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Unamortized Tracker Balances, Tornado
Deferral Asset Balance, Bad Debt
Witness: Bryan S. Owens
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Sponsoring Party: Empire District Electric
Case No. ER-2016-0023
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Before the Public Service Commission

of the State of Missouri

Rebuttal Testimony

of

Bryan S. Owens

April 2016



Empire Exhibit No. 14-NP
Date 6-2-16 Reporter KKF
File No. ER-2016-0023



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OF
BRYAN S. OWENS
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2016-0023

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REBUTTAL TESTIMONY
OF
BRYAN S. OWENS
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2016-0023

1 **INTRODUCTION**

2 **Q. STATE YOUR NAME AND ADDRESS PLEASE.**

3 A. My name is Bryan S. Owens and my business address is 602 South Joplin Avenue,
4 Joplin, Missouri.

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

6 A. I am currently employed by The Empire District Electric Company (“Empire” or
7 “the Company”) as the Assistant Director of Planning and Regulatory. I have held
8 this position since November, 2014.

9 **Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN THIS**
10 **PROCEEDING BEFORE THE MISSOURI PUBLIC SERVICE**
11 **COMMISSION (“COMMISSION”)?**

12 A. Yes, my direct testimony was filed in this proceeding on October 16, 2015.

13 **PURPOSE**

14 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**
15 **PROCEEDING?**

16 A. The purpose of my rebuttal testimony is to identify and respond to various
17 adjustments to the Company’s revenue requirements study recommended in the
18 direct testimony of witnesses for the Commission Staff (“Staff”) and the Missouri
19 Office of the Public Counsel (“OPC”). My rebuttal testimony focuses on the O&M

1 expense ratio used in Staff's EMS run associated with payroll and benefits, the rate
2 base treatment of various unamortized "tracker" balances, the rate base treatment of
3 expenses incurred for the repair, restoration and rebuild activities associated with
4 the May 22, 2011, tornado ("Tornado Deferral"), and the method used for
5 determining the Bad Debt adjustment.

6 **O&M EXPENSE RATIO**

7 **Q. PLEASE SUMMARIZE EMPIRE'S DISAGREEMENT WITH STAFF'S**
8 **OPERATING AND MAINTENANCE EXPENSE ("O&M EXPENSE")**
9 **RATIO?**

10 A. For Staff's O&M expense ratio, Staff uses payroll data provided by Empire, which
11 already excluded Empire's non-electric operating activity. Staff then, however,
12 includes non-electric operating activity in the denominator of its O&M expense
13 ratio, effectively removing non-electric operating activity from annualized payroll,
14 payroll tax, and 401(K) expense twice. This error, which results in a \$1,266,718
15 understatement of Empire's revenue requirement, must be corrected in order to
16 accurately reflect Empire's annualized expenses included in the O&M and Taxes
17 Other Than Income Taxes line items of the rate making formula illustrated in Table
18 1 below.

19 **Q. WHAT IS THE O&M EXPENSE RATIO?**

20 A. Generally, the O&M expense ratio is used in the determination of annualized
21 payroll, payroll tax, and benefits expense and is the function of total payroll
22 charged to expense accounts during the test year, divided by total payroll charged
23 to expense and asset accounts during the test year.

1 **Q. WHAT IS THE PURPOSE OF THE O&M EXPENSE RATIO?**

2 A. The purpose of the O&M expense ratio is to assign an appropriate portion of
3 annualized payroll, payroll tax, and benefit costs to O&M expense and Taxes Other
4 Than Income Tax expense as part of the overall revenue requirement.

5 **Q. WHAT IS THE GENERAL REVENUE REQUIREMENT FORMULA**
6 **APPLIED TO REGULATED UTILITIES?**

7 A. Generally, the revenue requirement formula can be summarized as the return on
8 rate base in addition to the return of O&M expense, depreciation and amortization
9 expense, taxes other than income tax expense, and income taxes. A summary of
10 the revenue requirement formula is also illustrated in Table 1 below.

11

Table 1
Summary Revenue Requirement Formula
Return on Rate Base
Return of O&M Expenses
Return of Depreciation and Amortization Expenses
Return of Taxes Other Than Income Taxes
Return of Income Taxes
Total Revenue Requirement

12

13 **Q. HOW DID EMPIRE DETERMINE ITS ANNUALIZED PAYROLL**
14 **EXPENSE?**

15 A. Empire captured the annual rate for all hourly and salaried wages from the payroll
16 system for the pay period ending June 28, 2015, excluding water, gas, non-
17 regulated, and non-utility operating activities.¹ The hourly and salaried wages
18 captured from the payroll system include all payroll activity booked to expense and

¹ See Highly Confidential Schedule BSO-1.

