made by Staff to reduce retail revenue by $7,760,076 coupled with Staff's adjustment Rev-8 Adjustment 1 to remove tax stub period revenue reduction of $11,728,453, a net revenue increase of $3,968,377, are roughly equivalent to the Company's revenue adjustment of $3,985,645 for the same purpose.

Q. THERE IS A SLIGHT DIFFERENCE BETWEEN STAFF'S AND THE COMPANY'S OVERALL TCJA ADJUSTMENTS. TO WHAT IS THIS ATTRIBUTABLE?

A. The slight difference is due to a difference in the Company's use of the Commission ordered amount of $17,837,022 due to tax reform and Staff's calculated reduction of $17,854,288 using the test year kWh sales.

Q. DOES THE COMPANY OPPOSE STAFF'S ADJUSTMENT 35, TO ADJUST FOR CUSTOMERS THAT SWITCHED RATE CLASSES?

A. In principle the Company agrees with this adjustment. As suggested by Staff, this adjustment should be re-calculated to incorporate information through the true-up period.

Q. DOES THE COMPANY AGREE WITH THE PROPOSED ADJUSTMENTS BY STAFF AND OPC AS THEY RELATE TO MARKET REVENUES AND VARIOUS TRANSMISION REVENUES?

A. No. The Company is not in agreement with the adjustments Staff and OPC are proposing related to market revenues and various transmission revenues. Please refer to the rebuttal testimonies of Company witnesses Mr. Aaron J. Doll and Mr. Todd Tarter for further details surrounding these adjustments.

Q. DOES THE OPC MISCHARACTERIZE THE COMPANY'S TCJA REVENUE ADJUSTMENT?

A. Yes. The Company was not making the assertion that the Company was under earning as support for this adjustment. Rather the Company made an adjustment of approx. $4 million to reduce its test year revenue to only reflect the rate reduction of $17.8 million as ordered by the Commission in Docket ER-2018-0366. The Company had reserved the $11.7 million for the Stub Period as ordered by the Commission. In addition, the Company returned another $10.1 million through rates for a total of $21.8 million. The $4 million adjustment was simply made to reflect the correct revenues related to the TCJA in the test period.

EXPENSES

Q. DOES THE COMPANY AGREE WITH OPC AND STAFF'S ADJUSTMENT FOR PURCHASE POWER?

A. No. The Company continues to support the FAC base factor as brought forth by the Company in this proceeding. For additional details surrounding concerns with Staff and OPC recommendations related to Purchase Power items, please see Company witness Todd Tarter's rebuttal testimony which addresses the Fuel and Purchased Power costs, including the demand charges for Plum Point.

Q. PLEASE DESCRIBE THE ADJUSTMENTS STAFF MADE TO NORMALIZE PLANT O&M EXPENSE.

A. Staff reviewed Liberty-Empire's non-labor operation and maintenance ("O&M") costs for each of its generating units to determine an appropriate amount of expense to include in the Company's cost of service. In doing so, Staff used a varying number of years to average the O&M expenses. For example, for Iatan 1, Staff used a six year average; for Iatan 2, Stateline, Energy Center, Ozark Beach and Asbury, Staff used a five year average; and for all Riverton units, Staff used a three year average.

Q. DOES THE COMPANY HAVE CONCERNS WITH THESE ADJUSTMENTS?

A. Yes. As explained above, Staff used varying number of years to average the O&M expenses based on each plant's major overhaul schedule; however, the maintenance schedules stated by Staff are not accurate for many of the plants, and are therefore unreasonable to use to average the O&M costs. In addition, for Iatan 1, Staff's use of the six year average includes years where no costs for chemicals related to the Mercury and Air Toxics Standards ("MATS") were incurred. Also, no adjustment was made for inflation on any of the plant's O&M costs, and therefore does not show the true costs in today's dollars. Finally, there were several errors related to the State Line units. Therefore, the Company continues to recommend the Generation Plant O&M expense balances as proposed by the Company in its cost of service.

Q. PLEASE DESCRIBE STAFF'S ERRORS RELATED TO THE STATE LINE COMBINED CYCLE AND COMMON UNITS.

A. Staff made an adjustment to bring the State Line Combined Cycle ("SLCC") and State Line Common unit's test year expenses to a five year average based on a five year overhaul schedule of the boiler and turbine. However, the State Line facilities do not have boilers and do not have a five-year overhaul schedule. In addition, two of the units' turbine maintenance schedules vary based on operating hours, and the other unit's steam turbine inspection is on a six year cycle. Both the SLCC and Common units have run at record or near record levels for the past four years, and the Company projects this trend to continue; therefore, it would be unreasonable to adjust the test year balances to a five year average. The Staff also incorrectly calculated the amount of maintenance expense for these units in their five year average. Although Staff was correct in saying that Liberty-Empire jointly owns the plant with Westar, 60% of SLCC and 66.7% of State Line Common, this is not how Liberty-Empire's portion of the maintenance costs are calculated. While Liberty-Empire's portion of *operation* costs are based solely on ownership percentages, Liberty-Empire's portion of *maintenance* costs are weighted; 75% of the costs are based on ownership percentage while 25% are based on the net generation ratio. Although the Company believes the test year balance is reflective of these accounts, if the Commission were to approve Staff's average approach, Staff should utilize a four year average, which is more reflective of the ongoing costs, with inflation incorporated and with Liberty-Empire's correct portion of maintenance costs applied. If Staff made the above corrections and utilized the correct maintenance balances, inflation, and on a four year average, the adjustment would be to reduce total O&M costs ($152,762) instead of their adjustment of ($817,878).

Q. PLEASE DESCRIBE STAFF’S ERRORS RELATED TO THE STATE LINE 1 UNIT.

A. Staff's direct report stated Liberty-Empire has an O&M contract with Siemens based on hours of operations and if the plant does not meet or exceeds the required hours of the contract then the Company could receive a credit or incur additional expenses. Due to this perceived volatility, Staff adjusted the Company's test year numbers to a five year average. However, the Company has not had this contract with Siemens since the early 2000s. The current contract with Siemens is not based on operating hours, but includes purchase prices for parts and repairs services, with an inflation index included in the contract. As such, Staff's adjustment is inappropriate, and the test year balances for State Line 1 O&M expenses should be used in the cost of service.

