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Bad Debt Expense/
Riverton 12 Long-Term
Maintenance Contract Tracker/
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Case No.: ER-2016-0023

SURREBUTTAL TESTIMONY

OF

KERI ROTH

Submitted on Behalf of the Office of the Public Counsel

EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2016-0023

May 16, 2016

TABLE OF CONTENTS

Testimony	Page
Introduction	1
May 2011 Tornado Deferrals	1
Bad Debt Expense	3
Riverton 12 Long-Term Maintenance Contract Tracker	5
Trackers in Rate Base	6

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EMPIRE DISTRICT ELECTRIC COMPANY
CASE NO. ER-2016-0023

1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. Keri Roth, P.O. Box 2230, Jefferson City, Missouri 65102-2230.

4 **Q. Are you the same Keri Roth who filed direct and rebuttal testimony in this case?**

5 A. Yes.

6 **Q. What is the purpose of your surrebuttal testimony?**

7 A. The purpose of this surrebuttal testimony is to respond to rebuttal testimony from Empire
8 District Electric Company (“Empire”) regarding the tornado deferral amortization, bad debt
9 expense, the Riverton 12 long-term maintenance contract tracker, and rate base treatment of
10 trackers.

11 **II. MAY 2011 TORNADO DEFERRALS**

12 **Q. Is it Empire’s position the unamortized balance of the tornado deferrals should be**
13 **included in rate base?**

14 A. Yes.

15 **Q. Does OPC believe the unamortized balance should be included in rate base?**

16 A. No.

17 **Q. Please describe the concept of a rate base?**

1 A. As described in Mr. Charles Hyneman’s surrebuttal testimony in the Kansas City Power &
2 Light Company (“KCPL”) rate case numbered ER-2007-0291, rate base is the investment of
3 property used by the utility to provide service upon which the utility is permitted an
4 opportunity to earn a specified rate of return as established by a regulatory authority.

5 **Q. Has the Missouri Public Service Commission (“Commission”) ever described its test**
6 **for deciding whether the value of an item should be included in a utility’s rate base?**

7 A. Yes. As described in Mr. Hyneman’s surrebuttal testimony in case number ER-2007-0291,
8 the Commission’s *Report and Order* in case number ER-2006-0314 described the type of
9 items that should not be included in rate base. The Commission stated:

10 As explained by Staff witness Hyneman, “In order for an item to
11 be added to rate base, it must be an asset. Assets are defined by
12 the Financial Accounting Standards Board (FASB) as ‘probable
13 future economic benefits obtained or controlled by a particular
14 entity as a result of past transactions or events’ (FASB Concept
15 Statement No. 6, Elements of Financial Statements).

16 Once an item meets the test of being an asset, it must also meet
17 the ratemaking principle of being ‘used and useful’ in the
18 provision of utility service. Used and useful means that the asset
19 is actually being used to provide service and that it is actually
20 needed to provide utility service. This is the standard adopted by
21 many regulatory jurisdictions, including the Missouri Public
22 Service Commission.” [95]

23 **Q. Why does OPC believe the tornado deferral should be excluded from rate base?**

24 A. In the Commission’s *Report and Order* in Empire’s Accounting Authority Order (“AAO”)
25 case numbered EU-2011-0387, relating to the May 2011 tornado, the Commission sites the
26 *Stipulation and Agreement* describing allowed costs to be deferred as operations and
27 maintenance (“O & M”) expenses related to repair, restoration, and rebuild. This is in
28 addition to depreciation and carrying charges from the May 2011 tornado. Similar costs are

1 not described as “assets” in the Commission’s *Report and Order* discussed in ER-2007-
2 0291 above.

3 **Q. Has Empire requested rate base treatment for other “acts of God” in the past?**

4 A. Not that I am aware of. Empire also had expenses related to the 2007 ice storms where
5 some costs were capitalized and included in plant in service balances. However, in
6 Empire’s rate case numbered ER-2008-0093 following these ice storms, Empire did not
7 request rate base treatment for any expenses not capitalized but to simply amortize the
8 expenses over 5 years. It is OPC’s understanding the Commission does not include weather
9 related AAO expense deferrals, such as major ice storms, in rate base.

10 **Q. Should the same method apply to the tornado deferrals?**

11 A. Yes. The OPC sees no distinctions between these acts of God requiring each to be treated
12 differently.

13 **III. BAD DEBT EXPENSE**

14 **Q. What is Empire’s recommendation regarding bad debt expense?**

15 A. Empire supports the Missouri Public Service Commission Staff (“Staff”) Cost of Service
16 Report (“Report”), filed as direct testimony, utilizing a five-year average of bad debt
17 expense.

18 **Q. Did Empire witness, Mr. Bryan Owens, provide any information to justify a five-year
19 average?**

20 A. No.

21 **Q. Why is Staff utilizing a five-year average of bad debt expense?**

22 A. Staff explains in its Report that Empire’s bad debt data fluctuates each year.

1 **Q. Does Public Counsel agree with Empire and Staff?**

2 A. No. As shown in the table below, from twelve-months ending (“TME”) September 2011
3 through TME September 2013, the annual write-off percentage is decreasing. However,
4 under TME September 2014, the annual write-off percentage increases and then decreases
5 again for TME September 2015. Therefore, Empire and Staff are incorrect when stating
6 there has been fluctuation over the past five years.

