

Exhibit No. 118

Issue: Cash Working Capital and Customer Advances

Witness: Bryan S. Owens

Type of Exhibit: Rebuttal Testimony

Sponsoring Party: Empire District Electric.

Case No. ER-2014-0351

Date: Testimony Prepared: March 2015

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Missouri Public

Service Commission

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

**Rebuttal Testimony**

**of**

**Bryan S. Owens**

**March 2015**



**SERVICES YOU COUNT ON**

*Empire* Exhibit No. 118  
Date 4-14-15 Reporter KF  
File No. ER-2014-0351

**REBUTTAL TESTIMONY  
OF  
BRYAN S. OWENS  
ON BEHALF OF  
THE EMPIRE DISTRICT ELECTRIC COMPANY  
BEFORE THE  
MISSOURI PUBLIC SERVICE COMMISSION  
CASE NO. ER-2014-0351**

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

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

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

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

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

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

11 **Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN THIS  
12 PROCEEDING?**

13 A. No.

14 **Q. PLEASE OUTLINE YOUR EDUCATION AND PROFESSIONAL  
15 BACKGROUND.**

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

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1 I began my professional career in 1998 when I joined the accounting firm of  
2 KPMG, LLP. I was employed at KPMG from August 1998 to July 2001 as a senior  
3 auditor and senior tax specialist performing financial statement audits and preparing  
4 federal and state tax returns for individuals and corporations.

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

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

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

14 In July 2008, Aquila, Inc. was acquired by Black Hills Corporation and Great  
15 Plains Energy, Inc. I was briefly employed with Kansas City Power and Light  
16 Company (a wholly owned subsidiary of Great Plains Energy, Inc.) before joining  
17 Black Hills Corporation in December 2008 as Manager, Colorado Electric Regulatory  
18 Affairs. In this role, I was responsible for providing various financial analyses in  
19 support of utility operations and managing regulatory filings for the electric utility  
20 operations of Black Hills/Colorado Electric Utility Company, L.P.

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

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

1 I have testified as a witness before the Colorado Public Utilities Commission in  
2 Docket Nos. 14AL-0393, 13A-0446E, and 12AL-1052E, and I submitted written  
3 testimony before the Arkansas Public Service Commission, the Colorado Public  
4 Utilities Commission, the Missouri Public Service Commission (“Commission”), and  
5 the Oklahoma Corporation Commission.

6 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

7 A. The purpose of my rebuttal testimony is to respond to the Cash Working Capital  
8 (“CWC”) and Customer Advances amounts as proposed by the Staff of the  
9 Commission (“Staff”) in the Staff Report - Cost of Service - Revenue Requirement  
10 filed on January 29, 2015 (“Staff Report”).

11 **CASH WORKING CAPITAL**

12  
13 **Q. PLEASE PROVIDE AN OVERVIEW OF THE CWC AMOUNT PROPOSED**  
14 **IN THE STAFF REPORT.**

15 A. The overall CWC amount included in rate base as proposed by Staff is illustrated on  
16 Accounting Schedule 08, Cash Working Capital, of the Staff Report. “Staff did not  
17 perform a complete CWC analysis in this case... However, Staff did review the  
18 revenue lag and expense lags for fuel and purchased power in this case to determine  
19 whether those values should change from the lags agreed to in Case No. ER-2012-  
20 0345.”<sup>1</sup> Accounting Schedule 08, Cash Working Capital, reflects the changes to  
21 Revenue Lag, Fuel and Purchase Power Expense Lags, and Test Year Adjusted

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<sup>1</sup> Staff Report, pg. 51, lines 3-6.

1 Expenses proposed by Staff. The overall effect of the CWC changes and various  
2 operating adjustments proposed by Staff, results in a CWC amount of \$4,860,722.

