

*Exhibit No.:*  
*Issue:* CWC Billing Lag  
*Witness:* Paul R. Harrison  
*Sponsoring Party:* MoPSC Staff  
*Type of Exhibit:* Rebuttal Testimony  
*Case No.:* ER-2012-0345  
*Date Testimony Prepared:* January 16, 2013

**MISSOURI PUBLIC SERVICE COMMISSION**

**REGULATORY REVIEW DIVISION**

**UTILITY SERVICES - AUDITING**

**REBUTTAL TESTIMONY**

**OF**

**PAUL R. HARRISON**

**THE EMPIRE DISTRICT ELECTRIC COMPANY**

**CASE NO. ER-2012-0345**

*Jefferson City, Missouri*  
*January 2013*

1 **REBUTTAL TESTIMONY**

2 **OF**

3 **PAUL R. HARRISON**

4 **THE EMPIRE DISTRICT ELECTRIC COMPANY**

5 **CASE NO. ER-2012-0345**

6 Q. Please state your name and business address.

7 A. Paul R. Harrison, P. O. Box 360, Jefferson City, Missouri 65102.

8 Q. By whom are you employed and in what capacity?

9 A. I am a Regulatory Auditor with the Missouri Public Service Commission  
10 (Commission).

11 Q. Did you participate in the preparation of the Missouri Public Service  
12 Commission Staff's (Staff's) Cost of Service Report, filed November 30, 2012?

13 A. Yes. I participated in the preparation of several issues in the Staff' Cost of  
14 Service Report. In addition to the issues I addressed in Staff's Cost of Service Report, I am  
15 adopting Staff witness, Casey Wolfe's section of the Cost of Service Report concerning cash  
16 working capital (CWC) in the current case, and I will be specifically addressing the Staff's  
17 position on the billing lag component of the revenue lag.

18 Q. What is the purpose of your rebuttal testimony?

19 A. I will be addressing the direct testimony of The Empire District Electric  
20 Company ("Empire" or "Company") witness Joan E. Land and the direct testimony  
21 of Midwest Energy Users' Association (MEUA) witness Stephen M. Rackers, both  
22 concerning the number of days that they have included for the billing lag in their calculation  
23 of the revenue lag for CWC .

1 **EXECUTIVE SUMMARY**

2 Q. In summary, what does your rebuttal testimony cover?

3 A. My rebuttal testimony will address Empire witness Joan E. Land's direct  
4 testimony and MEUA witness Stephen M. Rackers' direct testimony both concerning the  
5 billing lag portion of revenue lag used in determining the cash working capital that is included  
6 in this case. Both of these parties have calculated a different number of days for the billing lag  
7 than what the Staff determined is appropriate for inclusion in this case.

8 **CASH WORKING CAPITAL – BILLING LAG**

9 Q. Please briefly explain the term "revenue lag" and identify the three time  
10 components as it relates to the CWC.

11 A. The revenue lag component of CWC is composed of three subcomponents --  
12 usage lag, billing lag and collection lag. The usage lag reflects the midpoint of average time  
13 elapsed from the beginning of the first day of a service period through the last day of that  
14 service period. The billing lag is the time between the last day of the service period and the  
15 day the bill for that service period is placed in the mail by the Company. The collection lag is  
16 the time period from when the bill is placed in the mail by the company and the day the  
17 Company receives payment from the ratepayer. The sum of these three time components  
18 added together make up the revenue lag that is included on Staff's CWC calculation,  
19 Accounting Schedule 8, Column C.

20 My rebuttal testimony will address how the Staff determined the billing lag for this  
21 case and address the issues that Staff has with the billing lag component of the revenue lag  
22 calculated by Empire and MEUA.

1 Q. Please explain the billing lag issue difference between the Staff, Empire and  
2 MEUA that is included in this case.

3 A. Staff has determined that the appropriate billing lag for Empire in this case  
4 should be 4.15 days. Empire has included 5.32 days and MEUA has included a billing lag of  
5 zero days in the current case.

6 Q. How did Staff determine the 4.15 billing lag for the current case?

7 A. Staff reviewed all of the CWC calculations, workpapers and testimony from  
8 the last Empire rate case, the current Company workpapers, Company responses to data  
9 requests and the direct testimony of the Company in the current rate case. After reviewing all  
10 of this data, Staff made a determination that there appeared to be no significant changes from  
11 the previous rate case and used the same billing lag that was agreed upon by the Staff and  
12 Company in Empire's last rate case. I would also mention that in Staff's Cost of Service filed  
13 November 30, 2012, Staff incorrectly used a billing lag of 4.30 days. Staff should have used  
14 4.15 days, which was the billing lag used in the previous Empire rate case, and Staff has  
15 corrected its case accordingly.

