

Exhibit No.: _____
Issue(s): Bad Debt Expense/
Pension Tracker Balance and Expense/
OPEB Tracker Balance and Expense/
Ice Storm Amortization/
Rate Case Expense
Witness/Type of Exhibit: Lafferty/Rebuttal
Sponsoring Party: Public Counsel
Case No.: ER-2011-0004

REBUTTAL TESTIMONY
OF
SHAWN LAFFERTY

Submitted on Behalf of the Office of the Public Counsel

EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2011-0004

April 18, 2011

NP

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

In the Matter of The Empire District Electric)
Company of Joplin, Missouri for Authority to)
File Tariffs Increasing Rates for Electric)
Service Provided to Customers in the)
Missouri Service Area of the Company)

File No. ER-2011-0004

AFFIDAVIT OF SHAWN LAFFERTY

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Shawn Lafferty, of lawful age and being first duly sworn, deposes and states:

1. My name is Shawn Lafferty. I am a Public Utility Accountant III for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.



Shawn Lafferty
Public Utility Accountant III

Subscribed and sworn to me this 18th day of April 2011



JERENE A. BUCKMAN
My Commission Expires
August 23, 2013
Cole County
Commission #09754037



Jerene A. Buckman
Notary Public

My Commission expires August, 2013.

TABLE OF CONTENTS OF
REBUTTAL TESTIMONY OF
SHAWN LAFFERTY
THE EMPIRE DISTRICT ELECTRIC COMPANY
CASE NO. ER-2011-0004

TESTIMONY	Page
INTRODUCTION	1
PURPOSE OF TESTIMONY	1
BAD DEBT EXPENSE	2
PENSION EXPENSE / TRACKER	7
OPEB EXPENSE / TRACKER	8
ICE STORM AMORTIZATIONS	9
RATE CASE EXPENSE	11

**REBUTTAL TESTIMONY
OF
SHAWN LAFFERTY**

**EMPIRE DISTRICT ELECTRIC COMPANY
CASE NO. ER-2011-0004**

1 | **I. INTRODUCTION**

2 | Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 | A. Shawn Lafferty, PO Box 2230, Jefferson City, Missouri 65102-2230.

4 |
5 | Q. ARE YOU THE SAME SHAWN LAFFERTY THAT HAS PREVIOUSLY FILED
6 | DIRECT TESTIMONY IN THIS CASE?

7 | A. Yes.

8 |
9 | **II. PURPOSE OF TESTIMONY**

10 | Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

11 | A. To address the following issues:

- 12 | • Bad Debt Expense – Public Counsel’s (OPC) position is contrary to the
13 | positions of the Public Service Commission Staff (Staff), as reflected in the
14 | latest accounting schedules dated March 16, 2011, and Empire District
15 | Electric Company (Empire or Company), as reflected in the work papers
16 | submitted with the original filing.

- 1 • Pension Tracker Balance and Expense – to correct a mistake in my direct
2 testimony related to the tracker balance and to clarify Public Counsel's
3 position on pension expense.
- 4 • Other Post-Employment Retirement Benefits (“OPEB”) – to clarify Public
5 Counsel's position on OPEB expense and address concerns regarding the
6 substantive plan.
- 7 • Ice Storm Amortizations – to propose adjusting amortization expense for
8 the January and December 2007 ice storm amortizations currently
9 reflected in the Staff's latest accounting schedules.
- 10 • Rate Case Expense – to sponsor Public Counsel's position regarding
11 ratemaking treatment of rate case expense for Empire's current rate case.