3 **Q. DID STAFF'S CWC RECOMMENDATIONS INCLUDE CHANGES TO THE**  
4 **REVENUE AND EXPENSE LAGS USED IN THE MOST RECENT EMPIRE**  
5 **RATE CASE?**

6 A. Yes. Staff proposed changes to both the revenue and expense lags used in the most  
7 recent Empire rate case.

8 **Q. WHAT WAS THE CHANGE TO REVENUE LAG PROPOSED BY STAFF IN**  
9 **THIS CASE?**

10 A. Staff proposes changing the amount of time between the day the Company provides  
11 utility service, and the day it receives payment from customers for that service (also  
12 generally referred to as Revenue Lag), from 47.27 days as agreed to in Case No. ER-  
13 2012-0345, to 47.82 days as illustrated on Accounting Schedule 08 of the Staff  
14 Report.

15 **Q. DO YOU AGREE WITH THE REVENUE LAG PROPOSED BY STAFF IN**  
16 **THIS CASE?**

17 A. Yes. I reviewed the calculation performed by Staff and agree that the method used to  
18 arrive at Staff's proposed Revenue Lag in this case appears reasonable.

19 **Q. DID STAFF PROPOSE A CHANGE TO FUEL-COAL EXPENSE LAG IN**  
20 **THIS CASE?**

21 A. Yes. As illustrated on Accounting Schedule 08 of the Staff Report, Staff proposes  
22 changing the average time that services, materials, etc. are obtained/used for fuel-  
23 coal, and the time expenditures for those services are made (generally referred to as

1 expense lag/lead) from 27.15 days as agreed to in Case No. ER-2012-0345, to 15.07  
2 days.

3 **Q. DO YOU AGREE WITH THE FUEL-COAL EXPENSE LAG PROPOSED BY**  
4 **STAFF IN THIS CASE?**

5 A. Yes. I reviewed the calculation performed by Staff and agree that the method used to  
6 arrive at Staff's proposed fuel-coal expense lag in this case appears reasonable.

7 **Q. DID STAFF PROPOSE A CHANGE TO FUEL-PURCHASED GAS EXPENSE**  
8 **LAG IN THIS CASE?**

9 A. Yes. As illustrated on Accounting Schedule 08 of the Staff Report, Staff proposes  
10 changing the average time that services, materials, etc. are obtained/used for fuel-  
11 purchased gas, and the time expenditures for those services are made (i.e. expense  
12 lag/lead) from 19.94 days as agreed to in Case No. ER-2012-0345, to 37.61 days.

13 **Q. DO YOU AGREE WITH THE FUEL-PURCHASED GAS EXPENSE LAG**  
14 **PROPOSED BY STAFF IN THIS CASE?**

15 A. Yes. I reviewed the calculation performed by Staff and agree that the method used to  
16 arrive at Staff's proposed fuel-purchased gas expense lag in this case appears  
17 reasonable.

18 **Q. WHAT CHANGE TO FUEL-PURCHASED OIL EXPENSE LAG IS**  
19 **PROPOSED BY STAFF IN THIS CASE?**

20 A. Staff proposes changing the average time that services, materials, etc. are  
21 obtained/used for fuel-purchased oil, and the time expenditures for those services are  
22 made (i.e. expense lag/lead) from 21.88 days as agreed to in Case No. ER-2012-  
23 0345, to 11.49 days as illustrated on Accounting Schedule 08 of the Staff Report.

1 **Q. DO YOU AGREE WITH THE FUEL-PURCHASED OIL EXPENSE LAG**  
2 **PROPOSED BY STAFF IN THIS CASE?**

3 A. Yes. I reviewed the calculation performed by Staff and agree that the method used to  
4 arrive at Staff's proposed fuel-purchased oil expense lag in this case appears  
5 reasonable.

6 **Q. WHAT CHANGE TO PURCHASED POWER EXPENSE LAG IS PROPOSED**  
7 **BY STAFF IN THIS CASE?**

8 A. As illustrated on Accounting Schedule 08 of the Staff Report, Staff proposes  
9 changing the average time that services are obtained/used for purchased power, and  
10 the time expenditures for those services are made (i.e. expense lag/lead) from 15.09  
11 days as agreed to in Case No. ER-2012-0345, to 33.15 days.

