IN THE MATTER OF THE APPLICATION OF  
THE EMPIRE DISTRICT ELECTRIC COMPANY  
FOR APPROVAL OF A GENERAL CHANGE IN  
RATES AND TARIFFS  

DOCKET NO. 10-052-U  

DIRECT TESTIMONY  
OF  
TRENT FULMER, CPA  
SENIOR PUBLIC UTILITY AUDITOR  
AUDITS SECTION  

ON BEHALF OF THE GENERAL STAFF OF THE  
ARKANSAS PUBLIC SERVICE COMMISSION  

DECEMBER 17, 2010
INTRODUCTION

Q. Please state your name and business address.
A. My name is Trent Fulmer. My business address is Arkansas Public Service Commission (APSC or Commission), 1000 Center Street, P.O. Box 400, Little Rock, Arkansas 72203-0400.

Q. By whom are you employed and in what capacity?
A. I am employed by the General Staff (Staff) of the Commission as a Senior Public Utility Auditor in the Audits Section. In that capacity, In addition to providing supervisory support to the Director of Revenue Requirements, I analyze utility company filings, conduct field audits, identify and evaluate accounting issues, develop positions on those issues and present those positions in written and oral testimony before the Commission, and perform other duties as assigned.

Q. Please describe your educational background and experience.
A. I hold a Bachelor of Business Administration degree in Accounting and a Master of Accounting degree from Hendrix College in Conway, Arkansas. I am a Certified Public Accountant, licensed to practice in Arkansas. In maintaining this certification, I have completed numerous continuing professional education hours and seminars. Before joining Staff in July 2008, I worked in public accounting, providing audit and income tax services to a variety of clients. Since joining Staff I have attended "The Basics - Practical Skills for the Changing Electric, Natural Gas, Telecommunications and Water Industries" jointly sponsored by the New Mexico State University Center for
Public Utilities and the National Association of Regulatory Utility Commissioners.

PURPOSE OF TESTIMONY

Q. What is the purpose of your Direct Testimony in this docket?

A. I present the list of Staff's witnesses identifying the issue each addresses, and present the overall results of Staff's examination of the Application of Empire District Electric Company (Empire or Company) for an increase in rates, filed August 18, 2010 and revised on September 10, 2010. Specifically, I sponsor Direct Exhibits TF-1 through TF-6, which summarize the development of Staff's recommended revenue requirement, and Direct Exhibit TF-7 which compares Staff's revenue requirement with the Company's.