16 Q. How did Empire determine its billing lag of 5.32 days for the current case?

17 A. On page 3, lines 9 through 11 of her direct testimony, Ms. Land stated that  
18 "The billing lag was calculated using data from Empire's customer database for Missouri  
19 customers. A weighted average was used by multiplying the charges by the lag days to obtain  
20 the weighted dollar amounts. The total weighted dollars were divided by total charges to  
21 arrive at the weighted average billing lag of 5.32."

22 Q. Does Staff agree with the billing lag that Empire calculated for this case?

1           A.     No. As previously explained, in Staff's direct filing for this case, Staff used  
2 the same billing lag that Staff and the Company used in Empire's last rate case to determine  
3 the revenue lag.

4           However, it now appears that Empire is using a different method to determine the  
5 billing lag in this case from what they used in their last case. Based upon a review of  
6 Empire's workpapers provided in this proceeding, it is apparent that Empire is including in its  
7 billing lag the amount of time for any corrections or errors that it discovers after the original  
8 billing statement is sent out to its customers. It is inappropriate for Empire to include the time  
9 period for its billing corrections in its billing lag. This has the impact of artificially extending  
10 the billing lag. When Empire discovers errors in previous months' billing statements and  
11 corrects a bill, the billing lag applicable to the correct amount should not be measured from  
12 the date of the original billing statement but should be measured from the time period of the  
13 billing days for the current month's billing statement. It should not take any longer to  
14 produce a billing statement whether or not billing errors are included on it. Once new charges  
15 are identified on past billing statements, the same amount of time is incurred to create a  
16 customer bill. If the Company would eliminate the inappropriate treatment of billing  
17 corrections from its billing lag calculations in this case, Staff would be willing to consider  
18 whether this revised calculation would be an appropriate billing lag calculation in this case.

19           Q.     How did MEUA determine its recommended billing lag of zero days for the  
20 current case?

21           A.     On page 10, lines 2 through 10, Mr. Rackers stated that:

22                   I believe the billing lag should reflect the time period associated  
23                   with the normal billing practices for current usage. Billing data  
24                   provided by Empire shows that normally the bill statement date

1 for current usage is the same as the meter reading date. The bill  
2 statement date is also the date revenues are reflected in accounts  
3 receivable. Empire is basing the collection lag on an accounts  
4 receivable turn-over calculation, which reflects the timeliness of  
5 its collection process. Therefore, since the meter reading date,  
6 which is the end of the usage lag, is the same date as the billing  
7 statement date, which is the beginning of the collection lag, there  
8 is no time period reflecting a billing lag. Therefore, the billing lag  
9 is zero.

10 Q. Have utilities or Staff ever proposed a zero day billing lag in this jurisdiction?

11 A. No. I am not aware of any rate case in which Staff or the utilities  
12 recommended a zero day time period for the billing lag.

13 Q. What is Staff's understanding of the Company meter reading and billing  
14 practice?

15 A. As Staff understands the Company's meter reading and billing practice, the  
16 Company may read the bill anywhere between the day the bill is mailed to eight days before  
17 the bill is mailed to the customer. The Company is not able to read all of the meters for one  
18 billing cycle in one day; therefore, some meters would have to be read before the mailing of  
19 that billing cycle. Given this practice, a zero billing day lag would not be appropriate to use  
20 in the revenue lag.

21 Q. What is Staff's recommendation concerning the billing lag in the current case?

22 A. Staff recommends that the Commission accepts the 4.15 days billing lag that  
23 Staff has included in its cost of service for Empire and reject both Empire's and MEUA's  
24 proposed billing lag.

25 Q. Does this conclude your rebuttal testimony?

26 A. Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

In the Matter of The Empire District Electric )  
Company of Joplin, Missouri Tariffs ) Case No. ER-2012-0345  
Increasing Rates for Electric Service Provided )  
to Customers in the Missouri Service Area of )  
the Company )

AFFIDAVIT OF PAUL R. HARRISON

STATE OF MISSOURI     )  
  )     ss.  
COUNTY OF COLE     )

Paul R. Harrison, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of \_\_\_\_\_ pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

\_\_\_\_\_  
Paul R. Harrison

Subscribed and sworn to before me this \_\_\_\_\_ day of January, 2013.

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