12 **Q. DO YOU AGREE WITH THE PURCHASED POWER EXPENSE LAG**  
13 **PROPOSED BY STAFF IN THIS CASE?**

14 A. Yes. I reviewed the calculation performed by Staff and agree that the method used to  
15 arrive at Staff's proposed purchased power expense lag in this case appears  
16 reasonable.

17 **Q. DID YOU REVIEW THE TEST YEAR ADJUSTED EXPENSES PROPOSED**  
18 **BY STAFF AS ILLUSTRATED ON ACCOUNTING SCHEDULE 08 OF THE**  
19 **STAFF REPORT AND DO YOU AGREE WITH THE AMOUNTS**  
20 **PRESENTED?**

21 A. Yes, I reviewed the test year adjusted expenses proposed by Staff. Except for the  
22 amount listed for property tax, the test year adjusted expenses listed on Accounting  
23 Schedule 08, Cash Working Capital, appear to agree with the proposed expense

1 amounts listed on Accounting Schedule 09, Income Statement Detail, for the  
2 Missouri Final Adjusted Jurisdictional expenses proposed by Staff. However, the  
3 amounts listed on Staff Accounting Schedule 09 are subject to revision and will  
4 potentially change based on activity during the twelve month true-up period ending  
5 December 31, 2014, so the level of CWC will change depending upon the revision  
6 and true-up process.

7 **Q. WHAT EXCEPTION DO YOU FIND WITH RESPECT TO THE LEVEL OF**  
8 **PROPERTY TAX USED IN STAFF'S CWC CALCULATION?**

9 A. The \$19,483,199 amount of property tax listed on line 9, column "B", of Staff  
10 Accounting Schedule 08, Cash Working Capital, is over-stated by \$2,780,939, when  
11 compared to the \$16,702,260 amount of property tax expense listed on line 178,  
12 column "K", of Staff Accounting Schedule 09, Income Statement Detail. Staff  
13 Accounting Schedule 08, Cash Working Capital, is attached as Exhibit BSO-1, and  
14 Staff Accounting Schedule 09, Income Statement Detail, is attached as Exhibit BSO-  
15 2.

16 **Q. DOES THE OVERSTATEMENT OF PROPERTY TAXES IN THE CWC**  
17 **CALCULATION MAKE THE CALCULATION INCORRECT?**

18 A. Yes. The \$19,483,199 in property taxes utilized by Staff does not reflect the Missouri  
19 jurisdictional property tax expense amount of \$16,702,260 listed in Staff Accounting  
20 Schedule 09, Income Statement Detail. The \$19,483,199 utilized by Staff appears to  
21 be more representative of a total company amount, but even this figure does not agree  
22 with the total company amount for property tax expense listed on line 178, column  
23 "C" of Staff Accounting Schedule 09.



1 **Q. WHAT ARE YOUR RECOMMENDATIONS?**

2 A. I recommend that the amount of property tax expense used in Staff's CWC  
3 calculation be revised to reflect the level of Missouri jurisdictional property tax  
4 expense.

5 **CUSTOMER ADVANCES FOR CONSTRUCTION**

6 **Q. WHAT ARE CUSTOMER ADVANCES FOR CONSTRUCTION?**

7 A. In general, Customer Advances for Construction are liabilities held on the Company's  
8 balance sheet in FERC Account 252, which represent balances to be refunded to  
9 customers that have advanced funds for construction. The utility plant constructed  
10 with these funds is not financed with debt or equity. As a result, utility customers are  
11 not obligated to pay a return on these plant investments, and the liability associated  
12 with customer advances is deducted from rate base.

13 **Q. DO YOU AGREE WITH THE CUSTOMER ADVANCES AMOUNT**  
14 **INCLUDED IN RATE BASE REPRESENTED ON STAFF ACCOUNTING**  
15 **SCHEDULE 2?**

16 A. No. The \$4,094,826 Customer Advances amount included in rate base on Staff  
17 Accounting Schedule 2, represents a Missouri jurisdictional 13-month average for the  
18 period ending August 31, 2014, which is not representative of financial data for the  
19 period when new rates will take effect.

