

Exhibit No.:
Issue: Bad Debt Expense
Local Public Hearing
Witness: William L. Gipson
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Empire District
Case No.: ER-2001-299
Date Prepared: May 2, 2001

**Before the Public Service Commission
of the State of Missouri**

Rebuttal Testimony

of

William L. Gipson

May 2001

Exhibit No. 21
Date 5/29/01 Case No. ER-2001-299
Reporter KRM

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**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
REBUTTAL TESTIMONY OF WILLIAM L. GIPSON
ON BEHALF OF THE EMPIRE DISTRICT ELECTRIC COMPANY**

CASE NO. ER-2001-299

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. William L. Gipson, 602 Joplin Street, Joplin, Missouri 64802.

3 Q. WHO IS YOUR EMPLOYER AND WHAT POSITION DO YOU HOLD?

4 A. I am employed by The Empire District Electric Company ("Empire" or "Company") as
5 Executive Vice President.

6 Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND.

7 A. I hold a Bachelor of Science Degree in Business Management Technology and an Associate
8 Degree in Computer Science from Missouri Southern State College in Joplin, Missouri.

9 Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.

10 A. Prior to joining Empire I worked for an international furniture manufacturing company and
11 a regional bank. I joined Empire as a Computer Programmer in 1981. I have held positions
12 in Information Services, Economic Development and Commercial Operations. In April
13 1997 I was elected Vice President – Commercial Operations and in February 2001 was
14 named Executive Vice President. My employment with Empire has been continuous since
15 1981.

16 Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE THIS OR ANY
17 OTHER REGULATORY BODY?

18 A. Yes, I have presented testimony before this Commission and before the Arkansas Public
19 Service Commission.

1 Q. MR. GIPSON, WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

2 A. The purpose of my testimony is to rebut Staff testimony regarding the treatment of bad debt
3 expense. I will also address certain issues that arose within the context of a local public
4 hearing held in Joplin on April 23, 2001.

5 **BAD DEBT EXPENSE**

6 Q. WHAT POINT DO YOU WISH TO MAKE CONCERNING BAD DEBT EXPENSE?

7 A. I believe bad debt expense should be correlated with revenues and treated consistently in the
8 context of this case.

9 Q. PLEASE EXPLAIN.

10 A. During the pre-hearing conference held in Jefferson City on April 16-20, 2001, I discussed
11 with Staff witness Phillip Williams Empire's five-year history of bad debt expense (previous
12 to the test year). This data demonstrates that bad debt expense at Empire, on average,
13 amounts to about one-quarter of one percent (0.25%) of revenue. Based on our discussions,
14 I believe Mr. Williams made the necessary changes in Staff's calculation of test year data to
15 reflect this average, so I think he has made an appropriate change on an historical basis.

16 Q. IF MR. WILLIAMS HAS MADE THE CHANGE YOU SUGGESTED, IS THERE
17 SOMETHING ELSE THAT REMAINS TO BE DONE?

18 A. Yes. The Staff has indicated that it has not adjusted the amount of the bad debt expense to
19 reflect any increase allowed by the Commission in this proceeding. For example, if the
20 Commission allows an increase of \$10,000,000 in authorized revenue in this case, it is
21 Empire's position that the authorized increase should be adjusted upward by \$25,000 to
22 reflect that Empire, on an historical basis, will incur that additional amount of bad debt
23 expense. It has been demonstrated that this level of bad debts can be expected as a normal

1 part of operations. I would also observe that, as the economy appears to be in a much
2 slower growth period with many reported layoffs of employees and failed businesses, we
3 may experience more than the historical average of bad debts in the coming year.
4 Therefore, it is the Company's position that bad debt expense should be increased in
5 proportion to the Company's authorized revenue increase by the same historical percentage
6 of 0.25 percent.

