

Exhibit No.
Issue: Accounting Schedules, Adjustments, True-up
Witness: Bryan S. Owens
Type of Exhibit: Direct Testimony
Sponsoring Party: Empire District Electric.
Case No. ER-2016-0023
Date: Testimony Prepared: October 2015

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

Direct Testimony

of

Bryan S. Owens

October 2015



SERVICES YOU COUNT ON

Empire Exhibit No. 13
Date 6-2-16 Reporter KKF
File No. ER-2016-0023



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BRYAN S. OWENS
ON BEHALF OF
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
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1 **INTRODUCTION**

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

3 A. My name is Bryan S. Owens and my business address is 602 S. Joplin Avenue,
4 Joplin, Missouri, 64802.

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

6 A. I am employed by The Empire District Electric Company (“Empire” or the
7 “Company”) as Assistant Director of Planning and Regulatory.

8 **Q. WHAT ARE THE DUTIES AND RESPONSIBILITIES OF YOUR CURRENT
9 POSITION?**

10 A. I am responsible for providing various financial analyses in support of utility
11 operations and the management of regulatory filings for the Company.

12 **Q. PLEASE OUTLINE YOUR EDUCATION AND PROFESSIONAL
13 BACKGROUND.**

14 A. I graduated from the University of Missouri, Kansas City with a Bachelor of Liberal
15 Arts degree in 1996. In 1998, I earned a Bachelor of Science degree in Accounting
16 from the University of Missouri, Kansas City.

17 I began my professional career in 1998, when I joined the accounting firm of KPMG,
18 LLP. I was employed at KPMG from August 1998 to July 2001, as a senior auditor

1 and senior tax specialist performing financial statement audits and preparing federal
2 and state tax returns for individuals and corporations.

3 In July 2001, I joined Overland Consulting, Inc., in Overland Park, Kansas. I was
4 employed at Overland Consulting, Inc. from July 2001 to June 2004, as a senior
5 consultant performing audits of utility Federal Energy Regulatory Commission
6 ("FERC") financial statements as part of general rate case reviews supporting the
7 California Public Utilities Commission.

8 In May 2003, I earned my Certified Public Accountant certificate in Missouri.

9 In June 2004, I joined Aquila, Inc., in Kansas City, Missouri. I was employed with
10 Aquila, Inc. from June 2004 to July 2008, as a senior regulatory analyst preparing rate
11 case filings and managing compliance filings for several state jurisdictions including
12 Missouri, Kansas, and Colorado.

13 In July 2008, Aquila, Inc. was acquired by Black Hills Corporation and Great Plains
14 Energy, Inc. I was briefly employed with Kansas City Power & Light Company (a
15 wholly owned subsidiary of Great Plains Energy, Inc.) before joining Black Hills
16 Corporation in December 2008, as Manager, Colorado Electric Regulatory Affairs.

17 In this role, I was responsible for providing various financial analyses in support of
18 utility operations and managing regulatory filings for the electric utility operations of
19 Black Hills/Colorado Electric Utility Company, L.P.

20 In July 2010, I obtained my Colorado Certified Public Account license.

21 In November 2014, I joined Empire as Assistant Director of Planning and Regulatory.

22 I have testified as a witness before the Colorado Public Utilities Commission in
23 Docket Nos. 14AL-0393, 13A-0446E, and 12AL-1052E, and I have submitted written

1 testimony before the Arkansas Public Service Commission, the Colorado Public
2 Utilities Commission, the Missouri Public Service Commission (“Commission”), and
3 the Oklahoma Corporation Commission.

4 **PURPOSE**

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

8 A. My testimony will provide an overview of this case, including primary factors driving
9 Empire’s need for an increase in rates. I will also introduce the other Empire
10 witnesses filing direct testimony in this case. I further address specific rate case
11 adjustments Empire is proposing in this case. Finally, I outline Empire’s request for a
12 true-up process in this case.

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

15 A. The schedules included in this filing use the Missouri Public Service Commission
16 Staff’s (“Staff”) final EMS run in Case No. ER-2014-0351 (see e.g. Exhibit 229) as a
17 starting point for purposes of adjustment, and update the Staff’s EMS rate base items
18 to reflect Empire’s balances at June 30, 2015. Additional rate base adjustments were
19 made to the Staff’s EMS rate base balances to include the investment associated with
20 the Riverton 12 environmental upgrade investment. In addition, Empire has adjusted
21 the Staff’s EMS statement of operations for specific items, the most significant of
22 which deal with the Riverton 12 environmental upgrade. . Additional adjustments
23 include the increased revenue as a result of the new rates coming out of Case No. ER-

1 2014-0351 and the effect of new depreciation rates and the amortization of a
2 depreciation reserve deficiency related to the retirement of Empire's Riverton steam
3 plant (Units 7 and 8) and Riverton Unit 9, which were retired in June of 2015 and
4 have not been fully depreciated.

5 **Q. HAS EMPIRE DEVELOPED THIS CASE TO MITIGATE REGULATORY**
6 **LAG AND REDUCE RATE CASE EXPENSE?**

7 **A. Yes.** Assuming an eleven (11) month procedural schedule and using Staff's final
8 EMS run in Case No. ER-2014-0351 as a starting point, with rate base items updated
9 to reflect Empire's balances as of June 30, 2015, the "regulatory lag" between the
10 effective date of the rates coming out of this case and the mid-2016 commercial
11 operation date of the Riverton 12 combined cycle conversion will be limited. When
12 regulatory lag is shortened, Empire's financial strength is improved. In addition, the
13 process Empire has used to develop this case should reduce rate case expense, which
14 benefits Empire's customers.

15 Finally, Empire recognizes that the amounts presented in Staff's final EMS run in
16 Case No. ER-2014-0351 reflects a negotiated settlement. As a result, the process
17 Empire used to develop this case, does not mean that Empire agrees with all of the
18 issues reflected in Staff's EMS run , but rather indicates Empire's attempt to mitigate
19 the number of contested issuses and lower overall rate case costs.

