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

**Direct Testimony**

**of**

**Kelly S. Walters**

**August 2014**



**SERVICES YOU COUNT ON**

Empire Exhibit No. 132  
Date 4-14-15 Reporter KF  
File No. ER-2014-0351

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THE EMPIRE DISTRICT ELECTRIC COMPANY  
BEFORE THE  
MISSOURI PUBLIC SERVICE COMMISSION

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DIRECT TESTIMONY  
OF  
KELLY S. WALTERS  
THE EMPIRE DISTRICT ELECTRIC COMPANY  
BEFORE THE  
MISSOURI PUBLIC SERVICE COMMISSION  
CASE NO. ER-2014-0351

1 **INTRODUCTION**

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

3 A. My name is Kelly S. Walters, and my business address is 602 South Joplin Avenue,  
4 Joplin, Missouri.

5 **Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR JOB TITLE?**

6 A. I am presently employed by The Empire District Electric Company (“Empire” or  
7 “Company”) as Vice President-Chief Operating Officer-Electric. I have held this  
8 position since February 2011.

9 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND**  
10 **PROFESSIONAL EXPERIENCE.**

11 A. I graduated from Pittsburg State University in December 1986 with a Bachelor of  
12 Science degree in Business Administration with a major in accounting. In October  
13 2001, I received a Master of Arts degree in Human Resource Management from  
14 Webster University. I began my employment with Empire in November 1988 in the  
15 accounting department and held various positions until July 1993 when I became  
16 Manager of Regulatory Accounting.

17 I left Empire in 1998 to assume the position of Manager of Financial Services with  
18 Crowder College. In September 2001, I rejoined Empire as Director of Planning and

1 Regulatory. In that position, I had responsibility for load research, strategic planning,  
2 rates, and regulatory accounting. In April 2005, I was promoted to General Manager  
3 of Regulatory and General Services and held that position with Empire until I was  
4 elected to the position of Vice President – Regulatory Services in May 2006. In  
5 February 2011, I assumed my current position with Empire.

6 **Q. HAVE YOU PREVIOUSLY PARTICIPATED IN ANY REGULATORY**  
7 **PROCEEDINGS?**

8 A. Yes, I have. I have testified before regulatory commissions in the states of Missouri,  
9 Kansas, Oklahoma and Arkansas.

10 **PURPOSE / RATE CASE OVERVIEW**

11 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING**  
12 **BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION**  
13 **(“COMMISSION”)?**

14 A. My testimony will provide an overview of this case, including the primary factors  
15 driving Empire’s need for an increase in rates. I will also introduce the other Empire  
16 witnesses filing direct testimony in this case. And finally, I will address specific rate  
17 case adjustments Empire is proposing in this case.

18 **Q. PLEASE GENERALLY DESCRIBE THE RATE INCREASE EMPIRE IS**  
19 **REQUESTING.**

20 A. Empire is requesting an overall increase of \$24.3 million in Missouri jurisdictional  
21 revenue, exclusive of applicable fees or taxes, or an increase of 5.5 percent. This  
22 increase is based on an overall rate of return on rate base of 7.94 percent and a rate of  
23 return on equity of 10.15 percent. Some of the more significant factors driving the

KELLY S. WALTERS  
DIRECT TESTIMONY

1 need for a rate increase are increases in Empire's operating costs, including those  
2 associated with the environmental retrofit at Asbury, a new maintenance contract  
3 covering our Riverton 12 gas fired generating unit, the increase in Regional  
4 Transmission Organization charges, and substantial increases in property taxes.

