

*Exhibit No.:*  
*Issues:* *Pensions and OPEBs,  
Demand Side Management;  
Bad Debt Factor-Up*  
*Witness:* *Amanda C. McMellen*  
*Sponsoring Party:* *MoPSC Staff*  
*Type of Exhibit:* *Surrebuttal Testimony*  
*File No.:* *ER-2011-0004*  
*Date Testimony Prepared:* *April 28, 2011*

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**SURREBUTTAL TESTIMONY**

**OF**

**AMANDA C. MCMELLEN**

**THE EMPIRE DISTRICT ELECTRIC COMPANY**

**FILE NO. ER-2011-0004**

*Jefferson City, Missouri  
April 2011*

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1 **EXECUTIVE SUMMARY**

2 Q. Please briefly summarize your surrebuttal testimony pertaining to this rate  
3 case.

4 A. In this testimony, I will first address the issue of pensions and OPEBs.  
5 Because the dollar value associated with the difference between the Company's and Staff's  
6 methodology is immaterial, Staff will accept Empire's quantification of pension expense for  
7 purposes of this proceeding.

8 Next in this testimony, I will explain Staff's position on the DSM potential study costs  
9 issue. Staff's position is that these costs should not be included in rate base and amortized in  
10 this rate case, because it is Staff understanding that these costs have not yet been actually  
11 incurred. The Company's position is to include these costs in rate base because they are  
12 necessary to determine the cost effectiveness of DSM programs in the future.

13 Last, I will address the differences between the parties regarding bad debt expense.  
14 Staff's position is using a five-year average uncollectible rate which is then applied to the  
15 annualized and normalized level of jurisdictional revenues to arrive at bad debt expense.  
16 Empire also uses the five-year average uncollectible rate but believes that this should be  
17 applied to a total revenues amount which includes any rate increase approved in this case.  
18 OPC's method uses a three-year average of the actual net write-offs to determine its  
19 recommended level of bad debt expense. Staff believes that its proposed method is the proper  
20 way to calculate an appropriate ongoing level of bad debt expense.

1 **PENSIONS AND OPEBS**

2 Q. Have you reviewed the rebuttal testimony of Empire witness Laurie A. Delano  
3 regarding pensions and OPEBs?

4 A. Yes, I have.

5 Q. Do you agree with Ms. Delano's assessment of Staff's methodology regarding  
6 pensions and OPEBs as stated on page 3, lines 6 through 15 in her rebuttal testimony?

7 A. No, I do not. But since the difference between Staff and Empire regarding  
8 pension expense is such a small amount, Staff waives its right to pursue this issue at this time.  
9 Staff considers the \$8,556 difference to be immaterial and accepts the Company's position in  
10 this case. The Missouri jurisdictional amount for pension expense in its case is now  
11 \$6,600,137.

12 **DEMAND SIDE MANAGEMENT POTENTIAL STUDY COSTS**

13 Q. Have you reviewed the rebuttal testimony of Empire witness Sherrill L.  
14 McCormack regarding DSM potential study costs at page 2, lines 1 through 8?

15 A. Yes, I have.

16 Q. Do you agree with Ms. McCormack that costs for the DSM potential study  
17 should be included as part of rate base and amortized?

18 A. No, I do not. Only costs actually incurred are to be included in the regulatory  
19 asset account for DSM, per page 29 of the Stipulation and Agreement in Case No. EO-2005-  
20 0263, effective on August 12, 2005. Since it is Staff's understanding that the costs of the  
21 potential study have not yet been incurred, they should not be included in the asset account.

22 Q. Will DSM potential study costs be looked at in the true-up?

1           A.     Yes. Any costs associated with the DSM potential study will be reviewed by  
2 Staff in the true-up. Any prudent costs for this study that are actually incurred through  
3 March 31, 2011 will be included as part of rate base. Costs that incurred after March 31, 2011  
4 will be deferred to a regulatory asset account and considered for inclusion in rates in the next  
5 rate case.

6           Q.     What does the Commission need to include in its Report and Order to  
7 effectuate Staff's recommendation on DSM potential study costs?

8           A.     Pending the true-up audit results, to accept Staff's recommendations for DSM  
9 costs, the Commission needs to reflect in rates a DSM rate base level of \$2,191,099 and  
10 expense level of \$212,306. These levels do not include the DSM potential study costs.

11     **BAD DEBT EXPENSE**

12           Q.     Have you reviewed the rebuttal testimony of Empire witness Jayna R. Long?

13           A.     Yes, I have.

14           Q.     Do you agree with Ms. Long's position that uncollectible (bad debt) expense  
15 should include an amount related to the recommended revenue increase in this case?

16           A.     No, I do not. As stated in my rebuttal testimony on page 3, Staff does not  
17 believe there is any direct correlation between an increase in revenues and an increase in bad  
18 debt write-offs for Empire.

19           Q.     Why doesn't Staff recognize a Empire's proposed proportionate increase in  
20 bad debt expense as necessary?

21           A.     To recommend that any increase in bad debt levels be calculated in proportion  
22 to an increase in revenue requirement levels would require a basis to believe that the two have

1 the correct relationship of size, quantity or remaining in the same relationship when things  
2 change. While the Staff acknowledges there may be some relationship between bad debt  
3 expense and increased revenues resulting from a rate case. When it has examined this  
4 relationship in rate cases for other utilities, the Staff has found that rate increases do not  
5 generally cause a proportional increase in bad debt expense, as Empire is suggesting in this  
6 case. There are no indications that an increase in revenue requirement should or will result in  
7 a proportional increase in bad debt expense for Empire and other utilities.

