Exhibit No.:	
Issue(s):	*Cash Working Capital*
Witness:	*Jared Giacone*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Surrebuttal Testimony*
Case No.:	*ER-2019-0374*
Date Testimony Prepared:	*March 27, 2020*

MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL AND BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

SURREBUTTAL TESTIMONY

OF

JARED GIACONE

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2019-0374

Jefferson City, Missouri
March 2020

TABLE OF CONTENTS OF

SURREBUTTAL TESTIMONY OF

JARED GIACONE

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2019-0374

SURREBUTTAL TESTIMONY OF

JARED GIACONE

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2019-0374

Q. Please state your name and business address.

A. Jared Giacone, 615 East 13th Street, Room 201, Kansas City, MO 64106.

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

A. I am a Utility Regulatory Auditor employed by the Missouri Public Service Commission ("Commission")

Q. Are you the same Jared Giacone who previously contributed to Staff's Cost of Service ("COS") report on Cash Working Capital ("CWC") in this proceeding involving the request to increase customer electric rates filed by The Empire District Electric Company ("Empire" or "Company")?

A. Yes, I am.

Q. Did you sponsor any schedules in Staff's direct filing?

A. Yes, I sponsored the CWC Schedule 08 of Staff's Accounting Schedules.

Q. What is the purpose of your surrebuttal testimony?

A. I will respond to Empire's witness Timothy S. Lyons' rebuttal testimony, including the Company's position on the vacation, bad debt and cash voucher lags included in Staff's CWC lead-lag study.

VACATION

Q. What CWC lag did Staff include for vacation in Schedule 08 of Staff's Accounting Schedules?

A. Staff included a vacation lag of 365 days. Staff adopted the lag from the previous rate case ER-2016-0023. The Company has accepted Staff's proposed vacation lag of 365 days in every rate case since Case No. ER-2002-0424.

Q. Did the Company include a separate vacation lag in the CWC analysis in their direct filing?

A. No, they did not include a separate vacation lag in their direct filing in this case.

Q. Why does the Company oppose Staff's 365 day lag for vacation expense?

A. The Company states on pages 6-7 of Timothy S. Lyons' rebuttal testimony that it opposes a 365 day lag for vacation because that value assumes that employees wait a full year before using vacation leave. The Company recommends a lag of 182.5 days, which assumes employees are taking all of their vacation during the same calendar year.

Q. How does the Company account for employee vacation?

A. As of January 1, 2020, all employees, union, non-union and management are all covered under the Liberty vacation leave policy. The Liberty vacation leave policy covers a calendar year and all employees are granted their allotment of leave on January 1st of each year, which they can use throughout that calendar year.

Q. Does the Liberty vacation leave policy require all leave granted in a calendar year to be used by the end of the year in which it is granted?

A. No. The Liberty vacation leave policy allows for a deferral of up to five (5) days of vacation to the following calendar year, to be used within the first quarter of the following year.

Q. Is Staff recommending a revised vacation lag as a result of the information obtained from the Company since filing its direct COS report?

A. Yes. This is based on the Liberty vacation leave policy, which all employees were transitioned to as of January 1, 2020. The vacation leave policy allows employees to use their vacation leave at any point during the calendar year, with the exception that allows employees to defer up to five (5) days of vacation leave per year to be used in the first quarter of the following year. Staff is waiting on a response to Data Request No. 0313 in order to calculate a new vacation lag and will update the lag once the information is received.

BAD DEBT

Q. Please summarize the Company's and Staff's positions regarding reflection of bad debt expenses in the lead/lag study.

A. The Company did not list bad debt expense as a CWC line item in their direct filing. Staff included the dollar amount of bad debt expense with a zero revenue lag and a zero expense lag in its Direct Accounting Schedule 08 in order to remove this non-cash item from the cash vouchers line item. In the rebuttal testimony of Timothy S. Lyons, page 7, he states, "The Company opposes Staff's recommendation to have a 'zero' revenue lag days associated with bad debt expenses since it does not reflect the collection lag from the time a bill is considered uncollectible and charged to bad debt expense to the time payment is received from customers." The Company is recommending a revenue lag with a zero offsetting expense lag.