1 asset accounts. Various adjustments were added before arriving at total annualized
2 payroll. Next, Empire applied its O&M expense ratio to the total annualized
3 payroll amount to arrive at the total annualized payroll expense amount.

4 **Q. HOW DID EMPIRE DETERMINE ITS O&M EXPENSE RATIO?**

5 A. Empire determined its O&M expense ratio by averaging the function of total
6 electric payroll charged to expense accounts divided by total electric payroll
7 charged to expense and asset accounts for each of the five years ending April, 2014.
8 Empire excluded all water, gas, non-regulated, and non-utility operating activity
9 from its O&M expense ratio determination.

10 **Q. DID EMPIRE PROVIDE SUPPORT FOR ITS ANNUALIZED PAYROLL**
11 **AMOUNT, DEMONSTRATING THAT IT EXCLUDED WATER, GAS,**
12 **NON-REGULATED, AND NON-UTILITY OPERATING ACTIVITY?**

13 A. Yes. In its Highly Confidential response to Staff data request number thirty one
14 (31), Empire provided a payroll register containing annual payroll rates for the pay
15 period ending June 28, 2015. The payroll data provided in response to Staff data
16 request 31 excluded payroll associated with water, gas, non-regulated, and non-
17 utility operating activity.

18 **Q. DID STAFF USE THE DATA PROVIDED IN RESPONSE TO DATA**
19 **REQUEST 31 AS THE BASIS FOR ITS ANNUALIZED EXPENSE**
20 **AMOUNT ASSOCIATED WITH PAYROLL, PAYROLL TAX, AND**
21 **401(K)?**

22 A. Yes. In its highly confidential work paper “Annualized Payroll ER-2016-
23 0023.xls”, Staff cites Empire’s response to data request 31 as the source for Staff’s

1 annualized adjustments to payroll, payroll tax, and 401(K) expenses.

2 **Q. HOW DID STAFF DETERMINE THE O&M EXPENSE RATIO AS**
3 **APPLIED TO ITS ANNUALIZED PAYROLL EXPENSE ADJUSTMENTS**
4 **SUMMARIZED IN STAFF ACCOUNTING SCHEDULE 10 OF THE STAFF**
5 **REPORT?**

6 A. Staff determined its O&M expense ratio by averaging the function of total electric
7 payroll charged to expense accounts divided by total payroll charged to expense
8 and asset accounts for each of the three years ending June, 2015. Staff included all
9 water, gas, non-regulated, and non-utility operating activity (“non-electric
10 operating activity”) in the denominator of its O&M expense ratio determination.²

11 **Q. WAS THE INCLUSION OF WATER, GAS, NON-REGULATED, AND**
12 **NON-UTILITY OPERATING ACTIVITY IN THE DENOMINATOR OF**
13 **STAFF’S O&M EXPENSE RATIO APPROPRIATE?**

14 A. No. As previously discussed, Empire captured the annual rate for hourly and
15 salaried wages from the payroll system for the pay period ending June 28, 2015,
16 excluding non-electric operating activities. In other words, the annualized payroll
17 expense included in Empire’s revenue requirement already excludes non-electric
18 operating activity. By including non-electric operating activity in the denominator
19 of the O&M expense ratio, Staff is effectively removing non-electric operating
20 activity from annualized payroll twice, first by using the payroll data provided by
21 Empire in response to discovery which already excludes non-electric operating
22 activity, and second by including non-electric payroll activity in the denominator of

² See Highly Confidential Schedule BSO-2. Highly Confidential Schedule BSO-2 is an excerpt from the original source, which excludes graphs and data for all years not included in Staff’s proposed 3-year average. O&M rate.

1 Staff's O&M expense ratio.

2 **Q. WHAT IS THE O&M EXPENSE RATIO PROPOSED BY STAFF?**

3 A. The O&M expense ratio proposed by Staff is 73.04%.

4 **Q. WHAT WOULD BE STAFF'S CORRECTED O&M EXPENSE RATIO,**
5 **AFTER REMOVING THE NON-ELECTRIC ACTIVITY INCLUDED IN**
6 **THE DENOMINATOR OF STAFF'S RATIO?**

7 A. The corrected O&M expense ratio, using Staff's three-year average method, is
8 74.99%.

9 **Q. WHAT IS THE RESULT ON TOTAL REVENUE REQUIREMENT?**

10 A. Correcting the O&M expense ratio from 73.04% to 74.99% increases the amount of
11 annualized expense included in the O&M and Taxes Other Than Income Taxes line
12 items of the rate making formula illustrated in Table 1 above. Making the
13 correction to Staff's O&M expense ratio increases O&M and taxes other than
14 income taxes associated with Staff's annualized payroll, payroll tax, and benefits
15 adjustments included in Accounting Schedule 10 of the Staff report, by \$1,266,718.