20 **Q. PLEASE DESCRIBE EMPIRE'S OVERALL MISSOURI REVENUE**
21 **DEFICIENCY.**

22 **A.** Empire is requesting an overall increase in Missouri jurisdictional revenue of \$33.4
23 million, or around 7.3 percent above current revenue. This increase is based upon an

1 overall rate of return of 7.58 percent and a return on equity of 9.9 percent. The
2 largest single factor driving the rate case is the increase in investment related to the
3 Riverton Unit 12 combined cycle conversion. In addition to the recovery of the fixed
4 cost associated with this investment, increases in property tax and the amortization of
5 reserve deficiency associated with the retirement of Empire's Riverton steam plant
6 (Units 7 and 8) and Riverton Unit 9, are material factors contributing to the identified
7 deficiency.

8 **Q. PLEASE QUANTIFY THE MAJOR COST DRIVERS IN THIS RATE CASE.**

9 A. The following table illustrates the major cost drivers in the rate case and the revenue
10 requirement associated with each:

Description	Revenue Requirement (in Millions \$)
Riverton Unit 12 Combined Cycle Conversion	\$27.4
Asbury True-Up	2.1
Effect of New Rates from Depreciation Study	(1.0)
ROE / Capital Structure	(3.2)
Other Normal Plant Additions	6
Administrative Costs	2.1
Total Base Rates	\$33.4

11 **Q. PLEASE LIST THE OTHER WITNESSES PRESENTING DIRECT**
12 **TESTIMONY ON EMPIRE'S BEHALF IN THIS CASE.**

13 A. The following witnesses will present direct testimony on behalf of Empire as to the
14 identified subjects:

- 15 • Brad Beecher – Policy;
- 16 • Aaron Doll – Annualization of transmission revenue and expense;

- 1 • Nate Hackney – Annualization of energy efficiency “opt out” revenue, and
2 demand side management amortization;
- 3 • Jeff Lee – Pension and Post-Retirement Benefits;
- 4 • John Woods – Riverton O&M expense normalization;
- 5 • Scott Keith – Rate design, tariffs, and specific adjustments to rate base;
- 6 • Joan Land – Specific adjustments to rate base and statement of operations;
- 7 • Rob Sager – Capital structure;
- 8 • Todd Tarter – System fuel and energy costs, the continuation of Empire’s FAC,
9 and specific adjustments to revenue;
- 10 • James Vander Weide – Cost of Equity Capital;
- 11 • Thomas Sullivan – Depreciation;
- 12 • Tim Wilson – Riverton Unit 12 Capital Project.

13 **RETURN ON EQUITY**

14 **Q. DID EMPIRE RETAIN AN EXPERT TO DETERMINE AN APPROPRIATE**
15 **COST OF EQUITY FOR EMPIRE IN THIS CASE?**

16 A. Yes. Empire retained Dr. James Vander Weide to develop the cost of equity capital
17 for Empire. As indicated in his testimony, he found that Empire has a cost of equity
18 that ranges from 9.9 percent to 10.6 percent.

19 **Q. WHAT COST OF EQUITY HAS EMPIRE USED TO DEVELOP ITS**
20 **OVERALL MISSOURI REVENUE REQUIREMENT IN THIS CASE?**

21 A. Empire has chosen a rate of return on equity of 9.9 percent to develop its overall
22 revenue requirement in this case.

23 **Q. WHY DID EMPIRE SELECT THIS RATE OF RETURN ON EQUITY?**

1 A. This case represents a “true-up” of the rate case just completed, Case No. ER-2014-
2 0351, which resulted in rates effective on and after July 26, 2015. Additionally, the
3 schedules included in this filing use the Staff’s final EMS run in Case No. ER-2014-
4 0351 as a starting point for adjustments. Since the timing of this case is relatively
5 close to the conclusion of the previous case, and the rate of return on equity proposed
6 by the Company is within the range recommended by the parties in Case No. ER-
7 2014-0351, consistent with the supporting testimony of Dr. James H. Vander Weide,
8 a 9.9 percent return on equity is believed to be a fair, reasonable, and appropriate in
9 this case.

10 **SUPPORTING SCHEDULES**

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

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

- 14 • Schedule BSO-1, displays the Missouri jurisdictional rate base and the overall
15 increase in revenue Empire is requesting, as well as the overall rate of return;
- 16 • Schedule BSO-2, displays the Missouri jurisdictional rate base in this case;
- 17 • Schedule BSO-3, displays Empire’s adjusted statement of operations for this case;
18 and
- 19 • Schedule BSO-4, illustrates the adjustments Empire has made to the statement of
20 operations.

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

22 A. Schedule BSO-1 is a summary comparison of the results of the Staff’s EMS run in
23 Case No. ER-2014-0351 to Empire’s updated electric rate base, net operating income,

1 and required rate of return, before and after the proposed rate increase in this case.
2 For the test year in this case, Empire has used the rate base balances from the Staff's
3 EMS run in Case No. ER-2014-0351 (*See e.g. Exhibit 229 in ER-2014-0351*), and
4 updated them to reflect the Empire balances at June 30, 2015, in addition to adjusting
5 rate base for the Riverton Unit 12 combined cycle conversion. As illustrated, the total
6 original cost Missouri jurisdictional electric rate base is \$1.368 million, which is
7 multiplied by the required rate of return of 7.58%, to arrive at a Missouri
8 jurisdictional after tax operating income requirement of \$103.730 million. This
9 operating income requirement is subtracted from the Company's Missouri
10 jurisdictional adjusted operating income of \$83.154 million and results in a Missouri
11 jurisdictional after tax operating income deficiency of \$20.5million, or a Missouri
12 jurisdictional pre-tax revenue deficiency of \$33.4 million, which is requested in the
13 filing with the Commission.