12
13 **III. BAD DEBT EXPENSE**

14 Q. WHAT IS THE ISSUE?

15 A. Public Counsel's recommended Missouri bad debt expense is lower than either
16 the Staff or Empire is proposing. The recommended amounts are as follows:

17 Public Counsel (per Direct Testimony)	\$1,807,315
18 Staff (per most recent accounting schedules)	\$1,904,452
19 Empire (per work papers for original filing)	\$2,310,043

20

1 Q. WHAT IS CAUSING THE DIFFERENCE IN THE RECOMMENDED BAD DEBT BY
2 EACH OF THE PARTIES?

3 A. The primary drivers of the difference are:

- 4 • The method used to calculate the recommended bad debt expense. Staff
5 and Empire both used a bad debt ratio method to calculate bad debt - Public
6 Counsel used an average of the actual bad debt expense incurred.
- 7 • The time period used in each of the calculations. The Company and Staff
8 used the last five years of data to calculate bad debt - Public Counsel used
9 the last three years.
- 10 • The amount of revenue used by Company and Staff to calculate bad debt
11 expense. Since Public Counsel used actual bad debt and not the allowance
12 method, revenue did not factor into the Public Counsel's calculation.

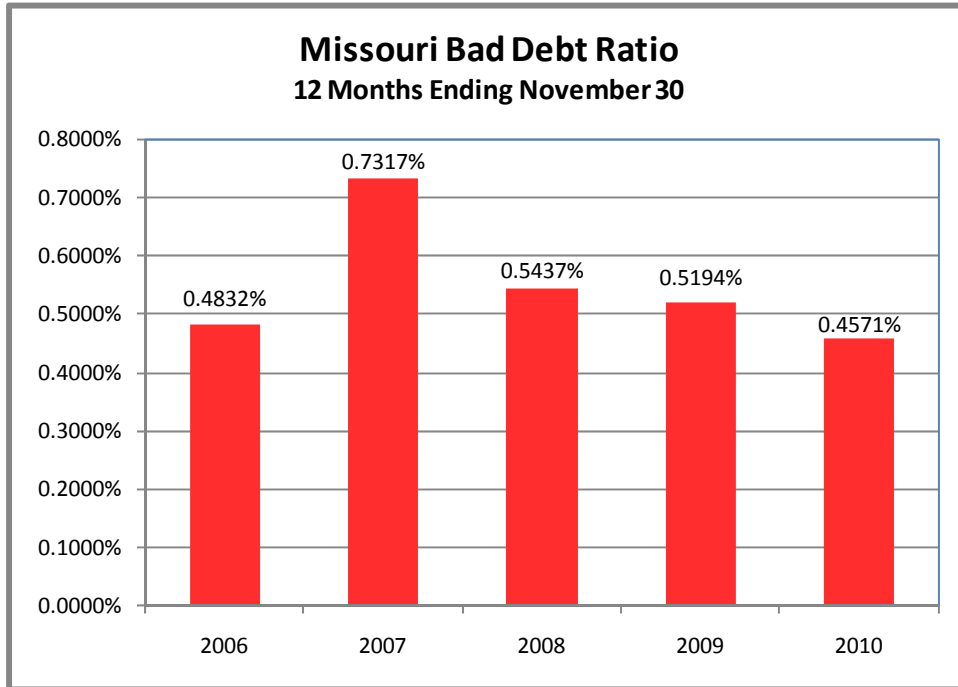
13
14 Q. PLEASE EXPLAIN THE RATIO METHOD USED BY THE COMPANY AND
15 STAFF.

16 Staff and Empire both calculate the average bad debt ratio (net bad debt as a
17 percent of revenue) over the last five years. The average bad debt ratio is then
18 multiplied by retail revenue to calculate the recommended bad debt expense. The
19 primary difference between Staff's calculated bad debt expense and the
20 Company's, is the amount of revenue that is multiplied by the average bad debt
21 ratio. Staff uses current revenue, prior to any rate increase pursuant to this rate

1 case, whereas the Company uses projected revenues which include projected
2 revenue increases from the instant rate case.
3

4 Q. WHY DID PUBLIC COUNSEL NOT USE THE BAD DEBT RATIO APPROACH?

5 A. After analyzing the data, Public Counsel did not believe the ratio method was the
6 most appropriate method to use in determining a just and reasonable cost. Use of
7 the bad debt ratio is reasonable when there is a relatively stable relationship
8 between the bad debt percentage and revenue. However as the chart below, which
9 was included in my direct testimony, indicates, that stable relationship does not
10 currently exist for Empire. In just the last three years, there has been a 37.5%
11 reduction in the Missouri bad debt ratio from .7317% to .4571%. Therefore Public
12 Counsel believes that the average bad debt is a more reliable method to use in
13 calculating the net bad debt expense that ratepayers should fund.

