

Exhibit No.  
Issue: Income Statement and Rate Base  
Adjustments  
Witness: Jayna R. Long  
Type of Exhibit: Direct Testimony  
Sponsoring Party: Empire District Electric  
Docket No.  
Date Testimony Prepared: October 2009

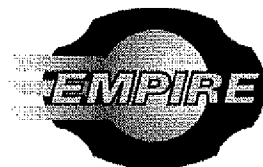
**Before the Kansas Corporation Commission**

**Direct Testimony**

**of**

**Jayna R. Long**

**October 2009**



**SERVICES YOU COUNT ON**

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DIRECT TESTIMONY OF  
JAYNA R. LONG  
ON BEHALF OF  
THE EMPIRE DISTRICT ELECTRIC COMPANY  
BEFORE THE  
KANSAS CORPORATION COMMISSION

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DIRECT TESTIMONY  
OF  
JAYNA R. LONG  
THE EMPIRE DISTRICT ELECTRIC COMPANY  
BEFORE THE  
KANSAS CORPORATION COMMISSION  
DOCKET NO.

1 **I. INTRODUCTION**

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

3 A. Jayna R. Long. My business address is 602 S. Joplin Avenue, Joplin, Kansas.

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

5 A. I am employed by Empire District Electric Company (“EDE or Company”), as a  
6 Regulatory Analyst.

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**  
8 **BACKGROUND.**

9 A. I hold a Bachelor of Science degree in Business Administration with majors in  
10 accounting and marketing from Missouri Southern State University. I was employed by  
11 Leggett & Platt, Inc. immediately following my graduation in 1993 where I held various  
12 positions as an accountant at the Corporate Office and then was promoted to Division  
13 Controller. I have also served as a Plant Controller for Invensys Inc. and Controller for  
14 Clark Industries. In May 2001, I joined Empire as a Senior Internal Auditor where I  
15 remained until October 2003. At that time, I accepted my current position.

16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE BEFORE**  
17 **THE KANSAS CORPORATION COMMISSION (“COMMISSION”)?**

1 A. The purpose of my testimony is to present certain adjustments to the accounting  
2 schedules.

3 **II. RATE BASE ADJUSTMENTS**

4 **Q. PLEASE IDENTIFY THE RATE BASE ADJUSTMENTS YOU ARE**  
5 **SPONSORING.**

6 A. I am sponsoring five adjustments to rate base. The first adjustment is the allocation of  
7 common plant to EDE's natural gas business. The remaining adjustments are to  
8 normalize inventory.

9 **Allocation of Common Plant**

10 **Q. PLEASE EXPLAIN THE FIRST ADJUSTMENT TO ALLOCATE COMMON**  
11 **PLANT TO EMPIRE'S NATURAL GAS BUSINESS.**

12 A. Empire records the common general plant on the electric company's books in their  
13 entirety. A rate case adjustment is required to allocate a portion of the common general  
14 plant to the gas operations. The allocation is based on a three part formula, the  
15 Massachusetts formula, which is described in Empire's Cost Allocation Manual filed in  
16 response to data request No. 5 from the Staff of the Kansas Corporation Commission  
17 ("Staff"). The result of this allocation decreases the general plant in service by  
18 \$2,040,458 and decreases the provision for accumulated depreciation for general plant by  
19 \$1,054,165.

20 **Inventory**

21 **Q. PLEASE DESCRIBE THE FIRST ADJUSTMENT TO NORMALIZE**  
22 **INVENTORY.**

23 A. The material and supplies inventory recorded on the Empire balance sheet includes

1 inventory for both the electric and water business. These inventories are tracked  
2 separately on a manual spreadsheet. An adjustment of \$36,673 was needed to reduce  
3 materials and supplies levels for the amount related to Empire's water business.

4 **Q. PLEASE CONTINUE WITH THE SECOND ADJUSTMENT TO NORMALIZE**  
5 **INVENTORY.**

6 A. Empire uses a thirteen month average fuel inventory in rate base. At one point during the  
7 thirteen months, Asbury had a surplus of coal due to an outage that resulted in a build up  
8 of inventory. In order to normalize the inventory level, an adjustment of \$996,688 was  
9 made to reduce the levels to normal levels.

10 **Q. WHAT OTHER ADJUSTMENTS WERE MADE TO ANNUALIZE**  
11 **INVENTORY?**

12 A. The final two adjustments to inventory relate to the addition of Iatan II and Plum Point.  
13 The first of these two adjustments is to include materials and supplies for these two  
14 plants. Based on the thirteen month average materials and supplies for Iatan I, an  
15 adjustment was made to increase materials and supplies for a total of \$1,468,570 or  
16 \$734,285 for each new plant.