5 **Q. CAN YOU QUANTIFY THE MAJOR COST DRIVERS IN THE RATE CASE?**

6 A. Yes. The following table displays the major cost drivers in the rate case in terms of  
7 millions of dollars:

Description	Revenue Requirement
Asbury Environmental Retrofit	\$19.8
Property Taxes	2.9
RTO Transmission Charges	1.0
Maintenance Contract	3.9
Other	(3.3)
Total Base Rates	\$24.30

8 **Q. WHAT ITEMS MAKE UP THE REDUCTION TO RATES IN THE OTHER**  
9 **CATEGORY?**

10 A. Although many items are included this category, some of the significant items  
11 offsetting the increase include savings experienced through the Southwest Power Pool  
12 ("SPP") Integrated Marketplace beginning March 1, 2014, lower debt cost, and a  
13 reduction in expenses related to vegetation management discussed later in my  
14 testimony.

15 **Q. WHAT TEST YEAR DID EMPIRE USE IN DETERMINING RATE BASE,**  
16 **OPERATING INCOME, AND RATE OF RETURN?**

17 A. Empire has used a test year ending April 30, 2014, adjusted for known and measurable

1 changes through December 31, 2014, as the basis for the revenue requirement in this  
2 case.

3 **Q. DOES THE ADJUSTMENT PROCESS USED BY THE COMPANY IN THIS**  
4 **CASE DIFFER FROM WHAT EMPIRE HAS HISTORICALLY USED IN**  
5 **MISSOURI?**

6 A. No. Historically, Empire has established a test year and adjusted this test year for all  
7 known and measurable changes and asked for a true-up process with a cutoff date  
8 closer to the date of the evidentiary hearing.

9 **Q. IS EMPIRE PROPOSING A TRUE-UP IN THIS CASE?**

10 A. Yes.

11 **Q. WHY?**

12 A. A true-up of rate base and related operating revenues and costs at a point in time as  
13 close as possible to the operation of law date is necessary in order for prospective rates  
14 to properly reflect the cost of providing service. To balance the need to allow  
15 sufficient time for parties to review the costs associated with changes in investment  
16 and operations against the need for the Company to minimize regulatory lag and have  
17 an opportunity to earn an equitable return on its investments, Empire is proposing a  
18 true-up at December 31, 2014. This is discussed further in the direct testimony of  
19 Empire witness W. Scott Keith.

20 **Q. PLEASE NAME THE OTHER WITNESSES PRESENTING TESTIMONY ON**  
21 **EMPIRE'S BEHALF IN THIS CASE.**

22 A. The following witnesses will present direct testimony on behalf of Empire:

- 23
- Brad P. Beecher - Policy;

- 1       • W. Scott Keith - Supporting accounting schedules, overall revenue requirement,  
2       specific rate case adjustments, Regional Transmission Operation (“RTO”) cost  
3       recovery , Pre-MEELA Energy Efficiency cost recovery and true-up;
- 4       • Joan Land - Specific adjustments to rate base and statement of operations;
- 5       • Steve Williams – Specific adjustments to revenue;
- 6       • Aaron Doll –SPP costs, including transmission and the new SPP integrated  
7       marketplace and modifications to Empire’s Fuel Adjustment Clause (“FAC”) to  
8       capture the impact of RTO transmission charges;
- 9       • Todd W. Tarter - System fuel and energy costs, the continuation of Empire’s FAC  
10       with modifications, including RTO transmission cost recovery and fuel inventory;
- 11       • Robert Sager – Riverton Unit 7 retirement, capital structure, and property tax;
- 12       • James Vander Weide - Cost of Equity Capital;
- 13       • Jeff Lee - Pension and Post-Retirement Benefits;
- 14       • Blake Mertens - Iatan/Plum Point/Riverton trackers, power plant operation and  
15       maintenance and Asbury and Riverton construction;
- 16       • Brent Baker – Changes in line extension policy; and
- 17       • Ed Overcast-Cost of Service and Rate Design.

18       **RETURN ON EQUITY**

19       **Q. DID EMPIRE RETAIN AN EXPERT TO DETERMINE A RANGE OF**  
20       **RETURNS ON EQUITY IN THIS CASE?**

21       A. Yes. Empire retained Dr. James Vander Weide to develop the cost of equity capital  
22       for Empire. As indicated in his testimony in this case, he found that Empire has a cost

1 of equity that ranges from 10 percent to 10.8 percent.