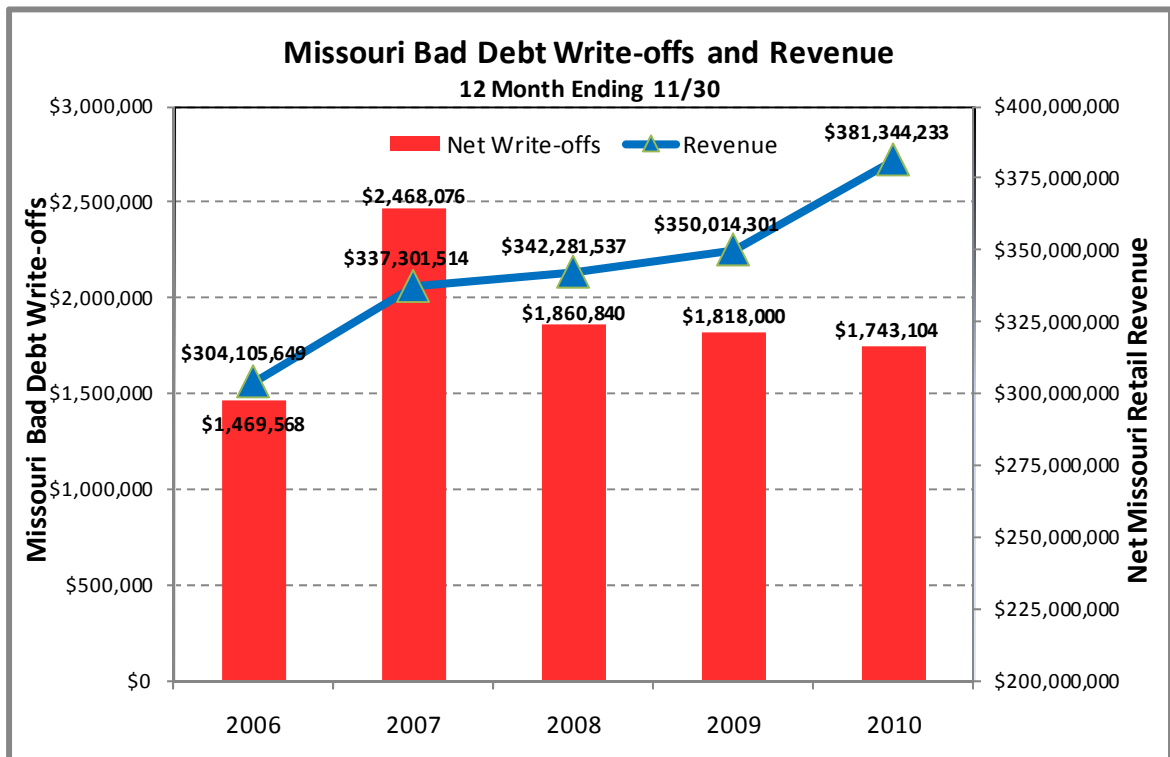


1
2
3
4
5
6
7
8
9
10
11
12

Q. WHY DOES PUBLIC COUNSEL BELIEVE THAT A THREE YEAR PERIOD IS A MORE APPROPRIATE TIME PERIOD TO USE IN ITS CALCULATION, RATHER THAN A FIVE YEAR PERIOD?