Time Period	Annual Write-off Percentage
TME September 2011	0.5639%
TME September 2012	0.5442%
TME September 2013	0.5389%
TME September 2014	0.5767%
TME September 2015	0.4108%

7

8 **Q. What is the trend of the cumulative write-off percentage?**

9 A. As shown in the table below, the cumulative write-off percentage is steadily decreasing.

Time Period	Cumulative Write-off Percentage
TME September 2011 – TME September 2015	0.5258%
TME September 2012 – TME September 2015	0.5168%
TME September 2013 – TME September 2015	0.5081%
TME September 2014 – TME September 2015	0.4939%
TME September 2015	0.4108%

10

11 **Q. Would the annual TME September 2015 write-off percentage be appropriate to use in**
12 **this rate case?**

1 A. Yes. Overall, the annual write-off percentage of bad debt has been decreasing over the past
2 five years with one increase in 2014. Also, the cumulative write-off percentage of bad debt
3 has decreased steadily over the past five years. The conservative approach, based on this
4 data, is to use the three-year average.

5 **Q. Has a three-year average of actual bad debt write-offs been historically recommended**
6 **to the Commission when Empire’s bad debt expense was increasing?**

7 A. Yes. Mr. Charles Hyneman, while he worked for Staff, recommended a three-year average
8 was appropriate in case numbered ER-2002-424. Mr. Hyneman proposed a three-year
9 average of actual write-offs as opposed to the typically-used five-year average since
10 Empire’s bad debt write-offs had increased significantly over the last few years prior to that
11 2002 case.

12 **IV. RIVERTON 12 LONG-TERM MAINTENANCE CONTRACT**
13 **TRACKER (“LTM”)**

14 **Q. What is Empire’s recommendation regarding the LTM?**

15 A. As stated in Empire witness Mr. John M. Woods’ rebuttal testimony, Empire is requesting
16 to rebase the tracker associated with the maintenance contract with Siemens from \$2.7
17 million to \$3.9 million.

18 **Q. Does OPC agree with Mr. Woods?**

19 A. At this time, OPC does not believe there is sufficient actual information to justify a re-base.
20 OPC will re-evaluate the base level in the next general rate case when additional historical
21 cost information becomes available.

22 **Q. Is Empire requesting additional changes to the LTM?**

23 A. Yes. Empire is requesting all non-labor O&M accounts be included as part of the tracker.

1 **Q. Has Empire recommended a base amount for the O&M piece of the tracker?**

2 A. Yes. As discussed in Mr. Woods' rebuttal testimony, Empire has utilized historical O&M
3 data from State Line Combined Cycle ("State Line") to provide an estimate of what the
4 annual O&M expense will be for Riverton 12 Combined Cycle ("Riverton 12"). Empire's
5 recommended estimated base for non-labor O&M for the total company is \$2,188,625.

6 **Q. Does OPC agree non-labor O&M expense should be included as part of the LTM?**

7 A. No. There has been no evidence shown that a tracker is needed for non-labor O&M
8 expenses. Riverton 12 is not Empire's first combined cycle unit. OPC will review Riverton
9 12's O&M historical cost data during Empire's next general rate case.

10 **Q. Is Empire also requesting the normalized level of O&M expense for Riverton 12 be set**
11 **at approximately \$2.2 million total company?**

12 A. Yes.

13 **Q. Does OPC accept Staff's calculation for Riverton 12 O&M expense?**

14 A. Yes. A utility company's cost of service has historically been calculated based on historical
15 data. OPC will review any updated data during Empire's next general rate case and make
16 adjustments as necessary.

17 **V. TRACKERS IN RATE BASE**

18 **Q. Which trackers has OPC excluded from Empire's rate base?**

19 A. OPC recommends excluding:

- 20 • the vegetation management tracker;
- 21 • the May 2011 tornado deferrals;

- 1 • carrying cost trackers for Iatan 1, Iatan 2, and Plum Point;
- 2 • the O&M trackers for Iatan 2, Iatan Common, and Plum Point;
- 3 • the PeopleSoft software tracker;
- 4 • the Southwestern Power Administration capacity loss reimbursement tracker; and
- 5 • the pension and other post-retirement benefit trackers.

6 **Q. Why does OPC believe that these trackers should not be included in rate base?**

7 A. The Commission has stated, “In order for an item to be added to rate base, it must be an
8 asset.” The Commission also stated the asset must be used and useful. This means that “the
9 asset is actually being used to provide service and that it is actually needed to provide utility
10 service.”

11 **Q. Are any of the trackers listed above considered assets?**

12 A. No. The trackers listed above are expense items and should be recovered through
13 amortizations on the income statement. The costs included in the trackers do not meet the
14 Commission’s criteria involving items for rate base inclusion. Therefore, Empire should not
15 be able to earn a profit on these trackers.

16 **Q. Does this conclude your surrebuttal testimony?**

17 A. Yes.