

*Exhibit No.:*

*Issues: Bad Debt Expense*

*Witness: Roy M. Boltz, Jr.*

*Sponsoring Party: MoPSC Staff*

*Type of Exhibit: Surrebuttal Testimony*

*Case No.: ER-2001-299*

*Date Testimony Prepared: May 17, 2001*

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**SURREBUTTAL TESTIMONY**

**OF**

**ROY M. BOLTZ, JR.**

**THE EMPIRE DISTRICT ELECTRIC COMPANY**

**CASE NO. ER-2001-299**

*Jefferson City, Missouri  
May 2001*

*Exhibit No. 40*  
*Date 5/29/01 Case No. ER-2001-299*  
*Reporter KLM*

1                                   **SURREBUTTAL TESTIMONY**

2                                   **OF**

3                                   **ROY M. BOLTZ, JR.**

4                                   **CASE NO. ER-2001-299**

5                                   **THE EMPIRE DISTRICT ELECTRIC COMPANY**

6  
7           Q.     Please state your name and business address.

8           A.     Roy M. Boltz, Jr., P.O. Box 360, Jefferson City, Missouri 65102.

9           Q.     Are you the same Roy M. Boltz, Jr. who has previously filed direct  
10 testimony in this case?

11          A.     Yes, I am.

12          Q.     What is the purpose of this surrebuttal testimony?

13          A.     The purpose of this testimony is to respond to the rebuttal testimony of  
14 The Empire District Electric Company (Empire or Company) witness William L. Gipson  
15 on the issue of bad debt expense.

16          Q.     On page 2 of Mr. Gipson's rebuttal testimony, he states that "bad debt  
17 expense should be correlated with revenues and treated consistently in the context of this  
18 case." Do you agree with this statement?

19          A.     No, I do not. The Staff does not believe there is any correlation between  
20 increased revenues and increased bad debts for Empire at this time. If one were to look at  
21 Empire's revenues, bad debt accruals and actual write-offs for the years 1995 through  
22 1999 as shown on Schedule 1, one can see that while revenues increase every year, bad  
23 debt accruals and actual write-offs increased one year, then decreased the following year.

Surrebuttal Testimony of  
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1 Also, if one looks at Schedule 2, which shows the percentage growth in customers and  
2 revenues and the percentage increase or decrease from the previous year of bad debt  
3 accruals and actual write-offs for the period 1996-99, one can see there is no correlation  
4 between number of customers, revenues and bad debts. Therefore, the Staff believes  
5 there is no direct correlation between revenues and bad debt expense. Accordingly, the  
6 Missouri Public Service Commission (Commission) should not assume that granting a  
7 rate increase to Empire as a result of this rate application will, in and of itself, lead to  
8 increased bad debt expense.

9 Q. Mr. Gipson also implies on page 2 of his rebuttal testimony that it is  
10 Empire's position that any authorized increase in revenues in this case be adjusted  
11 upward by the bad debt factor. Would you like to comment on this?

12 A. Yes. Nowhere in the Company's direct filing of testimony and exhibits is  
13 there any reference to a proposal to gross up of bad debt expense for any authorized  
14 increase granted by the Commission in this case. There were no workpapers supporting  
15 this proposal found in the Company's workpapers supplied in its direct filing. In fact,  
16 there was no adjustment for bad debt expense at all in the Company's direct filing  
17 supporting its rate increase request. The first mention of this issue is in Mr. Gipson's  
18 rebuttal testimony.

19 Q. Is the bad debt gross-up factor that the Company is proposing of the same  
20 nature as the revenue conversion factor used by Staff in rate cases?

21 A. No, it is not. The revenue conversion factor is a mechanism by which  
22 income can be converted to a revenue requirement by factoring in the effects of income  
23 tax. The result of the application of this factor is a calculation showing how much

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1 revenue it takes to generate \$1.00 in after-tax net income. The purpose of the revenue  
2 conversion factor is to ensure an appropriate amount of revenue is authorized to generate  
3 the necessary net income after taxes. For every dollar collected in revenue, a  
4 corresponding amount relating to income taxes has to be factored in the revenue  
5 requirement calculation. There is a direct relationship between income tax expense and  
6 revenue requirement levels; whereas there is not even a direct correlation between  
7 revenues and bad debt expense.

8 Q. Does this conclude your surrebuttal testimony?

9 A. Yes, it does.

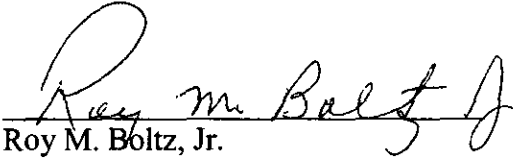
**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

In the Matter of the Application of the Empire         )  
District Electric Company for a General Rate         )         Case No. ER-2001-299  
Increase.   )

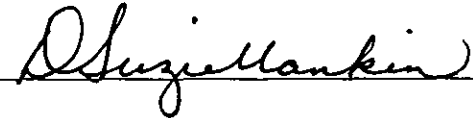
AFFIDAVIT OF ROY M. BOLTZ, JR.

STATE OF MISSOURI         )  
                                       )         ss.  
COUNTY OF COLE         )

Roy M. Boltz, Jr., being of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of   3   pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

  
\_\_\_\_\_  
Roy M. Boltz, Jr.

Subscribed and sworn to before me this 16<sup>th</sup> day of May 2001.

  
\_\_\_\_\_

**D SUZIE MANKIN**  
**NOTARY PUBLIC STATE OF MISSOURI**  
**COLE COUNTY**  
**MY COMMISSION EXP. JUNE 21, 2004**

Empire District Electric Company  
Case No. ER-2001-299  
Analysis of Bad Debts

Year	Total Company On-System Revenues	Total Company Bad Debts Accrued	Actual Write-Offs
1995	\$ 184,566,000	\$ 405,000	\$ 395,600
1996	\$ 196,773,000	\$ 551,000	\$ 543,110
1997	\$ 205,569,000	\$ 480,000	\$ 468,439
1998	\$ 228,744,000	\$ 580,000	\$ 583,948
1999	\$ 230,194,557	\$ 574,873	\$ 487,387

Empire District Electric Company  
Case No. ER-2001-299  
Percentage Increase/Decrease Relating to Bad Debt Expense

Year	Year End Customers	Growth Per Cent	Revenue Growth	Bad Debt Inc/Dec Prev Year	Write-Offs Inc/Dec Prev Year
1996	139,636	unk	6.60%	36.05%	37.29%
1997	141,987	1.68%	4.50%	-12.88%	-13.75%
1998	144,534	1.79%	11.00%	20.83%	24.66%
1999	146,712	1.51%	1.00%	-0.88%	-16.54%