A. As reflected in the chart in my direct testimony (included below for your convenience), there was a huge upswing in Missouri bad debt for the period ended November 30 2007. However, all years since then have been substantially lower, as was the year ending November 2006. The average bad debt over the five year period totaled \$1,871,918, including the abnormally high bad debt incurred in 2007. Given the declining trends in actual bad debt, as well as the fact that only one year in the last five would have had an amount equal to

1 or above the five year average, Public Counsel believes it is most appropriate to
2 use an average for the last three years. *Public Counsel observes that the*
3 *recommended bad debt by Staff and the Company exceeds the average actual*
4 *bad debt over the last five years.* Therefore Public Counsel believes the
5 Commission should authorize Missouri jurisdictional bad debt expense of
6 \$1,807,315 for this case.
7



8
9
10 Q. ARE THERE OTHER COMPELLING REASONS WHY THE COMMISSION
11 SHOULD NOT CONCUR WITH THE STAFF AND COMPANY POSITIONS?

1 A. Yes. Normally if a stable bad debt ratio exists, and all other factors remain fairly
2 constant, bad debt ratio is a viable approach to estimating future bad debt
3 expense. However, as noted in the charts above, the bad debt ratio is not stable.
4 Absolute revenue has increased over each of the last three years, while
5 absolute bad debt expense has declined. This would indicate that other variables
6 impacting bad debt may be changing. Those variables include but are not
7 necessarily limited to, macro-economic factors, individual household financial
8 dynamics such as disposable income, discretionary spending, personal debt, etc.,
9 and receivables management programs, including credit and collections policies
10 and procedures.

11
12 **IV. PENSION**

13 Q. DOES PUBLIC COUNSEL WISH TO CORRECT THE CALCULATED BALANCE
14 OF THE PENSION TRACKER AS REFLECTED IN DIRECT TESTIMONY?

15 A. Yes. My Direct Testimony contained a \$2,000 error in calculating the pension
16 tracker balance as of November 30, 2010. The correct balance as of November 30,
17 2010 should be \$3,365,812 (not \$3,363,812 as filed in Direct Testimony).

18
19 Q. WHAT IMPACT DOES THE CORRECTION HAVE ON THE ANNUAL MISSOURI
20 PENSION EXPENSE?

21 A. Given a five year amortization period, the correction would increase the annual
22 amortization of the pension tracker by \$400 to \$673,162. Therefore, Public

1 Counsel believes the allowed annual Missouri pension expense should total
2 \$6,610,103, comprised of:

3	Actuarially determined expense	\$5,936,941
4	Five-year amortization of the pension tracker	\$ 673,162

5
6 Q. DOES PUBLIC COUNSEL WISH TO CLARIFY ANY OTHER ISSUES RELATED
7 TO PENSION EXPENSE?

8 A. Yes. Public Counsel wishes to clarify the following:

9 1) The above pension calculation does not reflect any Supplemental Executive
10 Retirement Plan (SERP) costs, as those costs are a flow-through item, do not
11 impact the pension tracker and minimal adjustment is needed to the expense
12 currently reflected in rates.

13 2) The actuarially determined pension expense as reflected in my Direct
14 Testimony and Rebuttal Testimony is based upon allocations to the Electric and
15 Non-Regulated Fiber entities, as well as to capital and expense accounts within
16 those entities and to the various jurisdictions based upon Company provided
17 allocations for the calendar year 2009. Should the Commission opt to use a
18 different allocation method or period, the pension expense, but not the tracker
19 balance, would change.

20
21 **V. OTHER POST-EMPLOYMENT RETIREMENT BENEFITS (“OPEB”)**

1 Q. IN DIRECT TESTIMONY, PUBLIC COUNSEL EXPRESSED CONCERNS ABOUT
2 THE SUBSTANTIVE PLAN AMORTIZATION, DO THOSE CONCERNS STILL
3 EXIST?

4 A. No. At current amortization rates, the substantive plan balance will be exhausted at
5 the end of calendar year 2012. However, Empire has stated that since the
6 substantive plan amortization is built into rates, any over-amortization generated
7 until the next rate case will be credited against the OPEB tracker balance, thereby
8 eliminating the risk that ratepayers will pay more than they should for the plan.

