Exhibit No.:	
Issue:	*Bad Debt Factor-Up*
Witness:	*Jermaine Green*
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

JERMAINE GREEN

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2012-0345

Jefferson City, Missouri
January 2013

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THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2012-0345

Q. Please state your name and business address.

A. Jermaine Green, Governor Office Building, P.O. Box 360, Jefferson City, Missouri 65102.

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

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

Q. Are you the same Jermaine Green who has previously contributed to the Staff's Cost of Service Report in Case No. ER-2012-0345 dated November 30, 2012 for The Empire District Electric Company ("Empire" or "Company")?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to respond to the direct testimony of Empire witness Jayna R. Long and The Office of the Public Counsel (OPC) witness William Addo with regard to bad debt expense.

EXECUTIVE SUMMARY

Q. Please briefly summarize your rebuttal testimony pertaining to this rate case.

A. In this testimony, I respond to Empire's request to recover a level of bad debt expense in excess of the experienced level calculated in this case. I explain Staff's recommendation that Empire not be allowed to recover bad debt expense at a level which includes the impact of the revenue requirement increase in this rate case. Empire's request to include an adjustment for bad debt expense associated with a revenue requirement increase (or decrease) is commonly referred to as bad debt "factor up" or "gross up."

However, it is Staff's position that if the Commission does grant Empire's request to "factor up" bad debt expense proportionately with an increase in revenue requirement, then it would also be appropriate to "factor up" forfeited discounts (late payment fees) for the same reason.

BAD DEBT EXPENSE

Q. Do Staff and Empire differ regarding the level of bad debt expense to reflect in Empire's rates?

A. Yes. There is a difference in methodology between Staff and Empire in calculating the ongoing level of total bad debt expense. Empire adjusted bad debt expense to include an additional amount related in direct proportion to the amount of its requested revenue increase in this case, which is referred to as a bad debt "factor up" or "gross up." Staff's recommendation is based only on experienced (actual) levels of bad debt.

Q. Does Staff believe that it is reasonable to assume that there will be bad debts associated with the revenue requirement increase granted in this rate case?

A. On the surface it might seem that bad debts may increase to some extent as a result of an increase in Empire's revenue requirement. However, Staff does not agree with the position that any increase in a company's revenue requirement should necessarily cause a proportional increase to bad debt expense as well. Empire has not produced any evidence in support of this alleged direct correlation, in its testimony or workpapers. Furthermore, review of the records shows that there have been times that, even as revenues go up, bad debts have actually declined. In other instances, the Staff has observed bad debts going up while revenues decreased.

Q. What is a bad debt “factor up” or “gross up” and what is the rationale behind its use?

A. The usual justification for use of the bad debt “factor up” is the belief that it is necessary to properly match the level of bad debt expense established in a rate case with the amount of revenue requirement increase that will be determined by the Commission in that case. This additional amount of bad debt expense, if the “factor up” is granted, will be calculated and added to the annualized and normalized level of bad debt expense found reasonable for inclusion in the utility’s revenue requirement. The amount of any ordered bad debt “factor up” would be derived by applying the bad debt expense ratio to the expected revenue requirement increase to be granted by the Commission.

Empire’s use of a bad debt “factor up” is based on the assumption that any amount of increased revenues resulting from this rate case will or should directly cause bad debt expense to increase proportionally as well, all things being equal. In other words, the Company believes it is reasonable to assume that if some ratepayers are not able to pay their current utility bills when they are due, these same customers would not be able to pay their bills when the utility bills go up as a result of a rate increase. However, Staff has found that this theory does not always hold true in reality. In other words, use of bad debt “factor up” assumes it is a certainty that with each rate increase bad debts will go up by the same percentage. This is not a realistic view. In order for the Empire’s proposed use of a bad debt “factor-up” to be justified, a substantial amount of analysis would be needed to demonstrate a direct correlation between revenue levels and bad debt levels.

Q. Has Staff performed an analysis that supports Staff's position that there is no direct relationship between an increase in Empire's revenue requirement causing a direct proportionate level of increase for Empire's bad debt expense?

A. Yes. Attached to this Rebuttal Testimony, as Schedule JG-1, is a 60-month analysis, from April 2007 through March, 2012, of the Company's historical bad debts and historical retail revenue levels. Staff reviewed the changes that occurred between electric retail revenues and actual historical bad debt write-offs. As shown in Schedule JG-1, Staff's analysis does not support Empire's position that there is a corresponding direct relationship between revenues and bad debt expense, whereby any revenue increase will always result in an automatic increase in bad debt expense.

