

EXHIBIT

Exhibit No.:

Issue(s):

Witness:

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Sponsoring Party:

Case Number:

Payroll/

Energy Trader Commission

Kimberly K. Bolin

Direct Testimony

Public Counsel

ER-2004-0570

DIRECT TESTIMONY

OF

KIMBERLY K. BOLIN

FILED

DEC 28 2004

Submitted on Behalf of
The Office of the Public Counsel

Missouri Public
Service Commission

THE EMPIRE DISTRICT ELECTRIC COMPANY

Case No. ER-2004-0570

September 20, 2004

Exhibit No. 84
Case No(s). ER-2004-0570
Date 12-06-04 Rptr KF

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

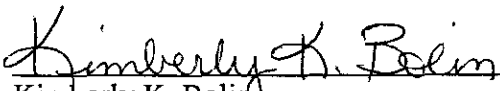
In the Matter of the tariff filing of The Empire)
District Electric Company to implement a)
general rate increase for retail electric service)
provided to customers in its Missouri service area.)
Case No. ER-2004-0570

AFFIDAVIT OF KIMBERLY K. BOLIN

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

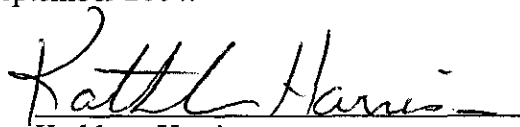
Kimberly K. Bolin, of lawful age and being first duly sworn, deposes and states:

1. My name is Kimberly K. Bolin. I am a Public Utility Accountant for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my direct testimony consisting of pages 1 through 6 and Schedules KKB-1 through KKB-5.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.


Kimberly K. Bolin
Public Utility Accountant I

Subscribed and sworn to me this 20th day of September 2004.

KATHLEEN HARRISON
Notary Public - State of Missouri
County of Cole
My Commission Expires Jan. 31, 2006


Kathleen Harrison
Notary Public

My commission expires January 31, 2006.

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DIRECT TESTIMONY
OF
KIMBERLY K. BOLIN
EMPIRE DISTRICT ELECTRIC COMPANY
CASE NO. ER-2004-0570

1 | **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

2 | **A.** Kimberly K. Bolin, P.O. Box 2230, Jefferson City, Missouri 65102.

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

4 | **A.** I am employed by the Office of the Public Counsel of the State of Missouri (OPC or Public
5 | Counsel) as a Public Utility Accountant.

6 | **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

7 | **A.** I graduated from Central Missouri State University in Warrensburg, Missouri, with a Bachelor of
8 | Science in Business Administration, major in Accounting, in May 1993. In April 1994, I attended
9 | the National Association of Regulatory Utility Commissioners Rate School held in San Diego,
10 | California.

11 | **Q. WHAT IS THE NATURE OF YOUR CURRENT DUTIES WITH THE OFFICE OF**
12 | **THE PUBLIC COUNSEL?**

13 | **A.** Under the direction of the Chief Public Utility Accountant, I am responsible for performing audits
14 | and examinations of the books and records of public utilities operating within the state of Missouri.

15 | **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC**
16 | **SERVICE COMMISSION?**

1 A. Yes. Please refer to Schedule KKB-1, attached to this direct testimony, for a listing of cases in
2 which I have previously submitted testimony. I have prepared testimony on payroll related issues in
3 six past Commission rate cases.

4 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

5 A. The purpose of my direct testimony is to express the Public Counsel's position regarding the
6 appropriate regulatory treatment of payroll including overtime, payroll taxes, 401K matching costs.
7 I also address the amount of energy trader commissions that should be included in the payroll
8 annualization.

9 PAYROLL

10 Q. DID YOU PREPARE AN ANALYSIS OF ANNUALIZED TEST YEAR PAYROLL?

11 A. Yes. I have prepared an analysis to determine a proper and reasonable annualized payroll expense
12 level. OPC's annualized level of total Company payroll expense is \$29,244,266. (See Schedule
13 KKB-2) I have included all employees' (as of June 30, 2004) hourly wage rates multiplied by 2088
14 hours to arrive at a total company regular payroll. Included in my payroll annualization are
15 amounts for overtime, payroll taxes for both regular payroll and overtime payroll, and 401K
16 matching costs for regular and overtime pay.

