

Exhibit No.
Issue: Bad Debt Expense & Revenue
Witness: Jayna R. Long
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Empire District Electric
Case No. ER-2011-0004
Date Testimony Prepared: April 2011

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

Rebuttal Testimony

of

Jayna R. Long

April 2011

TABLE OF CONTENT
OF
JAYNA R. LONG
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2011-0004

<u>SUBJECT</u>	<u>PAGE</u>
INTRODUCTION.....	1
BAD DEBT EXPENSE	1
REVENUE	4

REBUTTAL TESTIMONY
OF
JAYNA R. LONG
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2011-0004

1 **INTRODUCTION**

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

3 A. My name is Jayna R. Long and my business address is 602 Joplin Street, Joplin,
4 Missouri.

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

6 A. I am employed by The Empire District Electric Company ("Empire" or
7 "Company"), as a Regulatory Manager.

8 **Q. ARE YOU THE SAME JAYNA R. LONG THAT EARLIER PREPARED**
9 **AND FILED DIRECT TESTIMONY IN THIS RATE CASE BEFORE THE**
10 **MISSOURI PUBLIC SERVICE COMMISSION ("COMMISSION") ON**
11 **BEHALF OF EMPIRE?**

12 A. Yes.

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

14 A. My rebuttal testimony will discuss issues raised by the Staff and Office of Public
15 Counsel ("OPC") in this rate case in their direct case filings in regards to Bad Debt
16 Expense and the level of test year revenue.

17 **BAD DEBT EXPENSE**

18 **Q. HAVE YOU REVIEWED THE STAFF ADJUSTMENT TO BAD DEBT**
19 **EXPENSE?**

1 A. Yes. I reviewed the adjustment to bad debt expense discussed on page 75 of the
2 Staff's Cost of Service Report and reviewed the supporting workpapers provided
3 by Staff.

4 **Q. DOES EMPIRE AGREE WITH THE STAFF'S RECOMMENDED**
5 **ADJUSTMENT?**

6 A. No.

7 **Q. WHY NOT?**

8 A. The Staff adjustment to uncollectible expense does not take into account the level
9 of bad debt expense associated with the Staff's recommended increase in revenue.

10 **Q. WHAT PROCESS DID THE STAFF USE TO ADJUST BAD DEBT**
11 **EXPENSES?**

12 A. The Staff adjustment incorporates a five-year history of bad debt activity to arrive
13 at an effective uncollectible rate. This rate was then applied to the annualized
14 revenue produced by the current rates to arrive at a normalized level of bad debt
15 expenses for purposes of the overall jurisdictional revenue requirement. This part
16 of the process used by Staff is acceptable to Empire. What is missing from the
17 Staff's analysis is the application of the effective uncollectible rate to the
18 recommended increase in rates.

19 **Q. HOW SHOULD THE STAFF'S UNCOLLECTIBLE RATE BE APPLIED**
20 **TO THE PROPOSED RATE INCREASE?**

21 A. It should be applied in the same manner that is used to reflect the additional income
22 taxes associated with the rate increase. For example, if \$10,000,000 of additional
23 revenue is recommended, this will need to be increased by the effect of the Staff's

1 bad debt factor to arrive at the overall required net increase of \$10,000,000. Using
2 the Staff's effective bad debt rate of 0.540525%, this calculation would result in an
3 overall increase of \$10,054,525. The net result is a \$10,000,000 increase after
4 deducting the \$54,525 in additional bad debts that will be incurred.

5 **Q. HAS THIS ISSUE PREVIOUSLY BEEN BROUGHT BEFORE THE**
6 **COMMISSION?**

7 A. Yes. The Report and Order issued in Docket no. ER-2006-0314 posed the
8 following question: "Should the bad debt percentage be applied to reflect the total
9 revenues, including any rate increase in Missouri jurisdictional retail revenues
10 awarded in the proceeding?" The Commission found the bad debt percentage
11 should be applied to total revenues, including any rate increase allowed in the
12 pending proceeding. That same principle should be applied in this case.

13 **Q. DOES THE OPC RECOMMEND AN ADJUSTMENT TO BAD DEBT?**

14 A. Yes. However, OPC did not use the same theory. OPC states in its direct
15 testimony that bad debt expense is not directly correlated to revenue. Instead of
16 determining bad debt expense by applying a five year average ratio to rate revenue,
17 OPC simply took the expenses over the last three years and averaged them.

18 **Q. DOES EMPIRE AGREE WITH OPC'S RECOMMENDED ADJUSTMENT?**

19 A. No. I gathered Empire's historical bad debt ratio information for calendar years
20 2004 to 2010. With the exception of 2007, each of those years produced a ratio of
21 between 0.46% and .52% for the Missouri jurisdiction. The OPC's use of average
22 bad debt expenses, rather than a ratio of bad debt expense to revenue, does not take
23 into account the rate increases that Empire has been granted over the last five years,

1 and it will result in an understatement of Empire's ongoing bad debt expense. In
2 addition, the methodology employed by both Staff and Empire in this case to
3 determine an uncollectible rate is consistent with the procedures used in this area in
4 past Empire rate cases.

5 **Q. DOES EMPIRE BELIEVE 2007 SHOULD BE ELIMINATED FROM THE**
6 **ONGOING BAD DEBT/REVENUE RATIO?**

7 A. No. Staff and Empire both use a five-year average to account for highs and lows in
8 the bad debt/revenue percentages. This is the same theory Staff has used for off-
9 system sales, transmission revenue, production expense and tree trimming in
10 present and prior Empire rate cases.

11 **REVENUE**

12 **Q. HAVE YOU REVIEWED THE LEVEL OF TEST YEAR REVENUE**
13 **INCLUDED IN THE STAFF'S DIRECT CASE?**

14 A. Yes.

15 **Q. DOES EMPIRE AGREE WITH THE OVERALL TEST YEAR REVENUE**
16 **LEVELS INCLUDED IN THE STAFF'S DIRECT CASE?**

17 A. No. The test year revenue levels in Staff's direct case are overstated.

18 **Q. HAVE EMPIRE AND THE STAFF CONTINUED TO DISCUSS**
19 **REFINEMENTS TO THE STAFF'S CALCULATION OF TEST YEAR**
20 **REVENUE SINCE THE STAFF'S DIRECT CASE WAS FILED?**

21 A. Yes. As a result of these discussions, the Staff has refined its calculation of test
22 year revenue, and the Staff EMS run of April 7, 2011 included a level of ongoing
23 rate revenue that was acceptable to Empire.

1 Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?

2 A. Yes, it does.