16 **Q. WHAT IS EMPIRE'S RECOMMENDATION?**

17 A. For the reasons stated above, the Commission should order the correction to the
18 O&M expense ratio proposed by Staff and apply the corrected rate of 74.99% to the
19 March 31, 2016 true-up amounts associated with annualized payroll, payroll tax,
20 and benefits expense.

21 **TRACKER BALANCES**

22 **Q. WHAT IS A TRACKER?**

23 A. Since 2004 the Commission has authorized Empire to implement various "tracker"

1 mechanisms. The tracker mechanism establishes a target level of expense to be
2 recovered in base rates with actual costs “tracked” and booked to a regulatory
3 liability if below the target level and booked to a regulatory asset if above the target
4 level. The balances accumulated in the regulatory asset and liability accounts are
5 netted against each other and considered for recovery in subsequent rate case
6 proceedings.

7 **Q. WHAT ARE THE TWO ISSUES RELATED TO TRACKER BALANCES IN**
8 **THIS CASE.**

9 A. The OPC proposes to exclude from rate base the unamortized balance associated
10 with several trackers.³ Additionally, Empire proposes setting March 31, 2016, as
11 the cut-off date from which the unamortized tracker balances will be established for
12 inclusion in rate base in the instant case.

13 **Q. WHAT IS A REGULATORY ASSET?**

14 A. Accounting Standards Codification (ASC) 980 – Accounting for the Effects of
15 Certain Types of Regulation, “requires a rate-regulated utility to capitalize as a
16 regulatory asset an incurred cost that would otherwise be charged to expense if
17 future recovery in rates is probable.”⁴

18 **Q. HOW IS PROBABLE RECOVERY OF A REGULATORY ASSET**
19 **DETERMINED?**

20 A. ASC 980 “has a continuous probability standard to be met at each balance sheet
21 date in order for a regulatory asset to remain recorded.”⁵ “Evidence that could

³ Hyneman Direct, Page 34, Lines 10-17.

⁴ Section 12.02 of *Accounting for Public Utilities*, Robert L. Hahne and Gregory E. Aliff (Matthew Bender Publication).

⁵ *Ibid.*

1 support future recovery and corroborates utility management's representation
2 includes:

- 3 (1) Rate orders from the regulator specifically authorizing recovery of
4 the costs in rates.
- 5 (2) Previous rate orders from the regulator allowing recovery for
6 substantially similar costs.
- 7 (3) Written approval from the regulator approving future recovery in
8 rates.”⁶

9 **Q. HAVE PREVIOUS RATE ORDERS BY THE COMMISSION ALLOWED**
10 **FOR RATE BASE RECOVERY OF UNAMORTIZED TRACKER**
11 **BALANCES?**

12 A. Yes. The Commission has a long-standing practice of approving stipulation and
13 agreements which allow for rate base recovery of various unamortized tracker
14 balances. Additionally, Staff also has a long-standing practice of including
15 unamortized tracker balances in rate base, as outlined and illustrated in previous
16 Cost of Service Revenue Requirement Staff Reports.

17 **Q. PLEASE DESCRIBE THE RATE BASE TREATMENT HISTORY OF**
18 **EMPIRE'S VEGETATION MANAGEMENT TRACKER.**

19 A. The vegetation management tracker was established in Docket No. ER-2008-0093.⁷
20 In each subsequent rate case (Docket Nos. ER-2010-0130, ER-2011-0004, and ER-
21 2012-0345), Staff included the unamortized portion of the vegetation management

⁶ *Ibid.*

⁷ *In the Matter of The Empire District Electric Company's Tariffs to Increase Rates for Electric Service Provided to Customers in the Missouri Service Area of the Company, Report and Order, Case No. ER-2008-0093, July 30, 2008, Pages 72-73.*