17 The second of these two adjustments includes the coal inventory to be maintained at the  
18 plants. The adjustment includes a 60 day inventory for each plant based on the average  
19 daily burn for Iatan II and for Plum Point less the thirteen month average inventory  
20 already recorded on the balance sheet for Iatan II. The adjustment increases coal  
21 inventory \$1,273,123.

22 **III. REVENUE ADJUSTMENTS**

23 **Q. PLEASE IDENTIFY THE REVENUE ADJUSTMENTS THAT HAVE BEEN**

1       **MADE TO KANSAS JURISDICTIONAL REVENUE.**

2       A.    Total Company and Kansas jurisdictional revenues included in the test year have been  
3       adjusted to reflect customer growth as of June 30, 2009 and normalized weather.  
4       Furthermore, kilowatt-hour (“kWh”) sales and revenues were adjusted to reflect the effect  
5       of unbilled sales and revenues in order to properly align test year revenues and expenses.  
6       In addition, miscellaneous revenues related to the water business were removed.

7       **Customer Growth Adjustment**

8       **Q.    PLEASE EXPLAIN THE ADJUSTMENT RELATED TO CUSTOMER**  
9       **GROWTH.**

10      A.    Kansas jurisdictional revenues have been adjusted to reflect what would have been  
11      generated if the number of Empire customers existing at June 30, 2009 had been served  
12      by the Company for the entire test year. For the residential, commercial, and industrial  
13      TEB and GP classes, the differences between the June 30, 2009 level of customers and  
14      the average customers billed in each month of the test year were multiplied by the  
15      average weather normalized kWh per customer for that month. The resulting change in  
16      kWh sales was then multiplied by the average class weather normalized cost per kWh to  
17      obtain the revenue adjustment related to customer growth.

18      The industrial customer class PT was reviewed on an individual customer basis to  
19      calculate the impact of customer growth on revenue. This individual customer approach  
20      was used because PT customers have a high usage per customer and changes in customer  
21      load patterns due to anomalies can have a significant impact on revenue.

22      In total, the customer growth adjustment to revenue resulted in a decrease of \$54,227 in  
23      revenue and in sales of 925,638 kWh.

1        **Weather Normalization Adjustment**

2        **Q.    WAS THE REVENUE ADJUSTED FOR THE AFFECT OF WEATHER?**

3        A.    Yes. The test year sales and revenue were adjusted to account for the impact of abnormal  
4        weather. The calculation of the weather normalized sales is presented in the direct  
5        testimony of Empire witness Mr. Mark Quan of Itron, Inc.

6        **Q.    HOW WAS THE REVENUE ADJUSTMENT DUE TO WEATHER  
7        CALCULATED?**

8        A.    Rates were determined and then applied to the sales adjustment derived by Empire  
9        witness Mr. Quan. The adjustment for weather resulted in an increase to revenue of  
10       \$104,707.

11       **Unbilled Revenue**

12       **Q.    PLEASE DESCRIBE THE ADJUSTMENT RELATED TO UNBILLED  
13       REVENUE.**

14       A.    The revenue in the test year should equal the amount actually billed to customers and the  
15       portion of sales that were used but not billed during the test year. While the amount of  
16       revenues actually billed to customers is known, the portion not yet billed to customers is  
17       not known and therefore must be estimated. This adjustment is calculated by multiplying  
18       a rate per kWh to the unbilled sales by pricing plan. The unbilled sales computation is  
19       discussed by Empire Witness Mr. Quan. This resulted in an increase to revenue of  
20       \$101,694.

21       A second adjustment was needed to reverse the unbilled revenue recorded on Empire's  
22       financial statement. This adjustment resulted in a decrease to rate revenue of \$118,505.

23       **Other Revenue Adjustments**

1 **Q. WHAT OTHER ADJUSTMENT WAS MADE TO REVENUE?**

2 A Forfeited discounts and return check fees related to the water business are recorded in  
3 other revenue. In order to eliminate them, an adjustment of \$9,031 has been made.

4 **IV. EXPENSE ADJUSTMENTS**

5 **Q. PLEASE IDENTIFY THE EXPENSE ADJUSTMENTS THAT HAVE BEEN**  
6 **MADE TO THE TEST YEAR.**

7 A. I am sponsoring adjustments to income statement expense for the test year as follows:

- 8 ■ Annualize Postage Increase
- 9 ■ Include Customer Deposit Interest
- 10 ■ Annualize Payroll and Payroll Taxes
- 11 ■ Annualize Property Taxes
- 12 ■ Amortize AAO for 2007 Ice Storms
- 13 ■ Amortize May 2009 Wind Storm
- 14 ■ Remove the Contract Payoff of Software Maintenance

15 **Postage**

16 **Q. PLEASE EXPLAIN THE ADJUSTMENT FOR POSTAGE EXPENSE.**

17 A. The adjustment was made to annualize postage expense to reflect the increase in postage  
18 rates which took effect May 11, 2009. The increase to expense was \$27,433.

