

*Exhibit No.:*

*Issues:* Rate Case Expense  
Renewable Energy Credits Revenue  
Cash Working Capital

*Witness:* Ashley R. Sarver

*Sponsoring Party:* MoPSC Staff

*Type of Exhibit:* Surrebuttal Testimony

*Case No.:* ER-2014-0351

*Date Testimony Prepared:* March 24, 2015

**MISSOURI PUBLIC SERVICE COMMISSION**

**REGULATORY REVIEW DIVISION  
UTILITY SERVICES - AUDITING**

**SURREBUTTAL TESTIMONY**

**OF**

**ASHLEY R. SARVER**

**THE EMPIRE DISTRICT ELECTRIC COMPANY**

**CASE NO. ER-2014-0351**

*Jefferson City, Missouri  
March 2015*

~~Staff~~ Exhibit No. 221  
Date 4-14-15 Reporter KF  
File No. ER-2014-0351

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**SURREBUTTAL TESTIMONY**

**OF**

**ASHLEY R. SARVER**

**THE EMPIRE DISTRICT ELECTRIC COMPANY**

**CASE NO. ER-2014-0351**

Q. Please state your name and business address.

A. Ashley R. Sarver, Governor Office Building, P.O. Box 360, Jefferson City, Missouri 65102.

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

A. I am employed by the Missouri Public Service Commission (“Commission”) as a Utility Regulatory Auditor II in the Auditing Unit of the Utility Services Department, Regulatory Review Division of the Commission Staff (“Staff”).

Q. Are you the same Ashley R. Sarver that was responsible for certain sections of Staff’s Revenue Requirement Cost of Service Report (“Staff Report”) filing in this rate case for The Empire District Electric Company (“Empire” or “Company”) on January 29, 2015?

A. Yes, I am.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of The Office of the Public Counsel (“OPC”) witness Keri Roth regarding rate case expense. I also address the issues discussed in rebuttal testimony by Empire witness Todd W. Tarter regarding Renewable Energy Credits (REC) and Bryan S. Owens regarding Cash Working Capital (CWC).

1 **EXECUTIVE SUMMARY**

2 Q. Please provide a brief summary of your surrebuttal testimony in this  
3 proceeding.

4 A. In this testimony, I respond to OPC's position arguing for a 50/50 sharing  
5 between the shareholders and customers of rate case expense. In this particular case, Staff  
6 does not recommend sharing of rate case expense and has instead included an amount of rate  
7 case expense normalized over two years in the cost of service.

8 This testimony also addresses Empire's witness Tarter's request that Empire's cost of  
9 service reflect REC revenues calculated on a projected basis. Staff's position is to use  
10 "known and measurable" REC revenues based on the test year, the twelve months ending  
11 April 30, 2014.

12 Finally, I will respond to the Company's recommendation to correct the property tax  
13 expense amount listed on Accounting Schedule 08, Cash Working Capital. Staff has  
14 reviewed the Company's recommendation and agrees that the test year property tax expense  
15 on the CWC Schedule should be changed.

16 **RATE CASE EXPENSE**

17 Q. What is OPC witness Keri Roth's position in this case regarding rate case  
18 expense?

19 A. Ms. Roth states in her rebuttal testimony, "Public Counsel's position is that  
20 the amount of rate case expense, included in the development of rates of the current case,  
21 should only include a normalized annual level of charges that directly benefit ratepayers.  
22 Since shareholders actually benefit from the rate case activities from which these charges  
23 derive much more than ratepayers do, it is just and reasonable that shareholders should cover

Surrebuttal Testimony of  
Ashley R. Sarver

1 | some of these charges.” She recommends that the rate case cost be shared 50/50 between  
2 | shareholders and customers.

3 | Q. What is Staff’s current position on rate case expense?

4 | A. In this case, Staff is recommending that Empire’s rate case expenses be  
5 | treated in the traditional manner; that is, the Company should be allowed an opportunity to  
6 | recover in rates the full amount of reasonable and prudently incurred rate case expenses  
7 | through a two- year normalization period from the customers. However, Staff will continue  
8 | to monitor the rate case expenses incurred by Empire for reasonableness and prudence.

9 | Q. Has it been Staff’s general position that rate case expense be shared by the  
10 | customers and shareholders?

11 | A. No, not in recent general rate proceedings. However, in September 2013,  
12 | Staff filed a report in Case No. AW-2011-0330 (“RCE Report”) concerning the topic of rate  
13 | recovery of rate case expense. Within that document, Staff examined recent trends in  
14 | incurred rate case expense by major Missouri utilities, and discussed several possible options  
15 | for allocation of rate case expense between utility shareholders and customers. Within the  
16 | RCE Report, Staff recommended that the Commission consider “employing structural  
17 | incentives measures in rate cases to provide utilities with stronger incentives to reasonably  
18 | limit their rate case expenses to appropriate and necessary levels.”