Q. Why does the Company oppose Staff's zero revenue lag days associated with bad debt expense?

A. The Company states on page 7, lines 14-20 of Timothy S. Lyons' rebuttal testimony that a zero lag does not reflect the collection lag from the time a customer bill is considered uncollectible and charged to bad debt expense to the time payment is received from customers. That is, there is a lag from the time the expense is recorded to the time payment is received from the customers.

Q. Does Staff agree that CWC should capture the time an expense is recorded to the time payment is received from customers as it relates to bad debt expense?

A. No. CWC measures the timing of a utility's cash flow that includes the revenues received from the customers and all of the payments made by the utility. In other words, CWC is the amount of cash necessary to pay day to day expenses which are incurred to provide service to its ratepayers. Mr. Lyons' proposal to include a revenue lag with a zero expense lag suggests that shareholders are providing the working capital for bad debt expense and therefore should be compensated.

Q. Do you agree that Empire's shareholders are providing the working capital for bad debt expense?

A. No. There is no working capital requirement for bad debt expense. As discussed in Staff's Cost of Service ("COS") Report[1] filed on January 15, 2020, a lead/lag study involves analysis of the timing of when funds are paid to supplier and when the utility receives the good or service it provides. The analysis is done to determine who is providing the working capital, ratepayers or shareholders. Bad debt expense is considered a non-cash item which means that Empire does not make payment to a supplier or other outside entity for bad debt expense. In other words, there is no cash flow associated with bad debt expense.

Q. Are there other non-cash expenses that are excluded from Staff's CWC schedule?

[1] Case No. ER-2019-0374, Staff's Cost of Service Report filed on January 15, 2020, pages 19-21.

A. Yes. Depreciation expense is also excluded from the CWC schedule because it is a non-cash item.

Q. Does Staff continue to support the exclusion of bad debt in its CWC analysis?

A. Yes. Since there is no cash flow associated with bad debt expense, Staff continues to recommend the exclusion of bad debt from the CWC analysis.

<u>CASH VOUCHERS</u>

Q. What are cash vouchers?

A. Cash vouchers are all other types of O&M expenses that are not otherwise separately listed as line items in Staff's CWC schedule. Examples would include employee expenses, miscellaneous materials expenses and miscellaneous services expenses.

Q. Why does the Company oppose Staff's 35.14 day lag for cash vouchers?

A. Beginning on page 5 of Mr. Lyons' rebuttal testimony, he claims that Staff's recommended lag did not reflect a weighting of each stratum of the stratified sample. On page 6, lines 1-3 of Mr. Lyons' rebuttal testimony he states, "Staff's calculation does not include the last step: a weighting of the lead days in each stratum by the proportion of the total transactions."

Q. Will you describe the Company's process for weighting each stratum of the stratified sample?

A. Yes. The Company categorized the invoice amounts into 5 classes or "stratums". Each class had a range of invoice amounts. The invoices were then assigned to the appropriate class based on dollar amount and the number of invoices in each class was compared to the total number of invoices to get a percentage. The Company calculated a lag for each class of invoice amount based on the sample. The Company then used a "weighting method" to apply the percentage by count of invoices in each class to the respective lag result of each class. After a percentage of the lag was calculated per class the resulting "weighted" lag days from each class was totaled to arrive at the total weighted lag.