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

4 A. Empire has chosen a rate of return on equity of 10.15 percent to develop its overall  
5 revenue requirement in this case.

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

7 A. Since this case is the beginning of back-to-back rate cases to recover what are  
8 primarily environmental compliance costs, Empire has chosen to use a conservative  
9 return on equity that is toward the low side of Dr. Vander Weide's recommendation.

10 **ADJUSTMENTS**

11 **Q. PLEASE DESCRIBE THE RATE CASE ADJUSTMENTS YOU ARE**  
12 **SPONSORING IN THIS CASE.**

13 A. I am sponsoring several rate case adjustments. The adjustments to the statement of  
14 operations are as follows:

- 15 • Vegetation management,  
16 • System inspection and remediation, and  
17 • Healthcare costs.

18 **Q. PLEASE EXPLAIN THE ADJUSTMENT YOU ARE SPONSORING WITH**  
19 **REGARD TO VEGETATION MANAGEMENT.**

20 A. The adjustment I am sponsoring to Empire's vegetation management program  
21 establishes Empire's expenditures in this area at \$11 million per year, which is a level  
22 expected to reoccur annually during the immediate future. The specific adjustment to  
23 operations in this area results in a decrease to ongoing vegetation management costs of



1       \$1.0 million.

2       **Q. IS THERE ANOTHER ISSUE THAT NEEDS TO BE ADDRESSED WITH**  
3       **REGARD TO VEGETATION MANAGEMENT?**

4       A. Yes. Empire currently has an authorized vegetation management tracker. This tracker  
5       allows Empire to defer costs on its balance sheet when our actual expenditure in this  
6       area deviates from the base level established in Empire's most recently completed rate  
7       case. The balance sheet deferred amount is then amortized into Empire's cost of  
8       service over a five-year period. At the end of the test year for the current rate case, the  
9       Missouri vegetation deferral amount on Empire's general ledger was \$1.061 million.  
10      Coupling this balance with the Commission authorized amortization period results in  
11      an adjustment decreasing vegetation management amortization costs by \$36,782.

12      **Q. IS EMPIRE REQUESTING A CONTINUATION OF THE VEGETATION**  
13      **TRACKER AS PART OF THIS CASE?**

14      A. Yes. Empire has completed one full cycle of vegetation management on its system  
15      and is scheduled to start the second cycle. It is uncertain how the vegetation  
16      management activities undertaken in the first cycle will impact the overall costs  
17      incurred in the second cycle. Due to this uncertainty, Empire recommends that the  
18      tracker mechanism be maintained at this time.

19      **Q. PLEASE DESCRIBE THE ADJUSTMENT TO SYSTEM INSPECTION AND**  
20      **REMEDICATION COSTS.**

21      A. Empire has fully implemented a system inspection and remediation program designed  
22      to meet the Commission's standards in this area. The adjustment I am sponsoring  
23      establishes Empire's expenditures in this area at an average of our actual experience

1 over a four-year period (2010-2013). The adjustment increases Empire's annual  
2 operating costs in this area by \$230,591.

3 **Q. PLEASE EXPLAIN THE ADJUSTMENT TO HEALTHCARE COSTS.**

4 A. Empire is self-insured and uses Mercy, formally St. Johns, as the primary healthcare  
5 provider for its employees. The current contract is expiring, and Empire has solicited  
6 bids from several healthcare providers. The responses to our request for service are  
7 due to be opened this fall, with the new contract taking effect in January 2015. In  
8 order to reflect the healthcare costs in our revenue requirement on an ongoing basis,  
9 we have adjusted Empire's healthcare costs upward by \$0.628 million to reflect what  
10 is expected to be an increase in healthcare rates and eliminate the impact of a non-  
11 recurring correction made to the general ledger during the test year.

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

13 A. Yes.