19 **Customer Deposit Interest**

20 **Q. PLEASE EXPLAIN THE CUSTOMER DEPOSIT INTEREST ADJUSTMENT.**

21 A. Empire's adjustment annualizes interest expense related to customer deposits. Customer  
22 deposits are interest bearing so they are deducted from rate base. The associated interest  
23 is included in the overall cost of service. To calculate this adjustment or reclassification,



1 a 1.00% interest rate was multiplied by the balance in customer deposits. The customer  
2 deposit interest to be included in the cost of service is \$3,525 Kansas Jurisdictional.

3 **Payroll and Payroll Taxes**

4 **Q. WHAT ADJUSTMENT WAS NEEDED FOR THE PAYROLL AND PAYROLL**  
5 **TAXES?**

6 A. The adjustment was made to normalize test year payroll, payroll taxes and 401k costs.  
7 The adjusted expense included in the filing reflects the wages at August 30, 2009,  
8 adjusted for known changes, positions currently authorized to be filled prior to the  
9 effective date of new rates, and the pay increase authorized to occur prior to the effective  
10 date of new rates. This adjustment increases the test year expense by \$1,915,770.

11 **Property Taxes**

12 **Q. PLEASE EXPLAIN THE PROPERTY TAX.**

13 A. The property tax adjustment annualizes EDE's tax expense. The rate applied to the  
14 property plant in service is the tax rate Empire anticipates incurring for 2009. The  
15 estimated rate is based on historical rates and expected changes in assessed valuations.  
16 The adjustment resulted in an increase to expense of \$5,915,779.

17 **2007 Ice Storms**

18 **Q. DID YOU MAKE AN ADJUSTMENT RELATED TO THE 2007 ICE STORMS**  
19 **DISCUSSED IN THE AAO AUTHORIZED BY THE COMMISSION IN CASE**  
20 **NO. 08-EPDE-714-ACT?**

21 A. Yes, an adjustment was made to reflect the amortization of the 2007 ice storms. The  
22 adjustment increases expenses by \$124,032 Kansas Jurisdictional. The AAO is discussed  
23 further in the testimony of Empire witness Mr. Michael Palmer.

1        **May 2009 Wind Storm**

2        **Q.    WHAT ADJUSTMENT DID EMPIRE MAKE TO EXPENSE FOR THE MAY**  
3        **2009 WIND STORM?**

4        A.    During May 2009, the Empire service area suffered substantial damage due to severe  
5        weather. As a result of this storm, Empire incurred significant damage to both its  
6        distribution and transmission service. Empire Witness Michael Palmer further discusses  
7        the Wind Storm in his testimony.

8        **Q.    WHAT ADJUSTMENT DID EMPIRE MAKE TO THE TEST YEAR TO**  
9        **REFLECT ITS PROPOSAL RELATING TO THE WIND STORM EXPENSES?**

10      A.    Empire is proposing to amortize the expense of the storm over five years commencing at  
11      the time rates become effective. Empire adjusted the test year expense for one year of  
12      amortization of \$134,159.

13      **Maintenance Contract**

14      **Q.    WHAT ADJUSTMENT DID EMPIRE MAKE FOR A MAINTENANCE**  
15      **CONTRACT?**

16      A.    During the test year, the maintenance contract Empire maintained with Tomorrow Now  
17      for the support of Empire's PeopleSoft software was terminated. Tomorrow Now was  
18      going out of business and as a result required to pay Empire \$252,247 in order to  
19      terminate the contract early. Empire replaced the contract with a similar contract but an  
20      adjustment was needed to remove the non-reoccurring pay off amount from the test year.

21      **Q.    HOW HAS EMPIRE TREATED THE PAYMENT RECEIVED BY TOMORROW**  
22      **NOW FOR RATEMAKING PURPOSES?**

1 A. The payment recorded in the test year was removed by making an adjustment reversing  
2 the payment received of \$252,247.

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

4 A Yes, it does.

AFFIDAVIT OF JAYNA R. LONG

STATE OF MISSOURI )  
  ) ss  
COUNTY OF JASPER )

On the 29<sup>th</sup> day of October, 2009, before me appeared Jayna R. Long, to me personally known, who, being by me first duly sworn, states that she is a Regulatory Analyst of The Empire District Electric Company and acknowledges that she has read the above and foregoing document and believes that the statements therein are true and correct to the best of her information, knowledge and belief.

Jayna R. Long  
Jayna R. Long

Subscribed and sworn to before me this 29<sup>th</sup> day of October, 2009.

Vicki L. Kramer-Gibson  
Notary Public

My commission expires: 10-30-2010.