I discuss my recommended adjustments to Empire's working capital assets (WCA) and related adjustments. I also discuss my examination of current, accrued, and other liabilities (CAOL) and accumulated deferred income taxes (ADIT) and address the Direct Testimony of Empire Witness Jayna R. Long. Specifically, I sponsor the Staff WCA adjustments RB-13 through RB-20 listed in Table 1 below, as well as CAOL and ADIT adjustments addressed later in my testimony.
<table>
<thead>
<tr>
<th>Staff Adj. No.</th>
<th>Empire Adj. No.</th>
<th>Description</th>
<th>Staff Adj. Amount</th>
<th>Empire Adj. Amount</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>RB-13</td>
<td>N/A</td>
<td>Adjust WCA to the 13-month average</td>
<td>$7,958,092</td>
<td>($21,553,554)</td>
<td>$29,511,646</td>
</tr>
<tr>
<td>RB-14</td>
<td>N/A</td>
<td>Exclude certain accounts from WCA</td>
<td>($415,774,245)</td>
<td>($380,074,018)</td>
<td>($35,700,227)</td>
</tr>
<tr>
<td>RB-15</td>
<td>RB 8</td>
<td>Adjust certain WCA accounts to more representative balances</td>
<td>($8,651,525)</td>
<td>($11,172,601)</td>
<td>$2,521,076</td>
</tr>
<tr>
<td></td>
<td>RB 9</td>
<td></td>
<td></td>
<td>$705,612</td>
<td></td>
</tr>
<tr>
<td></td>
<td>RB 11</td>
<td></td>
<td></td>
<td>$511,668</td>
<td></td>
</tr>
<tr>
<td></td>
<td>RB 12</td>
<td></td>
<td></td>
<td>$320,232</td>
<td></td>
</tr>
<tr>
<td></td>
<td>RB 13</td>
<td></td>
<td></td>
<td>$852,926</td>
<td></td>
</tr>
<tr>
<td></td>
<td>RB 14</td>
<td></td>
<td></td>
<td>$12,799</td>
<td></td>
</tr>
<tr>
<td></td>
<td>RB 15</td>
<td></td>
<td></td>
<td>$7,261</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$10,578</td>
<td></td>
</tr>
<tr>
<td>RB-16</td>
<td>RB 7</td>
<td>Remove accounts receivable related to water operations</td>
<td>($122,234)</td>
<td>($117,783)</td>
<td>($4,451)</td>
</tr>
<tr>
<td>RB-17</td>
<td>RB 10</td>
<td>Remove inventories related to water operations</td>
<td>($33,478)</td>
<td>($34,796)</td>
<td>$1,318</td>
</tr>
<tr>
<td>RB-18</td>
<td>RB 18</td>
<td>Remove account 186960-Employee Relocation Exp</td>
<td>($19,640)</td>
<td>($157,309)</td>
<td>$137,668</td>
</tr>
<tr>
<td>RB-19</td>
<td>N/A</td>
<td>Remove 50% of portion of prepaid expense related to Director's and Officer's Liability Insurance premiums</td>
<td>($14,854)</td>
<td>$0</td>
<td>($14,854)</td>
</tr>
<tr>
<td>RB-20</td>
<td>N/A</td>
<td>Remove portions of some accounts related to water or non-utility operations</td>
<td>($73,938)</td>
<td>$0</td>
<td>($73,938)</td>
</tr>
<tr>
<td>N/A</td>
<td>RB 16</td>
<td>Correct accounting error for Unbilled Rev</td>
<td>$0</td>
<td>$1,041,091</td>
<td>($1,041,091)</td>
</tr>
<tr>
<td>N/A</td>
<td>RB 17</td>
<td>Adjust May Wind Storm</td>
<td>$0</td>
<td>$154,799</td>
<td>($154,799)</td>
</tr>
<tr>
<td>N/A</td>
<td>RB 19</td>
<td>Other WIP anomaly</td>
<td>$0</td>
<td>($92,080)</td>
<td>$92,080</td>
</tr>
</tbody>
</table>

**STAFF WITNESS LIST**

1. **Q.** Please identify the Staff witnesses filing testimony in this case and the major issues each addresses.

2. **A.** Staff's witnesses and their respective issues are as follows:

<table>
<thead>
<tr>
<th>Witness</th>
<th>Issue(s) Addressed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trent Fulmer</td>
<td>Staff's Revenue Requirement</td>
</tr>
<tr>
<td></td>
<td>Working Capital Assets</td>
</tr>
<tr>
<td></td>
<td>Current, Accrued and Other Liabilities</td>
</tr>
<tr>
<td></td>
<td>Accumulated Deferred Income Taxes</td>
</tr>
</tbody>
</table>
TEST YEAR AND **PRO FORMA** YEAR

Q. What test year and **pro forma** year were used?

A. Empire's Application used a test year ending March 31, 2010, and a **pro forma** year ending March 31, 2011.
REVENUE REQUIREMENT

Q. Please contrast Staff's recommended revenue requirement with the Company's request.

A. Staff's determination of Arkansas jurisdictional retail base rate revenue requirement exclusive of fuel costs recovered through the Energy Cost Recovery Rider and other exact recovery riders is shown on Direct Exhibits TF-1 through TF-6. As shown on Direct Exhibit TF-1, Summary of Operations, Staff's recommendations result in a revenue requirement of $7,857,875 and a revenue deficiency of $1,866,348. In contrast, Empire proposes a revenue requirement of $9,453,228 and a revenue deficiency of $3,347,545, a difference of $1,595,353 in revenue requirement and $1,481,197 in revenue deficiency. In deriving the Arkansas jurisdictional revenue requirement, the adjustments were made at the total company level and the adjusted test year amounts were allocated to Arkansas in the cost of service study. Therefore, Staff's exhibits reflect adjustments on a total company basis, but include the resulting Arkansas jurisdictional adjusted test year information.

Staff's adjustments and all of the principal components in determining Empire's rate base are shown in Direct Exhibits TF-2 and TF-3. Staff's proposed rate base differs from Empire's by $10,505,885 on a total company basis and by $1,367,334 for the Arkansas jurisdiction. Of the total company difference, $18,419,250 is attributable to differences in working capital assets, with the remaining $7,913,364 attributable to utility plant.
Staff's adjustments to the Company's test year and the determination of the proposed operating revenues and expenses are shown in Direct Exhibits TF-4 and TF-5. Staff's operating revenues differ by $50,952 on a total company basis and $114,056 for Arkansas. Operating expenses differ by $59,128,446 on a total company basis and $355,842 for Arkansas.