Q. PLEASE DESCRIBE STAFF'S ADJUSTMENT RELATED TO CREDIT CARD FEES.

A. Staff has included an annualized amount for credit card processing fees for Liberty-Empire, based on the number of actual credit card payments occurring during the test year, multiplied by a fee per-transaction. However, additional adjustments are needed to accurately reflect an annualized amount of expense.

Q. WHAT ADDITIONAL ADJUSTMENTS ARE NEEDED?

A. There are two adjustments needed to properly reflect an annualized level of credit card fee expense. Staff, and the Company in direct testimony, applied one fee to all transactions.[5] However, there are actually two types of transactions fees, one for residential and one for commercial. Therefore, the transaction fee for residential should be multiplied times the number of fees for residential and the same procedure followed for commercial transactions. The next adjustment needed is to apply an allocation factor to reflect Missouri's portion of the costs instead of a total company amount.

Q. DOES THE COMPANY AGREE WITH STAFF'S RECOMMENDATION TO CONTINUE THE LIPP?

A. Yes. However, additional expense related adjustments are needed. Based upon the Company's reading of Staff's recommendation, it appears Staff is recommending inclusion of $250,000 of expense to be included in base rates, yet Staff did not make

[5] MPSC Supplemental DR 0178

an adjustment to include the costs in its revenue requirement calculation. It is the Company's understanding that Staff intends for the Company to only track costs above or below $250,000 on a going forward basis as part of a regulatory asset or liability; therefore, an adjustment to add an annual level of LIPP cost for inclusion in base rates should be made. In addition, it does not appear Staff included the amortization of the original LIPP regulatory asset. The Company-proposed amount of $49,370 based on a five year amortization should also be included in Staff's revenue requirement calculation, and if updated to September 30, 2019, it should be $50,000.

Q. PLEASE DESCRIBE STAFF'S ADJUSTMENT RELATED TO BAD DEBT EXPENSE.

A. The Company generally agrees with the methodology that Staff applied to determine a percentage of bad debt expense. However, the Company does not agree with the adjusted level of revenues to which Staff applied the uncollectible percentage in order to determine the normalized amount of bad debt. Once correct revenues are determined, a corrected bad debt expense adjustment should be applied.

Q. DO YOU AGREE WITH STAFF'S ADJUSTMENT TO REMOVE DUES AND DONATIONS?

A. Yes, in part. The Company agrees with the removal of $23,780 (total company) related to certain items that should have been recorded below the line. However, the Company does not agree with the removal of the Edison Electric Institute ("EEI") dues that are unrelated to lobbying. The Company allocated EEI costs to its shareholders (lobbying costs) and already recorded these costs below the line. By recording these costs below the line it excludes them from the cost of service used in designing base rates.

Q. PLEASE DESCRIBE HOW THE COMPANY'S PARTICIPATION IN EEI BENEFITS CUSTOMERS.

A. EEI, much like NARUC, conducts research, and seeks to educate its members or other users of its published information, and also communicates to its members to keep them apprised of current developments. EEI has a Restoration, Operations, and Crisis Management Program which is aimed at improving industry-wide responses to major outages, continuity of industry and business operations, and support and coordination of the industry during times of crisis. EEI also focuses on advancing the application of new technologies that will strengthen and transform the power grid. The EEI membership is committed to an affordable, reliable, secure, and clean energy future and it promotes the sharing of information, ideas, and experiences among the electric power industry.

Q. DOES THE COMMISSION UTILIZE EEI INFORMATION FOR THE BENEFIT OF LIBERTY-EMPIRE'S CUSTOMERS?

A. Yes. As shown in Staff's Direct Report on pages 8, 9, and 10, Staff utilized information from EEI's Q2 Financial Update to assess the economic climate. In addition, on page 13 of Staff's Direct Report, Staff utilized EEI's regulated utility index in the development of its proxy group for determining the cost of equity.

Q. DOES STAFF'S ASSERTION THAT EEI BENEFITS ARE NOT QUANTIFIED AUTOMATICALLY REQUIRE DISALLOWANCE?

A. Absolutely not. The Company has clearly shown that the Company's involvement in EEI benefits customers by providing information for the use of regulators and by providing services to industry both of which are used for the benefit of customers. Staff's use of EEI information in testimony demonstrates the value of EEI as well.

Q. DOES THE COMPANY AGREE WITH THE DISALLOWANCE OF CERTAIN ADVERTISING EXPENSES RECOMMENDED BY STAFF?

A. No. While the Company does not oppose the adjustment proposed by Staff witness Niemeier, Liberty-Empire does not fully agree with the adjustment or methodology used to arrive at the adjustment.

Q. WHAT ARE THE CONCERNS THE COMPANY HAS REGARDING THE ADJUSTMENT?

A. First, the proposed adjustment is on a total company level and the advertising has benefit to all jurisdictions and should be allocated accordingly. Second, it is my understanding many of the adjustments were disallowed based on a product code assignment, the description of the item was vague or it lacked a description on the invoice. Several of the adjustments have no reason for the disallowance of the specific cost. The Company has reviewed the disallowed invoices proposed by Staff and believes the adjustment should be reduced to ($5,278).

Q. IS STAFF'S ADJUSTMENT RELATED TO EMPIRE DISTRICT INDUSTRIES ("EDI") NEEDED?

A. No. Staff Witness Foster proposed an adjustment to remove a portion of test year costs related to EDI. However, the Company has already removed costs related to EDI. Each month the Company makes journal entries to assign costs to EDI. In addition, the Company allocated portions of plant and accumulated reserve to EDI as a part of its direct filing. Therefore, this adjustment should be removed from Staff's calculation of its proposed revenue requirement. Please see Rebuttal Schedule SR-2 which shows the actual entries that were booked during the test year to remove costs related to EDI.

Q. DOES THE COMPANY AGREE WITH STAFF'S PAYROLL RELATED ADJUSTMENTS?

A. No. Staff witness Arabian adjusted Liberty-Empire's test year payroll expense in an attempt to reflect annualized levels of payroll, payroll taxes, and 401(k) benefit costs as of September 30, 2019. However, certain payroll related costs such as retention, and incentive payments were not properly reflected in Staff's adjustment. In addition, Staff's test year balance is not appropriate which results in a lower increase in costs. These payroll related items should be further adjusted to reflect known and measureable changes as of January 31, 2020.