9
10 Q. DOES PUBLIC COUNSEL WISH TO CLARIFY ANY OTHER ISSUES RELATED
11 TO OPEB EXPENSE?

12 A. Yes. The actuarially determined OPEB expense as reflected in my Direct
13 Testimony is based upon allocations to the Electric and Non-Regulated Fiber
14 entities, as well as to capital and expense accounts within those entities and to
15 the various jurisdictions based upon company provided allocations for the
16 calendar year 2009. Should the commission opt to use a different allocation
17 method or period, the OPEB expense, but not the tracker balance, would
18 change.

19
20 **VI. 2007 ICE STORM AMORTIZATIONS**

21 Q. CAN YOU PROVIDE SOME BACKGROUND INFORMATION ON THE 2007 ICE
22 STORM AMORTIZATIONS?

1 A. In January 2007, and again in December 2007, major winter storms with damaging
2 freezing rain and heavy ice accumulations hit Empire's service area. A Non-
3 Unanimous Stipulation and Agreement, dated April 4, 2008 was reached in Case
4 No. ER-2008-0093 which stated:

5 For purposes of future ratemaking, Empire shall be considered to have
6 begun to amortize its January ice storm expenses in February 2007 and its
7 December 2007 ice storm expenses in January 2008. Recognition of the
8 expenses associated with the December 2007 ice storm will be given in this
9 rate proceeding for a five-year amortization of prudently incurred costs in
10 accordance with the treatment recommended in Staff's testimony for the
11 January 2007 ice storm deferral amortization. The amount of annual
12 amortization in this proceeding related to the December 2007 ice storm will
13 be determined after the parties have had an opportunity to review Empire's
14 qualifications and accounting treatment of its ice storm expenditures.
15

16 Q. WHAT ARE THE CURRENT UNAMORTIZED DEFERRED STORM EXPENSE
17 BALANCES?

18 A. As of November 30, 2010 the balances per Empire's general ledger are as follows:

<u>Account Number</u>	<u>Account Name</u>	<u>Balance</u>
186941	Def Charges Jan 07 Ice Storm	\$2,309,443
186942	Def Charges Dec 07 Ice Storm	\$3,443,691

22
23 Q. WHAT IS THE CURRENT MONTHLY AMORTIZATION RATE?

24 A. Per Empire's general ledger, the current amortization rates are \$168,449 per month
25 for the January ice storm, and \$139,364 per month for the December ice storm.
26 These amortization rates vary immaterially from Staff's calculations.
27

1 Q. WHEN WILL THE DEFERRED STORM EXPENSES BE FULLY AMORTIZED?

2 A. According to Empire's general ledger, at current amortization rates the January
3 2007 storm will be fully amortized in January 2012, and the December 2007 storm
4 will be fully amortized in December 2012.

5
6 Q. WHAT IS THE ISSUE?

7 A. After the instant rate case, Empire has indicated it most likely will not request
8 another rate proceeding for four years. If current amortization rates are allowed to
9 continue in effect until Empire's next rate case, Public Counsel has calculated that
10 Empire will have recovered \$7.4 million in excess of the amount of deferred charges
11 (assuming an effective date of late August 2011 for rates in this case).

12
13 Q. DOES PUBLIC COUNSEL HAVE A RECOMMENDATION?

14 A. Yes. Public Counsel recommends the Commission should authorize an adjustment
15 to the amortization rate to a four year period and re-base the unamortized balances
16 as of the effective date of new tariff rates filed pursuant to the instant rate case.

17
18 **VII. RATE CASE EXPENSE**

19 Q. WHAT IS THE ISSUE?

1 A. The issue is determining the proper amount of rate case expense the Company
2 should be authorized to include in its rates pursuant to changes in rates effective at
3 the conclusion of the current case.