7 **LOCAL PUBLIC HEARING**

8 Q. WHAT POINTS DO YOU WISH TO MAKE CONCERNING THE LOCAL PUBLIC
9 HEARING (LPH)?

10 A. In summary:

- 11 • Nationwide, natural gas price increases are having a negative effect on residential as well
12 as business consumers
- 13 • A 700 Kilowatt hour (kWh)/month customer on the Empire system is a "typical" customer
14 rather than an "average" customer
- 15 • The monthly customer charge established by our Commission-approved tariff (currently
16 \$7.58) is a standard and approved charge
- 17 • Some allegations made by witnesses during the LPH are factually incorrect
- 18 • The Company intends to deal appropriately with some outstanding service-related issues
19 raised during the LPH:
- 20 • The Company has a carefully thought out natural disaster restoration process
- 21 • A phase-in of a rate increase in this case is not appropriate

22 Q. PLEASE DISCUSS THE NATURAL GAS ISSUE.

1 A. Many of those customers testifying at the LPH talked about the significant increases that
2 appeared in their natural gas bills over the past winter. As the Commission is fully aware,
3 this is a nationwide situation. It was not caused by Empire. While those Empire customers
4 using natural gas for their heating needs are certainly entitled to express concern or
5 complain about the impact of those costs, the Commission should not penalize Empire in
6 this proceeding due to something Empire did not cause. Empire, too, is a natural gas
7 customer. Since our last rate case, natural gas prices have essentially doubled and then
8 tripled. For example, in 1997 gas prices reflected in Empire's generation of electricity were
9 in the \$2.00 – \$3.00 (per million BTU) range. Not only have Empire's costs for natural gas
10 used in electric generation increased, Empire has also experienced rising prices in the
11 purchased power market where prices are clearly impacted by these rising natural gas prices.
12 The volatility in natural gas and purchased power prices creates considerable fluctuation and
13 uncertainty in Empire's operating costs and exposes it to substantial risk. Due to various
14 fuel cost adjustment mechanisms, Empire has some protection from these cost fluctuations
15 in other jurisdictions in which it operates. However, because Empire does not have a fuel
16 adjustment clause or similar mechanism in Missouri where we conduct about 85 percent of
17 our business, Empire is placed in a very serious situation. A dramatic increase in natural gas
18 costs could literally wipe out Empire's net income.

19 Q. IN WHAT FACILITIES DOES EMPIRE BURN NATURAL GAS?

20 A. The Company utilizes natural gas at its generating plants at the Energy Center, Riverton and
21 State Line. In total, Empire presently has about 480 megawatts (MW) of gas-fired
22 generation and will add 150 MW with the new State Line Combined Cycle (SLCC) unit.
23 Once this new plant is on line, the Company will rely on natural gas for about 40 percent of

1 its energy generation. To my knowledge, no other electric company in this state relies on
2 natural gas for generation to that extent.

3 Q. WHAT POINT DO YOU WISH TO MAKE CONCERNING 700 kWh/MONTH AND A
4 TYPICAL CUSTOMER?

5 A. On more than one occasion during the LPH, customers made reference to Empire's use of
6 700 kWh/month as being a "typical" customer (in some cases as an "average" customer).
7 The witnesses implied this was an inappropriate measure. Empire has never deliberately
8 attempted to undersell or minimize the impact of this proposed rate increase to the public.
9 In our service area, media and customers alike are curious as to the impact on a typical
10 residential customer. We have attempted to inform all constituents of the impact on a
11 typical customer. In our system, a typical customer is one who uses about 700 kWh/month.
12 By "typical" I mean when average residential monthly usage is categorized in 100 kWh
13 blocks, the largest number of customers occurs in the 700-800 kWh block.

14 Q. WHAT POINT DO YOU WISH TO MAKE CONCERNING THE STANDARD
15 CUSTOMER CHARGE?

16 A. Mr. Louis Heifner of Bolivar, Missouri, first raised this point with the Consumer Services
17 Section of the Commission and the Company on January 20, 2000. Mr. Heifner and at least
18 one other customer brought up this issue again during the LPH. As the Commission knows,
19 a customer charge is a standard part of ratemaking in Missouri for many types of utilities
20 and, in Empire's case, has been used for many years. Certain fixed costs, which are
21 incurred by the Company whether the customer uses any electricity in a month or not, are
22 captured and reflected in this component of the total bill. I believe the customer concern
23 and confusion on this issue can be explained quite simply. During the latter part of 1999

1 and early 2000, the Company converted to a new billing system and with it a new monthly
2 bill format. In this new bill format, charges (including the customer charge) are described in
3 a more detailed manner than was possible under the old system. As a result, customers'
4 attention to these individual charges was heightened in the process. Mr. Heifner, in
5 particular, fails to understand that the customer charge is just a standard, authorized
6 component of bundled, integrated electricity rates.

7 Q. YOU MENTIONED EARLIER THERE WERE SOME ALLEGATIONS RAISED
8 DURING THE LPH THAT ARE INCORRECT. CAN YOU PLEASE ELABORATE?

