

<b>Exhibit No.:</b>	_____
<b>Issue(s):</b>	Bad Debt Expense/ Pension Expense and Associated Tracker/ OPEB Expense and Associated Tracker/ Rate Case Expense/ Vegetation Management Tracker
<b>Witness/Type of Exhibit:</b>	Lafferty/Direct
<b>Sponsoring Party:</b>	Public Counsel
<b>Case No.:</b>	ER-2011-0004

**DIRECT TESTIMONY**

**OF**

**SHAWN LAFFERTY**

Submitted on Behalf of the Office of the Public Counsel

**EMPIRE DISTRICT ELECTRIC COMPANY**

CASE NO. ER-2011-0004

February 23, 2011



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

TESTIMONY	Page
INTRODUCTION	1
PURPOSE OF TESTIMONY	2
BAD DEBT EXPENSE	3
PENSION EXPENSE / TRACKER	6
OPEB EXPENSE / TRACKER	7
RATE CASE EXPENSE	9
VEGETATION MANAGEMENT TRACKER	10

**DIRECT 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. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

6 | A. I am employed by the Missouri Office of the Public Counsel (OPC or Public  
7 | Counsel) as a Public Utility Accountant III.

8 |

9 | Q. WHAT IS THE NATURE OF YOUR CURRENT DUTIES AT THE OPC?

10 | A. Under the direction of the OPC Chief Public Utility Accountant, Mr. Ted  
11 | Robertson, I am responsible for performing audits and examinations of the books  
12 | and records of the public utilities operating within the State of Missouri.

13 |

14 | Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND OTHER  
15 | QUALIFICATIONS.

16 | A. I graduated in May, 1984 from The University of Iowa in Iowa City, Iowa, with a  
17 | Bachelor of Business Administration Degree in Accounting. In November of

1 1984, I passed the Uniform Certified Public Accountant Examination, and I  
2 obtained Certified Public Accountant (CPA) certification from the state of Missouri  
3 in 1985. My CPA certificate number is 10203. I am not currently a licensed  
4 CPA. After graduation I spent over 6 years in public accounting working for both  
5 regional and national CPA firms. I joined Sprint in 1991 and held a series of  
6 financial and product management / operations positions over 18 plus years. I  
7 joined the Office of Public Counsel in November, 2010.  
8

9 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC  
10 SERVICE COMMISSION (COMMISSION OR MPSC)?

11 A. No, I have not previously testified before the Commission.  
12

13 **II. PURPOSE OF TESTIMONY**

14 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

15 A. I am sponsoring the Public Counsel's position regarding Empire District Electric  
16 Company's (Empire or Company) ratemaking treatment of the following issues:

- 17 • Bad Debt Expense
- 18 • Pension Expense and Associated Tracker
- 19 • OPEB Expense and Associated Tracker
- 20 • Rate Case Expense
- 21 • Vegetation Management Tracker

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30

**III. BAD DEBT EXPENSE**

Q. WHAT APPROACH IS THE COMPANY PROPOSING IN ORDER TO CALCULATE THE AMOUNT OF BAD DEBT EXPENSE FOR THIS RATE CASE?

A. Beginning on page 8, line 5, of Ms. Jayna Long’s Direct Testimony, she states:

Q. HOW WAS THE ADJUSTMENT TO BAD DEBT EXPENSE DEVELOPED?

A. The approach Empire used is very similar to the approach used in Empire’s last electric rate case. We gathered five (5) years of uncollectible accounts expense recorded in FERC account 904 and compared the historic expense levels to the Missouri jurisdictional retail sales of electricity that took place during each of those five years. This process resulted in a five year ratio of bad debt expense to retail electric revenue of 0.53 percent. This overall ratio of 0.53 percent was then applied to the normalized retail sales revenue developed for this rate case to arrive at an adjusted bad debt expense of \$2,314,369. The adjusted level of ongoing bad debt expense was then compared to the bad debt expense recorded in Staff’s final accounting schedules in ER-2010-0130 to arrive at a Missouri jurisdictional adjustment of \$511,420.