Q. How did Staff review Empire's 60-month relationship of bad debt expense to sales revenue?

A. Staff utilized both numerical and graphical presentations in its review. Neither presentation produced any substantive evidence to support the direct relationship that must exist between the two items to justify inclusion of a bad debt "factor-up" in this case.

Q. Does Empire's requested bad debt "factor up" work in the same way as an income tax "factor up"?

A. Yes. The income tax factor assumes that for every dollar of increase in earnings to a utility resulting from a rate case there will be a direct and absolute proportional increase in income taxes. This is a well-known and established relationship, and in this case both Company and the Staff have applied an income tax "factor up" to the additional revenue requirement calculation to determine the proper level of rate increase recommended in this case. If the Commission authorizes a rate increase in this proceeding, then a corresponding income tax amount will have to be added to the additional revenue requirement amount or the Company may not be able to recover the authorized amount of increase in revenue requirement. Unlike the case with income taxes, Staff has observed no evidence that a direct relationship exists between increased rates and increased bad debt expense.

Q. On what basis did Staff calculate its recommended level of bad debt expense for Empire in this case?

A. Staff included a normalized level of bad debt expense in this case based on a historical analysis of a comparison of revenues vs. net bad debt amounts. Staff's analysis as shown in Schedule JG-1, shows there is no direct correlation that exists between revenue increases and increases in bad debt expense.

Q. Do Staff and OPC also differ on the level of bad debt expense to include in this case?

A. Yes. There is a difference in methodology between Staff and OPC regarding the ongoing level of bad debt expense to include in rates. OPC uses an inconsistent four-year average to determine the effective uncollectible rate in order to calculate bad debt expense in this case. OPC has also recommended a "factor up" to bad debt expense to reflect the requested revenue increase in this case. Staff based its' recommendation on a consistent five-year average of the effective uncollectible rate to apply to Staff's level of annualized revenues in this case. Staff opposes the adoption of Empire and OPC's bad debt "factor up" recommendation.

Q. What is an "effective uncollectible rate?"

A. An effective uncollectible rate is the ratio of actual net write-offs as compared to total electric retail revenues.

Q. What problem does Staff have with OPC analysis?

A. Staff's methodology uses a consistent five (5) years ending March 31, 2012, whereas OPC's method uses an inconsistent four (4) year period of calendar years ending 12/31/2008, 12/31/2009, 12/31/2010 and the 12 Months ending 3/31/2012. This method is not consistent for normalization because it omits the first three (3) months of 2011. Staff's effective uncollectible rate to calculate an ongoing level of bad debt expense is more appropriate as it incorporates all 12-months within that five (5) year period.

Q. Does Staff agree with the OPC rationale to "factor up" bad debt expense in relation to the requested revenue increase in the case?

A. No. It is Staff's position to include a normalized level of bad debt expense in this case, that is based on an historical analysis of actual Empire data, which showed that no direct correlation exists between revenue increases and increases in bad debt expense. OPC and the Company have not provided evidence to support their theory that a direct correlation exists between the level of rates and the level of bad debts.

Q. In Staff's Cost of Service filed on November 30, 2013 did Staff incorrectly calculate the effective uncollectible rate?

A. Yes. Staff has reviewed this calculation and the corrected effective uncollectible rate should be 0.5663%.

Q. What are "forfeited discounts"?

A. Forfeited discounts, also known as "late payment fees," are fees that Empire charges its customers for failing to pay their bills on time or when they are due. The charges are assessed on the remainder of the unpaid bill.

Q. What is the issue(s) between the Staff and the Company regarding forfeited discounts?

A. The issue is whether to "factor up" forfeited discounts for the revenue requirement increase in this case.

Q. Did the Company propose to "gross up" forfeited discount (late payment fees) consistent with its requested bad debt gross up for revenue requirements increases?

A. No.

Q. Is it consistent to treat forfeited discounts in the same manner as bad debt expense levels with respect to the "factor up" issue?

A. Yes. The Staff's position is that **if** the Commission decides to grant Empire's request to increase bad debt expense proportionate to any increase in revenue requirement, then it is the best regulatory practice to "gross up" forfeited discounts for the same reason. If the Commission concludes that Empire will experience a proportionately higher level of bad debt as a result of a rate increase, then it would follow that Empire will also experience a proportionally higher level of late payment revenue. However, Staff's primary position continues to be that neither bad debt expense nor forfeited discounts should be "grossed up."