9 A. Yes. Specifically, Reverend Raymond Rich, of Granby, Missouri, stated that "a couple of
10 years ago" following a natural disaster he was without electric power service for "three
11 weeks." If he was implying that he was an Empire customer in that situation, and it was
12 Empire's fault he was out of service for three weeks, his assertion is simply not true. As I
13 mentioned earlier, from April 1997 through February 2001, I was Vice President --
14 Commercial Operations for the Company. In that position I was responsible for service
15 restoration following all storms and natural disasters. I don't know of any time, particularly
16 over the past "couple of years", that any Empire customer (whose own facilities were
17 capable of safely accepting electric power service) has been without electric power for three
18 weeks. In fact, the most catastrophic storm on Empire's system in recent times was an ice
19 storm that began on December 31, 1998. About 35,000 of our customers were affected by
20 that storm at one time or another. Service was restored to all customers (whose facilities
21 were capable of safely accepting electric power service) within four days. Reverend Rich
22 also told the Commission that an Empire employee had informed him that the Company had
23 laid off "300 employees." That, too, is incorrect. During 1999 and 2000 while Empire was

1 involved in a proposed merger with UtiliCorp United, Inc., a number of employees left the
2 Company for various reasons. However, none were a result of any kind of layoff.

3 Q. THERE WAS SOME MENTION THAT THE STATE LINE POWER PLANT
4 EXPANSION WAS UNDERTAKEN BY THE COMPANY IN ORDER TO SELL THE
5 OUTPUT INTO CALIFORNIA. WAS THAT A CORRECT ASSERTION?

6 A. No. At least two customers at the LPH mentioned this. The Company is constructing the
7 plant to serve the growing demand placed on its system by its own (native load) customers.
8 The plant is not being built to serve any electrical load in California. As I understand it,
9 there is not even a way to physically make the electricity from the new plant go to
10 California. The transmission grid in this country is not just one integrated nationwide
11 network. There is a physical separation between the portion of the grid serving the Rocky
12 Mountains and the West Coast and us here in the Midwest.

13 Q. ANOTHER CUSTOMER ASSERTED THAT THE COMPANY MAKES POLITICAL
14 CONTRIBUTIONS AT THE EXPENSE OF ITS CUSTOMERS. PLEASE ADDRESS
15 THAT ISSUE.

16 A. As the Commission already knows, any corporate political contributions made by Empire
17 are accounted for "below the line" in accordance with the Uniform System of Accounts
18 adopted by the Commission. In this fashion, Empire never even asks that such contributions
19 be considered in the costs used to establish rates charged to customers.

20 Q. WAS THERE AN ISSUE RAISED REGARDING EXTENSION COSTS?

21 A. Yes. Mr. Elvin Dunn, of Republic, Missouri, made reference to the differences between an
22 estimate provided by the Company to extend an overhead power line for a quarter of a mile,
23 and an estimate for a different extension by a rural electric cooperative for service on his

1 farm near Republic. Mr. Dunn said that the customer-required contribution from Empire
2 was \$6,000 but it was only \$700 from the rural electric cooperative. I have to presume the
3 estimates he reported were for the same length of extension. I would respectfully remind
4 the Commission that Empire's extension policy is a part of its Commission-approved rules
5 and regulations. Any customer contribution requirement we quoted to Mr. Dunn would be
6 based on that Commission-approved tariff. In stark contrast, rural electric cooperatives are
7 not subject to any state rate regulation in Missouri. They are free to set their extension
8 policy in any manner they want, including one which may be heavily subsidized by their
9 existing customers. They are also free to set their residential rates for electric service at any
10 level they wish.

11 Q. WERE THERE ANY OTHER ISSUES INVOLVING INCORRECT FACTS THAT YOU
12 WANT TO DISCUSS?

13 A. Yes, one other. Mrs. F. H. Nichols, Webb City, Missouri, commented that Empire's rates
14 are adjusted three times annually. I believe Mrs. Nichols is confusing the way the
15 Commission treats gas companies with the way it treats electric companies. As the
16 Commission knows, Missouri's electric companies do not have any kind of fuel adjustment
17 clause. While such clauses were common before 1979, they ceased after that time because
18 of a Missouri Supreme Court ruling that there was no legislative authority for the approach
19 previously used by the Commission. Since that time, there has been no legislative authority
20 given to the Commission to utilize a fuel adjustment mechanism for electric companies. In
21 contrast, Missouri's gas companies are allowed by the Commission to periodically adjust
22 customer bills to reflect and pass through to customers changes in the commodity price of

1 natural gas. I understand that the Missouri courts have said the process involving the gas
2 companies is authorized by law.

