

Exhibit No.:
Issue: *Affiliated Transactions,
Corporate Expenses*
Witness: *Keith D. Foster*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Supplemental Testimony*
Case No.: *ER-2019-0374*
Date Testimony Prepared: *May 6, 2020*

MISSOURI PUBLIC SERVICE COMMISSION
FINANCIAL & BUSINESS ANALYSIS DIVISION
AUDITING DEPARTMENT

SUPPLEMENTAL TESTIMONY
OF
KEITH D. FOSTER

THE EMPIRE DISTRICT ELECTRIC COMPANY
CASE NO. ER-2019-0374

Jefferson City, Missouri
May 2020

**** Denotes Confidential Information ****

1 **SUPPLEMENTAL TESTIMONY**

2 **OF**

3 **KEITH D. FOSTER**

4 **THE EMPIRE DISTRICT ELECTRIC COMPANY**

5 **CASE NO. ER-2019-0374**

6 Q. Please state you name and business address.

7 A. Keith D. Foster, 200 Madison Street, Suite 440, Jefferson City, MO 65101.

8 Q. By whom are you employed and in what capacity?

9 A. I am a Utility Regulatory Auditor V for the Missouri Public Service
10 Commission (“Commission”).

11 Q. Are you the same Keith D. Foster who contributed to Staff’s Cost of Service
12 Report filed on January 15, 2020, and provided Surrebuttal/True-Up Direct Testimony filed
13 on March 27, 2020, in this case?

14 A. Yes, I am.

15 **EXECUTIVE SUMMARY**

16 Q. Please summarize the purpose of your testimony in this proceeding.

17 A. In this testimony, I will respond to one of the Commission Questions issued on
18 April 28, 2020, under the category numbered 18: Affiliate Transactions. Specifically, I will
19 provide answers to the Commission’s question 11.

20 Q. Did Staff enter into a Global Stipulation and Agreement on April 15, 2020, to
21 settle all issues in this case?

22 A. Yes, but the Office of the Public Counsel objected to the Agreement and disputes
23 the Affiliate Transactions issues, among others. Therefore, Staff views the Agreement as a full

1 resolution of all issues in the case but is providing its positions prior to settlement as well, in
2 the event that the Commission does not approve the Agreement.

3 **AFFILIATE TRANSACTIONS**

4 Q. Please identify the Commission Question you are answering.

5 A. I am answering the question on page 12 of the Commission Questions under
6 category number 18: Affiliate Transactions as follows:

7 11. Staff - Referring to Staff's Cost of Service Report page 29, lines
8 20-25 and page 32, lines 13-17, please quantify the adjustments to reduce
9 affiliate transactions related to the inappropriate allocation of costs to
10 Empire's non-regulated affiliates and executive incentives.

11 Q. What is stated in Staff's Cost of Service Report page 29, lines 20-25?

12 A. This is part of Section **VI. Allocations, A. Corporate Allocations,**
13 **2. Allocations**, under the discussion entitled **Algonquin Power & Utilities Corporation**
14 **("APUC")**, second paragraph:

15 Staff applied an adjustment for the Bonus (Short Term Incentive Plan),
16 Long Term Incentive Plan ("LTIP"), and Stock Options expenses for
17 APUC executives allocated by APUC to its business units. Staff's
18 review of how these incentives are awarded to the executives found that
19 they were awarded for increasing shareholder value, not as a benefit to
20 the ratepayers. Therefore, Staff applied adjustments to remove from the
21 test year the portions of these expenses that were both directly and
22 indirectly allocated to Empire.

23 Q. What portion of Staff's adjustments was included to remove expenses allocated
24 to Empire for the Bonus (Short Term Incentive Plan), Long Term Incentive Plan ("LTIP"), and
25 Stock Options for APUC executives?

1 A. The following table shows the breakout of the adjustments for each incentive by
2 direct and indirect allocation:

3

Incentive Plan	Directly Allocated	Indirectly Allocated	Total Removed
Bonus (Short Term)	**	**	**
Long Term	**	**	**
Stock Options	**	**	**
Total Adjustments	\$861,672	\$511,829	\$1,373,501

4

5 Q. Were these reflected as separate adjustments in Staff's Direct and True-Up
6 Accounting Schedules filed in this case?

7 A. No. Two adjustments were applied, one reflecting the aggregate total of directly
8 allocated expense and the other reflecting the aggregate total of indirectly allocated expense.
9 The total removed for directly allocated APUC executive incentive compensation expenses
10 was \$861,672; applied as Staff Adjustment E-134.2 to Account Number 920 (Administrative
11 & General Salaries). The total removed for indirectly allocated APUC executive incentive
12 compensation expenses was \$511,829; applied as Staff Adjustment E-137.3 to Account
13 Number 923 (Outside Services).

14 Q. What is stated on Staff's Cost of Service Report page 32, lines 13-17?

15 A. This is part of Section **VI. Allocations, A. Corporate Allocations,**
16 **2. Allocations**, under the discussion entitled **Empire District Electric**, last paragraph:

17 Staff has a concern regarding Empire's allocation methodologies. It
18 appears that Empire may not properly assign a portion of its common
19 costs to its non-regulated operations. Such a methodology would
20 overstate the costs to provide electric service while understating the cost
21 to provide non-regulated operations. Staff has proposed an adjustment
22 to account for these common costs, which is described below.

1 I also include what followed as **3. Corporate Expenses**, to complete “which is
2 described below”:

3 Due to Staff’s concern with the reliability of Empire’s current approach
4 of allocating its corporate costs to its non-regulated activities, as
5 described in Corporate Allocations, Staff has proposed an adjustment to
6 remove a portion of costs related to Empire District Industries, Inc.
7 (“EDI”) allocated to Empire in the test year.

8 Q. Is Staff’s adjustment to remove a portion of costs related to EDI allocated to
9 Empire currently included in Staff’s recommended revenue requirement calculation?

10 A. No. As I stated on page 2, lines 12-16 of my Surrebuttal/True-Up Direct
11 testimony, I agreed that Empire had already removed allocated costs to EDI from the test year
12 and, therefore, I removed my original adjustment as part of true-up.

13 Q. Was that Staff’s only adjustment regarding common costs being assigned to
14 Empire’s non-regulated operations?

15 A. Yes it was.

16 Q. Does this conclude your testimony responding to Commission questions in
17 this case?

18 A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of The Empire District Electric)
Company's Request for Authority to File) Case No. ER-2019-0374
Tariffs Increasing Rates for Electric Service)
Provided to Customers in its Missouri)
Service Area)

AFFIDAVIT OF KEITH D. FOSTER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COME NOW KEITH D. FOSTER and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Supplemental Testimony*; and that the same is true and correct according to his best knowledge and belief, under penalty of perjury.

Further the Affiant sayeth not.

/s/ Keith D. Foster
KEITH D. FOSTER