Q. Does this conclude your rebuttal testimony?

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 Increasing Rates for Electric Service Provided to Customers in the Missouri Service Area of the Company	)))))	Case No. ER-2012-0345

AFFIDAVIT OF JERMAINE GREEN

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

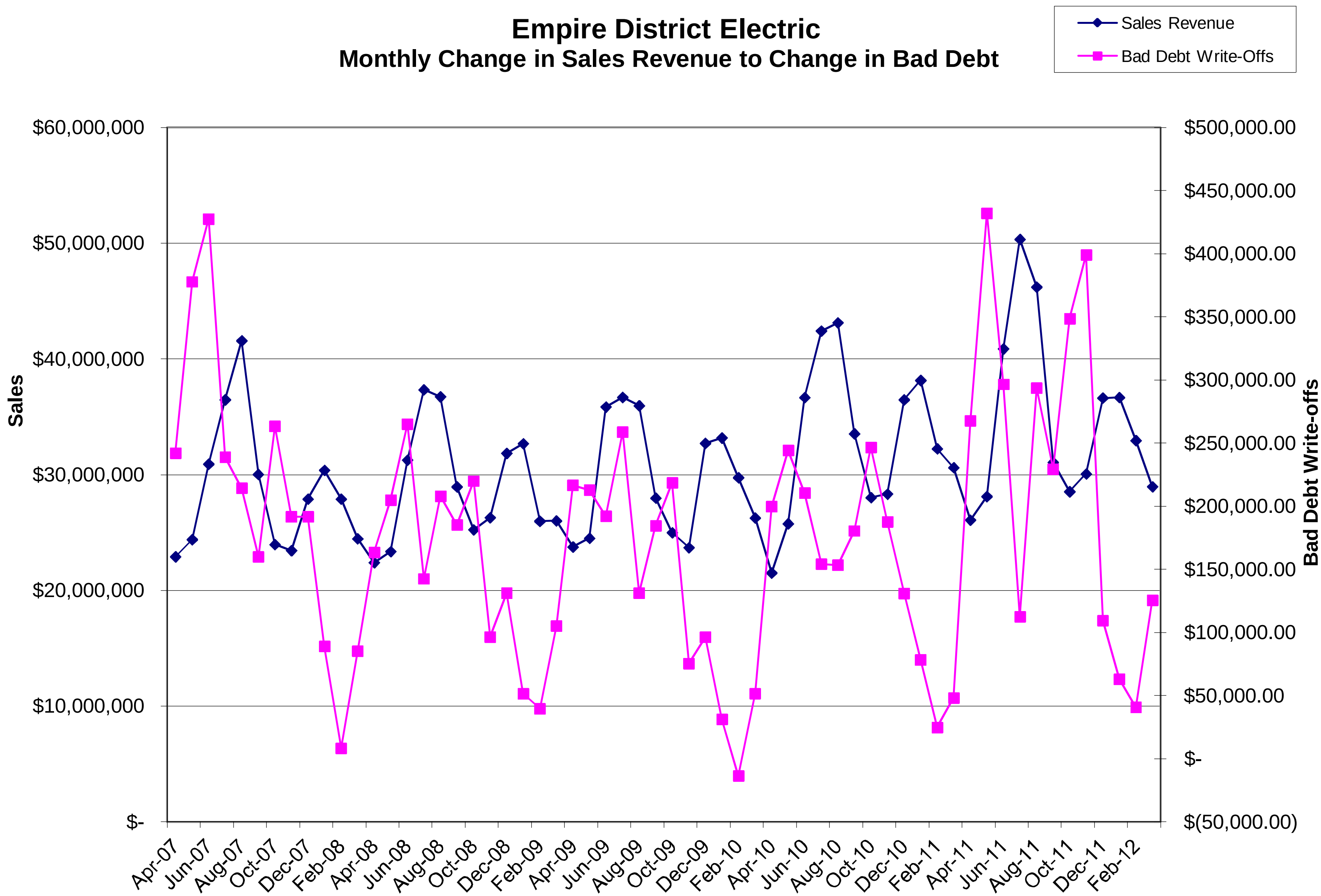
Jermaine Green, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 7 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has 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.

