

Exhibit No.:
Issue: Rate Case Overview
Witness: Kelly S. Walters
Type of Exhibit: Direct Testimony
Sponsoring Party: Empire District Electric.
Docket No.
Date Testimony Prepared: October 2009

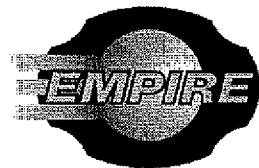
Before the Kansas Corporation Commission

Direct Testimony

of

Kelly S. Walters

October 2009



SERVICES YOU COUNT ON

TABLE OF CONTENTS
OF
KELLY S. WALTERS
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
KANSAS CORPORATION COMMISSION

<u>SUBJECT</u>	<u>PAGE</u>
INTRODUCTION.....	1
POSITION	1
PURPOSE	2
WITNESSES.....	5

DIRECT TESTIMONY
OF
KELLY S. WALTERS
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
KANSAS CORPORATION COMMISSION
DOCKET NO.

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. ON WHOSE BEHALF ARE YOU APPEARING IN THIS MATTER?**

6 A. I am appearing on behalf of The Empire District Electric Company ("Empire" or "the
7 Company").

8 **POSITION**

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

10 A. I am presently employed by Empire as Vice President-Regulatory and Services. I have
11 held this position since May, 2006.

12 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND
13 PROFESSIONAL EXPERIENCE.**

14 A. I graduated from Pittsburg State University in December 1986 with a Bachelor of
15 Science in Business Administration with a major in accounting. In October 2001, I
16 received a Master of Arts degree in Human Resource Management from Webster
17 University. I began my employment at Empire in November 1988 in the accounting
18 department and held various positions within the accounting department until July

1 1993 when I became Manager of Regulatory Accounting.

2 I left Empire in 1998 to assume the position of Manager of Financial Services at
3 Crowder College. In September 2001, I rejoined Empire as Director of Planning and
4 Regulatory. In this position I had responsibility for load research, strategic planning,
5 rates, and regulatory accounting. In April 2005, I was promoted to General Manager
6 of Regulatory and General Services and held this position until I took my present
7 position in May 2006.

8 **Q. HAVE YOU PREVIOUSLY PARTICIPATED IN ANY REGULATORY**
9 **PROCEEDINGS?**

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

12 **PURPOSE**

13 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

14 A. My testimony will provide overview of the rate case, including the primary factors
15 driving the need for an increase in rates and a discussion of how this rate case fits into
16 the rate case process Empire, the Staff ("Staff") of the Kansas Corporation
17 Commission ("Commission") and the Citizens Utilities Ratepayer Board ("CURB")
18 are currently in the process of negotiating and an introduction of the other Empire
19 witnesses filing direct testimony in this case.

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

22 A. The test year used in Empire's rate case is based upon the twelve months ending June

1 30, 2009, adjusted for known and measurable changes.

2 **Q. PLEASE DESCRIBE THE RATE INCREASE EMPIRE IS REQUESTING.**

3 A. Empire is requesting an overall increase of \$5.2 million in Kansas jurisdictional
4 revenue, or an increase of 24.6 percent. This increase is based on an overall rate of
5 return of 8.80 percent and a return on equity of 11.3 percent. The primary factors
6 driving the need for a rate increase are the capital investments associated with the
7 addition of the Iatan pollution control facilities, Selective Catalytic Reduction
8 ("SCR") at Empire's Asbury generating unit, the Riverton 12 generating unit, the Iatan
9 2 and Plum Point generating units.

10 **Q. WAS THE DECISION TO INVEST IN THE THREE NEW GENERATING**
11 **UNITS, RIVERTON 12, PLUM POINT AND IATAN 2, SUPPORTED BY**
12 **EMPIRE'S INTEGRATED RESOURCE PLANNING ("IRP") PROCESS?**

13 A. Yes. Empire's IRP process, which involved, a series of two formal IRP filings with
14 the Missouri Public Service Commission ("MPSC") and bi-annual meetings with the
15 MPSC Staff pointed towards the need for intermediate and new base load capacity due
16 to continued load growth in Empire's service area and the pending expiration of a
17 long-term base load capacity contract with Westar.

18 **Q. HAS EMPIRE'S EXPANSION PLAN ALSO INCLUDED DEMAND-SIDE**
19 **MANAGEMENT AND ENERGY EFFICIENCY?**

20 A. Yes. Over the last several years Empire has implemented energy efficiency programs
21 in Missouri, Arkansas and Oklahoma, and will file a request with the Commission in
22 Kansas to implement several energy efficiency programs. We plan to implement at

1 least a portion of our proposed energy efficiency programs in Kansas by this upcoming
2 summer.

3 **Q. HOW HAS THE TIMING OF THE IATAN 2 RATE CASE CHANGED FROM**
4 **THAT ORIGINALLY PLANNED?**

5 A. The estimated completion dates of the Iatan 2 and Plum Point units appear to be
6 diverging. For example, our original time-line called for each of the units to go into
7 service in June 2010. Based upon the current construction schedule, this will not be
8 the case, and the Iatan 2 in-service date may lag the Plum Point in-service date by
9 several months. The divergence in in-service dates has added to what was already
10 substantial financial pressure on Empire.

11 **Q. HAVE YOU DISCUSSED EMPIRE'S RATE CASE CONCERNS WITH THE**
12 **STAFF AND CURB?**

13 A. Yes. We are currently in discussions that are hoped to lead to an agreement as to the
14 ultimate processing of this case, including the timing of the consideration and rate
15 recovery of Empire's investments in the new generating facilities and other
16 expenditures.

17 **Q. PLEASE COMMENT ON THE TIMING OF THIS FILING.**

18 A. If Empire is unable to include these facilities in rate base and begin to recover the
19 costs associated with this new investment in a timely manner, Empire will suffer
20 adverse financial consequences. Given what appears to be an expanding gap of time
21 between the commercial operation dates of the Iatan 2 and Plum Point units and the
22 fact several of the new facilities (Riverton 12, Asbury SCR, Iatan pollution control)

1 are already in service and yet to be reflected in Kansas rates, Empire determined it
2 would be prudent to file a general rate case in Kansas at this time. Empire, Staff and
3 CURB are currently in discussions about procedures to be used in this case, including
4 the timing of the consideration and rate recovery of Empire's investment in Iatan 2,
5 Plum Point and Iatan pollution control facilities.

6 **Q. DOES THIS FILING INCLUDE A RATE DESIGN AND CLASS COST OF**
7 **SERVICE STUDY?**

8 A. No, Empire is intending to file a rate design and class cost of service study at the
9 beginning of 2010.

10 **WITNESSES**

11 **Q. WHO ARE THE OTHER WITNESSES PRESENTING TESTIMONY ON**
12 **EMPIRE'S BEHALF IN THIS RATE CASE?**

13 A. The following witnesses will be presenting direct testimony on behalf of Empire in
14 this rate case:

- 15 • William Gipson-Policy
- 16 • Scott Keith-Supporting accounting schedules
- 17 • Jayna Long-Specific adjustments to rate base and statement of operations
- 18 • Kelly Emanuel-Cash Working Capital and tariff changes not related to rate base
- 19 • Mark Quan-Weather Normalization
- 20 • James Vander Weide-Cost of Capital
- 21 • Laurie Delano-Supporting Schedules for Pension and Post Retirement Benefits
- 22 • Rob Sager-Capital Structure and Stock Issuance Cost

1 • Blake Mertens-Investment in Riverton 12, Asbury SCR, Iatan pollution control,
2 Iatan 2 and Plum Point

3 • Mike Palmer-Storm cost recovery

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

5 A. Yes.