Q. Do you agree with the Company's process for weighting each stratum of the stratified sample?

A. No. There is an egregious flaw in the Company's calculation for weighting the lag per class of the sample by a proportion of the population. The company calculates a percentage of the population based on the quantity of invoices in each class and applied that percentage to the lag per class from the sampled data. To adjust the lag per class for the population, you have to account for the dollar amount of invoices in each class of the population, not simply the quantity of invoices in each class. This is because the lag is calculated based on a dollar amount. Applying a percentage by count of invoices to a result of the sample that is calculated on dollar amount is inaccurate. To weight the lags per class proportionately to the population, Staff reviewed the dollar amount of invoices per class of the population as a percentage of the total dollar amount of invoices in the population (Column D). The lag per class from the sample can then be multiplied by the proportion of the population by invoice dollar amount to arrive at an adjusted lag to proportionately represent the population (Column G). The result, as reflected in the following table, of the proportionate representation is a 36.4 day lag which is generally consistent with Staff's filed position of 35.14 days:

		A	B	C	D	E	G
	Class	# of invoices in population	% of population (#)	$ of invoices in population	% of population ($)	Lag from sample	Adjusted lag from the sample (D x E)
1	$0 to $49.99	1512	14%	$53,441.48	.05%	27.71	0.01
2	$50 to $149.99	2393	23%	$941,204.13	.93%	24.53	0.23
3	$150 to $749.99	2465	23%	$207,356.93	.21%	22.38	0.05
4	$750 to $2499.99	2055	20%	$2,953,330.51	2.91%	11.43	0.33
5	$2500+	2073	20%	$97,198,489.99	95.90%	37.31	35.78
6		10,498		$101,353,823			36.40

Q. Was the number of invoices used in the sample representative of the population?

A. Yes. The number of invoices reviewed in the sample per class was representative of the entire population as depicted in the chart below:

		A	B	C	D
	Class	# of invoices in population	% of population	# of invoices in sample	% of sample
1	$0 to $49.99	1512	14%	45	16%
2	$50 to $149.99	2393	23%	65	24%
3	$150 to $749.99	2465	23%	72	26%
4	$750 to $2499.99	2055	20%	41	15%
5	$2500+	2073	20%	51	19%
6		10,498		274	

Q. Does Mr. Lyons agree that the sample was representative of the population?

A. Yes. On page 6 of Mr. Lyons' rebuttal testimony he stated that the Company only needed to review 260 invoices to produce a 95.0 percent confidence level in its sample.

Q. Is Staff recommending to change the lag for cash vouchers based on the weighting methodology described above?

A. No. The sample set of data used by the Company, which Staff adopted, was representative of all invoices for the period. It is not necessary to perform an additional step using a weighting methodology. The table above shows the number of all invoices for the period and the number of invoices used in the sample. The results show that a proportionate number of invoices in each class was used in the sample and is therefore a good representation of all invoices. This also means that the number of invoices used in the sample was already weighted proportionately per class to the population.

Q. Is Staff's recommended cash voucher lag consistent with previous Empire rate cases?

A. Yes. The cash voucher lag from the most recent rate case, ER-2016-0023 was 35.28 days. That lag of 35.28 days was the Company's filed position in Case No. ER-2012-0345 and was also used in Case No. ER-2014-0351. The lag of 35.28 days from the previous cases listed above was accepted by Staff. This present case is the first time the Company has updated the lead-lag study since Case No. ER-2012-0345.

Q. Is there anything else you would like to discuss with regard to Staff's CWC recommendations?

A. Yes. In Staff's direct filing COS Report on page 21, lines 4-5, I stated that Staff would update the oil and purchased power expense lags based on an outstanding data request for payment dates. The payment dates for the oil lag study were not received. The payment dates for the purchased power lag study were received and updated. The change in the purchased power lag from Staff's Accounting Schedule 08 of 34.95 days updated with actual payment dates resulted in an updated lag of 34.16 days and is reflected in Staff's True-Up Accounting schedules.

Q. Does this conclude your surrebuttal testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of The Empire District Electric Company's Request for Authority to File Tariffs Increasing Rates for Electric Service Provided to Customers in its Missouri Service Area	)))))	Case No. ER-2019-0374

AFFIDAVIT OF JARED GIACONE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW JARED GIACONE and on their oath declares that they are of sound mind and lawful age; that they contributed to the foregoing Surrebuttal Testimony; and that the same is true and correct according to their best knowledge and belief, under penalty of perjury.

Further the Affiant sayeth not.

/s/ *Jared Giacone*
JARED GIACONE