JGreen
Jermaine Green

Subscribed and sworn to before me this 16th day of January, 2013.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2016
Commission Number: 12412070

D Suzie Mankin
Notary Public


Empire District Electric
Monthly Change in Sales Revenue to Change in Bad Debt
Sales Revenue
Bad Debt Write-Offs
Sales
Bad Debt Write-offs
$60,000,000
$50,000,000
$40,000,000
$30,000,000
$20,000,000
$10,000,000
$-
$500,000.00
$450,000.00
$400,000.00
$350,000.00
$300,000.00
$250,000.00
$200,000.00
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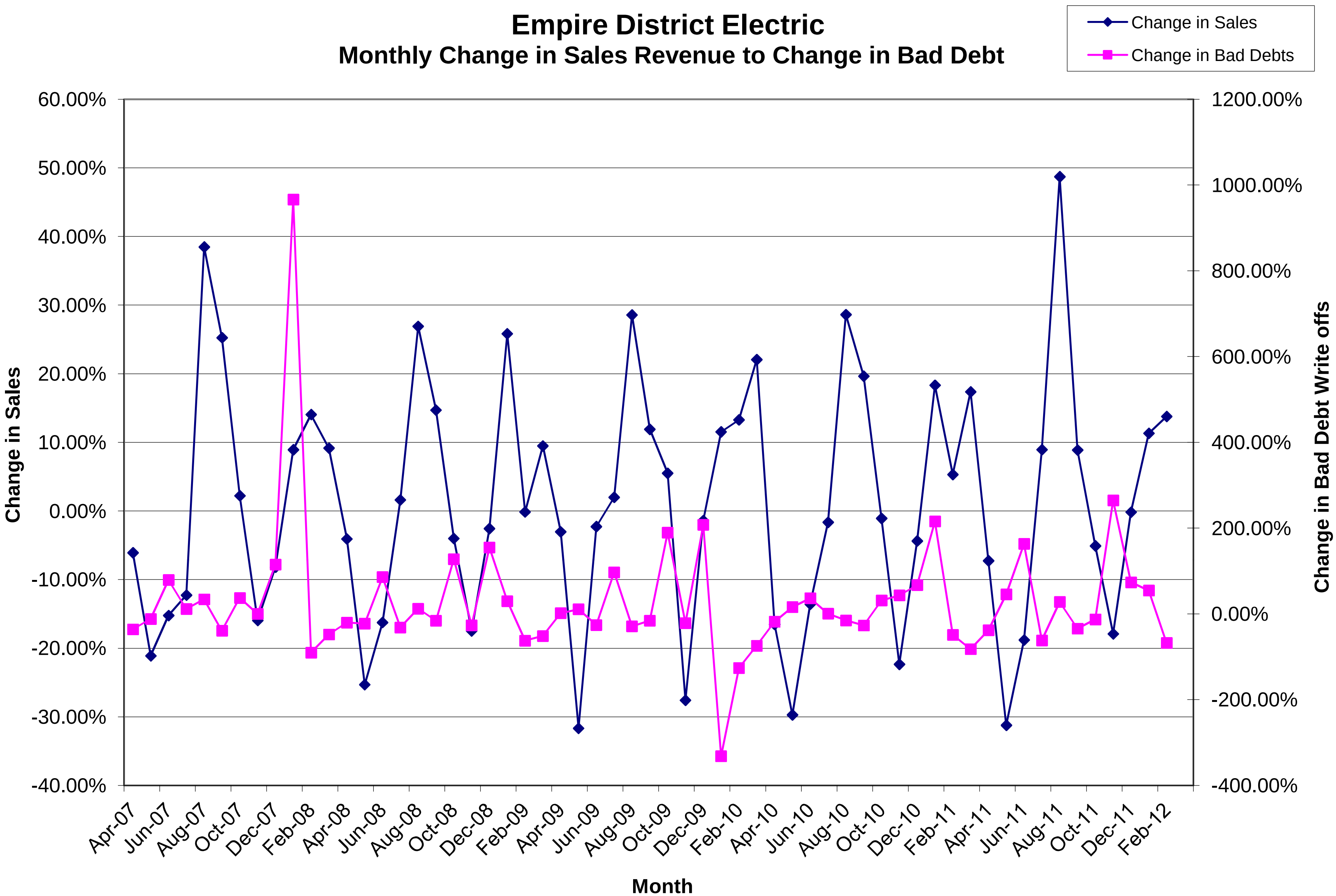

Empire District Electric
Monthly Change in Sales Revenue to Change in Bad Debt
Change in Sales
Change in Bad Debts
Change in Sales
Change in Bad Debt Write offs
Month
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
-10.00%
-20.00%
-30.00%
-40.00%
1200.00%
1000.00%
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600.00%
400.00%
200.00%
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-200.00%
-400.00%
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Dec-08
Feb-09
Apr-09
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Dec-11
Feb-12