

Exhibit No.  
Issue: Bad Debt Expense  
Witness: Jayna R. Long  
Type of Exhibit: Surrebuttal 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**

**Surrebuttal Testimony  
of  
Jayna R. Long**

**April 2011**

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

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SURREBUTTAL 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 AND REBUTTAL TESTIMONY IN THIS RATE**  
10 **CASE BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION**  
11 **(“COMMISSION”) ON BEHALF OF EMPIRE?**

12 A. Yes.

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

14 A. My surrebuttal testimony will discuss issues raised by the Staff of the Commission  
15 (“Staff”) and Office of the Public Counsel (“OPC”) in their direct case filings in  
16 connection with Bad Debt Expense.

17 **BAD DEBT EXPENSE**

18 **Q. HAVE YOU REVIEWED THE REBUTTAL TESTIMONY OF STAFF**  
19 **WITNESS AMANDA MCMELLEN?**

1 A. Yes. In Ms. McMellen's testimony, she states the Company has not provided  
2 evidence to support its theory that a direct correlation exists between the level of  
3 rates and the level of bad debts. She also recommends a "factor up" adjustment to  
4 forfeited discounts if the Commission were to find a "factor up" was necessary for  
5 bad debt expense.

6 **Q. DO YOU AGREE WITH THE STAFF'S STATEMENT REGARDING THE**  
7 **CORRELATION OF REVENUE AND BAD DEBT EXPENSE?**

8 A. No.

9 **Q. WHY NOT?**

10 A. Empire's process for recording the reserve for bad debt is clearly tied to revenue as  
11 seen below in Empire's Sarbanes-Oxley documentation:

12 Each month a reserve is accrued and manually entered into the General Ledger for  
13 electric and water revenue by the Revenue Accountant. The reserve is based on a  
14 percentage of the monthly retail revenue derived from historical information of  
15 non-collected bad debt accounts. **Key Control (90):** [The Revenue Accountant  
16 performs a quarterly reasonable analysis of the bad debt reserve on an Excel  
17 spreadsheet, BDR Reserve Analysis, which breaks down the reserve analysis for  
18 electric, water, miscellaneous revenue, and non regulated revenue. This analysis is  
19 primarily based on an aged AR report as well as an analysis of select individual  
20 balances that may require an additional specific reserve. The Controller and/or  
21 Manager of Fuel and Revenue Accounting reviews and approves the analysis  
22 including any adjustments to the reserve account.] **Control (91):** The Procedures  
23 Manual documents the process for writing off accounts.

24 The amount of bad debt reserve recorded by Empire is a result of customer  
25 accounts receivable. The rates charged (i.e. revenue) to customers determines the  
26 accounts receivable balance. Therefore, bad debt expense is directly related to  
27 revenue.

28 **Q. IS STAFF'S PROPOSED ADJUSTMENT TO "FACTOR UP" THE**

1           **FORFEITED DISCOUNTS APPROPRIATE?**

2    A.    Empire believes it would be appropriate to “factor up” the forfeited discounts only  
3           if the Commission finds the bad debt expense should be “factored up”.

4    **Q.    HAVE YOU REVIEWED THE REBUTTAL TESTIMONY OF OPC**  
5           **WITNESS SEAN LAFFERTY?**

6    A.    Yes.

7    **Q.    WHAT POSITION DOES MR. LAFFERTY TAKE AS TO BAD DEBT**  
8           **EXPENSE?**

9    A.    OPC advocates the use a three year average of bad debt expense rather than using  
10           the methodology used by Staff, Empire and the Commission in Empire’s recent rate  
11           cases.

12   **Q.    DO YOU BELIEVE OPC ARGUMENTS IN SUPPORT OF THIS**  
13           **RECOMMENDATION ARE FLAWED?**

14   A.    Yes. The OPC’s use of average bad debt expenses, rather than a ratio of bad debt  
15           expense to revenue, does not take into account the series of rate increases that  
16           Empire has been granted over the last five years, and it will result in an  
17           understatement of Empire’s ongoing bad debt expense. In addition, the  
18           methodology employed by both Staff and Empire in this case to determine an  
19           ongoing level of bad debt expense is consistent with the procedures used in this  
20           area in past Empire rate cases.

21   **Q.    DO YOU BELIEVE THE CALENDAR YEAR 2007 SHOULD BE**  
22           **ELIMINATED FROM THE ONGOING BAD DEBT/REVENUE RATIO AS**  
23           **OPC WITNESS LAFFERTY HAS ADVOCATED IN HIS REBUTTAL**

1           **TESTIMONY?**

2    A.    No. Staff and Empire both use a five-year average to account for highs and lows in  
3           the bad debt/revenue percentages. This is the same theory Staff has used for off-  
4           system sales, transmission revenue, production expense and tree trimming in  
5           present and prior Empire rate cases. The use of an average necessarily assumed  
6           that high and low amount will be mitigated by the passage of time.

7    **Q.    DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY?**

8    A.    Yes, it does.