14 **Q. PLEASE DESCRIBE SCHEDULE BSO-2, RATE BASE.**

15 A. Schedule BSO-2 is a comparison of the various rate base items used by the Staff in
16 Empire's last rate case ER-2014-0351, to Empire's updated and adjusted rate base
17 balances at June 30, 2015. As previously stated, the updated rate base components
18 have also been adjusted for the addition of the Riverton Unit 12 combined cycle
19 conversion. Materials and supplies and prepayments are the average of the thirteen
20 consecutive month-end balances ending June 30, 2015. Regulatory assets adjusted
21 for known and measurable changes were included. In addition, the cash working
22 capital requirement that is based on adjusted income has been added to rate base.
23 Offsets to the rate base are also displayed on Schedule BSO-2. These include:

1 deferred income taxes, customer deposits, customer advances, interest
2 synchronization offset, and an income tax offset.

3 **Q. PLEASE DESCRIBE SCHEDULE BSO-3, SUMMARIZED INCOME**
4 **STATEMENT.**

5 A. Schedule BSO-3 is a comparison of Empire's functional income statement with
6 specific adjustments to normalize test year electric operations for the impact of the
7 Riverton Unit 12 combined cycle conversion and other specific adjustments to the
8 Staff's functional income statement in its final EMS run in Case No. ER-2014-0351.
9 A limited number of adjustments have been made to reflect the customer growth
10 since the last rate case, rate case expense, the recent rate increase authorized by the
11 Commission, normalized transmission expense, depreciation and amortization
12 expense, payroll costs, and uncollectible account expense. Schedule BSO-3 illustrates
13 Missouri jurisdictional results from the Staff's final EMS run in Case No. ER-2014-
14 0351. Schedule BSO-3 also illustrates Empire's Missouri jurisdictional operational
15 results as updated and adjusted for purposes of this case. As indicated, after the
16 posting of the various adjustments to the Missouri jurisdictional operations, current
17 rates are expected to produce \$83.153 million in Net Operating Income ("NOI").
18 This level of NOI produces an overall return on Missouri jurisdictional rate base of
19 6.08 percent.

20 **Q. PLEASE DISCUSS SCHEDULE BSO-4.**

21 A. Schedule BSO-4 summarizes the adjustments Empire has made to the statement of
22 operations in this case. As summarized in Schedule BSO-4, among the adjustments
23 to Missouri revenues and operations are: (1) reflect customer numbers at June 30,

1 2015; (2) reflect a full year of the rate increase granted by the Commission in Case
2 No. ER-2014-0351; (3) annualize payroll and related payroll taxes; (4) annualize
3 property tax expense; (5) reflect Riverton 12 long term service agreement tracker per
4 ER-2014-0351 Report and Order; (6) reflect a true-up to Staff's final EMS run in
5 Case No. ER-2014-0351 associated with Asbury Plant depreciation; (7) annualize
6 depreciation expense; (8) annualize transmission expense; and (9) reflect amortization
7 of reserve deficiency associated with the retirement of Empire's Riverton steam plant
8 (Units 7 and 8) and Riverton Unit 9. Empire has requested a slight change in its FAC
9 base costs associated with fuel, purchased power, and transmission in this case. The
10 year-end customer adjustment annualizes the revenues to reflect what would have
11 been received if the level of customers served at June 30, 2015, had been served by
12 the Company for an entire year. Empire witness Todd Tarter will explain the retail
13 revenue adjustments in greater detail in his direct testimony. In addition, Empire
14 witness Tarter will address the rebasing of Empire's FAC base.

15 **ADJUSTMENTS TO COST OF SERVICE**

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

17 A. Total Company costs, excluding the impact of income taxes, have been increased by
18 \$28.5 million, which factors down to \$25.7 million for the Missouri retail jurisdiction.
19 Included in this total is an adjustment related to the normalization of production
20 operating and maintenance related to the Riverton Unit 12 combined cycle conversion
21 for \$697,622. Empire witness John Woods will explain this adjustment in his direct
22 testimony. Also included is an adjustment to normalize test year payroll costs. The
23 payroll adjustments results in a net increase in annual payroll expense of \$3.3 million

1 on a Missouri jurisdictional basis. We have also adjusted Empire's payroll costs to
2 eliminate the payroll adjustment that was included in the Staff's final EMS run in
3 Case No. ER-2014-0351. I will explain the payroll adjustment in greater detail later
4 in my testimony. Fuel and purchased power costs have been normalized to reflect the
5 operation of Riverton 12 as a combined cycle and changes in Southwest Power Pool
6 ("SPP") transmission cost as well as the evolving SPP next day market. Empire
7 witness Todd Tarter will also discuss the fuel and energy costs in greater detail in his
8 direct testimony. The fuel and energy costs are an important part of this rate case,
9 due to their significance in terms of cost and due to Empire's request to continue the
10 Missouri FAC. Empire's fuel and purchased power expenses and directly related
11 RTO transmission charges represent a very significant component of Empire's
12 operating costs, are beyond Empire's direct control, and can be volatile.

13 **Q. PLEASE DESCRIBE THE ADJUSTMENTS MADE TO THE**
14 **TRANSMISSION EXPENSE LEVELS.**

15 A. Net Missouri jurisdictional SPP transmission charges were increased by \$1.2 million.
16 Empire witness Aaron Doll will discuss the SPP transmission adjustment in his
17 testimony. Additional adjustments to transmission expense include payroll
18 annualization.

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

21 A. Missouri jurisdictional distribution expenses were adjusted to reflect annualized
22 payroll costs, normalized levels of operations and maintenance expenses associated
23 with the Riverton Plant, and a true-up to normalize the amortization associated with

1 the vegetation tracker accumulated balance as of August 31, 2015. As indicated, I
2 will address the payroll adjustment later in my testimony. Empire witness John
3 Woods will discuss the normalization of distribution operating and maintenance
4 related to the Riverton Plant, while Empire witness Joan Land will discuss the
5 vegetation tracker amortization true-up.