Q. DOES PUBLIC COUNSEL AGREE WITH THE APPROACH EMPIRE IS PROPOSING?

A. No. Although Public Counsel recognizes there are various approaches to analyzing bad debt expense, after review and analysis of Empire’s data, Public Counsel believes the average annual actual Missouri jurisdictional bad debt (net write-offs) over the last 3 years (period ending November 30, 2010) is a more appropriate

1 measure for purposes of calculating the bad debt expense allowance for this rate  
2 case.

3  
4 Q. WHAT RESULT IS OBTAINED USING THE APPROACH RECOMMENDED BY  
5 PUBLIC COUNSEL?

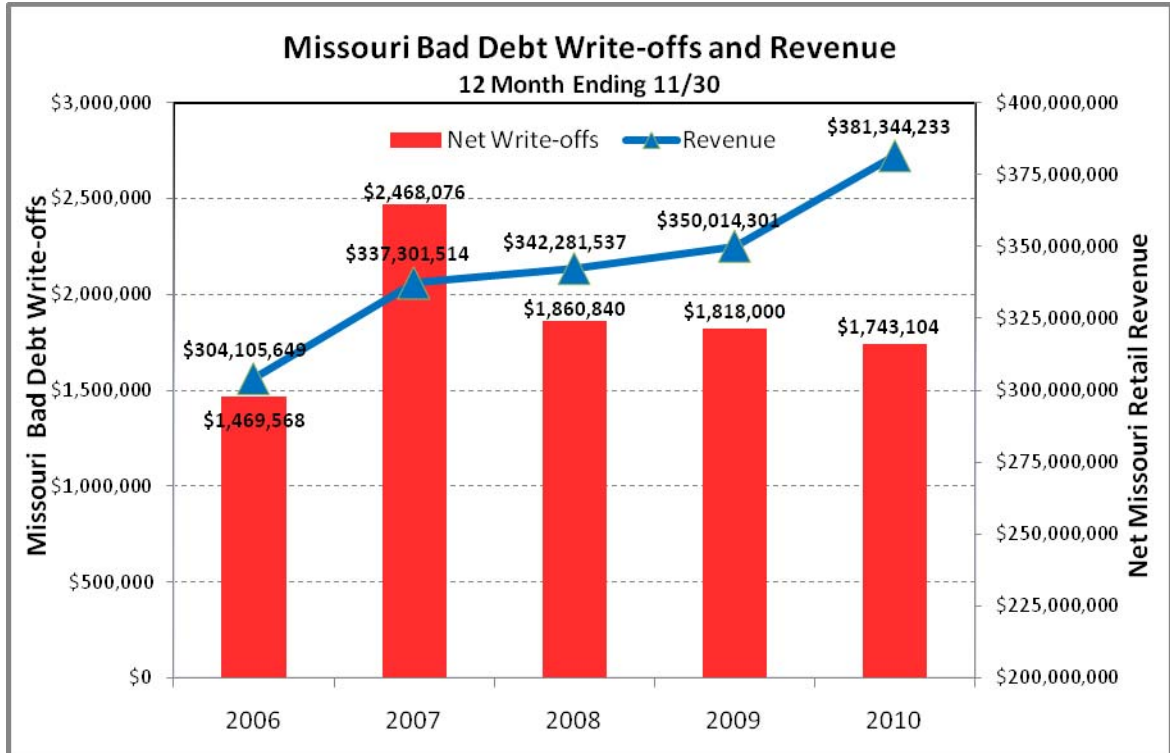
6 A. For the 36 month period ending November 30, 2010, which includes the test year  
7 and update through November 30, 2010 for known and measurable changes, the  
8 average annual Missouri bad debt expense equaled \$1,807,315. This average is  
9 obtained as follows:

Twelve Months Ending November 30	
2008	\$1,860,840
2009	\$1,818,000
2010	\$1,743,104
Total	<u>\$5,421,944</u>
Average	<u><u>\$1,807,315</u></u>

10  
11 Q. WHY DOES PUBLIC COUNSEL BELIEVE USING THE AVERAGE OF THE  
12 LAST 3 YEARS OF ACTUAL MISSOURI BAD DEBT IS MORE APPROPRIATE?

13 A. The graph below depicts Missouri bad debt write-offs, Missouri  
14 jurisdictional retail sales, and the relative relationship between the two for  
15 each of the last 5 years.