3 Q. SOME CUSTOMERS AT THE LPH RAISED SPECIFIC SERVICE-RELATED ISSUES.
4 HOW DO YOU PROPOSE TO HANDLE THESE COMPLAINTS?

5 A. I believe there were four customers who raised specific service-related issues at the LPH.
6 Those customers are Mr. Timothy Smith, Stockton, Missouri; Mr. Mel Smith, Sarcoxie,
7 Missouri; Ms. Charis Seaton, Joplin, Missouri; and Mr. Craig Dunn, Republic, Missouri.
8 The Company intends to expeditiously resolve these complaints and will forward its
9 findings to the Consumer Services Section of the Commission Staff.

10 Q. SEVERAL CUSTOMERS APPEARED LESS THAN SATISFIED WITH EMPIRE'S
11 EFFORTS TO RESTORE ELECTRIC POWER SERVICE FOLLOWING A STORM
12 THAT OCCURRED EASTER WEEKEND THIS YEAR. PLEASE ADDRESS THIS
13 ISSUE.

14 A. First, let me say that while there were some customers who expressed dissatisfaction with
15 the Company's restoration efforts following the Easter storm, there were far and away more
16 customers who expressed satisfaction with Empire's service quality. By my count only two
17 customers complained of the Easter storm restoration while seven were complimentary of
18 service quality.

19 Empire, and I suspect other utilities, follows a structured approach to service restoration
20 following any natural disaster like the Easter 2001 storm. In summary, we first gather as
21 much data as possible to assess the damage and then assign priorities. These priorities place
22 repair of transmission circuits and substations that affect a large number of customers first.
23 In descending order, we deal with major distribution feeder circuits and lateral circuits.

1 Finally, to the extent necessary, we attend to individual customer service drops. This is a
2 good process designed to get the greatest number of customers back in service in the
3 quickest manner possible. I believe the process works to the overall benefit of our
4 customers even though some customers with an isolated problem may end up being the last
5 ones with service restored. I try to explain to customers that this process is similar to snow
6 removal. Interstate highways are plowed first, followed by main city and county
7 thoroughfares, and finally individual residential neighborhood streets.

8 The storm in question at the LPH occurred Easter weekend of 2001. It consisted of 60+
9 miles per hour straight-line winds and at least one F1 tornado. In total, about 15,000 of
10 Empire's customers were affected at one time or another. All customers (whose own
11 facilities were capable of safely accepting electric power service) were restored within three
12 days.

13 Q. SOME CUSTOMERS TESTIFIED THAT THE COMMISSION SHOULD EITHER
14 PHASE IN OVER SEVERAL YEARS OR PRORATE THE REQUESTED RATE
15 INCREASE. HOW DO YOU RESPOND TO THAT IDEA?

16 A. The rate increase request is composed, among other items, of two significant changes in
17 Empire's operation: the addition of the SLCC plant and the increase in fuel cost and usage;
18 particularly natural gas. By the July true-up, the investment that Empire's shareholders have
19 already made in the SLCC plant will have already occurred and the increased fuel cost and
20 usage will also have occurred prior to the operation of law date in this case. In other words,
21 these are costs which have been incurred to provide service to Empire's customers. The
22 shareholders have been funding these costs. It is now time for the customers to pay for
23 those costs in the service they receive from Empire. To artificially delay the payment by

1 customers of these increased costs would have an extremely detrimental affect on the
2 Company's continued operation. The Commission should reject the notion of any sort of
3 phase-in.

4 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

5 A. Yes, at this time.

AFFIDAVIT

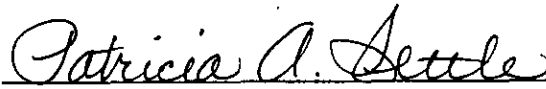
STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 2nd day of May, 2001, before me appeared W.L. Gipson, to me personally known, who, being by me first duly sworn, states that he is the Executive Vice President of The Empire District Electric Company and acknowledged that he has read the above and foregoing document and believes that the statements therein are true and correct to the best of his information, knowledge and belief.



W.L. Gipson

Subscribed and sworn to before me this 2nd day of May, 2001



Patricia A. Settle, Notary Public

My commission expires: August 16, 2002