6 **Q. PLEASE DESCRIBE THE ADJUSTMENTS MADE TO CUSTOMER**
7 **ACCOUNTS EXPENSE.**

8 A. Missouri jurisdictional customer accounts expense was adjusted to reflect an increase
9 in payroll expense. In addition, Missouri jurisdictional customer accounts expense
10 was increased by \$175,681, to reflect an increase in bad debts expense. I will discuss
11 both of these adjustments later in my testimony.

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

14 A. Each of the expense levels in these areas was increased to reflect the ongoing level of
15 payroll costs, which I describe later in my testimony. In addition, pursuant to the
16 Commission's Report and Order in Case No. ER-2014-0351, the expense level for
17 Missouri jurisdictional customer assistance accounts was increased by a total of
18 \$25,000 to reflect the amount of low-income weatherization funding to be recovered
19 through base rates, and to increase the assistance available to our low income
20 customers.

21 **Q. PLEASE DESCRIBE THE ADJUSTMENTS MADE TO ADMINISTRATIVE**
22 **AND GENERAL EXPENSES.**

1 A. Missouri jurisdictional administrative and general expenses were increased by a total
2 of \$4.2 million through a series of four (4) adjustments. Of the total, \$606,498 is
3 associated with an increase in 401(k) costs due to the increase in overall payroll
4 expense. In addition, the ongoing FAS 87 and FAS 106 costs have been adjusted
5 based upon the continued tracking accounting agreed to in Case No. ER-2014-0351.
6 The methods used to calculate the adjustments for FAS 87 and FAS 106 are discussed
7 in the direct testimony of Empire witness Jeff Lee. Missouri jurisdictional
8 administrative and general expenses have been increased by \$905,487, to reflect
9 adjusted payroll expense. Rate case expenses were also increased \$64,662, to reflect
10 the costs associated with the current rate case including a requested amortization
11 period of three years for legal, consulting, and line loss study activity and a requested
12 amortization of four years for depreciation study activity.

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

14 A. The depreciation expense adjustment resulted in a net Missouri jurisdictional increase
15 of \$1,527,110. The increase is directly related to the additional investment in the
16 Riverton Unit 12 combined cycle conversion, net of the retirements associated with
17 Empire's Riverton steam plant (Units 7 and 8) and Riverton Unit 9, which were
18 retired in June of 2015. This case also includes a request for new depreciation rates,
19 which, but for the investment in the Riverton Unit 12 combined cycle conversion,
20 would have decreased depreciation expense by approximately \$900,000 when applied
21 to total depreciable assets as of June 30, 2015. An additional adjustment to
22 depreciation expense was made to account for the true-up to Staff's final EMS run in
23 Case No. ER-2014-0351 associated with the additional Air Quality Control System

1 (“AQCS”) investment at the Asbury generating plant, which increased Missouri
2 jurisdictional depreciation expense by \$4.6 million. In addition to depreciation
3 expense, Empire’s amortization expense has been adjusted in this case through a
4 series of seven (7) adjustments. The most significant adjustment increases Missouri
5 jurisdictional amortization expense by \$1.93 million to reflect the reserve deficiency
6 associated with Empire’s Riverton steam plant (Units 7 and 8) and Riverton Unit 9,
7 which were retired in June of 2015. The depreciation adjustments, including the
8 Riverton reserve deficiency are discussed in greater detail in the testimony of Empire
9 witness Thomas Sullivan. Additional adjustments to Missouri jurisdictional
10 amortization expense include a \$109,700 increase associated with various intangible
11 computer software investments; a \$118,903 decrease associated with the operation
12 and maintenance expense tracker true-up; a \$35,185 decrease associated with
13 construction amortization true-up; and a \$24,428 decrease associated with the ITC
14 refund true-up. Amortization expense adjustments associated with the computer
15 software investment, operation and maintenance true-up, construction amortization
16 true-up, and the ITC refund true-up are discussed in greater detail in the direct
17 testimony of Empire witness Joan Land. The next adjustment to amortization
18 expense, further explained later in my testimony, includes an increase of \$351,750
19 associated with the implementation of cost recovery for expected solar rebate costs
20 incurred through March 31, 2015. The final adjustment to amortization expense, as
21 explained further in the direct testimony of Empire witness Nate Hackney, increases
22 expense by \$266,884 associated with DSM program costs.

23 **Q. PLEASE CONTINUE WITH YOUR DESCRIPTION OF SCHEDULE BSO-4**

1 A. Schedule BSO-4 reflects that taxes other than income taxes have been increased by
2 \$3.8 million for the Missouri jurisdiction, to reflect the impact of Empire's adjusted
3 plant in service balances. In addition, Missouri jurisdictional taxes other than income
4 have been adjusted upward by \$136,859, to include the impact of the projected
5 change in payroll taxes due to the annualized payroll expense. Taxes other than
6 income taxes are discussed further, later in my testimony. Additional adjustments to
7 Missouri jurisdictional expense include an increase of \$28,755, related to Customer
8 Deposit Interest Expense, and an increase of \$2,700,000, related to the Riverton Unit
9 12 Long Term Service Agreement ("LTSA") tracker established in Case No. ER-
10 2014-0351, as further discussed in the direct testimony of Empire Witness John
11 Woods. The Customer Deposit Interest Expense tracker adjustment is discussed
12 further by Empire witness Joan Land.