1 tracker balance in rate base, as outlined and illustrated in each of its Cost of Service
2 Revenue Requirement Reports; each stipulation and agreement continued the rate
3 base treatment of the vegetation management tracker; and each Commission Report
4 and Order approved each stipulation and agreement allowing rate base treatment of
5 the vegetation management tracker. In Docket No. ER-2014-0351, the vegetation
6 management tracker mechanism was discontinued, with the unamortized regulatory
7 asset balance included in rate base, as proposed by Staff in its revised Accounting
8 Schedule 2.⁸

9 **Q. WHAT IS STAFF'S RECOMMENDATION IN THIS CASE?**

10 A. In the instant docket, Staff has included the unamortized regulatory asset in rate
11 base.⁹

12 **Q. WHAT IS EMPIRE'S RECOMMENDATION CONCERNING THE**
13 **UNAMORTIZED REGULATORY ASSET RELATED TO THE**
14 **VEGETATION MANAGEMENT TRACKER?**

15 A. The Commission should approve the rate base recovery of the unamortized
16 regulatory asset associated with the vegetation management tracker, consistent with
17 Staff's position in this case and consistent with the Commission's practice in each
18 rate case proceeding since the vegetation management tracker was established.
19 Additionally, the Commission should approve the cut-off date of March 31, 2016,
20 from which the unamortized regulatory asset balance associated with the vegetation
21 management tracker will be established for inclusion in rate base in the instant case.

22 **Q. PLEASE DESCRIBE THE RATE BASE TREATMENT HISTORY OF THE**

⁸ Revised Staff Accounting Schedules, Case No. ER-2014-0351, March 26, 2015, Accounting Schedule 2, line 10.

⁹ Staff Report, Revenue Requirement, Case No. ER- 2016-0023, page 62.

1 **O&M EXPENSE TRACKER FOR IATAN 2, IATAN COMMON, AND**
2 **PLUM POINT.**

3 A. The O&M expense tracker for Iatan 2, Iatan Common, and Plum Point (“O&M
4 Tracker”) was established in Docket No. ER-2011-0004.¹⁰ In the subsequent rate
5 case (Docket No. ER-2012-0345), Staff included the O&M Tracker in rate base as
6 illustrated in the Staff Accounting Schedules¹¹; the stipulation and agreement
7 continued the rate base treatment of the O&M Tracker; and the Commission Report
8 and Order approved the stipulation and agreement allowing rate base treatment of
9 the O&M Tracker. In Docket No. ER-2014-0351, the O&M Tracker mechanism
10 was discontinued, with the unamortized regulatory asset balance included in rate
11 base, as proposed by Staff in its revised Accounting Schedule 2.¹²

12 **Q. WHAT IS STAFF’S RECOMMENDATION IN THIS CASE?**

13 A. In the instant docket, Staff has included the unamortized regulatory asset in rate
14 base.¹³

15 **Q. WHAT IS EMPIRE’S RECOMMENDATION CONCERNING THE**
16 **UNAMORTIZED REGULATORY ASSET RELATED TO THE O&M**
17 **TRACKER?**

18 A. The Commission should approve the rate base recovery of the unamortized
19 regulatory asset associated with the O&M Tracker, consistent with Staff’s position
20 in this case and consistent with the Commission’s practice in each rate case

¹⁰ *In the Matter of The Empire District Electric Company of Joplin, Missouri for Authority to File Tariffs Increasing Rates for Electric Service Provided to Customers in the Missouri Service Area of the Company, Global Agreement, Case No. ER-2011-0004, May 27, 2011, Page 4.*

¹¹ Staff Accounting Schedules, Case No. ER-2012-0345, November 30, 2012, Accounting Schedule 2, line 12.

¹² Revised Staff Accounting Schedules, Case No. ER-2014-0351, March 26, 2015, Accounting Schedule 2, line 13.

¹³ Staff Report, Revenue Requirement, Case No. ER- 2016-0023, page 106.

1 proceeding since the O&M Tracker was established. Additionally, the Commission
2 should approve the cut-off date of March 31, 2016, from which the unamortized
3 regulatory asset balance associated with the O&M Tracker will be established for
4 inclusion in rate base in the instant case.

5 **Q. PLEASE DESCRIBE THE RATE BASE TREATMENT HISTORY OF THE**
6 **OPEB TRACKER.**

7 A. The FAS 106 – Other Post-Employment Benefit Costs (“OPEB”) tracker was
8 established in Docket No. ER-2006-0315.¹⁴ In each subsequent rate case (Docket
9 Nos. ER-2008-0093, ER-2010-0130, ER-2011-0004, ER-2012-0345, and ER-2014-
10 0351), Staff included the OPEB tracker in rate base as outlined and illustrated in
11 each of its Cost of Service Revenue Requirement Reports; each stipulation and
12 agreement continued the rate base treatment of the OPEB tracker; and each
13 Commission Report and Order approved each stipulation and agreement allowing
14 rate base treatment of the OPEB tracker.