19 | Q. What is the amount of rate case expense the Company has paid to date?

20 | A. The most recent response to Staff Data Request No. 69 states as of February  
21 | 28, 2015 Company has paid invoices totaling \$128,536. Staff has included a normalized level  
22 | of \$64,261 in the rate case. Staff has disallowed \$14 from Worldwide Express due to lack  
23 | evidence that it is a rate case expense.

1 Q. What is Staff's position regarding OPC's proposal in this rate case for a 50/50  
2 sharing of rate case expense between customers and shareholders?

3 A. Given the relatively small amount of expense incurred by Empire to date  
4 regarding this rate proceeding, and the relatively small amount that Empire currently expects  
5 to incur over the course of this proceeding, Staff does not support a sharing of rate case  
6 expense between customers and shareholders in this particular case at this time.

7 **RENEWABLE ENERGY CREDITS REVENUE**

8 Q. Do Staff and Empire differ regarding the level of REC revenues to include in  
9 this rate case?

10 A. Yes. There is a difference in methodology between Staff and Empire in how  
11 the ongoing level of REC revenues assumed for rate making purposes should be calculated.  
12 Empire recommends the annualized value of REC revenues to be used in this case should be  
13 the expected level for calendar year 2015. This differs from Staff's methodology which used  
14 "known and measurable" REC revenue information from the test year, the twelve months  
15 ending April 30, 2014. Empire's approach violates both the known and measurable concept  
16 and the matching principle concept.

17 Q. Please define the rate making term "known and measurable."

18 A. The term "known and measurable" means that an event has already occurred  
19 and it can be measured with a high degree of accuracy.

20 Q. Please define the rate making term "matching principle."

21 A. The term "matching principle" refers to the practice that all elements of  
22 revenue requirement, including revenues, expenses, and rate base, be measured using a  
23 consistent time frame.

1 Q. Does Staff agree with Empire's use of a forward-looking spot market price  
2 estimate for the purpose of normalizing REC revenues?

3 A. No. The Company recommended using the expected level for calendar year  
4 2015. The Company has not based its recommended level of REC revenues on any known  
5 and measurable information which occurred during the test year, the test year update period  
6 or the true-up period.

7 Q. Will Staff review any changes in the level of REC revenues that occur within  
8 the true-up period in this case?

9 A. Yes, Staff will take another look into this issue in the true-up phase of this  
10 case which ends December 31, 2014.

11 **CASH WORKING CAPITAL**

12 Q. Do you agree with Mr. Owens that Staff made an error regarding the property  
13 tax expense amount in the CWC Accounting Schedule?

14 A. Yes. Staff agrees with the correction Mr. Owens referenced on pages 6-7  
15 (lines 21-6). The total Company amount of \$19,398,811 for property taxes was used in the  
16 direct filing instead of the Missouri Jurisdictional amount of \$16,702,260 in Staff  
17 Accounting Schedule 08. Therefore, Staff will make a correction to appropriately reflect the  
18 Missouri jurisdictional property tax expense amount of \$16,702,260 in Staff's updated  
19 accounting schedules.

20 Q. What is the impact of these corrections?

21 A. This correction to Cash Working Capital will increase rate base by  
22 \$1,020,894 from the revised Staff Accounting Schedule circulated to all of the parties on  
23 February 26, 2015.

Surrebuttal Testimony of  
Ashley R. Sarver

1 Q. Does this conclude your surrebuttal testimony?

2 A. Yes, it does.



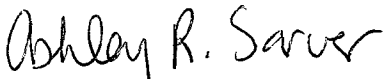
**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

In the Matter of The Empire District Electric )  
Company for Authority to File Tariffs ) Case No. ER-2014-0351  
Increasing Rates for Electric Service Provided )  
to Customers in the Company's Missouri )  
Service Area )

AFFIDAVIT OF ASHLEY R. SARVER

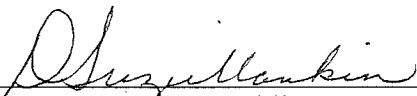
STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

Ashley R. Sarver, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 6 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.

  
\_\_\_\_\_  
Ashley R. Sarver

Subscribed and sworn to before me this 24<sup>th</sup> day of March, 2015.

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|--|
| D. SUZIE MANKIN<br>Notary Public - Notary Seal<br>State of Missouri<br>Commissioned for Cole County<br>My Commission Expires: December 12, 2016<br>Commission Number: 12412070 |
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Notary Public