13 **JURISDICTIONAL ALLOCATIONS**

14 **Q. PLEASE DESCRIBE THE JURISDICTIONAL ALLOCATION PROCESS**
15 **USED IN EMPIRE'S FILING.**

16 A. Generally, the basic development of the jurisdictional allocation factors for Empire
17 has essentially remained unchanged since the 1980's. The individual accounts and
18 jurisdictional allocation factors used for allocation purposes are routinely examined to
19 ensure that the allocation basis is appropriate with the type of revenue and expenses
20 recorded in the various FERC authorized accounts. Due to the evolving nature of
21 transmission and power charges that Empire incurs from the SPP, the periodic
22 allocation review also considers the revenue and expense accounts associated with the
23 SPP's transmission service and the revenue and expense accounts impacted by the

1 SPP's next day market to make certain the allocation factors used to allocate the
2 revenue and expenses to the various jurisdictions are reasonable. However, since the
3 schedules included in this filing use the Staff final EMS run in Case No. ER-2014-
4 0351 as a starting point for purposes of adjustment, the jurisdictional allocation
5 factors used in this rate case are identical to those used by the Staff in Case No. ER-
6 2014-0351, Empire's most recent Missouri rate case.

7 **OTHER ADJUSTMENTS**

8 **Q. WHAT OTHER RATE CASE ADJUSTMENTS AND ISSUES ARE YOU**
9 **SPONSORING?**

10 A. I am sponsoring the following adjustments to Empire's case:

- 11 • Renewable Energy Standards ("RES") Costs;
- 12 • Determination of Empire's Renewable Energy Standard Retail Rate Impact;
- 13 • Property Tax annualization;
- 14 • Payroll annualization;
- 15 • Payroll tax annualization;
- 16 • 401(k) Expense annualization;
- 17 • Bad Debt annualization; and,
- 18 • Treatment of RTO Transmission Expense in the Fuel Adjustment Clause
19 ("FAC").

20 **RENEWABLE ENERGY STANDARD COST**

21 **Q. PLEASE DESCRIBE THE RES COSTS ADJUSTMENT.**

22 A. In May 2015, the Commission served notice of a new proceeding which was titled "*In*
23 *The Matter of The Empire District Electric Company's Solar Rebate Tariff.*" On May

1 5, 2015, Empire issued tariffs to establish solar rebate payment procedures, and to
2 revise its net metering tariffs to accommodate the payment of solar rebates.¹ In its
3 Order Approving Expedited Tariff, the Commission ordered that the “proposed tariff
4 sheets submitted under Tariff No. YE-2015-0322 by The Empire District Electric
5 Company are approved, effective on and after May 16, 2015.”²

6 **Q. WHAT IS THE AMOUNT OF RES COST ADJUSTMENT INCLUDED IN**
7 **THIS CASE?**

8 A. The Company has included in this rate request deferred RES costs in rate base of \$3.5
9 million, as well as an amortization of deferred RES costs, in expense of \$351,750.

10 **Q. HOW WAS THE RES COST RATE BASE AMOUNT DETERMINED?**

11 A. The Company projected the deferred cost associated with its solar program as of
12 March 31, 2016 (the proposed true-up date in this proceeding), based on costs
13 accumulated through August 31, 2015, and costs expected to be incurred from that
14 date through March 31, 2016.

15 **Q. HOW WAS THE EXPENSE AMOUNT DETERMINED?**

16 A. The Company applied a ten-year amortization to the projected RES cost rate base
17 amount described above.

18 **Q. WHY WAS A TEN-YEAR AMORTIZATION PERIOD SELECTED?**

19 A. The ten-year amortization period was selected to match the length of time established
20 in the Solar Rebate Declaration section of the Company’s Net Metering Rider which
21 states, “the SRECs cannot be sold or promised for sale to any other party or used by

¹ Order Approving Expedited Tariff, MoPSC File No. ET-2015-0285, page 1.

² *Ibid.* page 2.

1 customer for any environmental or 'green' program for a period of ten (10) years
2 from the date the Company confirmed that the System was installed and operational."

3 **DETERMINATION OF EMPIRE'S RENEWABLE ENERGY STANDARD RETAIL**
4 **RATE IMPACT**

5 **Q. HOW IS THE RES RETAIL RATE IMPACT DETERMINED?**

6 A. Per Commission Rule 4 CSR 240-20.100(5)(B), the "RES retail rate impact shall be
7 determined by subtracting the total retail revenue requirement incorporating an
8 incremental non-renewable generation and purchased power portfolio from the total
9 retail revenue requirement including an incremental RES-compliant generation and
10 purchased power portfolio." Additionally, the "retail rate impact, as calculated in
11 subsection (5)(B), may not exceed one percent (1%) for prudent costs of renewable
12 energy resources directly attributable to RES compliance. The retail rate impact shall
13 be calculated on an incremental basis for each planning year that includes the addition
14 of renewable generation directly attributable to RES compliance through procurement
15 or development of renewable energy resources, averaged over the succeeding ten
16 (10)-year period, and shall exclude renewable energy resources owned or under
17 contract prior to the effective date of this rule."³

18 **Q. HAS EMPIRE DETERMINED A RETAIL RATE IMPACT LIMIT**
19 **ASSOCIATED WITH ITS RES COMPLIANCE PLAN?**

20 A. No. Empire has not performed a special study to determine the retail rate impact limit
21 associated with Empire's RES compliance plan. Also, the Commission has not
22 authorized a retail rate impact limit associated with Empire's current RES compliance

³ Commission Rule 4 CSR 240.20-100(5)(A).

1 plan. However, based on the amount of annual solar related RES cost requested for
2 recovery in rates in this case, \$785,000, which represent approximately 0.16 percent
3 of Empire's overall requested revenue requirement, Empire does not anticipate
4 reaching the retail rate impact limit outlined in the Commission's rules in the
5 immediate future.