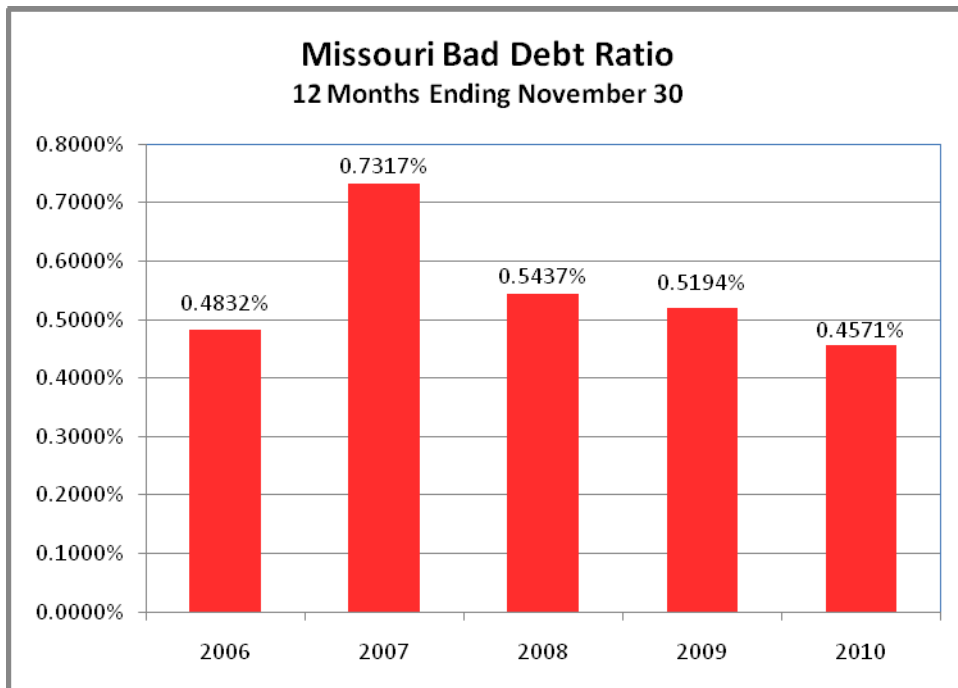
1



2

3 As the graph depicts, Missouri bad debt for the period ended November 30, 2010  
4 declined by \$724,972 (-29.4%) from the period ended November 30, 2007,  
5 despite Missouri retail revenue growth of \$44,042,719 (+13.1%) over that same  
6 period. Further as the chart below indicates, Missouri bad debt as a percent of  
7 Missouri retail revenue has been consistently declining since the spike in 2007.





1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12

Given the lack of a strong correlation between the bad debt expense and revenue, the consistent decline in the bad debt ratio since 2007, the fact that bad debt expense for period ending November 30, 2007 appears to be an outlier, and the relative consistency of actual bad debt over the last 3 years, Public Counsel believes the average net bad debt expense over the last 3 years of \$1,807,315 is the most appropriate amount to use for the this rate case.

**IV. PENSION EXPENSE**

Q. WHAT AMOUNT OF PENSION EXPENSE IS EMPIRE REQUESTING IN THIS RATE CASE?

A. Beginning on page 2, line 11, of Ms. Laurie Delano's Direct Testimony, she states:

1 Q. WHAT AMOUNT OF PENSION EXPENSE IS EMPIRE  
2 REQUESTING IN THIS RATE CASE?  
3

4 A. Empire is requesting total annual Missouri pension expense of  
5 \$6,461,409, which represents an adjustment of \$1,125,829 to  
6 Staff's adjusted level recorded in their accounting schedules in  
7 ER-2010-0130. This total includes actuarially determined  
8 expense of \$5,936,941 and the five-year tracker amortization  
9 of \$524,468.  
10

11 Q. WHAT IS PUBLIC COUNSEL'S RECOMMENDATION?

12 A. Public Counsel recommends the pension tracker be updated through November  
13 30, 2010 for known and measurable changes. The pension tracker asset  
14 balance as of November 30, 2010 is \$3,363,812. Therefore, Public Counsel  
15 believes the allowed annual Missouri pension expense should total \$6,609,703,  
16 comprised of:

- 17 • Actuarially determined expense \$5,936,941
  - 18 • Five-year amortization of the pension tracker \$ 672,762
- 19

20 **V. OTHER POST RETIREMENT EMPLOYMENT BENEFIT ("OPEB") EXPENSE**

21 Q. WHAT AMOUNT OF OPEB EXPENSE IS EMPIRE REQUESTING IN THIS RATE  
22 CASE?

23 A. Beginning on page 2, line 17, of Ms. Laurie Delano's Direct Testimony, she states:

24 Q. WHAT AMOUNT OPEB EXPENSE IS EMPIRE  
25 REQUESTING?  
26

27 A. Empire is requesting total Missouri OPEB expense of  
28 \$1,449,993, which represents an adjustment of \$826,481 to

1 Staff's adjusted level recorded in their accounting schedules in  
2 ER-2010-0130. This total includes actuarially determined  
3 expense of \$1,983,962 and the five-year tracker amortization  
4 of negative \$533,969.  
5

6 Q. WHAT IS PUBLIC COUNSEL'S RECOMMENDATION?

7 A. Public Counsel recommends the OPEB tracker be updated through November  
8 30, 2010 for known and measurable changes. The OPEB tracker balance as of  
9 November 30, 2010 is **-\$2,123,156**. Therefore, Public Counsel believes the  
10 allowed annual Missouri OPEB expense should total \$1,559,331, comprised of:

- 11 • Actuarially determined expense \$1,681,333
  - 12 • Substantive plan asset amortization \$ 302,629
  - 13 • Five-year amortization of the OPEB tracker **-\$ 424,631**
- 14

15 Q. WHAT IS THE SUBSTANTIVE PLAN AMORTIZATION?

16 A. Accounting Standards Codification (ASC) 715-60 defines the substantive plan as  
17 the terms of the post retirement benefit plan as understood by an employer who  
18 provides postretirement benefits and the employees who render services in  
19 exchange for those benefits. To the extent the substantive plan varies from the  
20 written plan, the substantive plan is the basis for the accounting for that transaction.

21 A substantive plan regulatory asset was established pursuant to Empire Case No.  
22 ER-2004-0570, and rate recovery afforded via amortization of that asset effective  
23 with rates on March 27, 2005.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21

Q. DOES PUBLIC COUNSEL HAVE ANY CONCERNS REGARDING THE  
SUBSTANTIVE PLAN AMORTIZATION?

A. Public Counsel has submitted a data request to seek more details regarding the creation of the substantive plan asset. Upon receipt of the requested information, and pursuant to analysis thereof, Public Counsel may re-address this issue at a later time.

**VI. RATE CASE EXPENSE**

Q. WHAT IS THE ISSUE?

A. In response to Missouri Public Service Commission (“MPSC”) Data Request No. 67, provided by Ms. Maureen Hilsabeck and Mr. Scott Keith on October 15, 2010, they state, “Empire has estimated the cost of the current rate case using the past rate case as a guide and taking into consideration the new areas of interest in this case such as a depreciation study, which is required by Commission rules and a class cost of service study.” Further, in that same response, Empire stated, “ there are no charges yet to MO-2011-0004”. Subsequent updated responses to MPSC Data Request No. 67 indicate that expenses pertaining to the incident case are beginning to be incurred. Public Counsel is tracking and auditing those expenses as they come in, and will continue to monitor throughout the proceedings. Therefore Public Counsel will present its position in subsequent testimony.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

**VII. VEGETATION MANAGEMENT TRACKER**

Q. PLEASE PROVIDE SOME BACKGROUND ON THE TRACKER?

A. During Empire’s rate case, Case No. ER-2008-0093, the Commission required Empire to establish a tracker to account for any difference between Empire’s actual vegetation management / infrastructure inspection costs and an estimated annual target. The estimated annual target was set at \$8.575 million. The tracker creates a regulatory asset in any year Empire spends more than the annual target and a liability in any year where Empire spends less than the target amount.