8 Q. Has the Staff performed any analysis that would support the position that  
9 no direct relationship exists for bad debt write-offs relating to additional revenue requirement  
10 for Empire?

11 A. Yes. Attached to this surrebuttal testimony, as Schedule ACM-1, is a historical  
12 analysis of Empire's bad debt write-off and retail revenue levels.

13 Q. What does Schedule ACM-1 show?

14 A. The historical information shown in Schedule ACM-1 clearly demonstrates  
15 that there is no direct relationship between bad debt write-offs and increased revenues that  
16 would have to exist to justify the total bad debt "factor up" calculation.

17 Q. What are some historical examples specific to Empire when bad debt did not  
18 increase proportionately in relationship to a rate increase?

19 A. The Staff reviewed the changes or variations that occurred between  
20 electric retail revenues and actual bad debt write-offs for a six-year period from the  
21 calendar years 2003 through 2009 (refer to Schedule ACM-1). In other words, using the  
22 Company's data, Staff reviewed how bad debt write-offs varied in relation to revenues for that  
23 seven-year period.

1           In some of the years analyzed, bad debt write-offs and revenues changed in opposite  
2 directions. When comparing 2006 to 2005, Empire experienced a decrease of 2.34% in  
3 revenues, but had an increase in bad debt write-offs of 26.99%. In 2008 compared to 2007,  
4 revenues increased by 2.84%, while bad debt write-offs decreased by 35.23%. Even in  
5 situations where revenues and bad debt write-offs tend to go in the same direction, the Staff  
6 observed that they were not increased or decreased in proportional amounts. None of Staff's  
7 analysis produced any substantive evidence to support the direct relationship that must exist  
8 between bad debt write-offs and revenues to justify inclusion of a full bad debt factor-up in  
9 this case.

10           Q. Did you review OPC witness Mr. Lafferty's rebuttal testimony regarding bad  
11 debt expense?

12           A. Yes, I did.

13           Q. Do you agree with his recommendation regarding bad debt expense?

14           A. No, I do not. Staff believes that using just a three year average of actual net  
15 write-offs, as Mr. Lafferty did, does not reflect an appropriate ongoing level of bad debt  
16 expense. By using just the net write-offs, OPC is eliminating any relationship between bad  
17 debt write-offs and revenues.

18           Q. Does Staff believe that there is a relationship between revenues and bad debt  
19 write-offs?

20           A. Yes. Although Staff does not believe there is a direct relationship between bad  
21 debt write-offs and revenues, there is still some relationship. Therefore, it is more appropriate  
22 to use a five year average of the effective uncollectible rate multiplied by Staff's annualized



1 and normalized jurisdictional revenues to arrive at an ongoing level of bad debt expense to  
2 include in this case.

3 Q. What does the Commission need to include in its Report and Order to  
4 effectuate Staff's recommendation on bad debt expense?

5 A. To accept Staff's recommendations for bad debt expense, the Commission  
6 needs to reflect in rates bad debt expense at the level of \$1,904,252. This recommendation  
7 utilizes the five year average uncollectible rate and does not include a bad debt factor-up.

8 Q. Does this conclude your surrebuttal testimony?

9 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 for Authority ) File No. ER-2011-0004  
to File Tariffs Increasing Rates for Electric )  
Service Provided to Customers in the )  
Missouri Service Area of the Company )

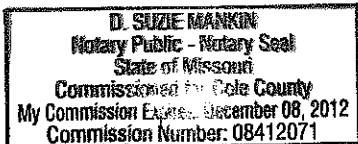
AFFIDAVIT OF AMANDA C. MCMELLEN

STATE OF MISSOURI     )  
                                  )     ss.  
COUNTY OF COLE     )

Amanda C. McMellen, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 7 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.

  
Amanda C. McMellen

Subscribed and sworn to before me this 28<sup>th</sup> day of April, 2011.



  
Notary Public

Empire District Electric Company  
 File No. ER-2011-0004  
 Bad Debt Write-Offs  
 Prepared by: Amanda C. McMellen

Description	Electric Retail Revenue - Net of Unbilled			Actual Total Net Write-offs	Elec Util Factor	Net Write-offs (Elec Only)		Increase Decrease	% Change	Effective Uncoll. Rate	Increase Decrease
	Revenue	Increase Decrease	% Change			Net Write-offs	Increase Decrease				
YE 12/31/03	\$ 295,247,732			\$ 916,956	100.000%	\$ 916,956				0.310572%	
YE 12/31/04	\$ 296,634,308	\$ 1,386,576	0.47%	\$ 1,020,869	100.000%	\$ 1,020,869	\$ 103,913	11.33%		0.344151%	0.033579%
YE 12/31/05	\$ 352,673,004	\$ 56,038,696	18.89%	\$ 1,327,612	100.000%	\$ 1,327,612	\$ 306,743	30.05%		0.376443%	0.032292%
YE 12/31/06	\$ 344,426,218	\$ (8,246,786)	-2.34%	\$ 1,685,917	100.000%	\$ 1,685,917	\$ 358,305	26.99%		0.489486%	0.113043%
YE 12/31/07	\$ 376,956,774	\$ 32,530,556	9.44%	\$ 3,027,689	100.000%	\$ 3,027,689	\$ 1,341,772	79.59%		0.803193%	0.313707%
YE 12/31/08	\$ 387,681,120	\$ 10,724,346	2.84%	\$ 1,961,167	100.000%	\$ 1,961,167	\$ (1,066,522)	-35.23%		0.505871%	-0.297321%
YE 12/31/09	\$ 392,932,616	\$ 5,251,496	1.35%	\$ 2,022,569	100.000%	\$ 2,022,569	\$ 61,402	3.13%		0.514737%	0.008866%