Q. DOES THE COMPANY AGREE WITH STAFF'S CALCULATION OF ANNUALIZED PAYROLL AND OVERTIME?

A. No. Staff witness Arabian utilized an employee list which showed the employees' salaries as of September 30, 2019 to develop an annualized payroll and overtime amount. Although Staff stated their source as MPSC DR 27, they excluded several active employees that should have been included. Furthermore, Mr. Arabian's employee list included fiber and water employees from the data request that should have been excluded from Liberty-Empire's electric annualized payroll.

Q. WHAT WOULD STAFF'S ANNUALIZED PAYROLL AMOUNT BE IF THEY USED THE CORRECT EMPLOYEES?

A. Staff's total expensed annualized payroll and overtime was $41,235,961; had the correct employees been used it would have been $40,674,790.

Q. DOES THE COMPANY TAKE ISSUE WITH ANY OTHER PART OF THIS ADJUSTMENT?

A. Yes. Staff has also used incorrect test year balances. Staff's test year amount of payroll and overtime, $40,750,945, incorrectly includes incentive pay amounts. Therefore, in order to compare like payroll and overtime, Staff would need to remove incentive pay from their test year balance. The Company utilized MPSC DR 73 and applied allocators in compliance with its Cost Allocation Manual ("CAM") to obtain Liberty-Empire's portion of expensed incentive pay, resulting in a payroll and overtime test year balance of $38,771,948. After making the above corrections, Staff's pro forma adjustment to increase payroll expense would be $1,902,843.

Q. DOES THE COMPANY AGREE WITH STAFF'S APPROACH TO ANNUALIZE 401K?

A. Although the Company agrees with the general methodology Staff utilized to calculate 401k employer contributions, which is based on the Company's contribution percentage for each employee at September 30, 2019, the Company does not agree with the pro forma annualized payroll and overtime expense amount that the percentage was being applied to as discussed above.

Q. WHAT WOULD STAFF'S ADJUSTMENT BE IF THEY HAD USED THE CORRECT ANNUALIZED PAYROLL AND OVERTIME AMOUNT?

A. Staff's filed adjustment to increase 401K expense was $194,950. When the Company corrected Staff's adjustment to include the correct employees, the adjustment would be to increase 401k expense by $180,448.

Q. DOES THE COMPANY AGREE WITH STAFF'S APPROACH TO ANNUALIZE PAYROLL TAXES?

A. Although the Company agrees with the general methodology Staff utilized to calculate annualized payroll taxes at September 30, 2019, the Company does not agree with the pro forma annualized payroll and overtime expense amount that the taxes were being applied to as discussed above.

Q. WHAT WOULD STAFF'S PAYROLL TAX ADJUSTMENT BE IF THEY HAD USED THE CORRECT ANNUALIZED PAYROLL AND OVERTIME AMOUNT?

A. Staff's filed adjustment to increase payroll tax expense was $345,074. When the Company corrected Staff's adjustment to include the correct employees, the adjustment would be to increase payroll taxes by $300,894.

Q. DID STAFF MAKE ADJUSTMENTS TO THEIR COST OF SERVICE FOR INCENTIVE COMPENSATION?

A. Yes, the Staff disallowed certain portions of the Company's scorecard metrics for short term incentive compensation ("STIP"), Shared Bonus Plan (“SBP”) and other incentive plans stating they do not benefit customers. Although Staff agreed to allow a portion of nonfinancial based short term incentive compensation for Liberty-Empire employees, Staff disallowed 100% of APUC's short term incentive, along with 100% of the Long Term Incentive Plan (“LTIP”) and Stock Option expenses based on Staff's belief they were only awarded for increasing shareholder value, not benefiting customers.

Q. DO YOU AGREE WITH THE STAFF’S REASONING FOR SUCH A DRAMATIC REDUCTION TO EMPLOYEE COMPENSATION?

A. No. Staff’s reasoning for adjusting incentive compensation completely misses the mark of providing a competitive compensation package. In addition, Staff’s witness offers no evidence that the total level of salaries (base compensation plus incentive compensation) is too high or imprudent. Also, Staff’s witness apparently fails to recognize that lower O&M is a contributor to increased earnings for the Company. Customers clearly benefit from employees being focused on holding down or reducing O&M costs. In addition, increased earnings are routinely reinvested into operations and assets, not just returned to shareholders. It is important to keep in mind the incentive compensation plans offered by Liberty-Empire are a routine and widely-accepted mechanism for motivating employees to strive for excellence in whatever service, function, task or activity they are undertaking on behalf of the business and the customers it serves. It has become an essential part of the overall compensation package necessary to attract and retain employees, especially in the kind of challenging environment we have today for attracting talent.

Q. DOES INCENTIVE COMPENSATION BASED ON FINANCIAL OR EARNINGS-RELATED METRICS BENEFIT CUSTOMERS?

A. Yes. There are two aspects of utility service that are of paramount interest to customers – the quality of the utility service they receive and the cost of that service. The Commission has recognized that incentive compensation based on operational or service goals can benefit customers by improving the quality, timeliness or other customer-centric attributes of the service they receive. However, customers also benefit when employees respond positively to financially-based incentives. Whether that response results in increased revenues or decreased costs (and produces better earnings in the short-term), customers ultimately reap the benefits.

Q. PLEASE DESCRIBE COMMISSION STAFF'S ASSESSMENT OF PRUDENCE FOR THE COMPANY'S COMPENSATION PLANS?

A. Staff did not to my knowledge make any attempt to determine if the overall cost for acquiring and retaining an employee is prudent, rather they looked at the calculation of the components of compensation without analysis or evidence of prudence of total compensation. For example, the Company could pay an engineer a market based salary of $130,000 a year and few would question that expenditure. However, if the combination of the base compensation and incentive compensation for that engineer totals to the same market based salary, some would challenge the appropriateness of the compensation related to incentive pay. This logic just doesn't add up. The question should be whether the $130,000 is an appropriate level of pay or not.