6 **PROPERTY TAX**

7 **Q. WHAT ADJUSTMENT IS BEING MADE BY EMPIRE FOR PROPERTY**
8 **TAXES IN THIS RATE CASE?**

9 A. The property tax adjustment annualizes Empire's test year tax expense. The rate
10 applied to the property and plant-in-service is the tax rate Empire anticipates for
11 2015, and is based on historical rates and expected changes in assessed valuations.
12 The adjustment is net of the adjustment Staff made in the test year expense and
13 reflected in the final Staff accounting schedules, in ER-2014-0351. The adjustment
14 resulted in an increase to Missouri jurisdictional expense of \$3,756,627.

15 **PAYROLL AND PAYROLL TAXES**

16 **Q. PLEASE DESCRIBE THE PAYROLL ADJUSTMENT.**

17 A. The adjustment was made to normalize test year payroll, payroll taxes, and 401k
18 costs. The adjusted expense included in the filing reflects the wages at June 30, 2015,
19 adjusted for known changes, positions currently authorized but unfilled, and pay
20 increase that will occur prior to the effective date of new rates in this case. The
21 adjustment is net of Staff's test year adjustment made in Case No. ER-2014-0351 and
22 reflected in the final Staff accounting schedules in that case. The adjustment
23 increases Missouri jurisdictional test year expense by \$4,063,942.

1 **BAD DEBT**

2 **Q. PLEASE EXPLAIN THE ADJUSTMENT TO BAD DEBT EXPENSE.**

3 A. An average of actual Missouri jurisdictional write-offs compared to the Missouri
4 jurisdictional retail sales of electricity was calculated for the five years ending June
5 30, 2015. This resulted in a five-year ratio of bad debt expense of 0.5299 percent.
6 This ratio is applied to the normalized retail sales revenue developed for this rate case
7 to arrive at an adjusted bad debt expense of \$2,429,407. This adjusted level of
8 ongoing bad debt expense was then compared to the bad debt expense recorded in
9 Staff's final accounting schedules in ER-2014-0351, to arrive at a Missouri
10 jurisdictional adjustment of \$175,681.

11 **TRUE-UP**

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

13 A. Yes. As discussed in more detail below, Empire is requesting that certain items be
14 updated as of March 31, 2016, assuming an in service date of June 1, 2016, for
15 Riverton 12.

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

17 A. The true-up will enable all of the parties to the proceeding to use financial
18 information that is closer to the effective date of the tariffs that will become effective
19 as part of this rate case. All of the major components used to develop the new
20 revenue requirement should be updated, including rate base, operating revenues, and
21 operating expenses.

22 **Q. WHAT AREAS OF THE EMPIRE REVENUE REQUIREMENT SHOULD BE**
23 **UPDATED THROUGH MARCH 31, 2016?**

1 A. The revenue requirement should be updated to recognize all of the significant changes
2 that have occurred through March 31, 2016. Among those areas where significant
3 changes can occur are:

- 4 • Net Plant in Service, including the investment in the Riverton Unit 12 combined
5 cycle conversion;
- 6 • Rate base components;
- 7 • Revenue;
- 8 • RTO Transmission costs / revenue;
- 9 • Payroll costs including benefits;
- 10 • Depreciation;
- 11 • Property Tax;
- 12 • Pension and OPEB costs; and,
- 13 • Capital Structure;
- 14 • Health Insurance.

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

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

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

20 A. Yes.

The Empire District Electric Company
Case No. ER-2016-0023
Revenue Requirement

Schedule BSO-1

Line No.	Description	Staff EMS Run 03-26-2015	Empire Pro Forma
1	Rate Base	\$ 1,085,833,585	\$ 1,368,113,630
2	Rate of Return	7.73%	7.58%
3	Operating Income Requirement	83,902,361	103,730,375
4	Net Income Available	83,980,920	83,153,801
5	Additional Net Income Required	(78,559)	20,576,575
6	Tax Gross Up Factor	1.62308	1.62308
7	Revenue Requirement	(127,507)	33,397,363
8	Allowance / True Up Estimate	17,450,962	-
9	Gross Revenue Requirement	\$ 17,323,455	\$ 33,397,363
10	Percent Increase in Rate Revenue		7.28%

The Empire District Electric Company
Case No. ER-2016-0023
Rate Base

Schedule BSO-2

Line No.	Description	Staff EMS Run 03-26-2015	Empire Pro Forma
1	Plant In Service	\$ 1,941,293,897	\$ 2,236,152,964
2	Less Accumulated Depreciation	667,152,090	663,941,424
3	Net Plant In Service	<u>1,274,141,807</u>	<u>1,572,211,540</u>
	<i><u>Additions:</u></i>		
4	Cash Working Capital	10,315,173	9,697,876
5	Materials & Supplies	23,151,257	21,834,635
6	Prepayments	4,655,931	6,864,894
7	Fuel Inventory	17,702,610	16,469,479
8	Vegetation Mgt Tracker	5,162,156	1,596,431
9	May 2011 Tornado Deferrals	-	3,119,489
10	Carrying Costs - Iatan 1	4,398,727	5,235,679
11	Carrying Costs - Iatan 2	2,390,961	9,765,231
12	Carrying Costs - Plum Point	111,686	156,084
13	O&M Tracker - Iatan Common	1,749,518	(539,760)
14	DSM/Pre-MEEIA Costs	4,524,565	5,446,872
15	PeopleSoft Cost ER-2011-0004	227,730	226,948
16	Pension Tracker	3,173,170	2,479,274
17	MO Solar Initiative	-	3,517,500
18	Asbury/Riverton Reserve Deficiency	-	9,655,652
19	Prepaid Pension Asset	16,443,518	23,065,738
20	Additions Subtotal	<u>94,007,002</u>	<u>118,592,024</u>
	<i><u>Subtractions:</u></i>		
21	Federal Tax Offset	913,831	723,145
22	State Tax Offset	(172,192)	(136,261)
23	Interest Expense Offset	3,468,993	4,444,079
24	Fuel Construction Acctg	-	7,769,387
25	OPEB Tracker	1,543,805	1,257,877
26	Customer Deposits	9,976,580	10,653,174
27	Customer Advances at Jun-15	4,094,826	1,827,362
28	Deferred Income Tax-Accumulated	234,740,655	270,650,215
29	SWPA Capacity Loss Reimbursement	13,688,838	11,789,813
30	O&M Tracker - Plum Point	640,661	123,808
31	O&M Tracker - Iatan 2	623,676	(792,040)
32	Amortization of Electric Plant	12,795,551	14,379,374
33	Subtractions Subtotal	<u>282,315,224</u>	<u>322,689,934</u>
34	Total Rate Base	<u>\$ 1,085,833,585</u>	<u>\$ 1,368,113,630</u>

