

Exhibit No.: _____
Issue(s): Bad Debt Expense/
OPEB Substantive Plan Amortization
Witness/Type of Exhibit: Lafferty/Surrebuttal
Sponsoring Party: Public Counsel
Case No.: ER-2011-0004

SURREBUTTAL TESTIMONY

OF

SHAWN LAFFERTY

Submitted on Behalf of the Office of the Public Counsel

EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2011-0004

April 28, 2011

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

<u>TESTIMONY</u>	<u>Page</u>
INTRODUCTION	1
PURPOSE OF TESTIMONY	1
BAD DEBT EXPENSE	2
OPEB SUBSTANTIVE PLAN	4

**SURREBUTTAL 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 AND REBUTTAL TESTIMONY IN THIS CASE?

7 | A. Yes.

8 |

9 | **II. PURPOSE OF TESTIMONY**

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

11 | A. To address the following issues:

- 12 | • Bad Debt Expense – To address rebuttal testimony of Empire District
13 | Electric Company (Empire) witness Ms. Jayna Long and rebuttal
14 | testimony of Missouri Public Service Commission Staff (Staff) witness Ms.
15 | Amanda McMellen.

- 1 • Other Post-Employment Retirement Benefits (“OPEB”) – to respond to
2 rebuttal testimony filed by Empire witness Ms. Laurie Delano regarding the
3 substantive plan.
4

5 **III. BAD DEBT EXPENSE**

6 Q. WHAT PROCESS DID EMPIRE AND STAFF USE TO CALCULATE
7 NORMALIZED BAD DEBT EXPENSE?

8 A. On page 2 of Ms. Jayna Long’s rebuttal testimony she states:

9 The Staff adjustment incorporates a five-year history of bad debt activity to
10 arrive at an effective uncollectible rate. This rate was then applied to the
11 annualized revenue produced by the current rates to arrive at a
12 normalized level of bad debt expenses for purposes of the overall
13 jurisdictional revenue requirement. This part of the process used by Staff
14 is acceptable to Empire.
15

16 Q. DOES PUBLIC COUNSEL (OPC) USE THE SAME METHODOLOGY AS
17 EMPIRE OR STAFF?

18 A. No. As Ms. Long indicates on page 3 of her rebuttal testimony “OPC did not use
19 the same theory.” For reasons specified in my direct and rebuttal testimony,
20 Public Counsel recommends using the average actual bad debt incurred over the
21 last three years.
22

23 Q. WHAT RATIO IS BEING USED BY STAFF AND EMPIRE IN THE CURRENT
24 RATE CASE?

1 A. As pointed out in Ms. Long's rebuttal testimony on page 3, Staff's effective bad debt
2 rate is .540525% with which Empire is in agreement.

3
4 Q. DOES EMPIRE EXPLAIN WHY IT BELIEVES USE OF THE UNCOLLECTIBLE
5 RATE IS APPROPRIATE?

6 A. Yes. Ms. Long's rebuttal testimony on page 3 points out the following:

7 I gathered Empire's historical bad debt ratio information for the calendar
8 years 2004 to 2010. With the exception of 2007, each of those years
9 produced a ratio of between .46% and .52% for the Missouri jurisdiction.

10
11 Ms. Long goes on to state that "the methodology employed by both Staff and
12 Empire in this case to determine an uncollectible rate is consistent with the
13 procedures used in this area in past Empire rate cases."

14
15 Q. DOES STAFF EXPLAIN WHY IT BELIEVES USE OF THE UNCOLLECTIBLE
16 RATE IS APPROPRIATE?

17 A. Yes. On page 5 of Ms. Amanda McMellen's rebuttal testimony she states:

18 Staff believes that there is a relationship between revenues and actual net
19 write-offs, though not a direct relationship. (Emphasis added by OPC)
20 Therefore, it is more appropriate to use an effective uncollectible rate to
21 calculate an ongoing level of bad debt expense which is more in line with the
22 weather-normalized jurisdictional revenue levels calculated in this case.
23

24 Q. HAS PUBLIC COUNSEL'S RECOMMENDATION FOR TREATMENT OF BAD
25 DEBT CHANGED?

1 A. No. As noted in Ms. Long's rebuttal testimony, excluding an outlier year (2007) the
2 historical norm of the bad debt ratio has been between .46% and .52%. Yet the
3 ratio used in this case is .5405%.

4
5 In addition, Ms. McMellen's rebuttal testimony on page 3 states:

6 In principle, the Staff believes that it may be reasonable to assume that bad
7 debts could increase to some extent as a result of an increase in Empire's
8 revenue requirement. However, the Staff does not agree with the position
9 that any increase in a company's revenue requirement should necessarily
10 cause bad debt expense to also directly increase proportionally, on a dollar-
11 for-dollar basis. Empire has not produced any evidence in support of this
12 alleged direct correlation, in its testimony or workpapers. Review of the
13 records shows that there have been times that, even as revenues go up, bad
14 debts have actually declined. In other instances, the Staff has observed bad
15 debts going up while revenue decreased.
16

17 Public Counsel believes that the average of actual bad debt incurred over the last
18 three years produces the most just and reasonable result

- 19 • Due to the various reasons provided in my direct and rebuttal testimony.
- 20 • The fact the ratio used in this case is outside the historical norm.
- 21 • The lack of a strong correlation between revenue and bad debt as pointed
22 out by Ms. McMellen and in the graphs presented in my direct testimony.

23
24 **IV. OTHER POST-EMPLOYMENT RETIREMENT BENEFITS ("OPEB")**

25 Q. DID EMPIRE RESPOND TO PUBLIC COUNSEL'S DATA REQUESTS
26 REGARDING THE SUBSTANTIVE PLAN AMORTIZATION?

1 A. Yes. In Addition, Empire witness Ms. Laurie Delanao explains the regulatory asset
2 created to account for recognition of the incremental OPEB substantive plan costs
3 identified in 2004 on page 2 of her rebuttal testimony. Ms. Delano further stated, "A
4 separate tracker was not established as a substantive plan is considered part of the
5 postretirement benefit cost of the plan and subject to the tracker that is in place."

6
7 Q. DOES PUBLIC COUNSEL AGREE WITH EMPIRE?

8 A. Yes. Prior to Empire's response, Public Counsel was unclear as to the
9 treatment of any excess amount collected in rates by Empire for the substantive
10 plan amortization. Given that rates pursuant to this case will reflect current
11 substantive plan amortization, and the substantive plan asset balance will be fully
12 amortized by the end of calendar year 2012 (most likely preceding Empire's next
13 rate case by a few years) Public Counsel desired to ensure ratepayers did not
14 pay more for the plan than the actual cost. Ms. Delano's rebuttal testimony
15 provides that assurance, as any excess substantive plan amortization recovered
16 in rates will be included in the OPEB tracker.

17
18 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

19 A. Yes, it does.