Q. WAS THE TRACKER MECHANISM REVISED DURING EMPIRE’S LAST RATE PROCEEDING, CASE NO. ER-2010-0130?

A. Yes. As explained by Jayna Long in her Direct Testimony, beginning on page 6, line 22, she states:

Q. DID EMPIRE CONTINUE THE TRACKER AS A RESULT OF ITS LAST RATE CASE, CASE NO. ER-2010-0130?

A. Yes. In the Stipulation and Agreement in Case No. ER-2010-0130, Empire agreed to continue the Vegetation Tracker, but terminate the Infrastructure tracker approved in Case No. ER-2007-0093. The Stipulation and Agreement stated as follows:

The vegetation tracker established in Empire’s last electric rate case, Case No. ER-2008-0093, and trued-up op through December 2009 in the Staff Accounting Schedules in this case will continue. The vegetation tracker will be rebased in Empire’s Rate Filing called for in Section III.D.7. of the Empire Experimental

1 Regulatory Plan Stipulation (the Iatan 2 case), and  
2 evaluated for termination in Empire's electric rate case  
3 following Empire's Rate Filing called for in Section  
4 III.D.7 of the Empire Experimental Regulatory Plan  
5 Stipulation. The base for the vegetation tracker in this  
6 case, Case No. ER-2010-0130, will be set at \$9 million,  
7 with a \$13 million cap and a \$7 million floor (all Missouri  
8 jurisdictional amounts).  
9

10 Q. IS EMPIRE REQUESTING CONTINUATION OF THE VEGETATION TRACKER IN  
11 THIS CASE?

12 A. Yes. In Jayna Long's Direct Testimony, beginning on page 7, line 13, she states:

13 Q. IS EMPIRE REQUESTING CONTINUATION OF THE  
14 VEGETATION TRACKER IN THIS CASE?

15  
16 A. Yes. Empire requests the Vegetation Tracker continue with  
17 this rate case. A reduction of \$997 was made to update  
18 Missouri jurisdictional expense to the current levels of the  
19 amortization needed as a result of the existing regulatory  
20 asset.  
21

22 Q. HOW DID EMPIRE DETERMINE A REDUCTION OF \$997 WAS NEEDED?

23 A. Empire calculated the asset tracker balance as of June 30, 2010 to be \$1,457,587.  
24 That balance was then amortized over five years to obtain an annual expense of  
25 \$291,517. The calculated annual expense was then compared to the annualized  
26 expense agreed to in Case No. ER-2010-0130, which was \$292,514 (tracker  
27 balance as of December 31, 2009 totaling \$1,462,569, amortized over five years).  
28

1 Q. DOES PUBLIC COUNSEL HAVE A POSITION ON THE VEGETATION TRACKER  
2 BALANCE AND ANNUAL AMORTIZATION THEREOF?

3 A. Yes, subject to review of information to be obtained via an outstanding data  
4 request which may alter Public Counsel's findings. Public Counsel updated the  
5 vegetation tracker balance through November 30, 2010, which includes the test  
6 year ending June 30, 2010, updated for known and measurable changes through  
7 November 30, 2010. Public Counsel's calculations indicate the tracker balance  
8 as of November 30, 2010 is \$2,534,212. Therefore annual amortization  
9 expense, using a five-year amortization period, would total \$506,842.

10  
11 Q. HOW DID PUBLIC COUNSEL OBTAIN THE TRACKER BALANCE?

12 A. Public counsel's calculation was based upon the following:

Trued-up tracker balance as of 12/31/09	\$1,462,569 <sup>A</sup>
Plus YTD Nov 2010 MO expenditures in excess of target	\$1,137,459 <sup>B</sup>
Plus YTD Nov 2010 amortization of the tracker balance	- \$ 65,816 <sup>C</sup>
Equals the Tracker balance as of November 30, 2010	\$2,534,212

13  
14 <sup>A</sup> Per Case No. ER-2010-1030

15 <sup>B</sup> The excess of Missouri Vegetation and Infrastructure expenditures,  
16 excluding remediation costs, incurred prior to September 10, 2010 plus  
17 the Missouri vegetation costs incurred from September 10 through

1 November 30, 2010, over the base target amounts established per  
2 Case NO. ER-2008-0093 (prior to Sept 10) and Case NO. ER-2010-  
3 00130 (subsequent to Sept 9)  
4 <sup>c</sup> Amortization of the tracker balance of \$1,462,569 over a five year-  
5 period beginning September 10, 2010  
6

7 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

8 A. Yes, it does.