The Empire District Electric Company
Case No. ER-2016-0023
Income Statement Detail

Line No.	Description	Staff EMS Run 03-26-2015		Empire Pro Forma	
		Total Company	Missouri	Total Company	Missouri
1	Operating Revenue	563,662,017	464,698,295	563,662,017	484,664,939
2	Production	210,129,321	173,500,543	210,129,321	180,021,816
3	Transmission	22,923,173	19,102,894	22,923,173	19,930,838
4	Distribution	28,853,853	24,835,794	28,853,853	25,480,266
5	Customer Accounts	9,787,235	8,701,782	9,787,235	9,241,106
6	Customer Service	1,638,484	1,190,269	1,638,484	1,533,054
7	Sales	283,333	254,957	283,333	272,159
8	Administrative and General	42,907,017	37,577,509	42,907,017	41,810,142
9	Interest on Customer Deposits	-	424,005	-	452,760
10	Depreciation	62,701,471	58,433,359	62,701,471	64,591,201
11	Amortization	3,142,774	3,246,839	3,142,774	5,781,766
12	Other	22,975,375	19,331,291	22,975,375	23,224,779
13	Total Operating Expenses	405,342,036	346,599,243	405,342,036	372,339,886
14	Net Income Before Taxes	158,319,981	118,099,052	158,319,981	112,325,053
15	Income Taxes	15,694,879	12,677,735	15,694,879	9,297,580
16	Deferred Income Taxes	22,177,862	21,440,397	22,177,862	19,873,673
17	Operating Income	<u>\$ 120,447,240</u>	<u>\$ 83,980,920</u>	<u>\$ 120,447,240</u>	<u>\$ 83,153,801</u>

The Empire District Electric Company
Case No. ER-2016-0023
Income Statement Adjustments

Schedule BSO-4

Line No.	Description	Account	Total Company	Missouri
1	Revenue			
2	Adjust ER-2014-0351 EMS to reflect Growth Dec-14	440	\$ 1,737,828	\$ 1,737,828
3	Adjust ER-2014-0351 EMS to reflect authorized Increase	440	17,125,000	17,125,000
4	Customer Growth at Jun-15	440	340,213	340,213
5	LP Customer Switches	440	(36,569)	(36,569)
6	Adjust Energy Efficiency Opt Out Revenue	440	(80,420)	(80,420)
7	Annualize Excess Facilities	440	43,265	43,265
8	Annualize Transmission Revenue	457	(243,107)	(204,234)
9	Annualize Fuel - IM, ARR/TCR, OSS Revenue	447	1,923,822	1,594,079
10	Annualize Fuel - REC Revenue	456	(666,809)	(552,518)

Expense

Line No.	Description	Account	Total Company	Missouri
11	Annualize Payroll	500	\$ 103,850	\$ 87,244
12	Annualize Payroll	501	64,944	53,812
13	Annualize Payroll	502	100,373	83,169
14	Annualize Payroll	505	33,149	27,848
15	Annualize Payroll	506	19,960	16,768
16	Annualize Payroll	510	41,002	33,974
17	Annualize Payroll	511	42,760	35,922
18	Annualize Payroll	512	111,755	92,600
19	Annualize Payroll	513	38,156	31,616
20	Annualize Payroll	514	57,446	48,260
21	Annualize Payroll	535	6,574	5,522
22	Annualize Payroll	537	595	500
23	Annualize Payroll	538	2,942	2,472
24	Annualize Payroll	539	11,024	9,261
25	Annualize Payroll	541	7,096	5,961
26	Annualize Payroll	542	2,506	2,105
27	Annualize Payroll	543	6,317	5,307
28	Annualize Payroll	544	5,705	4,793
29	Annualize Payroll	545	4,927	4,139
30	Annualize Payroll	546	59,727	50,176
31	Annualize Payroll	547	277	229
32	Annualize Payroll	548	148,331	124,613
33	Annualize Payroll	549	8,241	6,924
34	Annualize Payroll	551	40,907	34,366
35	Annualize Payroll	552	13,540	11,375
36	Annualize Payroll	553	69,998	58,806
37	Annualize Payroll	554	43,479	36,527
38	Annualize Payroll	556	122,226	102,682
39	Annualize Payroll	560	17,604	14,789
40	Annualize Payroll	561	41,365	34,751
41	Annualize Payroll	562	8,842	7,428
42	Annualize Payroll	563	6,737	5,660
43	Annualize Payroll	566	51,945	43,639
44	Annualize Payroll	568	11,346	9,532
45	Annualize Payroll	570	71,746	60,274

The Empire District Electric Company
Case No. ER-2016-0023
Income Statement Adjustments