20 **Q. WHAT AMOUNT SHOULD BE INCLUDED IN RATE BASE FOR**  
21 **CUSTOMER ADVANCES?**

22 A. In response to Staff Data Request No. 22, updated January 21, 2015, the Company  
23 provided FERC Account 252 detail which illustrated a significant decrease in total

1 Company account balances in December 2014, as illustrated in Table 1 below. The  
2 Customer Advances amount included in rate base should reflect the Missouri  
3 jurisdictional account balance for the True-Up period ending December 31.

**Table 1 - Total Company Monthly Account Balances for Electric Customer Advances**

Line No.	Month	Acct 252100	Acct 252110	Total
1	8/31/2013	(1,024,071)	(3,543,682.61)	(4,567,753.58)
2	9/30/2013	(1,024,765)	(3,529,548.61)	(4,554,313.51)
3	10/31/2013	(1,029,614)	(3,534,057.30)	(4,563,671.47)
4	11/30/2013	(1,031,852)	(3,544,600.66)	(4,576,452.68)
5	12/31/2013	(902,238)	(3,081,968.92)	(3,984,207.18)
6	1/31/2014	(908,144)	(3,065,488.92)	(3,973,633.39)
7	2/28/2014	(908,144)	(3,045,933.58)	(3,954,078.05)
8	3/31/2014	(927,740)	(3,028,882.58)	(3,956,622.11)
9	4/30/2014	(974,479)	(3,195,931.80)	(4,170,410.38)
10	5/31/2014	(982,441)	(3,179,447.25)	(4,161,887.81)
11	6/30/2014	(995,573)	(3,240,143.72)	(4,235,716.57)
12	7/31/2014	(1,001,312)	(3,331,411.57)	(4,332,723.87)
13	8/31/2014	(1,006,542)	(3,327,236.57)	(4,333,778.51)
14	9/30/2014	(1,039,977)	(3,345,152.24)	(4,385,129.23)
15	10/31/2014	(1,057,125)	(3,339,841.24)	(4,396,965.87)
16	11/30/2014	(1,064,067)	(3,387,220.33)	(4,451,287.47)
17	12/31/2014	(629,885)	(1,076,649.61)	(1,706,534.96)
4	13 Mo. Avg. Ending August 2014	(978,224.23)	(3,280,641.08)	(4,258,865.32)

5 **Q. WHY IS A YEAR-END BALANCE APPROPRIATE INSTEAD OF A 13-**  
6 **MONTH AVERAGE?**

7 A. The level of rate base should be representative of financial data for the period that the  
8 proposed new rates will be in effect. The customer advances liability balance reduced  
9 significantly in December 2014 as a result of a large refund to a customer who  
10 completed a construction project. Since the amount associated with the refund is  
11 significant, reducing the balance by over 60%, and is no longer included in the  
12 customer advances balance, a 13-month average is no longer representative of  
13 financial data for the period that proposed new rates will be in effect. Instead, the

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1 year-end balance for the True-Up period ending December 31, 2014 sets a  
2 representative level of customer advances for the period new rates will be in effect.

3 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

4 **A.** Yes, it does.

AFFIDAVIT OF BRYAN S. OWENS

STATE OF MISSOURI )  
  ) ss  
COUNTY OF JASPER )

On the 6th day of March 2015, before me appeared Bryan S. Owens, to me personally known, who, being by me first duly sworn, states that he is the Assistant Director of Planning and Regulatory of The Empire District Electric Company and acknowledges that he has read the above and foregoing document and believes that the statements therein are true and correct to the best of his information, knowledge and belief.

*Bryan S. Owens*  
\_\_\_\_\_  
Bryan S. Owens

Subscribed and sworn to before me this 6th day of March, 2015.

ANGELA M. CLOVEN  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for Jasper County  
My Commission Expires: November 01, 2015  
Commission Number: 11262659

*Angela M. Cloven*  
\_\_\_\_\_  
Notary Public

My commission expires: 11/01/2015.