17 Q. HOW MANY EMPLOYEES HAVE YOU INCLUDED IN YOUR PAYROLL
18 ANNUALIZATION?

19 A. I included 650 employees. This was the level of Empire employees as of June 30, 2004.

20 Q. WHAT PAYROLL TAXES DID YOU INCLUDE IN YOUR PAYROLL
21 ANNUALIZATION?

1 A. I included FICA, along with federal and state unemployment taxes in my payroll annualization.

2 Q. WHAT IS THE AMOUNT OF 401K EMPLOYER MATCHING COSTS YOU ARE
3 RECOMMENDING BE INCLUDED IN THE COST OF SERVICE?

4 A. \$632,477. This amount includes employer matching costs for normal payroll and for overtime.

5 Q. WHAT EXPENSE RATIO DID YOU APPLY TO YOUR PAYROLL
6 ANNUALIZATION?

7 A. I used an expense ratio of 72.76%, which happens to be a yearly average of the expense ratio for
8 calendar years 1999 through 2003. The following table shows the payroll expense ratio for calendar
9 years 1999 through 2003.

<u>YEAR</u>	<u>EXPENSE RATIO</u>
1999	68.29%
2000	69.30%
2001	74.39%
2002	76.82%
2003	74.99%

16 Q. WHY DID YOU USE AN AVERAGE INSTEAD OF THE TEST YEAR EXPENSE
17 RATIO?

18 A. Empire's expense ratio varies from year to year. Based upon my review I could discern no
19 identifiable trend indicating if the level will increase or decrease in the future. Therefore I felt an
20 average of the past five years would be more appropriate. The expense ratio for 2003 included the
21 occurrence of the May 2003 tornadoes that occurred in Empire's service territory. I do not believe

1 that this level is representative of what will occur in the future. A tornado of that magnitude and
2 damage has not been an annual, normal event in the Empire service territory to my knowledge.

3 **Q. HOW MUCH OVERTIME HAVE YOU INCLUDED IN YOUR PAYROLL**
4 **ANNUALIZATION?**

5 A. I included \$4,190,215 for overtime in my payroll annualization. I arrived at the amount by using a
6 five-year average of overtime hours incurred for the calendar years 1999 through 2003. This is the
7 same 5-year period for the determination of the payroll expense ratio. I then applied the hourly
8 overtime rate as December 31, 2003 to the 5-year average of overtime hours. I decided to use a
9 five-year average for overtime or the same reasons I used an average for the expense ratio. One
10 being, overtime fluctuates from year to year and the other being the May 2003 tornadoes, which
11 occurred in Empire's service territory, created more overtime to be incurred than normal.

12 **Q DOES EMPIRE DISTRICT ELECTRIC COMPANY OPERATE IN OTHER**
13 **JURISDICTIONS BESIDES MISSOURI?**

14 A. Yes. Empire also operates in Arkansas, Kansas and Oklahoma.

15 **Q. FOR YOUR PAYROLL ANNUALIZATION DID YOU FORMULATE ALLOCATION**
16 **FACTORS TO DETERMINE THE MISSOURI ELECTRIC JURISDICTIONAL**
17 **PAYROLL EXPENSE?**

18 A. No. I did not develop jurisdictional allocation factors for Empire in this case. Therefore, the
19 jurisdictional allocation factor that the Commission decides to use to allocate payroll costs for the
20 Missouri jurisdictional electric operations should be applied to my annualized payroll expense of
21 \$29,244,266.

ENERGY TRADER COMMISSION

Q. WHICH EMPIRE EMPLOYEES ARE ELIGIBLE TO RECEIVE THE ENERGY TRADER COMMISSION?

A. All regular full-time employees who are employed as Traders in the Wholesale Energy Department are eligible. Currently there are three traders in the Wholesale Energy Department.

Q. PLEASE EXPLAIN HOW EMPIRE'S ENERGY TRADERS EARN A COMMISSION UNDER THE COMPANY'S SALES COMMISSION/INCENTIVE PLAN.

A. The energy traders earn sales commissions that are based upon the monthly net margin of off-system sales. The higher the net margin the more commissions the traders earn. Attached to my direct testimony is Schedule KKB-3 which details how its energy traders earn the commissions.