Staff's income tax calculation is shown in Direct Exhibit TF-6 and is based on the Arkansas jurisdictional operating revenues and expenses. The weighted cost of debt of 2.13%, as provided by Staff Financial Analyst Robert Daniel, was applied to Staff's rate base to determine the amount of fixed charges (interest expense) to include in the income tax calculation. The resulting federal and state income tax differs from the Company's by $288,360 for Arkansas. The majority of this difference is due to the Company inappropriately including net ECR revenue of $1,027,921 in its calculation.

MODIFIED BALANCE SHEET APPROACH

Q. Please explain the methodology used to determine WCA and CAOL amounts.

A. In developing its recommended WCA and CAOL, the Company used the Modified Balance Sheet Approach (MBSA). In Order No. 7 of Docket No. 84-199-U, this Commission directed Staff to use the MBSA, either in the absence of a lead-lag study or as a check on a lead-lag study filed by the utility. Since that time, Staff has used the MBSA to determine working capital in evaluating rate case filings and it has been consistently accepted by the Commission. In accordance with the Commission's directive, I used the MBSA and its embodied principles to determine revenue requirement.
Q. Please describe the MBSA.

A. The MBSA requires that jurisdictional assets, other than plant, that are not interest-bearing, which are necessary in providing utility service, and which are not considered elsewhere in the cost of service be included in a utility's rate base as WCA. Additionally, all CAOL which are a source of funds should be included in the Company's capital structure at their appropriate cost. The MBSA recognizes two basic facts: (1) a utility has investments in assets other than plant which are necessary to provide utility service and on which a return should be allowed; and, (2) a utility has sources of funds, other than equity and long-term debt, which should be included in the capital structure.

WORKING CAPITAL ASSETS

Q. Please summarize your recommended level of WCA and how it compares to the Company's.

A. My level of WCA is $99,122,125 which is $18,419,250 less than the Company's level of $117,541,375 on a total company basis. Both the Company and Staff started with the March 31, 2010 balance in all WCA accounts of $515,853,949. However, my Adjustment RB-13 of $7,958,092 increases the test year end balances to an average balance for the 13 months ended September 30, 2010, whereas the Company's corresponding adjustment decreases the test year end balances by $21,553,554 to an average balance for the 13 months ended March 31, 2010. This difference is based on my reliance on the most recent months of the pro forma year as available at the time of my analysis, whereas the Company included no amounts for the months of the pro forma year.
The Company excluded WCA accounts in the amount of $380,074,018 whereas my Adjustment RB-14 excludes WCA accounts in the amount of $415,774,245. Both the Company and I adjusted certain accounts to more representative balances. My Adjustment RB-15 decreases WCA by $8,651,525, whereas the Company’s corresponding adjustment increases WCA by $3,314,998.

Q. Did the Company make any adjustments to WCA that you also made?

A. Yes. Company Adjustment RB 7 for $117,783 to remove accounts receivable related to the Company’s water operations corresponds to my Adjustment RB-16 for $122,234. Company Adjustment RB 10 to remove inventory related to the Company’s water operations decreases WCA by $34,796 and corresponds to my Adjustment RB-17 which decreases WCA by $33,478. Company Adjustment RB 18 to remove account 186960 – “Employee Relocation Expenses” decreases WCA by $157,309 and corresponds to my Adjustment RB-18 which decreases WCA by $19,640. The reason the Company adjustments differ from mine is due to my use of average balances for the 13 months ended September 30, 2010 and the Company’s use of average balances for the 13 months ended March 31, 2010.

In addition, my Adjustment RB-15 to adjust certain accounts to more representative balances comprehended seven of the Company’s adjustments. Company Adjustments RB 11 and RB 12 to include the ongoing level of materials and supplies for the latan 2 and Plum Point generating units were comprehended by adjusting these accounts to the actual September 30, 2010 balances as part of my Adjustment RB-15.
Company Adjustments RB 13, RB 14, and RB 15 to include a more representative balance for Limestone, Ammonia, and Activated Carbon inventory were comprehended as part of my Adjustment RB-15 by including the accounts related to these adjustments at an average of months with balances rather than the 13-month average ended September 30, 2010 balances. Company Adjustments RB 8 and RB 9 adjust inventory to include a 60-day inventory of coal, fuel and consumables as compared to my adjustment included in RB-15.