4
5 Q. WHAT IS PUBLIC COUNSEL'S POSITION ON THIS ISSUE?

6 A. Public Counsel believes the amount of rate case expense included in the
7 development of the Company's rates should only include a normalized annual level
8 of charges that directly benefit ratepayers. Shareholders should also bear some of
9 the burden of rate case expense since they benefit from the activities from which
10 rate case costs are derived, as much as, if not more than, ratepayers.

11
12 Q. WHY SHOULD SHAREHOLDERS PAY A PORTION OF RATE CASE
13 EXPENSES?

14 A. Shareholders stand to gain from the opportunity to earn increases in the Company's
15 revenue requirement authorized by the Commission in the form of potential stock
16 price appreciation and increased dividends. In addition, some aspects of Empire's
17 executive incentive compensation are directly or indirectly influenced by the
18 Company's ability to obtain favorable outcomes in rate proceedings.

19
20 According to the Company's proxy statement filed March 18, 2010, two executives
21 had a portion of their 2009 annual cash incentive based upon the ability to obtain

1 favorable debt and equity financing. In addition, to help ensure alignment of
2 executive interests with that of shareholders, all executive long-term incentive
3 compensation is equity-based in the form of stock options, dividend equivalents on
4 stock options and performance-based restricted stock. Therefore the Company's
5 executive management has an incentive to present and defend its positions to
6 support expense recovery and investment return in a manner which maximizes
7 profit. In fact, it has a fiduciary obligation to shareholders to do so.
8

9 Q. IS PUBLIC COUNSEL SUGGESTING THAT RATE CASE EXPENSE BE
10 DISALLOWED IN ENTIRETY?

11 A. No. Since rate proceedings are part of the normal cost of business for a regulated
12 utility in determining just and reasonable rates, it is widely accepted that rate case
13 expenses are one aspect of a utility's operating costs and are recoverable in rates.
14 Further, ratepayers also benefit from rate proceedings. For example, rate
15 proceedings allow the Commission to ensure the Company has an opportunity to
16 earn a sufficient return in order to provide safe and reliable service to end users at
17 just and reasonable rates. In addition, rate proceedings allow the Commission to
18 institute various programs, such as demand management programs that are in the
19 best interest of collective ratepayers.
20

1 Q. DOES PUBLIC COUNSEL BELIEVE THAT RATE CASE COSTS ARE OUTSIDE
2 THE CONTROL OF MANAGEMENT?

3 A. No. There is a certain amount of “embedded costs” inherent in any general rate
4 case; however, most of the costs are not outside the Company’s control. For
5 example, the Company chooses the employees, attorneys and consultants it
6 wishes to present and substantiate its case for justifying a higher revenue
7 requirement. The Company then chooses how to comply with discovery and what
8 efforts, if any, to take to facilitate and economize the process. Furthermore, the
9 Company dictates what measures it will take to mitigate rate case expense by
10 choosing which positions it favors and seeks to pursue or not pursue within the
11 case.

12
13 Q. IF THE COMPANY INCURS RATE CASE EXPENDITURES, SHOULD THE
14 COMMISSION ASSUME THAT THE COSTS ARE PRUDENT, REASONABLE
15 AND NECESSARY?

16 A. No. Even though there are certain costs inherent in the Commission’s process,
17 the costs should still be prudent, reasonable and necessary. The Commission
18 should not assume that just because the utility expended the time and cost that
19 its rate case expenditures should be automatically recoverable from ratepayers.
20

1 Public Counsel believes it is incumbent upon the Company to mitigate its rate
2 case expense because the Company alone has chosen to initiate and process
3 the rate increase request. Moreover, if the Company decides to engage in
4 conduct that increases rate case expense, the Company has the burden of
5 establishing the amount incurred and justifying the cost is prudent, reasonable
6 and necessary.

7
8 The Commission is obligated to consider competing policies of what expenses
9 should be considered in ratemaking decisions including rate case expense.