Q. HAVE OTHER REGULATORY COMMISSIONS EVALUATED AND APPROVED COMPENSATION AS A WHOLE INCLUDING INCENTIVE PAY?

A. Yes. "Some U.S. regulatory commissions have explicitly acknowledged that utilities' employee compensation strategies are developed to attract, retain, and motivate employees, and that the proper concern of regulators is whether a utility can demonstrate that the overall level of employee compensation expenses is reasonable."[6] In Indiana, regulators evaluated a utility's compensation package, including incentive compensation, and approved the utility's compensation request. Similarly, in Nevada, the Nevada Public Utilities Commission (NPUC) evaluated a combined compensation package of payroll and benefit costs and approved the utility's compensation request. Also, in Tampa Electric's rate case 080307-EI, Order No. PSC-09-0283-FOF-EI, the Florida Commission approved inclusion of incentive compensation.

Q. ASIDE FROM STAFF'S REMOVAL OF CERTAIN INCENTIVES, DOES THE COMPANY AGREE WITH STAFF'S APPROACH FOR CALCULATING THE ADJUSTMENTS?

[6] March 2012 Labor Costs and the Rate Case, www.fortnightly.com.

A. No, there are several items that the Company disagrees with on Staff's adjustment for incentive compensation. Staff calculated what they believe the payout would be for each employee for STIP & Shared Bonus Plan ("SBP") based on the weighted formulas supplied by the Company (adjusted for financial metrics used) from their STIP & SBP incentive plans. First, the Company does not agree with the employee listing that was used to calculate the STIP & SBP amounts. As stated above, Staff utilized the same incorrect employee list they used for annualizing payroll. Second, they assumed every employee received a short term incentive, as well as, a shared bonus, however, this is not the case. The employees that are below a manager level are only eligible for the shared bonus plan, while managers and above would receive the short term incentive plan payout. In addition, Staff averaged the two STIP & SBP payout totals to get their annualized amount of $760,517. Averaging the two together is inappropriate considering different weighted formulas were used during their calculation. Next, Staff compared this annualized amount to an amount the Company supplied for their 2019 payout in MPSC DR 27; both of which were not factored down to Liberty-Empire's portion.

Q. DO YOU AGREE WITH STAFF'S INSURANCE PREMIUM ADJUSTMENTS?

A. No. Staff made an adjustment comparing test year expense to invoices the Company provided showing the 2019-2020 insurance premiums in order to reflect an annualized level of insurance premiums. However, Staff excluded the entire portion of a correcting entry to re-class or remove General Liability insurance out of property insurance. Staff should have only excluded part of the correcting entry because the original expense was outside of the test year. Therefore, the portion of the re-class related to expenses which were included in the test year should not be removed from the property insurance account. In addition, the Company's response to MPSC data request DR0052 omitted a correcting entry, which, when included, increases Liberty-Empire's portion of the 2019-2020 property insurance premiums by $934,813. Finally, Staff applied an allocation factor to account for capitalized property insurance. However, the Company only capitalizes two insurance types (vehicle liability and general and excess liability). When the above corrections are made, Staff's adjustment would be an increase of $413,008.

Q. PLEASE DESCRIBE OPC'S RECOMMENDATION TO DISALLOW MANAGER MEALS AND TRAVEL.

A. OPC witness Conner seems to suggest that employees should not be allowed a meal when a meeting is planned during their lunch break. The OPC's adjustment is not reasonable and is unfair to our employees.

Q. IS IT REASONABLE AND PRUDENT TO PROVIDE MEALS DURING LUNCHTIME MEETINGS?

A. Most definitely. Often this is the only time available for an internal meeting, and most if not all of the people attending these meetings are not paid for the additional hours of work and do not receive any overtime compensation. Therefore, it is only fair to our employees to provide a meal. Providing a meal for just one person can save 30 minutes of time. Multiply that times four to five people in a meeting and the Company gains 2 to 2.5 hours of productivity. This is a small price to pay compared to providing a meal.[7] In addition, the Company feels it is inappropriate to expect someone to give up their lunch hour for additional work time without including a meal. Finally, the Company

[7] Strategy-business.com, "What Companies Gain from Providing Free Lunch to Employees."

conducts training in the form of "Lunch and Learns" on various topics to provide necessary training on a variety of topics.

Q. DO YOU AGREE WITH WITNESS CONNER'S CALCULATION OF THE ADJUSTMENT?

A. No. OPC witness Conner made several errors. First, for the officer expenses, the values in her worksheet are in Canadian dollars. Second, these amounts have not had allocation factors applied to them in order to obtain Liberty-Empire's cost. The specific disallowances for imprudence were also wrong for the same reasons. Third, the data request used by OPC's witness is for all Liberty Utilities Service Corp. employees that charged to Liberty-Empire, not just managers and officers as described in Ms. Conner's direct testimony. Finally, witness Conner inconsistently applied the disallowance percentages for manager expenses by using half of the officer disallowance percentage for the managers for one category of costs and by using 100% of the officer disallowance percentage for another category of costs.

Q. PLEASE DESCRIBE STAFF'S ADJUSTMENTS RELATED TO DEPRECIATION EXPENSE.

A. Staff made the following adjustments to depreciation expense: 1) removal of depreciation cost related to clearing accounts; and 2) annualize depreciation expense based on September 30, 2019 plant balances.

Q. DO YOU AGREE WITH STAFF'S DEPRECIATION RELATED ADJUSTMENTS?

A. I agree with Staff's adjustment to annualize depreciation expense including removal of depreciation in clearing accounts based on September 30, 2019 balances if the adjustments to plant balances I describe above are made and the below corrections are made to the depreciation rates used in Staff's calculation of depreciation expense.

Q. WHAT CORRECTIONS SHOULD BE MADE TO THE DEPRECIATION RATES?

A. Two depreciation rates should be corrected. Staff used a rate of 2.5% for FERC accounts 371 and 373 which does not agree to the last approved depreciation rates from Docket ER-2016-0023. The correct rates for these accounts are 4.67% and 3.33% respectively.

Q. DOES THE COMPANY AGREE THAT IT IS APPROPRIATE TO REMOVE THE AMORTIZATION EXPENSE RELATED TO THE KANSAS ICE STORM?

A. Yes. The Company booked ice storm amortization to a specific subaccount of FERC 593 (account 593599) and assigned this subaccount an allocation factor of 0% so that no costs were assigned to the Missouri jurisdiction. Staff has also made an adjustment to exclude the Kansas Ice Storm Amortization; however, Staff's total company adjustment includes 13 months of amortization and carrying costs, but should only include 12 months.

Q. DOES THE COMPANY AGREE WITH STAFF'S ADJUSTMENT TO AMORTIZE THE RIVERTON 12 REGULATORY ASSET?

A. No. Although, the Company does agree with the five year amortization period used by Staff, the Company does not agree with the rate base amount being amortized as discussed above.