15 **Q. WHAT IS STAFF’S RECOMMENDATION IN THIS CASE?**

16 A. In the instant docket, Staff has included the unamortized regulatory asset in rate
17 base.¹⁵

18 **Q. WHAT IS EMPIRE’S RECOMMENDATION CONCERNING THE**
19 **UNAMORTIZED REGULATORY ASSET RELATED TO THE OPEB**
20 **TRACKER?**

21 A. The Commission should approve the rate base recovery of the unamortized

¹⁴ *In the Matter of The Empire District Electric Company of Joplin, Missouri for Authority to File Tariffs Increasing Rates for Electric Service Provided to Customers in the Missouri Service Area of the Company, Stipulation and Agreement as to Certain Issues, Appendix C, Case No. ER-2006-0315, August 18, 2006.*

¹⁵ Staff Report, Revenue Requirement, Case No. ER- 2016-0023, page 103.

1 regulatory asset associated with the OPEB tracker, consistent with Staff's position
2 in this case and consistent with the Commission's practice in each rate case
3 proceeding since the OPEB tracker was established.

4 **Q. PLEASE DESCRIBE THE RATE BASE TREATMENT HISTORY OF THE**
5 **SWPA TRACKER.**

6 A. The Southwest Power Administration ("SWPA") tracker was established in Docket
7 No. ER-2011-0004.¹⁶ In each subsequent rate case (Docket Nos. ER-2012-0345
8 and ER-2014-0351), Staff included the SWPA tracker in rate base as outlined and
9 illustrated in each of its Cost of Service Revenue Requirement Reports; each
10 stipulation and agreement continued the rate base treatment of the SWPA tracker;
11 and each Commission Report and Order approved each stipulation and agreement
12 allowing rate base treatment of the SWPA tracker.

13 **Q. WHAT IS STAFF'S RECOMMENDATION IN THIS CASE?**

14 A. In the instant docket, Staff has included the unamortized regulatory liability in rate
15 base.¹⁷

16 **Q. WHAT IS EMPIRE'S RECOMMENDATION CONCERNING THE**
17 **UNAMORTIZED REGULATORY LIABILITY RELATED TO THE SWPA**
18 **TRACKER?**

19 A. The Commission should approve the rate base treatment of the unamortized
20 regulatory liability associated with the SWPA tracker, consistent with Staff's
21 position in this case and consistent with the Commission's practice in each rate

¹⁶ *In the Matter of The Empire District Electric Company of Joplin, Missouri for Authority to File Tariffs Increasing Rates for Electric Service Provided to Customers in the Missouri Service Area of the Company*, Global Agreement, Case No. ER-2011-0004, May 27, 2011, Page 4.

¹⁷ Staff Report, Revenue Requirement, Case No. ER- 2016-0023, page 65.

1 case proceeding since the SWPA tracker was established. Additionally, the
2 Commission should approve the cut-off date of March 31, 2016, from which the
3 unamortized regulatory liability balance associated with the SWPA tracker will be
4 established for inclusion in rate base in the instant case.

5 **Q. PLEASE DISCUSS THE SECOND ISSUE CONCERNING TRACKER**
6 **BALANCES.**

7 A. The second issue concerns the appropriate cut-off date for certain tracker and
8 deferred balances. Staff uses September 30, 2015 to establish deferred balances
9 associated with FAS 87 pension costs (Staff Report, page 102), Iatan and Plum
10 Point Carrying Costs (Staff Report, pages 63-64), and the PeopleSoft intangible
11 asset (Staff Report, page 60).

12 **Q. WHAT IS EMPIRE'S RECOMMENDATION CONCERNING THE**
13 **APPROPRIATE CUT-OFF DATE?**

14 A. To be consistent with the Commission's Order Setting Procedural Schedule in this
15 case, the Commission should order the deferred balances described above to be
16 true-up through March 31, 2016.

