

Exhibit No.:

Issue(s):

Witness/Type of Exhibit:

Sponsoring Party:

Case No.:

Bad Debts/
Dues and Donations
Addo/Direct
Public Counsel
ER-2012-0345

DIRECT TESTIMONY

OF

WILLIAM ADDO

Submitted on Behalf of the Office of the Public Counsel

EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2012-0345

November 30, 2012

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


In the Matter of The Empire District)
Electric Company of Joplin, Missouri)
Tariffs Increasing Rates for Electric) File No. ER-2012-0345
Service Provided to Customers in the)
Missouri Service Area of the Company)

AFFIDAVIT OF WILLIAM ADDO

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

William Addo, of lawful age and being first duly sworn, deposes and states:

1. My name is William Addo. I am a Public Utility Accountant I for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my direct testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.



William Addo
Public Utility Accountant I

Subscribed and sworn to me this 30th day of November 2012.



JERENE A. BUCKMAN
My Commission Expires
August 23, 2013
Cole County
Commission #09754037



Jerene A. Buckman
Notary Public

My Commission expires August, 2013.

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**DIRECT TESTIMONY
OF
WILLIAM ADDO**

**EMPIRE DISTRICT ELECTRIC COMPANY
CASE NO. ER-2012-0345**

9 **I. INTRODUCTION**

10 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

11 A. William Addo, PO Box 2230, Jefferson City, Missouri 65102-2230.

12
13 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

14 A. I am employed by the Missouri Office of the Public Counsel (OPC or Public Counsel) as
15 a Public Utility Accountant I.

16
17 Q. WHAT IS THE NATURE OF YOUR CURRENT DUTIES AT THE OPC?

18 A. My duties include performing audits and examinations of the books and records of public
19 utilities operating within the state of Missouri under the supervision of the Chief Public
20 Utility Accountant, Mr. Ted Robertson.

21
22 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND OTHER
23 QUALIFICATIONS.

24 A. I graduated in May, 2010, from Lincoln University in Jefferson City, Missouri, with a
25 Masters Degree in Business Administration (Accounting Major).

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

A. No.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. I am sponsoring the Public Counsel's position regarding Empire District Electric Company's (Empire or Company) ratemaking treatment for Bad Debts and Dues & Donations.

III. BAD DEBTS

Q. WHAT IS THE ISSUE?

A. The issue is determining the proper amount of bad debt cost the Company should be authorized to include in its rates pursuant to changes in rates effective at the conclusion of the current case.

Q. WHAT IS BAD DEBT EXPENSE?

1 A. Bad Debt expense is the portion of retail revenues that Empire is unable to collect from
2 its retail customers by reason of bill non-payment. After a certain amount of time has
3 elapsed, delinquent customer accounts are written off. In a situation where Empire is
4 subsequently able to successfully collect some portion of the previously written-off
5 delinquent amount owed, then those amounts collected reduces the actual write-offs. This
6 results in a net write off which is used to determine the annualized level of bad debt
7 expenses.

8
9 Q. HAVE YOU REVIEWED THE COMPANY'S ESTIMATED COST FOR BAD DEBTS
10 IT RECOMMENDS TO BE INCLUDED IN THE DETERMINATION OF RATES FOR
11 THE CURRENT CASE?

12 A. Yes. The Company's workpapers shows that it calculated and proposes to include a bad
13 debt cost amount based on a five-year average of actual Missouri bad debt write offs as
14 compared to Missouri revenues applied to the total Missouri revenues it has requested in
15 the current case.

16
17 Q. DOES PUBLIC COUNSEL AGREE WITH THE COMPANY'S
18 RECOMMENDATION?

1 A. Public Counsel basically agrees with the Company's methodology used to compute bad
2 debt. However, Public Counsel's recommended adjustment differs from what the
3 Company computed.

4
5 Q. PLEASE EXPLAIN.

6 A. In determining the annualized level of bad debt for Empire, Public Counsel examined the
7 Company's total retail revenue (less unbilled revenue) and the total net write-offs for a
8 four-year period of calendar years ending 12/31/2008, 12/31/2009, 12/31/2010 and 12
9 Months Ending 3/31/2012 to derive a bad debt ratio. This ratio was then applied to the
10 Missouri retail revenue for the test year and the Missouri portion of the rate increase
11 proposed by the Company, and then adjusted to a total Company retail revenue basis to
12 determine total Company annualized bad debt expense. Based on this calculation, Public
13 Counsel recommends an adjustment to decrease the booked expense by \$790,905.75
14 instead of the \$929,115 decrease proposed by the Company.