Q. PLEASE DESCRIBE STAFF'S ADJUSTMENT TO NORMALIZE RATE CASE EXPENSE.

A. Staff witness Niemeier first disallowed certain cost she deemed imprudent. Then witness Niemeier divided the rate case expenses into categories and applied different amortizations to them. Finally, witness Niemeier applied a cost sharing percentage to the category of rate case expenses which excluded the categories of Depreciation Study and Line Loss Study. It appears that witness Niemeier did not apply the cost sharing to the categories of Depreciation and Line Loss because these studies are not discretionary and are required by Commission rule. Witness Niemeier goes on to say that she "… recommends assigning Empire's discretionary rate case expense to both ratepayers and shareholders…"

Q. DOES THE COMPANY AGREE WITH STAFF'S ADJUSTMENT TO NORMALIZE RATE CASE EXPENSE?

A. No. The Staff incorrectly omitted reasonable and prudent legal expenses in the amount of $16,509. In addition, Staff's test year rate case expense was overstated which results in a lower increase when comparing an adjusted balance to it. Correction of these items results in an increase of approximately $84,357 to expense instead of Staff's reduction of ($112,251). These corrections and further updates to rate case expense should be made to properly reflect a normalized level of rate case expense in the Company's base rate calculation.

Q. DOES THE COMPANY AGREE WITH STAFF'S DETERMINATION THAT THIS RATE CASE EXPENSE IS DISCRETIONARY?

A. No. Witness Niemeier incorrectly claims the Company's rate case filing was a discretionary filing and therefore the associated costs are discretionary. The Company was required to make this rate case filing as indicated in its Notice of Intended Case

Filing submitted on May 29, 2019 and again in its rate case filing letter.[8] Therefore, these rate case expenses should be afforded the same treatment as the Depreciation and Line Loss studies.

Q. DOES THE COMPANY AGREE WITH STAFF'S ADJUSTMENT TO REFLECT A SHARING OF RATE CASE EXPENSE?

A. No. As stated above, this rate case is not discretionary. In addition, witness Niemeier stated "…Rate case expenses subject to a sharing mechanism do not include internal labor costs as these are included in the cost of service through the payroll annualization and are not incremental expenses resulting from the rate case process..." Applying a sharing mechanism to all of the consultant costs harms Liberty-Empire inappropriately, as the Company does not have in-house rate design or cost of service department and must contract out for these services. Other larger utilities have these personnel in-house and are allowed to recover those costs through rates. The Company must contract for expertise when it does not have that expertise in house. Finally, the notion of sharing these costs with shareholders is at best misapplied. Rate case expense is a cost of supplying service to our customers and therefore should be included in the cost of service.

Q. DOES THE COMPANY AGREE WITH OPC'S PROPOSED ADJUSTMENT TO RATE CASE EXPENSE?

A. No. For the same reasons as mentioned above, as well as OPC inappropriately recommending disallowance of the Line Loss Study which is utilized in this required rate case filing as part of the cost of service study. In addition, the Line Loss Study is

[8] Pursuant to RSMo. 386.266.4(3), Liberty-Empire was required to file a general rate case with the effective date of new rates to be no later than four years after September 9, 2016.

a required filing per 20 CSR 4240-20.090(13). Finally, the Company disagrees with the amortization period proposed by the OPC. Two years is reasonable, considering the Company will file another rate case in less than three years.

Q. PLEASE DESCRIBE STAFF'S RECOMMENDATION RELATED TO THE TCJA STUB PERIOD AMORTIZATION.

A. Staff stated they agreed with the Commission's determination that the Tax Cut and Jobs Act ("TCJA") is as an "extraordinary event." Apparently, just for that reason, Staff recommends that the entire amount deferred be flowed back to customers in rates over a five year amortization period.

Q. WHAT EVIDENCE DOES STAFF PROVIDE FOR THIS RATEMAKING RECOMMENDATION?

A. Staff provided no evidence for this ratemaking recommendation. Additionally, Staff's ratemaking recommendation in this case appears to contradict Staff's factual position and legal concerns expressed in Docket No. ER-2018-0366. In the Order in that docket, the Commission clearly stated that by issuing an AAO, it was not making any ratemaking decision about whether Empire's earnings resulting from the tax rate reductions can, or should, be returned to the company's ratepayers. The Commission held that the ratemaking decision would be made in Empire's next general rate proceeding, and a decision about the constitutionality of any ordered rate reduction would also will be made at that time.

Q. WHAT IS OPC'S POSITION REGARDING RATE TREATMENT OF THE TCJA STUB PERIOD REGULATORY LIABILITY?

A. OPC witness Riley appears to suggest the Company should offset the regulatory asset for pre-paid pension with the regulatory liability, which is not a good accounting practice. In addition, witness Riley ignores Schedule SDR-10 of my direct testimony which indicates the Company did not over earn during this period and in fact under earned. The Company would have significantly under earned absent the revenues related to the tax rate reduction (TCJA liability).

Q. DOES STAFF'S ADJUSTMENT TO PROPERTY TAX REFLECT THE EXPECTED LEVEL OF PROPERTY TAX THE COMPANY WILL INCUR WHEN NEW RATES ARE ESTABLISHED?

A. No. Staff based their adjustment off of the value of property at December 31, 2018, only. It is my understanding the State of Missouri assesses property tax for Electric Utilities using the Income Approach in its evaluation of property tax assessments in addition to the property value. Utilizing just the one approach significantly miscalculates the property tax and does not reasonably represent the property taxes the Company paid during 2019 and the amount it anticipates paying in 2020.

Q. DOES THE COMPANY HAVE ADDITIONAL INFORMATION TO SUPPORT ITS ORIGINAL PRO FORMA PROPERTY TAX EXPENSE?

A. Yes. At December 31, 2019, the Company's accrued book tax liability was approximately $27 million on a total company basis which supports the Company's original pro forma property tax balance of $25.2 million for the Missouri jurisdiction.

Q. DOES THE COMPANY AGREE WITH STAFF'S ADJUSTMENT TO SOFTWARE MAINTENANCE EXPENSE?

A. Not entirely. It appears Staff inadvertently excluded vendor costs for a vendor that started in 2019 that is indirectly allocated to Liberty-Empire. The allocated portion of this vendor's costs should be included. Staff should also update in January to include a vendor that had costs that started in October 2019. With these two adjustments, Staff's adjustment would be ($80,565).