Q. WHAT LEVEL OF OFF-SYSTEM SALES DID YOU USE TO CALCULATE THE ENERGY TRADER COMMISSION?

A. I used a 5-year monthly average to arrive at a level of \$2,575,293 for off-system sales. (See Schedule KKB-4) The net margin is the amount of off-system sales minus the costs incurred to obtain the off-system sales.

Q. WHAT ANNUAL LEVEL OF ENERGY TRADER COMMISSION DOES PUBLIC COUNSEL RECOMMEND INCLUDING IN THE COST OF SERVICE?

A. \$26,194. This is the maximum annual commission that all three traders as a total can earn. The Energy Trader's Commission/Incentive Plan (Schedule KKB-3) sets out \$12,000 as the maximum amount payable during a calendar year for each trader. Schedule KKB-5 attached to my direct testimony shows how I calculated the trader's commission based upon my usage of a 5 year monthly average of off-system sales.

1 Q. BASED UPON YOUR 5 YEAR MONTHLY AVERAGE OF OFF-SYSTEM SALES
2 WOULD THE ENERGY TRADER COMMISSIONS EXCEED THE ANNUAL MAXIMUM
3 PAYMENT?

4 A. Yes the Commissions for all three of the traders would be a total of \$45,573. This amount exceeds
5 the maximum annual payout, thus I used the maximum payout amount (\$36,000) as the amount to
6 be included in the cost of service.

7 Q. WHY DID YOU APPLY THE PAYROLL EXPENSE RATIO TO THE
8 COMMISSION?

9 A. I applied the payroll expense ratio to the commission because the commission is included in total
10 payroll costs along with the other payroll costs I have discussed.

11 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

12 A. Yes.

CASE PARTICIPATION
OF
KIMBERLY K. BOLIN

<u>Company Name</u>	<u>Case Number</u>
St. Louis County Water Company	WR-95-145
Missouri-American Water Company	WR-95-205
Steelville Telephone Company	TR-96-123
St. Louis Water Company	WR-96-263
Imperial Utility Corporation	SR-96-427
Missouri-American Water Company	WA-97-45
Associated Natural Gas Company	GR-97-272
St. Louis County Water Company	WR-97-382
Union Electric Company	GR-97-393
Gascony Water Company, Inc.	WA-97-510
Missouri Gas Energy	GR-98-140
Laclede Gas Company	GR-98-374
St. Joseph Light & Power	ER-99-247
	GR-99-246
	HR-99-245
Laclede Gas Company	GR-99-315
Missouri-American Water Company	WR-2000-281
St. Louis County Water Company	WR-2000-844
Osage Water Company	SR-2000-556
	WR-2000-557
Empire District Electric Company	ER-2001-299
Gateway Pipeline Company	GM-2001-585
Warren County Water & Sewer	WC-2002-155
	SC-2002-160
Laclede Gas Company	GR-2001-629
Environmental Utilities	WA-2002-65
Missouri-American Water Company	WO-2002-273
Laclede Gas Company	GR-2002-356
Empire District Electric	ER-2002-424
Missouri American Water Company	WR-2003-0500
Osage Water Company	ST-2003-0562
Missouri Gas Energy	GR-2004-0209

Payroll Exepnse

Regular Pay		\$	32,405,593
Overtime		\$	4,190,215
OASDI (Including overtime)		\$	2,173,310
Medicare (Including overtime)		\$	516,093
SUTA		\$	1,904
FUTA		\$	36,400
401K Employer Matching Costs for Regular Payroll	\$ 771,633		
Overtime			
OPC Annualized Overtime Payroll	\$ 4,190,215		
Average Employer 401K Match	2.33%		
401K Employer Matching Costs for Overtime	\$ 97,632		
Total 401K Employer Matching Costs		\$	869,265
Total Payroll		\$	40,192,780
Expense Ratio			<u>72.76%</u>
Total Company Payroll Expense		\$	29,244,266

**The Empire District Electric Company
Energy Trader's Sales Commission / Incentive Plan
Summary Plan Document
Revised June 1, 2003**

Purpose:

The Empire District Electric Company Energy Trader's Sales Commission / Incentive Plan is intended to provide an appropriate means by which to reward eligible employees for superior performance and to provide an incentive for them to remain as employees.