Q. Please discuss your adjustment to coal, fuel and consumables inventory and compare it to the corresponding Company adjustments.

A. The Company proposed that coal, fuel and consumables inventory should be adjusted to include a 60-day inventory for each of the new generating plants (Plum Point and latan 2) consistent with the Company's coal inventory policy provided in response to Data Request APSC-034. Company Adjustments RB-8 and RB-9 adjust inventory to include "a 60 day inventory for each plant based on the average daily burn less the 13-month average already recorded on the balance sheet" as shown in Company Witness Long's Exhibit JRL-3. Company Adjustment RB-8 increases inventory by $705,612 to arrive at an inventory level of $921,168 for Plum Point. Company Adjustment RB-9 increases inventory by $611,668 to arrive at an inventory level of $1,106,984 for latan 2. Both adjustments combine to increase the average balance for the 13 months ended March 31, 2010 for coal, fuel and consumables inventory of $11,534,192 by $1,317,280 to arrive at a total pro forma level of $12,851,472.
I also calculated a recommended level of coal, fuel and consumables inventory. However, I adjusted the average balance for the 13 months ended September 30, 2010 rather than the average balance for the 13 months ended March 31, 2010. I calculated my adjustment in the same manner as the Company, but included the actual burn data for September and October of 2010, along with the Company’s budgetary data for the remaining months for Plum Point and Latan 2 as provided in response to Data Request APSC-034. The actual burn data for September and October was the most recent information available to Staff containing a full month’s data since both plants became fully operational. The Company’s adjustments were based solely on budgetary data. I also used a more recent weighted average cost per ton of coal in my calculation, which was based on the 13 month average ended September 30, 2010 of the weighted average cost per ton of coal at each plant. I arrived at an inventory level of $1,102,476 for Latan 2 and $931,144 for Plum Point. An adjustment of $270,889 was added to the September, 2010 13 month average balance of $13,483,642 to arrive at a total pro forma inventory balance of $13,754,531, which is $903,059 greater than the Company’s requested level of $12,851,472. This adjustment was part of Staff’s Adjustment RB-15 to adjust certain accounts to more representative balances.

Q. Did you make any adjustments to WCA that the Company did not make?

A. Yes. My Adjustment RB-19 decreases WCA by $14,854 to remove 50% of prepaid Directors’ and Officers’ Liability Insurance Policy premiums as discussed in Staff witness Bill Taylor’s Direct Testimony. Also, my
Adjustment RB-20 decreases WCA by $73,938 to remove portions of certain accounts other than inventories and receivables removed in Adjustments RB-16 and RB-17 that contain activity related to the Company's water operations.

Q. Did the Company make any adjustments to WCA that you did not?

A. Yes. Company Adjustments RB-16 and RB-19 to correct accounting errors and anomalies were not necessary because they corrected errors and anomalies that occurred in months prior to the 13 months included in my average balances. The Company's Adjustment RB-17 adjusts the regulatory asset account related to the May 2009 Wind Storm to the actual March 31, 2010 balance. However, because Staff witness William L. Matthews, in his Direct Testimony, is recommending exclusion of the underlying expense amount, this regulatory asset should not be included.

Q. Please summarize your Adjustments RB-14 and RB-15 to WCA.

A. The components of my Adjustments RB-14 and RB-15 are compiled in Table 2 below.

<table>
<thead>
<tr>
<th>Item #</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Exclude investment, interest earning, and cost of capital related accounts</td>
<td>($171,239,321)</td>
</tr>
<tr>
<td>2</td>
<td>Exclude water-related, non-utility, non-jurisdictional, and/or otherwise unrelated accounts*</td>
<td>($66,251,601)</td>
</tr>
<tr>
<td>3</td>
<td>Exclude stores expense accounts</td>
<td>($975)</td>
</tr>
<tr>
<td>4</td>
<td>Exclude temporary and clearing accounts</td>
<td>$36,069</td>
</tr>
<tr>
<td>5</td>
<td>Exclude deferred operating expense accounts</td>
<td>($494,137)</td>
</tr>
<tr>
<td>6</td>
<td>Exclude accounts Staff has determined should not be included in rate base</td>
<td>($3,043,984)</td>
</tr>
<tr>
<td>7</td>
<td>Exclude ADIT related accounts*</td>
<td>($78,503,025)</td>
</tr>
<tr>
<td>8</td>
<td>Exclude FAS-109 and FAS-158 accounts*</td>
<td>($92,992,770)</td>
</tr>
</tbody>
</table>
Exclude asset retirement obligation (ARO) accounts*  ($3,284,501)