Q. ARE THERE INCOME STATEMENT ADJUSTMENTS WHICH THE COMPANY AGREES WITH OR DOES NOT OPPOSE?

A. Yes. The Company agrees with or does not oppose the following adjustments proposed by Staff, provided the adjustments are based on the Company's Missouri jurisdictional allocations:

- Normalize Rent Revenue,
- Fly Ash Revenues,
- Miscellaneous Revenues,
- MPSC Assessment,
- Annualize Postage Expense,
- Annualize Lease Expense,
- Remove Acquisition Cost,
- Normalize Outside Services Expense,
- Removal of the Iatan and Plum Point O&M Tracker Amortization Expense,
- Annualize Amortization Expense, and
- Normalization of employee benefits.

The Company also agrees with Staff's adjustments for the following items with the understanding these balances will be updated to reflect the true up process at January 31, 2020 and will be based on the Company's Missouri jurisdictional allocations:

- Amortize Unprotected Excess ADIT,
- Amortize Protected Excess ADIT,
- Amortization of Solar Rebate Regulatory Asset,

- Amortization of Solar Initiative Regulatory Asset,
- Amortization of the SWPA Regulatory Liability,
- Amortization of the PeopleSoft Regulatory Asset,
- Amortization of DSM costs, and
- Amortization of the Tornado AAO Regulatory Asset.

Q. ARE THERE COMPANY PROPOSED INCOME STATEMENT ADJUSTMENTS THAT NO OTHER PARTY ADDRESSED IN DIRECT TESTIMONY?

A. Yes. Only Liberty-Empire addressed the Company's proposed adjustment to revenue for Investment Tax Credits and the adjustments proposed to expenses for adjustment for amortization expense as it relates to AROs.

IV. ADDITIONAL ISSUES

Q. ARE THERE ANY OTHER ISSUES WHICH YOU BELIEVE SHOULD BE ADDRESSED IN YOUR REBUTTAL TESTIMONY?

A. Yes, I will briefly address the following:

Other Issues	
Sponsoring Party	**Topic**
Staff	Jurisdictional Allocators
Staff/OPC	Asbury
EDESR	SERP
EDRA	Recommendation that Empire provide certain documentation

JURISDICTIONAL ALLOCATORS

Q. DOES THE COMPANY AGREE WITH STAFF'S JURISDICTIONAL ALLOCATION FACTORS?

A. No, Staff is very inconsistent in the methodology for creating their allocation factors which can over or understate expenses that are jurisdictional to Missouri retail customers.

Q. PLEASE DESCRIBE THE FLAWS IN STAFF'S APPLICATION AND DERIVATION OF ALLOCATION FACTORS.

A. Witnesses Bax and Foster used annualized numbers to calculate some of their allocation factors, while some were based on actuals. In calculating his Energy Allocation factor, witness Bax annualized the Missouri and Arkansas retail energy and the Wholesales customer energy, however, did nothing to annualize the Kansas and Oklahoma retail amounts with no explanation in his testimony for why this method was used. The Company notes that in some of the derivations of allocation factors the wholesale municipalities were included in the total company amounts, while some of the calculations did not include them. Additionally, for the payroll tax accounts, Staff witness Foster's workpaper stated that the jurisdictional allocation for those accounts was 72.85% and that the calculation was provided by Staff witness Arabian. However, when reviewing Mr. Arabian's workpaper for this calculation it was determined that witness Arabian was actually attempting to calculate the amount of labor that is expensed to the Company's books, not a jurisdictional allocation. Finally, the Company notes that there are numerous revenue and expense accounts allocated in Staff's cost of service report where the balances are either completely Missouri jurisdictional related or are completely unrelated to Missouri in which Staff allowed a portion to flow through into the derivation of the revenue requirement when in fact Missouri retail customers should have been either allocated 100 or 0 percent of the balance of those accounts, resulting in incorrect balances being reflected in Staff's revenue requirement.

ASBURY

Q. HOW DOES THE COMPANY RESPOND TO THE VARIOUS ISSUES RAISED BY COMMISSION STAFF AND THE OPC REGARDING THE RETIRMENT OF ASBURY?

A. In reliance on the Commission's *Order Denying Public Counsel's Motion to Modify the Test Year* issued January 28, 2020, and *Order Denying Motion for Reconsideration* issued February 19, 2020, the Company is not providing rebuttal on the various issues raised by the Commission Staff and the OPC regarding the impact of the retirement of Asbury. The Company will, of course, provide a list of suggested items or categories to address impacts resulting from Asbury's retirement for inclusion in an Accounting Authority Order by April 3, 2020, pursuant to the Commission's *Order Denying Public Counsel's Motion to Modify the Test Year* issued January 28, 2020.

SERP

Q. PLEASE DESCRIBE THE PURPOSE OF A SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN ("SERP")?

A. Liberty-Empire's SERP was established to provide each participant in the plan with the benefits the participant would have received under The Empire District Electric Company Employees' Retirement Plan except for the limitations on compensation and benefits imposed under Sections 401(a)(17) and 415(b) of the Internal Revenue Code.

Q. WHAT IS THE REQUEST OF THE EMPIRE DISTRICT ELECTRIC SERP RETIREES ("EDESR") REGARDING THE SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN?

A. Mr. Gipson, witness for EDESR, is recommending Liberty-Empire be required to fund its SERP through a Rabbi Trust. Witness Gipson bases this recommendation on his interpretation of a study the Company prepared as agreed to in the stipulation and agreement with EDESR in Case No. EM-2016-0213. The study was conducted to determine "…whether a SERP funded via a Rabbi trust according to the SERP plan is less expensive to ratepayers than benefits paid from Empire's general funds for the life of the plan…"

Q. DOES THE COMPANY AGREE WITH MR. GIPSON'S INTERPRETATION OF THE STUDY RESULTS?

A. No. The study to fund a Rabbi trust was calculated utilizing three different Rate of Return ("ROR") estimates: 7:45%, 5.45%, and 3.45% under various scenarios of funding and debt. All three calculations resulted in the funding of a Rabbi trust costing more for customers versus the current funding method. The range of the additional costs are from a high of approximately $5.9 million (Single Contribution – 3.45% ROR) to the lowest additional cost of approximately $390 thousand (10 Year Level Contribution – 7.45% ROR). Therefore, the Company does not see a benefit to customers in changing the method of funding. Mr. Gipson agrees as he stated the Company should "…externally fund SERP benefits so long as it is not detrimental to customers to create such a fund."[9]

RETIREMENT PLANS DOCUMENTATION

Q. WHAT HAS THE EMPIRE DISTRICT ELECTRIC RETIREES AND SPOUSES ASSOCIATION, LLC. ("EDERA") REQUESTED OF THE COMPANY IN THIS CAUSE?

