

Exhibit No.  
Issue: Infrastructure Rule Expense  
Witness: Kelly S. Walters  
Type of Exhibit: Rebuttal Testimony  
Sponsoring Party: Empire District Electric  
Case No. ER-2010-0130  
Date Testimony Prepared: April 2010

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

**Rebuttal Testimony  
of  
Kelly S. Walters**

**April 2010**

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OF  
KELLY S. WALTERS  
ON BEHALF OF  
THE EMPIRE DISTRICT ELECTRIC COMPANY  
BEFORE THE  
MISSOURI PUBLIC SERVICE COMMISSION

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REBUTTAL TESTIMONY  
OF  
KELLY S. WALTERS  
THE EMPIRE DISTRICT ELECTRIC COMPANY  
BEFORE THE  
MISSOURI PUBLIC SERVICE COMMISSION  
CASE NO. ER-2010-0130

1 **INTRODUCTION**

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

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

5 **POSITION**

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

7 A. I am employed by The Empire District Electric Company (“Empire” or  
8 “Company”), as Vice President-Regulatory and Services.

9 **Q. ARE YOU THE SAME KELLY S. WALTERS THAT EARLIER**  
10 **PREPARED AND FILED DIRECT TESTIMONY IN THIS RATE CASE**  
11 **BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION**  
12 **(“COMMISSION”) ON BEHALF OF EMPIRE?**

13 A. Yes.

14 **PURPOSE**

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

16 A. My rebuttal testimony will discuss an issue that has been raised by the Commission  
17 Staff (“Staff”) in its filings. Specifically, I will address how the Staff has handled  
18 the cost of Empire’s compliance with the Commission’s relatively new

1           Infrastructure Rule.

2           **INFRASTRUCTURE MANAGEMENT COSTS**

3           **Q.    HAVE YOU REVIEWED HOW THE STAFF HAS HANDLED THE COSTS**  
4           **EMPIRE HAS INCURRED TO COMPLY WITH THE COMMISSION'S**  
5           **RULE ON INFRASTRUCTURE MANAGEMENT?**

6           A.    Yes. I reviewed the Staff Report at pages 46 and 47, which included a description  
7           of the Staff adjustment.

8           **Q.    WHAT DID THE STAFF ADJUSTMENT ENTAIL?**

9           A.    The Staff adjustment removed \$611,234 of costs Empire had recorded in the  
10           tracker mechanism. These costs, according to the Staff, were related to the  
11           remediation of Empire's facilities due to our infrastructure inspection efforts.  
12           According to the Staff, this adjustment to Empire's tracker was necessary to make  
13           Empire's accounting consistent with a Commission order in Case No. ER-2008-  
14           0318, an Ameren UE case.

15          **Q.    DO YOU AGREE WITH THE STAFF ADJUSTMENT?**

16          A.    No.

17          **Q.    WHY?**

18          A.    The Staff adjustment of \$611,234 overstates the level of costs that are associated  
19           with Empire's remediation efforts. We provided the Staff with an analysis of the  
20           actual remediation costs that Empire recorded in the tracker during the test year.  
21           The actual remediation costs captured by the tracker during the test year were  
22           \$172,827, not \$611,234 as shown in the Staff Report. It is Empire's understanding  
23           that Staff has agreed with the updated number and this change has been reflected in

1 Staff's reconciliation dated March 24<sup>th</sup>, 2010.

2 **Q. DOES EMPIRE AGREE WITH THE STAFF CONTENTION THAT IF**  
3 **REMEDATION COSTS ARE LEFT IN THE TRACKER THAT A**  
4 **DOUBLE RECOVERY OF INFRASTRUCTURE REMEDIATION COSTS WILL**  
5 **OCCUR?**

6 A. No. The double recovery of infrastructure remediation costs is highly unlikely.  
7 The tracker is designed to allow recovery of only the actual costs that Empire  
8 incurs while complying with the Commission's infrastructure rule. This provision  
9 places absolute limits on cost recovery. In addition, the Commission's  
10 infrastructure rule requires documentation concerning not only Empire's inspection  
11 efforts but also Empire's infrastructure remediation efforts. In other words, the  
12 Commission's rule encompasses both phases of the process, inspection and repair.  
13 The tracker mechanism is the best way to capture the cost of these activities.

14 **Q. HAS THE COST OF INFRASTRUCTURE INSPECTION AND**  
15 **MAINTENANCE INCREASED AS A RESULT OF THE COMMISSION'S**  
16 **INFRASTRUCTURE RULE?**

17 A. Yes. Prior to the implementation of the Commission's infrastructure rule in July  
18 2008, Empire did not have a formal infrastructure inspection and remediation  
19 process in place. System inspection and repair were corrected as issues were  
20 identified during daily operations; a practice that continues today. Empire's  
21 remediation costs include both components today, the minor repairs noted in the  
22 daily operation of the system and those identified as part of the formal  
23 infrastructure management system put in place to comply with the Commission's

1 new rule.

2 **Q. DO THE REMEDIATION COSTS RELATED TO EMPIRE'S FORMAL**  
3 **INFRASTRUCTURE INSPECTION PROGRAM IN THIS CASE REFLECT**  
4 **A FULL YEAR OF OPERATION?**

5 A. No. The test year does not reflect a full year's operation of the department Empire  
6 setup to comply with the Commission's infrastructure rule. Much of the test year  
7 was spent setting up the department, staffing the department, acquiring the software  
8 necessary to track the department's activity, and securing a contract with an outside  
9 consultant to assist in and perform the actual infrastructure inspections. Due to  
10 these implementation efforts, the actual inspection process did not commence until  
11 the middle of 2009, and the remediation efforts related to these inspections did not  
12 begin until late 2009. As a result, the test year does not reflect a full year of the  
13 remediation costs that are directly related to the new Commission rule. Based upon  
14 the remediation costs directly related to the formal inspection program, Empire  
15 expects to incur at least \$800,000 per year in incremental remediation costs. In  
16 fact, Empire's 2010 budget includes over \$2,000,000 for system remediation.

17 **Q. HOW DO YOU RECOMMEND THAT THE REMEDIATION COSTS**  
18 **ASSOCIATED WITH THE FORMAL INFRASTRUCTURE INSPECTON**  
19 **PROGRAM BE HANDLED IN THIS CASE?**

20 A. Empire prefers to capture these costs in the tracking mechanism established in  
21 Empire's last rate case. This mechanism is fair and limits the cost recovery to the  
22 actual costs that Empire incurs in complying with the Commission's rule in this  
23 area. If this method is not available to Empire, then Empire's annual formal

1 infrastructure remediation costs should be established at \$800,000 so that the test  
2 year captures a full year of the impact of the Commission's new infrastructure rule.


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

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

**AFFIDAVIT OF KELLY S. WALTERS**

STATE OF MISSOURI )  
                              ) ss  
COUNTY OF JASPER )

On the 31 day of March, 2010, before me appeared Kelly S. Walters, to me personally known, who, being by me first duly sworn, states that she is the Vice President of Regulatory and Services 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.

  
\_\_\_\_\_  
Kelly S. Walters

Subscribed and sworn to before me this 31 day of March, 2010.

  
\_\_\_\_\_  
Notary Public

My commission expires  
10.30.10