Total Adjustment RB-14  ($415,774,245)

*These items were also excluded by Empire and are not contested

Adjustment RB-15 – To adjust certain accounts to a more representative balance

<table>
<thead>
<tr>
<th>Item #</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Adjust cash to minimum required bank balances or to zero</td>
<td>($2,403,867)</td>
</tr>
<tr>
<td>2</td>
<td>Adjust accounts to September 30, 2010 balance</td>
<td>$1,076,126</td>
</tr>
<tr>
<td>3</td>
<td>Adjust accounts that go to zero or are expected to go to zero during the pro forma year</td>
<td>($5,473,246)</td>
</tr>
<tr>
<td>4</td>
<td>Adjust accounts receivable that appear will not be collected in the pro forma year</td>
<td>($31,110)</td>
</tr>
<tr>
<td>5</td>
<td>Adjust coal/fuel inventory</td>
<td>$270,889</td>
</tr>
<tr>
<td>6</td>
<td>Adjust accounts that have months with zero balances or unrepresentative balances</td>
<td>($2,057,929)</td>
</tr>
<tr>
<td>7</td>
<td>Adjust regulatory asset to amortize for entire pro forma year</td>
<td>($32,388)</td>
</tr>
<tr>
<td></td>
<td>Total Adjustment RB-15</td>
<td>($8,651,525)</td>
</tr>
</tbody>
</table>

Q. Please discuss your Adjustment RB-14.

A. Adjustment RB-14 reduces WCA by $415,774,245 to exclude accounts that are not appropriate to include in rate base under the MBSA. Investment, interest earning and cost of capital related balances are already receiving a return so should not be included in WCA and allowed additional return from ratepayers, so I eliminated $171,239,321 of such accounts.

The second item reduces WCA by $66,251,601 in order to exclude accounts which are not related to providing electric service to customers in Arkansas. The Company and I are in agreement regarding the exclusion of these accounts.
The third item removes all stores expense accounts from WCA, reducing it by $975. Stores expense accounts temporarily accumulate costs, primarily labor which are then included in either construction work-in-progress (CWIP) or expense. Because Staff has already included a normal level of expense in its cost of service and because CWIP accumulates allowance for funds used during construction (AFUDC), it would be inappropriate to also allow a return on this item because to do so would allow over-recovery. This treatment has been upheld by the Commission in recent rate case proceedings.

The fourth item simply removes all temporary and clearing accounts and increases WCA by $36,069.

The fifth item excludes certain deferred expense accounts and decreases WCA by $494,137. It is inappropriate to include these types of accounts in WCA because Staff already recognizes a normal level of operating expense for these items in its recommended revenue requirement.

The sixth item excludes various accounts totaling $3,034,984 that I determined should not be included in WCA. One account that the Company included in its calculation of WCA is account 124000-Other Investments. Based on review of the Company's response to Data Request APSC-065, I contend that this account should not be included in WCA because of the nature of the investments in the account. Almost all of the investments in this account were in Missouri and Kansas and were for Economic Development. Expenses related to these types of investments are not allowed for recovery and the related asset should not be included in rate base. Another portion of
this adjustment relates to excluding account 131997 - Plum Point Escrow. I excluded this account because escrow accounts are short-term in nature and should have a zero balance at some point during the pro forma year. Further, Staff has already included the full cost of the Plum Point plant in rate base. Accounts 183000-Prelim Survey & Investigat Chgs and 186100-Other Works In Progress were removed as a part of this adjustment. The Company included both accounts in its calculation of WCA, however, in its response to APSC-095.04 the Company agreed that account 186100 should not be included in rate base due to the nature of the account. However, the Company contends that the largest project in this account should be included in rate base because "costs have been expended which could result in a capital job. Once the job is completed it will either be moved to a project if a construction job is needed as a result of the study. If no expenditures are required, then, at that time, the expenditures will be written off to expense." Recovery will be allowed only on the project cost, including any related AFUDC, when it is completed and in service. No additional recovery is appropriate. Also included in this adjustment is the removal of two regulatory asset accounts which the Company included in its calculation of WCA - 186943-AR 2007 Ice Storm Def Charges and 186945-2009 May Wind Storm. Account 186943 should not be included based on the Commission's Order in Docket No. 08-064-U which addressed Empire's recovery of certain ice storm damages. Account 186945 is being excluded because the related expense is not considered extraordinary and has therefore already been recovered as
part of the normal level of expense included in current rates, as is further discussed by Staff Witness Matthews in his Direct Testimony.