Schedule BSO-4

Line No.	Description	Account	Total Company	Missouri
46	Annualize Payroll	571	16,348	13,734
47	Annualize Payroll	580	63,967	57,329
48	Annualize Payroll	582	28,607	25,639
49	Annualize Payroll	583	123,284	110,491
50	Annualize Payroll	584	25,260	22,638
51	Annualize Payroll	585	2,388	2,141
52	Annualize Payroll	586	189,689	170,005
53	Annualize Payroll	587	11,499	10,305
54	Annualize Payroll	588	49,462	44,330
55	Annualize Payroll	590	21,224	19,021
56	Annualize Payroll	591	1,501	1,345
57	Annualize Payroll	592	75,400	67,576
58	Annualize Payroll	593	173,337	155,350
59	Annualize Payroll	594	36,655	32,852
60	Annualize Payroll	595	18,630	16,696
61	Annualize Payroll	596	12,422	11,133
62	Annualize Payroll	597	25,055	22,455
63	Annualize Payroll	598	6,007	5,384
64	Annualize Payroll	901	44,916	39,935
65	Annualize Payroll	902	140,949	125,317
66	Annualize Payroll	903	222,326	197,669
67	Annualize Payroll	905	812	722
68	Annualize Payroll	907	23,463	20,860
69	Annualize Payroll	908	80,896	71,924
70	Annualize Payroll	912	19,116	17,202
71	Annualize Payroll	920	954,663	859,051
72	Annualize Payroll	926	42,082	37,867
73	Annualize Payroll	930	881	792
74	Annualize Payroll	935	8,641	7,776
75	Annualize Payroll Taxes FICA	408141	190,719	144,832
76	Annualize Payroll Taxes FUTA	408511	(541)	(411)
77	Annualize Payroll Taxes SUTA	408512	(9,958)	(7,562)
78	Annualize 401k	926	674,000	606,498
79	On-going FAS87 Pension Expense	926	1,252,133	1,126,729
80	On-going FAS106 OPEBs Expense	926	1,699,461	1,529,257
81	Annualize Rate Case Expense	928	64,662	64,662
82	Normalize Bad Debt Expense	904	197,595	175,681
83	Intersest on Customer Deposits	431.1	28,755	28,755
84	Amortization of Solar Rebates	403f	351,750	351,750
85	Annualize Amortization Expense	404	127,407	109,700
86	True Up Veg Tracker Amortization	571.1	(584,066)	(584,066)
87	True Up Veg Tracker Amortization	593.1	(27,813)	(27,813)
88	True Up Veg Tracker Amortization	594.1	(101,267)	(101,267)
89	True Up O&M Tracker Amortization	403e	(118,903)	(118,903)

The Empire District Electric Company
Case No. ER-2016-0023
Income Statement Adjustments

Schedule BSO-4

Line No.	Description	Account	Total Company	Missouri
90	True Up Construction Amortization	403003	(3,322)	(3,322)
91	True Up Construction Amortization	403009	2,031	2,031
92	True Up Construction Amortization	403011	81	81
93	True Up Construction Amortization	421	(53,978)	(53,978)
94	True Up Construction Amortization	403b	(733)	(733)
95	True Up Construction Amortization	403c	30,997	30,997
96	True Up Construction Amortization	403d	(10,261)	(10,261)
97	Annualize Property Tax Expense	408610	4,363,128	3,756,627
98	Reflect Riverton 12 Tracker per Revised S&A	553	3,213,903	2,700,000
99	Rebase Riverton 12 Tracker	553	1,428,401	1,200,000
100	Reflect Asbury True Up in Staff's EMS Run-Depr	403	4,630,732	4,630,732
101	Reflect Asbury True Up in Staff's EMS Run-AQCS	506	238,300	238,300
102	Reflect Low Inc Weatherization per Revised S&A	908.1	225,000	225,000
103	Normalize Low Income Weatherization	908.1	25,000	25,000
104	Annualize Depreciation Expense	403	1,527,110	1,527,110
105	True Up ITC Refund Amortization	404b	(24,428)	(24,428)
106	Amortization -Reserve Deficiency	404c	1,931,130	1,931,130
107	Annualize Transmission Expense	565	1,451,964	1,219,795
108	Annualize DSM Amortization	403a	266,884	266,884
109	Normalized Riverton O&M	500	(113,933)	(95,715)
110	Normalized Riverton O&M	502	(35,318)	(29,264)
111	Normalized Riverton O&M	505	(13,220)	(11,106)
112	Normalized Riverton O&M	506	(136,385)	(114,577)
113	Normalized Riverton O&M	510	(57)	(47)
114	Normalized Riverton O&M	511	(33,594)	(28,222)
115	Normalized Riverton O&M	512	(348,210)	(288,527)
116	Normalized Riverton O&M	513	(143,813)	(119,163)
117	Normalized Riverton O&M	514	(107,411)	(90,236)
118	Normalized Riverton O&M	546	22,550	18,944
119	Normalized Riverton O&M	548	197,978	166,321
120	Normalized Riverton O&M	549	449,622	377,727
121	Normalized Riverton O&M	552	133,500	112,153
122	Normalized Riverton O&M	553	859,863	722,371
123	Normalized Riverton O&M	554	90,100	75,693
124	Normalized Riverton O&M	562	4,000	3,360
125	Normalized Riverton O&M	570	(1,133)	(952)
126	Normalized Riverton O&M	582	(759)	(680)
127	Normalized Riverton O&M	588	(511)	(458)
128	Annualize Fuel - Steam	501	2,034,779	1,686,018
129	Annualize Fuel - Natural Gas	547	2,431,373	2,014,636
130	Annualize Fuel - Consumables	506	618,989	520,013
131	Annualize Fuel - Pur Pwr	555	(4,172,146)	(3,457,040)

The Empire District Electric Company
Case No. ER-2016-0023
Income Statement Adjustments

Schedule BSO-4

<u>Line No.</u>	<u>Description</u>	<u>Account</u>	<u>Total Company</u>	<u>Missouri</u>
132	Annualize Federal Income Tax	409	(3,242,170)	(2,921,121)
133	Annualize State Income Tax	409.1	(509,485)	(459,034)
134	Annualize Deferred Income Tax	410	(1,633,685)	(1,471,912)
135	Annualize Deferred Income Tax-Credit	411	(94,812)	(94,812)
			<u>\$ 23,038,857</u>	<u>\$ 20,793,762</u>