15
16 Q. IS THE PUBLIC COUNSEL'S RECOMMENDATION FOR ANNUAL BAD DEBT
17 EXPENSE SUBJECT TO FURTHER MODIFICATION?

18 A. Yes. Public Counsel has several data requests outstanding that depending on the
19 Company's response may require the recommendation to be modified.
20

1 **V. DUES AND DONATIONS**

2 Q. WHAT IS THE ISSUE?

3 A. The issue is determining the proper amount of dues and donations costs that the
4 Company should be authorized to include in its rates pursuant to changes in rates
5 effective at the conclusion of the current case.

6
7 Q. HAVE YOU REVIEWED THE DUES AND DONATIONS COSTS BOOKED IN
8 COMPANY'S FINANCIAL RECORDS?

9 A. Yes. Company's response to MPSC Staff Data Request No. 198 provided listings of the
10 costs booked in the financial records during the period April 2011 through June 2012. I
11 reviewed the listings of dues and donations costs incurred by Empire related to various
12 organizations and individuals that were charged to its utility account during the test year
13 as part of the rate making process. Based on my review, I determined that the Company
14 booked \$201,507.49 for dues during the test year. For the twelve months ended June
15 2012, the amounts booked were \$ 209,426.73 for dues and \$272.75 for donations.

16
17 Q. WHAT STANDARD HAS THE COMMISSION UTILIZED TO DETERMINE
18 WHETHER DUES AND DONATIONS PAID BY REGULATED UTILITIES
19 ARE TO BE ALLOWED OR DISALLOWED IN THE DETERMINATION OF
20 THE COST OF SERVICE?

1 A. The Commission has often disallowed dues and donations that were determined to
2 be unnecessary for safe and reasonable service and/or do not provide a direct
3 benefit to ratepayers. For example, in Kansas City Power and Light Company,
4 Case Nos. ER-81-42 and ER-80-48, Report and Order, 24 Mo P.S.C. (N.S.) 386,
5 400 (1981), the Commission stated,

6 The rule has always been that dues to organizations may be allowed as
7 operating expenses where a direct benefit can be shown to accrue to the
8 ratepayers of the Company. Conversely, where the sort of benefit does
9 not appear, disallowance of the dues is required.
10
11

12 With respect to donations, the Commission stated in Missouri Public Service, a Division of
13 UtiliCorp United, Inc., Case Nos. ER-97-394, et al., Report and Order, 7 Mo. P.S.C. 3d 178,
14 212 (1998),

15 The Commission has traditionally disallowed donations such as these. The
16 Commission finds nothing in the record to indicate any discernible ratepayer
17 benefit results from the payment of these donations. The Commission agrees
18 with the Staff in that membership in the various organizations involved in
19 this issue is not necessary for the provision of safe and adequate service to
20 the MPS ratepayer.
21
22

23 Q. DID PUBLIC COUNSEL RELY ON THE CASES CITED ABOVE IN
24 DETERMINING ITS RECOMMENDED DISALLOWANCES?

25 A. Yes.
26

1 Q. WHAT DOES PUBLIC COUNSEL RECOMMEND?

2 A. Public Counsel recommends adjustments to exclude various dues and donations amounting
3 to \$229,599.20 and \$272.75, respectively. I recommend these adjustments because the
4 expenditures were either;

5 1. Involuntary ratepayer contributions;

6

7 2. Duplicative of activities that are performed by other organizations to
8 which the Company belongs and pays dues;

9

10 3. Unnecessary for the utility to provide safe and adequate service; or

11

12 4. The recipient organization's activities do not provide any direct benefit to
13 the ratepayer.

14

15 Examples of dues Public Counsel recommends to be excluded from recovery in

16 the determination of new rates in this rate case are those paid to Rotary Clubs,

17 Golf Clubs, Home Builders Associations, Edison Electric Institute, etc. The

18 expenditures to these organizations, I believe, are not necessary to provide safe

19 and adequate service and/or provide any direct benefit to the ratepayer. In other

20 words, the ratepayer should not be made to reimburse Empire for expenditures

21 which are not necessary to provide safe and adequate service and do not provide

22 any direct benefit to the ratepayers.

23

1 Q. IS THE PUBLIC COUNSEL'S RECOMMENDATION FOR DUES AND
2 DONATIONS SUBJECT TO FUTURE MODIFICATION?

3 A. Yes. Public Counsel has several data requests outstanding that depending on the
4 Company's response may require the recommendation to be modified.
5

6 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

7 A. Yes, it does.
8
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