The seventh, eighth, and ninth items are to exclude accounts that are typically removed when calculating WCA because they are included elsewhere in the cost of service or because the related credit amounts have also been excluded. The Company also excluded these accounts in its calculation of WCA.

Q. Please discuss your Adjustment RB-15.

A. Adjustment RB-15 in the amount of $8,651,525 reduces the 13-month ending September 30, 2010 WCA balances to amounts that are more representative of balances that can be expected in those accounts.

The first item reduces WCA by $2,403,867 and adjusts balances in cash accounts to minimum balances for accounts which the Company is maintaining the minimum balance to avoid service charges and reduces to zero any cash accounts for which the Company is not maintaining the minimum balance to avoid service charges. Further, prudent cash management dictates that anything in excess of minimum balances should be invested and earning interest, rather than expecting a return on the excess from the ratepayers. This treatment of cash accounts is appropriate and consistent with treatment in other rate case proceedings.

The second item increases WCA by $1,076,126 and adjusts several accounts to the September 30, 2010 balance because that balance is more representative due to some of the accounts having increasing balances
during the test year or pro forma year and due to some of the accounts not having any activity until recently.

The third item decreases WCA by $5,473,246 and adjusts accounts that go to zero or are expected to go to zero during the pro forma year. Included in this item is the adjustment of accounts 143107-Insurance Proc-Other than SLCC and 143186-SLCC Receivable - Ins Proceeds to zero balances. Due to the nature of these accounts, they are expected to go to zero once the insurance companies finish their analysis and payment is made to the Company sometime before the end of the pro forma year. As discussed later, a similar liability account was not included in CAOL for the same reasons.

The fourth item adjustment adjusts a receivable (Account 143111-A/R Returnable Cable Reels) in the amount of $31,110 to zero thereby decreasing WCA by the same amount. The balance in this receivable was the same in each month of the test year and throughout the pro forma year and in response to APSC-065.02, the Company states that it does not know if or when it will be able to collect on this receivable. Therefore it is appropriate to adjust the balance in this account to zero.

The fifth item increases WCA by $270,889 and relates to the appropriate level of coal, fuel and consumables for the new generating plants, Plum Point and latan 2 discussed previously.

The sixth item decreases WCA by $2,057,929 and adjusts certain accounts that have unrepresentative balances in some of the months
included in the 13-month average by eliminating those unrepresentative
months from the average.

The seventh item is related to the amortization of a regulatory asset –
Account 182312 - Recoverable Pbop Cost - AR & FERC. Staff agrees that
the account should be included in WCA, but not at the average balance for
the 13 months ending September 30, 2010. The account should be included
at its September 30, 2010 balance amortized to the end of the pro forma year
using the monthly amortization amount. This resulted in a decrease to WCA
in the amount of $32,388.

CURRENT, ACCRUED AND OTHER LIABILITIES

Q. Please summarize your recommended CAOL and how it compares to
the Company's.

A. I reduced test year-end balances in CAOL accounts to the average balances
for the 13 months ending September 30, 2010 and made several other
adjustments. This resulted in a reduction of test year-end balances from
$342,220,213 to a pro forma level of $198,913,131, for a difference of
$143,307,082. In its Application, the Company adjusted test year-end
balances in CAOL accounts to the average balances for the 13 months ended
March 31, 2010 which reduced test year CAOL by $113,839,000 to a pro
forma level of $224,084,204. However, the formula in the Company's filed D-
6 that sums inclusions to CAOL omits the first two line items resulting in an
overstatement to CAOL in the amount of $4,297,009. Therefore, the
$228,381,213 level of CAOL included in the Company's Application as
corrected is $224,084,204. Comparing my CAOL to the Company's results in
a difference of $25,171,073. In response to Data Requests APSC-039 and APSC-048, the Company provided updated information for the 13 month averages included in its Schedule D-6 to the 13 month period ended September 30, 2010. This resulted in an increase of $35,976,899. Excluding this difference due to updating to September 13 month averages, the difference between my CAOL and the Company’s is $61,147,972. A summarization of my calculation of CAOL is provided in Table 3 below.