10 Therefore, in establishing rates, the Commission should balance the public need
11 for adequate, efficient, and reasonable service with the utility's need for sufficient
12 revenue to meet the reasonable, necessary and prudent costs of furnishing
13 service and earning a return on investment.

14
15 Q. WHAT RATE CASE COSTS ASSOCIATED WITH RATE INCREASE
16 PROCEEDINGS SHOULD BE RECOVERED FROM RATEPAYERS?

17 A. First, rate case costs should be analyzed to determine if they are prudent,
18 reasonable and necessary. Those that are not determined to be reasonable,
19 prudent or necessary should not be reimbursed by ratepayers. Second, once the
20 prudent, reasonable and necessary rate case costs of the specific case are
21 determined, they should be split evenly (50% -50%) between ratepayers and

1 | shareholders, as both groups benefit as outlined above. Finally, the portion
2 | allocated to rate payers should be normalized to account for the fact the Company
3 | does not pursue rate increases on an annual basis.
4 |

5 | Q. WHAT IS THE AMOUNT OF TOTAL RATE CASE EXPENSE INCURRED BY THE
6 | COMPANY TO PROCESS THE INSTANT CASE?

7 | A. The Company did not incur any expenses through June 30, 2009 for the instant
8 | case. However, Empire did begin incurring costs in the later part of 2010 (within the
9 | update period). Public Counsel's review of Company expenditures indicates total
10 | rate case costs incurred by the Company are \$132,006 through November 2010,
11 | and \$172,638 through February 2011.
12 |

13 | Q. DO YOU HAVE A SUMMARY OF TOTAL COSTS INCURRED TO DATE?

14 | A. Yes. The costs through February 2011 are as follows:

15	Brydon, Swearngen & England	\$107,559
16	Black & Veatch	\$ 31,155
17	Financial Strategy Associates	\$ 13,600
18	Max Sheffield	\$ 13,250
19	Mail, Copies, Conference Calls, etc.	\$ 2,791
20	Load Research Training Conference	\$ 2,783
21	Price Waterhouse Coopers	<u>\$ 1,500</u>
22	TOTAL	<u>\$172,638</u>
23		

24 | Q. DOES PUBLIC COUNSEL BELIEVE SPECIFIC RATE CASE COSTS INCURRED
25 | TO DATE SHOULD NOT BE SHARED BY RATEPAYERS?

1 A. Yes. In analyzing the expenses to date, Public Counsel believes that the costs
2 incurred by the Company for services provided by Black & Veatch, Financial
3 Strategy Associates and Max Sheffield should be disallowed.
4

5 Q. CAN PUBLIC COUNSEL PROVIDE SOME DETAIL REGARDING THE COSTS
6 ASSOCIATED WITH EACH VENDOR?

7 A. Yes. Empire responded to OPC Data Request No. 1008 as follows:
8 Black & Veatch: Black & Veatch was retained to perform the class cost of service
9 study and the depreciation study in this rate case. Further, Empire indicated it “does
10 not have the ‘in-house expertise’ to perform these functions”. A breakdown of the
11 Black & Veatch expenses through February 2011 reveals the following:

12 **

15 **

18 Financial Strategy Associates: Financial Strategy Associates was retained to
19 develop a study of the cost of equity capital in Empire’s current rate case. Empire
20 indicated it “does not have an ‘in-house’ resource with the level of expertise and
21 experience equivalent to the level provided by Financial Strategy and Associates”.

22 **

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

**

Max Sheffield: Max Sheffield was retained as a consultant on the required depreciation study prior to becoming an employee. **

** All expenses relate to work performed on the depreciation study.

Q. WHY DOES PUBLIC COUNSEL BELIEVE COSTS FROM EACH OF THESE VENDORS SHOULD NOT BE SHARED BY RATEPAYERS?

A. Public Counsel does not believe the expenditures for Black & Veatch, Financial Strategy Associates and Max Sheffield were reasonable, prudent or necessary, and therefore ratepayers should not share any of the burden of these costs.