Eligible Employees:

All regular full-time employees who are employed as Traders in the Wholesale Energy Department are eligible to participate in the Plan.

Definitions:

"Base Salary" means the Trader's monthly or annual fixed rate of pay.

"Company" means The Empire District Electric Company.

"Group" means all individuals employed as Energy Traders in the Wholesale Energy Department.

"Gross Margin" means gross sales less cost of sales or generation, or gross profit.

"Group Threshold" means the aggregate of the monthly Individual Thresholds of the Group.

"Individual Margin Ratio" means the ratio of the individual Trader's monthly Gross Margin to the Group's monthly Gross Margin.

"Individual Threshold" means the Trader's monthly Base Salary times a multiple determined by the Company.

"Net Margin" means Group monthly Gross Margin from sales of excess generation less direct operation and maintenance expenses and capital costs as determined by the Company. Direct operation and maintenance expenses and capital costs may be represented as a multiple of Group Base Salary.

"Plan" means The Empire District Electric Company Energy Trader's Sales Commission / Incentive Plan.

The Empire District Electric Company
Energy Trader's Sales Commission / Incentive Plan
Summary Plan Document
June 1, 2003

"Sales Commission", "Commission" or "Incentive" means the amount of money employees may be eligible to receive if they meet all requirements for the payment and receipt of such money under this Plan. No such amounts shall vest with any employee until paid by the Company.

"Trader" means any individual employed as an Energy Trader in the Wholesale Energy Department.

Features:

The Plan features reward opportunities in the form of Sales Commissions on sales of excess generation in the wholesale market.

Sales Commission:

Sales Commissions will be triggered on a monthly basis when the efforts of the Group generate monthly Group Net Margin that exceeds the monthly Group Threshold. When the monthly Group Threshold is met, Commission payments will be drawn for eligible Traders from the amount that equals monthly Net Margin. To become eligible to receive a Commission, a Trader must meet his or her Individual Threshold during that same month. No Commission will be paid for any month in which the Group Threshold is not met.

Sales Commission Schedule:

Once the monthly Group Threshold is met, the Group will be awarded a monthly Group Sales Commission payment amount in accordance with the following schedule:

<u>Monthly Net Margin</u>	<u>Monthly Group Sales Commission</u>
Up to \$100,000	2.5% of Net Margin
\$100,001 to \$500,000	\$2,500 + 1% of Net Margin over \$100,000
\$500,001 to \$1,000,000	\$6,500 + 0.5% of Net Margin over \$500,000
Over \$1,000,000	\$9,000 + 0.25% of Net Margin over \$1,000,000

Sales Commission Payments:

Distributions of individual Sales Commission payments from the Group Sales Commission payment amount will be based on the Individual Margin Ratio. Sales Commissions will be paid in full on a monthly basis. Total payments are subject to the maximum annual payment amount.

The Empire District Electric Company
Energy Trader's Sales Commission / Incentive Plan
Summary Plan Document
June 1, 2003

Restricted Deferral Accounts:

Any balances remaining in restricted deferral accounts accrued under previous Plans shall be paid out in accordance with the terms of such Plans. Payments from restricted deferral accounts shall be contingent upon the continued employment of the Trader.

Maximum Annual Payment:

The maximum amount payable during the calendar year will be \$12,000. This amount shall include Sales Commissions, payments from restricted deferral accounts accrued under previous Plans, and procurement incentives paid under the terms of previous Plans.

Amounts earned under previous Plans prior to the effective date of this Plan will be applied toward the maximum annual payment amount. Such payments may exceed the maximum annual payment. If the annual maximum is exceeded prior to the effective date of this plan, no further payments will be made...

Transfers:

Employees who transfer into the Group at a time other than the beginning of the year will be immediately eligible to receive Sales Commission payments. Traders who transfer out of the Group on a voluntary basis will be eligible for payment of deferred balances accrued under previous plans in accordance with the terms of such plans. Traders who are removed from the Group for cause shall not be eligible to be paid any balances left in restricted deferral accounts accrued under previous Plans.

Termination:

Employees who leave employment with the Company for whatever reason shall not be eligible to be paid any money from any restricted deferral accounts accrued under previous Plans.