### TABLE 3

<table>
<thead>
<tr>
<th>Adj #</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total CAOL at March 31, 2010</td>
<td>$342,220,213</td>
</tr>
<tr>
<td>1</td>
<td>Adjust to average balances for 13 months ended September 30, 2010</td>
<td>$4,062,490</td>
</tr>
<tr>
<td>2</td>
<td>Exclude accounts that are interest bearing or are considered elsewhere in the cost of service</td>
<td>($169,902,545)</td>
</tr>
<tr>
<td>3</td>
<td>Adjust average balances to a more representative balance – same as Company treatment</td>
<td>$343,296</td>
</tr>
<tr>
<td>4</td>
<td>Adjust average balances to a more representative balance – differs from Company treatment</td>
<td>$24,962,469</td>
</tr>
<tr>
<td>5</td>
<td>Remove account related to expense removed in Staff’s cost of service</td>
<td>($2,548,387)</td>
</tr>
<tr>
<td>6</td>
<td>Adjust dividends payable</td>
<td>($296,374)</td>
</tr>
<tr>
<td>7</td>
<td>Adjust interest payable</td>
<td>$71,969</td>
</tr>
<tr>
<td></td>
<td>Total Adjustments</td>
<td>($143,307,082)</td>
</tr>
<tr>
<td></td>
<td>Total Staff CAOL</td>
<td>$198,913,131</td>
</tr>
</tbody>
</table>

Q. Please discuss your adjustments to the test year end balances made in deriving your recommended pro forma level of CAOL.

A. As shown in adjustment 1, I increased the historical test year-end balances by $4,062,490 to the average balances for the 13 months ended September 30, 2010.
As shown in adjustment 2, I excluded $169,902,545 from the average balances for 13 months ended September 30, 2010 that are interest bearing or that are considered elsewhere in the cost of service. Specifically, I excluded account 228311-Post Retire Ben -- Pen FAS 158 in the amount of $59,169,577 from CAOL. In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. This statement required, for financial reporting purposes, an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position. SFAS 158 does not affect the determination of pension or other postretirement benefits expense or the proposed ratemaking treatment of this expense. The Company is not required to make any additional contributions to the pension and other postretirement benefits plans as a result of SFAS 158. SFAS 158 does not affect the Company's required level of working capital or the timing of its cash flows; therefore unique to these accounts, I have excluded SFAS-158 related ADIT, WCA and CAOL accounts previously only included in the notes to the financial statements. While the Company excluded the SFAS-158 related accounts in its calculation of WCA and ADIT, it did not exclude the related liability resulting in an overstatement of CAOL. This one account resulted in the majority of the difference between the Company and my CAOL. I also excluded account 238900-Div Decl - 8½% Trust Prf Stk of $490,385 because the account is a cost of capital related balance and should not be included in CAOL. The remaining excluded accounts totaling $110,242,583 were
excluded by both the Company and the Staff and are items typically excluded
from CAOL under the MBSA including interest-bearing or cost of capital
related accounts, accounts included elsewhere in rate base, and accounts
that go to zero during the test or pro forma year.

My Adjustment 3 adjusted several accounts to more representative
balances which the Company also made, totaling $343,296.