Public Counsel will not suggest it has a better understanding of the *existing abilities* of Empire employees than Empire’s management. However, Public Counsel does suggest that it would be reasonable and prudent to assume that Empire could, and should avoid the high prices and associated costs of external vendors that unduly burden ratepayers. Public Counsel particularly believes it is reasonable to assume that such work could be performed by in-house employees, perhaps with some additional training, given their *existing capabilities*.

1 Q. WHY DOES PUBLIC COUNSEL BELIEVE IT IS REASONABLE TO ASSUME THE
2 WORK COULD BE PERFORMED BY EMPIRE EMPLOYEES THUS AVOIDING
3 THE HIGH COSTS OF CONSULTANTS?

4 A. OPC Data Request No. 1004 asked for a list of current Empire employees with
5 university/college degrees, their major, degree held, name of institution from which
6 the degree was received, advanced professional designations and years employed
7 with the Company. In a letter dated February 26, 2011, Empire responded as
8 follows:

9 Empire objects to DR 1004 on the basis that it is overbroad, unduly
10 burdensome, and seeks irrelevant information. Empire does not
11 obtain/maintain this information on many of its employees.
12

13 Subject to the stated objections and without waiving the same, Empire will
14 produce the requested information for executive level employees, those in
15 the regulatory department and others who would likely be involved in rate
16 cases.
17

18 Subject to the limitations noted, Public Counsel's review of the information Empire
19 provided for 57 employees (out of more than 700 total Company employees)
20 revealed the following:

21 **
22
23
24
25

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21

•

**

Unquestionably, some of Company's employees have familiarity with utility operations and regulation and could reasonably obtain sufficient expertise to enable them to assist in the preparation of a general rate increase cases, and particularly depreciation studies, cost of service studies and cost of capital analysis, and then support their findings before the Commission. Further the Company operates in four states and has similar rate proceedings in each of those jurisdictions. Given the education level, combined experience and multiple jurisdictions in which the Company participates in rate case proceedings, the Company should be able to prepare and implement a general rate increase case without the need for making large expenditures for outside consultants.

1 Therefore Public Counsel believes the Company should be advised that in order
2 for the expense of outside consultants to be considered allowable rate case
3 expenses, they must be incurred in the most efficient and prudent manner
4 possible.

5
6 Q. WHAT IS THE AMOUNT OF RATE CASE EXPENSE PUBLIC COUNSEL IS
7 RECOMMENDING?

8 A. The Company has not yet fully incurred its rate case expense for the current case,
9 so the exact amount of the recommendation is not yet available. However, once all
10 rate case expense becomes known and measurable through a period near
11 completion of this case, Public Counsel believes the Commission should authorize
12 the Company to recover 50% of the total cost, excluding outside consultant services
13 provided by Black & Veatch, Financial Strategy Associates and Max Sheffield. If the
14 Company uses additional outside consultants for preparation of this case, other than
15 those listed above, those costs will need to be reviewed to determine if they are
16 necessary, reasonable and prudent.

17
18 Q. ONCE ALLOWABLE RATE CASE EXPENSES ARE DETERMINED, IS THERE A
19 NEED TO NORMALIZE THOSE COSTS?

20 A. Yes. As noted earlier in my testimony, rate case expense is not a recurring annual
21 expense and the Company does not file a rate increase request on a yearly basis.

1 Thus rate case expenses should be recovered over a period of time that best
2 approximates the interval between rate case proceedings.

3

4 Q. DOES PUBLIC COUNSEL RECOMMEND A SPECIFIC NORMALIZATION
5 PERIOD?

6 A. Yes. For the instant case, Public Counsel recommends the Commission authorized
7 rate case expenses be amortized over a four year period, the same interval
8 proposed by Empire in its direct filing, and by Staff in the most recent accounting
9 schedules.

10

11 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

12 A. Yes, it does.