Death of Trader:

Any amount remaining in a restricted deferral account accrued under a previous Plan shall be considered immediately payable in the event of the death of a Trader.

Administration:

The Company intends to pay monthly Sales Commissions in the month following the month they are accrued. However, the time required to accumulate the necessary data to make Commission determinations may cause payments to be delayed. Additionally,

The Empire District Electric Company
Energy Trader's Sales Commission / Incentive Plan
Summary Plan Document
June 1, 2003

Commission calculations received by the Payroll Department are subject to review and audit prior to distribution to the Trader. The Company will make every reasonable effort to pay monthly Commission payments as quickly as practicable.

All payments will be considered ordinary income for tax purposes and combined with a normal Base Salary payroll check or direct deposit. Such payments will be considered eligible income for pension and 401(k) purposes.

Acceptance:

Acceptance of payments made under this Plan constitutes acceptance of the terms of the Plan Document.

Interpretation:

The Company has authority to construe the Plan and to determine all questions that arise under it. The Company's interpretations are binding on Plan participants.

Modification and Termination:

The Company reserves the right to modify, suspend or terminate the Plan at any time or from time to time at the Company's sole discretion.

Effective Date:

The effective date of the Plan is June 1, 2003.

Off System Sales/Net Margin

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>Monthly Average</u>
January	\$ 41,009	\$ 151,002	\$ 154,799	\$ 186,631	\$ 608,622	\$ 228,413
February	\$ 60,742	\$ 144,096	\$ 151,427	\$ 128,920	\$ 134,678	\$ 123,973
March	\$ 179,372	\$ 155,426	\$ 41,464	\$ 182,815	\$ 430,411	\$ 197,898
April	\$ 174,823	\$ 161,138	\$ 37,502	\$ 487,948	\$ 338,465	\$ 239,975
May	\$ 169,384	\$ 218,706	\$ 132,467	\$ 168,586	\$ 147,654	\$ 167,359
June	\$ 257,620	\$ 225,966	\$ 65,947	\$ 524,446	\$ 550,206	\$ 324,837
July	\$ 615,619	\$ 282,054	\$ 44,240	\$ 833,535	\$ 187,695	\$ 392,629
August	\$ 239,826	\$ 424,233	\$ 81,459	\$ 729,633	\$ 209,980	\$ 337,026
September	\$ 163,437	\$ 193,568	\$ 44,846	\$ 507,056	\$ 182,565	\$ 218,294
October	\$ 186,274	\$ 169,612	\$ 25,339	\$ 566,541	\$ 53,572	\$ 200,268
November	\$ 139,459	\$ 165,035	\$ 31,330	\$ 486,820	\$ 74,701	\$ 179,469
December	\$ 150,479	\$ 153,009	\$ 21,834	\$ 312,079	\$ 98,365	\$ 147,153
Total	\$ 2,378,044	\$ 2,443,845	\$ 832,654	\$ 5,115,010	\$ 3,016,914	\$ 2,757,293

Energy Trader Commission

Month	Off-system Sales Net Margin per Company <u>5 year average</u>	Monthly Group <u>Threshold</u>	<u>Estimated Commissions</u>
January	\$ 228,412.60	\$21,389	\$ 3,784.13
February	\$ 123,972.60	\$21,389	\$ 2,739.73
March	\$ 197,897.60	\$21,389	\$ 3,478.98
April	\$ 239,975.20	\$21,389	\$ 3,899.75
May	\$ 167,359.40	\$21,389	\$ 3,173.59
June	\$ 324,837.00	\$21,389	\$ 4,748.37
July	\$ 392,628.60	\$21,389	\$ 5,426.29
August	\$ 337,026.20	\$21,389	\$ 4,870.26
September	\$ 218,294.40	\$21,389	\$ 3,682.94
October	\$ 200,267.60	\$21,389	\$ 3,502.68
November	\$ 179,469.00	\$21,389	\$ 3,294.69
December	\$ 147,153.20	\$21,389	\$ 2,971.53
Total	\$ 2,757,293.40		\$ 45,572.93
Maximum of \$12,000 per year per trader			\$36,000
Payroll Expense Ratio			<u>72.76%</u>
Total Commission Expense			\$26,193.60