[9] Direct Testimony of William L. Gipson on behalf of The Empire District Electric SERP Retirees ER-2019-0374.

A. EDERA has requested Liberty-Empire to identify an individual that can provide, on a timely basis, the following reports and who can facilitate answers to questions. The reports requested are IRS Form 5500 filing for each plan, actuarial valuation reports, financial disclosures, annual funding notices to participants, annual health care premium and coverage letters to retirees, FERC Form 1, and summary and full annual reports.

Q. IS EDERA ABLE TO OBTAIN THIS INFORMATION DIRECTLY FROM PUBLIC SOURCES?

A. Much of it is publicly available or already provided to EDERA. FERC Form 1 is available electronically from the FERC website, the IRS Form 5500 is available on the Department of Labor Employee Benefit Security Administration ("EBSA") website, the Company's annual report (summary and full including financial disclosures) is available on its website, plan participants (as stated above) already receive annual funding notices, as well as annual health care premium and coverage letters. The actuarial valuation reports are the only items that EDERA cannot obtain itself. However, the IRS 5500 report includes actuarial schedules and summaries.

Q. WHAT IS THE COMPANY'S RESPONSE TO EDERA'S REQUEST?

A. The Company objects to a requirement to provide the actuarial valuation reports. The Company is agreeable to providing a point of contact, Director of Human Resources for the Central Region, in order to respond to EDERA's questions. While the Company is still evaluating the remainder of the request, it believes EDERA can easily obtain all of the other items requested from a public source.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

The Empire District Electric Company
Missouri Jurisdiction
Docket No. ER-2019-0374

Line No.	Year (TME)	Account	Description	Reference	Missouri TME Actual TME 03/2019 Balance	Missouri TME Budget TME 01/2020 Balance	Pro Forma Adjustment Balance
	(a)	(b)	(c)	(d)	(e)	(f)	(g) = (f) - (e)
1		500036	Opr Spr & Eng - Air Abatement & Monitoring		$ (7,978)	$ -	$ 7,978
2		506126	Misc Steam Power Expenses		704	-	(704)
3		548123	Exp of Prime Movers		260,152	228,548	(31,604)
4		548124	Exp of Environmental Devices		35,242	11,824	(23,418)
5		549025	Safety Expenses-Comb Turbine		120,863	116,887	(3,976)
6		549120	Exp of Misc Other Power		387,399	417,743	30,344
7		551201	Maint Supervision & Engineer		2,125	1,611	(514)
8		552121	Exp of Structures		16,433	24,519	8,087
9		552135	Maint of Structures - SL		132,010	115,410	(16,600)
10		553160	Mtce of Turbines		231,019	1,210,480	979,461
11		553163	Mtce of Hrsg Pressure Parts		257,964	39,545	(218,419)
12		553164	Mtce of Environmental Devices		28,877	219,406	190,529
13		553166	Mtce of Feedwater Systems		223,702	1,662,278	1,438,577
14		553168	Riverton Deferred Maintenance		4,482,144	2,781,640	(1,700,504)
15		553170	Mtce of Generators		3,864	36,264	32,400
16		553161	Mtce of Turbine Aux Equip		63,814	177,342	113,528
17		553175	Mtce of Elec Control System		117,722	116,866	(856)
18		553232	Unit #12 Combustion Turbine		579	-	(579)
19		554110	Exp of Misc Power Plant Equipt		38,088	96,832	58,744
20		554130	Mtce of Misc Plant Systems		28,240	15,051	(13,189)
21		554131	Mtce of Misc Plant Tools		56,156	56,033	(123)
22		549169	Riverton OprTrk MO ER2016-0023		(377,912)	-	377,912
23		553169	Riverton MtcTrk MO ER2014-0351		(3,401,206)	-	3,401,206
24			Total Riverton Maint Expense		$ 2,700,000	$ 7,328,282	$ 4,628,282

Purpose: To determine the amount of expenses expected to incur at the end of the true-up period.

The Empire District Electric Company
Missouri Jurisdiction
Docket No. ER-2019-0374

Sum of Sum Amount			Year	Period													
			2018									2018 Total	2019			2019 Total	Grand Total
Unit	Dept	Account	4	5	6	7	8	9	10	11	12		1	2	3		
GL001	000	922101	(62,308)	(48,928)	(53,888)	(52,434)	(48,142)	(57,383)	(51,314)	(54,199)	(54,666)	(483,262)	(22,791)	(20,858)	(28,365)	(72,014)	(555,276)
		930299	(22)				(785)			(22)		(829)	(842)			(842)	(1,670)
	000 Total		(62,330)	(48,928)	(53,888)	(52,434)	(48,926)	(57,383)	(51,314)	(54,221)	(54,666)	(484,091)	(23,633)	(20,858)	(28,365)	(72,855)	(556,946)
	960	920512											(590)	(1,207)	(1,065)	(2,861)	(2,861)
		921512											(75)	(152)	(455)	(681)	(681)
	960 Total												(664)	(1,358)	(1,520)	(3,543)	(3,543)
	961	920412											(866)	(1,805)	(1,161)	(3,832)	(3,832)
		921412											(17)	(1)	(2)	(21)	(21)
	961 Total												(883)	(1,806)	(1,163)	(3,853)	(3,853)
	962	920412											(29)	(34)	(13)	(75)	(75)
		921412												(2)	(166)	(168)	(168)
	962 Total												(29)	(35)	(179)	(243)	(243)
	963	920412											(3)	(60)	(190)	(253)	(253)
		921412											(34)	(37)	14	(58)	(58)
	963 Total												(37)	(98)	(176)	(311)	(311)
	964	920412											(299)	(102)	(386)	(786)	(786)
		921412											(3)		(37)	(40)	(40)
	964 Total												(302)	(102)	(423)	(826)	(826)
	965	920412											(162)	(217)	(124)	(503)	(503)
		921412											(55)	(177)	(197)	(429)	(429)
	965 Total												(217)	(394)	(320)	(932)	(932)
	966	920512											(211)	(348)	(395)	(955)	(955)
		921512													(15)	(15)	(15)
	966 Total												(211)	(348)	(410)	(970)	(970)
	967	920412											(12)	(13)	(50)	(75)	(75)
		921412													(16)	(16)	(16)
	967 Total												(12)	(13)	(66)	(91)	(91)
	968	920512											(86)	(134)	(116)	(336)	(336)
	968 Total												(86)	(134)	(116)	(336)	(336)
	969	920412											(102)	(138)	(236)	(476)	(476)
		921412													(35)	(35)	(35)
	969 Total												(102)	(138)	(271)	(511)	(511)
	970	920512											(66)	(51)	(176)	(293)	(293)
		921512											(50)	(0)	(6)	(56)	(56)
	970 Total												(116)	(51)	(181)	(349)	(349)
	973	920212											(4,732)	(1,718)	(2,519)	(8,969)	(8,969)
		920312													(7)	(7)	(7)
		920412											(63)	(156)	(17)	(236)	(236)
		921312													(9)	(9)	(9)
		921412													(8)	(8)	(8)
		921812													(10)	(10)	(10)
	973 Total												(4,794)	(1,874)	(2,570)	(9,239)	(9,239)
	974	920112											(209)	(143)	(131)	(483)	(483)