17 **TORNADO DEFERRAL**

18 **Q. PLEASE DESCRIBE THE STAFF'S AND OPC'S PROPOSED RATE BASE**
19 **TREATMENT OF THE TORNADO COSTS DEFERRED BY EMPIRE IN**
20 **ACCORDANCE WITH THE ACCOUNTING AUTHORITY GRANTED BY**
21 **THE COMMISSION.**

22 A. Both the Staff and OPC have eliminated the costs from Empire's rate base.

23 **Q. DO YOU AGREE WITH THIS RECOMMENATION?**

1 A. No. The exclusion of these costs from Empire's rate base will deny
2 Empire a return on the investment it has made in the system to restore electric
3 service and result in an immediate understatement of Empire's cost of service in
4 Missouri. This is unfair and is at odds with the Commission's order originally
5 authorizing the deferral of the tornado related costs, including additional carrying
6 cost.

7 **Q. OVER WHAT PERIOD OF TIME WILL EMPIRE AMORTIZE THE**
8 **REMAINING DEFERRED TORNADO COSTS?**

9 A. The deferred tornado costs are being amortized over ten years.

10 **Q. WILL THESE COSTS BE RECOVERED AS A SPECIFIC CHARGE TO**
11 **EMPIRE'S CUSTOMERS?**

12 A. No. The tornado cost amortization will be bundled in with the other components of
13 Empire's revenue requirement to develop Empire's overall revenue requirement.
14 As envisioned, the level of amortization expense included in Empire's cost of
15 service would be determined during the Company's rate cases that may take place
16 over the next several years.

17 **Q. THE STAFF REPORT, AT PAGE 126, INDICATES THAT THIS RATE**
18 **BASE EXCLUSION REPRESENTS A WAY TO SHARE THE RISK FROM**
19 **STORMS BETWEEN EMPIRE AND ITS CUSTOMERS. DO YOU AGREE?**

20 A. No. Empire has absorbed the financial impact of the storms for almost five years.
21 The costs deferred as a result of the storms will be spread to Empire's customers
22 over several years. The Staff recommendation simply understates the overall cost
23 and denies Empire recovery of the cost associated with carrying the deferred storm

1 costs for ten years. There is no risk sharing, only the denial of the cost associated
2 with spreading the storm cost recovery over a ten-year period.

3 **Q. WHAT IS EMPIRE’S RECOMMENDATION?**

4 A. The Commission should order that the unamortized balance associated with the
5 tornado deferral be included in rate base.

6 **BAD DEBT EXPENSE**

7 **Q. WHAT IS THE ISSUE INVOLVING BAD DEBT EXPENSE IN THIS**
8 **PROCEEDING?**

9 A. OPC witness Keri Roth proposes using a three-year average of actual bad debt
10 write-offs to establish the bad debt expense ratio to be applied to annual retail
11 revenues. Mrs. Roth asserts that a three-year average method is appropriate since
12 the “level of bad debt as a percentage of revenues is decreasing.”

13 **Q. DO YOU AGREE THAT A THREE-YEAR AVERAGE OF ACTUAL BAD**
14 **DEBT WRITE-OFFS TO ESTABLISH THE BAD DEBT EXPENSE RATIO**
15 **SHOULD BE USED?**

16 A. No. Empire supports the Staff position of using a five-year average to establish the
17 bad debt expense ratio (see Staff Report, p. 117).

18 **Q. DOES STAFF PROVIDE SUPPORT FOR THE USE OF A FIVE-YEAR**
19 **AVERAGE TO ESTABLISH THE BAD DEBT EXPENSE RATIO?**

20 A. Yes. On page 117 of Staff’s Report, Staff supports the use of a five-year average
21 method by stating the following:

22 Staff examined the most recent five-year (October 2010 –
23 September 2015) history of Empire’s bad debt write-offs
24 that were never collected (i.e., write-off’s net of amounts
25 subsequently collected). It is apparent from a review of

1 this data that Empire's bad debt expense fluctuates from
2 one year to the next. Therefore, Staff calculated a five-year
3 average of the uncollectable percentage of bad debt to
4 revenue, which was then applied to Staff's annualized and
5 adjusted level of test year retail rate revenues to obtain the
6 normalized level of bad debt expense.
7

8 **Q. WHAT IS EMPIRE'S RECOMMENDATION REGARDING THE BAD**
9 **DEBT EXPENSE RATIO?**

10 A. The Commission should order the use of the five-year average method described in
11 Staff's Report for the determination of the bad debt expense ratio.

12 **Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?**

13 A. Yes it does.

**SCHEDULE BSO-1
NP VERSION**

**HIGHLY CONFIDENTIAL
IN ITS ENTIRETY**

NP

HIGHLY CONFIDENTIAL
IN ITS ENTIRETY