As shown in adjustment 4, I adjusted several accounts to more
representative balances which the Company did not, an increase of
$24,962,469. A liability related to insurance proceeds payable to a co-owner
of a plant with the Company (account 232186-WGI Payable–Ins Proceeds of
$2,300,245) was set to zero because, per the Company’s response to Data
Request APSC-059, the insurance payment should be settled before the end
of the year at which point the balance in this account will be zero. As
mentioned in my discussion of WCA, similar asset accounts were set to zero
in determining my WCA. I also included accounts 236401-Payroll Tax Accr –
latan and 232051-Accounts Payable-Inv Fiber Opt at the average balance of
the months that had a balance, resulting in an increase of $4,552. I included
account 254113 at its September 30, 2010 balance because August and
September of 2010 were the only months with balances and the account
balance in August was comparatively low and appeared unrepresentative.
This resulted in an increase of $277,351. This account did not exist during
the test year and was not included in the Company’s Application. However in
the Company’s September update to its D-6, the account was excluded it
because it was not related to Arkansas. As discussed previously, this is
inappropriate under the MBSA based on the principle of fungibility as discussed previously. I included account 253001, which relates to reimbursement for the future lost revenues from the Ozark Beach hydrogenerating unit discussed in the Direct Testimony of Empire witness Kelly S. Walters. According to Ms. Walters, the Company did not make this adjustment, but recommended it be treated as a regulatory liability and amortized to fuel expense. Staff agrees with this treatment as discussed in the Direct Testimony of Staff witness Elana Davis. Therefore, I included the September 30, 2010 balance of $26,563,700 for this account because that was the only month included in my 13-month average which contained a balance. This resulted in an increase of $24,520,338. Similarly, I increased the 13-month average balance in account 228210-Accum Prov Inj & Damage-Pub by $196,154 to its actual September 30, 2010 balance of $1,475,000 because the balance in the account increased in each month of the test year and pro forma year indicating that the September 30, 2010 balance is a more representative balance. The last account which I adjusted to a more representative balance but the Company did not is account 253943-Plum Point Lease Obligation. This account increased each month throughout the test year and pro forma year and was appropriately included in CAOL at its September 30, 2010 balance of $73,685,529. In its response to data request APSC-059.01, the Company agreed that the latest month ending balance would be more representative of the expected average daily balance in this account during the pro forma year. The result of including this account at its September 30, 2010 balance was an increase of $2,264,319.
As shown in item 5, I also excluded account 228313-Post Retire Benefits – SERP of $2,548,387 because the related expense is not being included in Staff’s cost of service. Staff witness Taylor discusses this expense in his Direct Testimony.

In adjustment 6, I decreased dividends payable by $296,374 to my calculated amount of $6,452,547, based on the number of days between Empire’s declaration date and the date paid as applied to the total amount of dividends paid during the test year. It is appropriate to include dividends payable in CAOL recognizing the time between when the dividend is declared (recorded as a liability) and when it is paid (liability is removed) and is comprehended in my adjustment to dividends payable.

Adjustment 7 is an increase in accrued interest payable by $71,969 based on pro forma debt and interest information provided by Staff witness Robert Daniel. This adjustment uses the average daily balance and the average lag days between interest payment dates. The Company has use of the interest accrual at zero cost for the period of time between its daily receipt of revenues and its payment of interest. Therefore, it is appropriate to include an amount in CAOL which is consistent with the debt amounts included by Staff in the capital structure in arriving at the overall rate of return.

Q. Were there any other differences in treatment of CAOL accounts between you and the Company?

A. Yes. I also included several liability accounts in the amount of $1,121,437 in CAOL that the Company did not include because it noted that the liabilities were not related to Arkansas. My inclusion of these accounts is based on
fungibility, which is an important principle embodied in the MBSA that has been utilized by the Commission for more than twenty years. Under the principle of fungibility, a distinction cannot be made as to which funding source is financing any particular asset or assets. Therefore, all current, accrued and other liabilities are included in the capital structure along with all other sources of funds at their respective costs, not just Arkansas jurisdictional amounts, in order to determine a weighted cost of capital for financing all assets of a company. When the resulting rate of return is applied to the Arkansas jurisdictional rate base, the proportionate level of funding for Arkansas is determined.

**ACCUMULATED DEFERRED INCOME TAXES**

Q. Please discuss your recommendation for ADIT.

A. I recommend ADIT in the amount of $249,636,438 for the pro forma year. The Company recommended ADIT in the amount of $165,277,088 in its Application based on test year end balances. I updated ADIT to the September 30, 2010 balance of $170,360,104. I then increased ADIT $63,503,411 to include the depreciation-related ADIT for pro forma year plant additions as provided by Staff witness Matthews. It is appropriate to recognize depreciation-related ADIT consistent with the level of plant included, in particular because two major plant additions occurred in the pro forma year. The bonus federal tax depreciation allowed for current year capital additions under the Small Business Jobs Act of 2010 (H.R. 5297), enacted September 27, 2010, comprised the main component of this adjustment.
I also included several accounts totaling $16,102,680 based on the principle of fungibility that the Company excluded from its Application because the accounts were not related to Arkansas.

Consistent with Staff witness Matthews' Adjustment RB-6 to accumulated depreciation, I also decreased ADIT by $329,757 for the difference in depreciation rates approved in Arkansas and those booked by the Company.

Q. Does this conclude your testimony?

A. Yes.
CERTIFICATE OF SERVICE

I certify that a copy of the foregoing has been delivered to all parties of record by electronic means or regular mail, postage prepaid, on December 17, 2010.

[Signature]

Cynthia L. Uhrynowycz