GL001	974	920812												(126)	(140)	(267)	(267)
		920912												(60)	(39)	(99)	(99)
		921112											(76)	(2)	(130)	(208)	(208)
		921912												(4)	(15)	(19)	(19)
	974 Total												(285)	(335)	(455)	(1,075)	(1,075)
	975	920512											(27)		13	(15)	(15)
	975 Total												(27)		13	(15)	(15)
	976	920412											(78)	(213)	(222)	(512)	(512)
		921412												0		0	0
	976 Total												(78)	(213)	(222)	(512)	(512)
	977	920512											(39)	(36)	(53)	(128)	(128)
		921512											(396)		(297)	(693)	(693)
	977 Total												(435)	(36)	(351)	(821)	(821)
	978	920112													(2)	(2)	(2)
		920912											(45)			(45)	(45)
		921112													(10)	(10)	(10)
	978 Total												(45)		(12)	(57)	(57)
	979	920112											(122)	(185)	(108)	(416)	(416)
		920812											(77)	(94)	(90)	(260)	(260)
		920912											(25)	(50)	(19)	(94)	(94)
		921112											(23)	(12)	(14)	(49)	(49)
		921912												(22)	(25)	(47)	(47)
	979 Total												(247)	(362)	(257)	(866)	(866)
	980	920112											(27)			(27)	(27)
		921112												(15)	(9)	(24)	(24)
	980 Total												(27)	(15)	(9)	(50)	(50)
	982	920112												(22)	(16)	(38)	(38)
		920912											(22)	(14)	(17)	(53)	(53)
		921112												(18)		(18)	(18)
	982 Total												(22)	(53)	(32)	(108)	(108)
	984	920412												(19)	(43)	(62)	(62)
		921412													(25)	(25)	(25)
	984 Total													(19)	(68)	(87)	(87)
	989	923110											(2,650)	(2,253)	(1,498)	(6,401)	(6,401)
		923210											281	415	(10,269)	(9,573)	(9,573)
		923510											(6,531)	(2,631)	(6,087)	(15,249)	(15,249)
		923610											(5,149)	(4,458)	(3,727)	(13,334)	(13,334)
		923810											(5,265)	(2,960)	(4,848)	(13,074)	(13,074)
		923910											(1,321)	(1,007)	(1,170)	(3,498)	(3,498)
	989 Total												(20,635)	(12,893)	(27,599)	(61,128)	(61,128)
GL001 Total			**(62,330)**	**(48,928)**	**(53,888)**	**(52,434)**	**(48,926)**	**(57,383)**	**(51,314)**	**(54,221)**	**(54,666)**	**(484,091)**	**(52,888)**	**(41,136)**	**(64,755)**	**(158,780)**	**(642,870)**
GLFIB	800	417310	26,103	26,202	30,146	25,359	26,593	27,434	24,374	24,301	25,291	235,803	22,791	20,858	28,365	72,014	307,817
		417311	5,078	2,192	4,478	5,146	4,585	7,991	4,778	4,514	5,092	43,855					43,855
		417312	14,631	9,833	12,329	13,675	6,399	9,042	10,557	9,159	9,566	95,191					95,191
		417313	16,496	10,701	6,935	8,254	10,564	12,917	11,605	16,224	14,716	108,413					108,413
		417889	22				785			22		829	842			842	1,670
	800 Total		62,330	48,928	53,888	52,434	48,926	57,383	51,314	54,221	54,666	484,091	23,633	20,858	28,365	72,855	556,946
	830	417311											6,071	3,622	6,547	16,240	16,240
		417312											9,770	9,816	7,930	27,516	27,516
		417313											13,415	6,840	21,913	42,168	42,168
	830 Total												29,256	20,279	36,390	85,925	85,925
GLFIB Total			**62,330**	**48,928**	**53,888**	**52,434**	**48,926**	**57,383**	**51,314**	**54,221**	**54,666**	**484,091**	**52,888**	**41,136**	**64,755**	**158,780**	**642,870**
Grand Total			**(0)**	**(0)**	**(0)**	**0**	**0**	**(0)**	**(0)**	**0**	**(0)**	**(0)**	**(0)**	**0**	**-**	**(0)**	**0**

AFFIDAVIT OF SHERI RICHARD

STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 2nd day of March, 2020, before me appeared Sheri Richard, to me personally known, who, being by me first duly sworn, states that she the Director of Rates and Regulatory Affairs of The Empire District Electric Company – Liberty Utilities Central 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.

Sheri Richard

Sheri Richard

Subscribed and sworn to before me this 2nd day of March, 2020.

ANGELA M. CLOVEN
Notary Public - Notary Seal
State of Missouri
Commissioned for Jasper County
My Commission Expires: November 06, 2023
Commission Number: 15262659

Notary Public

My commission expires: 11/06/23.