Exhibit No.:
Issues: Advertising, Lobbying, Building Leases, Organizational Dues, Charitable Contributions, Rate Case Expense and PSC Assessment
Witness: David P. Mansfield
Sponsoring Party: MoPSC Staff
Type of Exhibit: Direct Testimony
Case Nos.: EO-97-144andEC-97-362

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

DAVID P. MANSFIELD

MISSOURI PUBLIC SERVICE, A DIVISION OF UTILICORP UNITED, INC.

CASE NOS. EO-97-144 AND EC-97-362

Jefferson City, Missouri
March 1997

DIRECT TESTIMONY

OF

DAVID P. MANSFIELD

MISSOURI PUBLIC SERVICE,

A DIVISION OF UTILICORP UNITED, INC.

CASE NOS. EO-97-144 AND EC-97-362

Q. Please state your name and business address.

A. David P. Mansfield, 3675 Noland Road, Suite 110, Independence, MO 64055.

Q. By whom are you employed and in what capacity?

A. I am employed by the Missouri Public Service Commission (Commission) as a Regulatory Auditor.

Q. Please describe your educational background.

A. I received a Bachelor of Science degree in Accounting in May, 1992, from the University of Kansas, Lawrence. I received a Master of Science degree in Accounting in December, 1993, from the University of Kansas, Lawrence.

Q. What is the nature of your current duties with the Commission Staff (Staff)?

A. My duties are to assist with audits and examinations of the books and records of utility companies operating within the State of Missouri and to present the findings to the Commission on behalf of the Staff.

Q. Have you filed testimony with this Commission before?

A. Yes.

Q. With reference to Case Nos. EO-97-144 and EC-97-362, have you made an examination of the books and records of Missouri Public Service (MPS or Company), a division of UtiliCorp United, Inc. (UCU)?

A. Yes, with the assistance of the other members of the Staff.

Q. Please describe your areas of responsibility in this case.

A. My areas of responsibility in this case include: Advertising, Lobbying, Building Leases, Dues, Charitable Contributions, Rate Case Expense, and the PSC Assessment.

Q. Which adjustments on Accounting Schedule 10, Adjustments to the Income Statement are you sponsoring?

A. I am sponsoring the following Income Statement adjustments:

Advertising:	S-9.4 and S-11.9
Building Leases:	S-11.7
Dues:	S-11.10
PSC Assessment:	S-11.11

It should be noted that while the issues of Lobbying and Charitable Contributions were analyzed, no adjustment to the Company's per book figure is recommended by Staff at this time.

ADVERTISING

Q. Please explain Adjustments S-9.4 and S-11.9.

A. Adjustments S-9.4 and S-11.9 restate the Company test year advertising levels to reflect annualized electric advertising expense.

Q. Please explain the history of such adjustments before the Commission.

A. In 1986, Re: Kansas City Power and Light Company, 28 Mo. P.S.C. (N.S.) 228, 75 PUR4th 1 (1986) (KCPL), the Commission adopted the Staff's recommendation to abandon the New York Rule for advertising (in place prior to 1986) and replace it with an analysis which separates advertisements into five categories and provides separate rate treatment for each category. The five categories of advertisements recognized by the Commission for purposes of this approach are:

(1) General - Advertising that is useful in the provision of adequate service;

(2) Safety - advertising which conveys the ways to safely use the Company's service and to avoid accidents;

(3) Promotional - advertising used to encourage or promote the use of the particular commodity the utility is selling;

(4) Institutional - advertising used to improve the Company's public image; and

(5) Political - advertising which is associated with political issues.

The Commission adopted these categories for advertisements because it believed that a utility's revenue requirement should: (1) always include general and safety ads, provided such costs are reasonable, (2) never include the cost of institutional or political ads, and (3) include the cost of promotional ads only to the extent that the utility can provide cost-justification for the ads, (KCPL, pp. 269-271).

Q. What examination has the Staff performed in regard to the Company's advertising expenditures?

A. The Staff performed an ad by ad review of the advertisements the Company supplied in response to data requests. Each ad reviewed was classified by Staff into the above mentioned categories.

Q. How did the Staff determine each advertisement's classification under the KCPL standard?

A. Each advertisement was reviewed to determine which of the following "primary messages" the advertisement was designed to communicate: (1) the dissemination of information necessary to obtain safe and adequate service (safety, general); (2) the promotion of a particular product or service (promotional); (3) the promotion of the Company's image (institutional); or (4) the endorsement of a political candidate/message (political). The advertisements were then reviewed and independent classifications were made. Some ads were applicable to gas only and were appropriately removed from consideration for recovery in electric rates.

Q. Does MPS classify its advertising in categories?

A. No, according to Data Request No. 28, it does not.

Q. Has MPS maintained adequate records associated with these advertisements?

A. No. The Company was not prepared to supply all the ads sponsored. Company asked us to reduce the number of ads asked for. The Company took considerable time (30-70 days) to provide the Staff with copies of selected ads. The response to Data Request Nos. 161, 199 and 203 states that many ads could not be found or were not available.

Q. How did Staff handle this lack of information in computing the adjustments for advertising?

A. MPS asked Staff to reduce the number of ads that were asked for. We selected ads that had an invoice value of $300 or more. We used these samples to create a percentage of recoverable advertising costs and applied that percent to the remaining population of advertising costs.

Q. How has the Staff treated general advertising?

A. The Staff proposes to include in the cost of service all general advertising incurred by MPS during the test year. Examples of this type of advertising are ads detailing the business location, office hours and telephone numbers.

Q. How has the Staff treated safety advertising?

A. The Staff proposes to include in the cost of service all electric safety advertising incurred during the test year. Safety advertising conveys to the customer ways to safely use electricity and to avoid accidents.

Q. How has the Staff treated promotional advertisements?

A. As previously defined, advertising that encourages or promotes the use of a particular form of the Company's product or service (i.e., electric over gas, heat pumps over furnaces) is termed promotional advertising by the Commission. Consistent with the

Commission's precedent, the Staff deemed such advertisements as promotional. As has been previously noted:

> The Commission does believe that promotional advertising can be beneficial to the ratepayers and should not be arbitrarily disallowed, but any benefit must be cost-justified. The benefits from those expenditures must be demonstrated to exceed the costs for the promotional advertising itself. KCPL at 271.

Q. Was the Company able to provide cost justification to support the marginal revenues and related expenses generated from its promotional advertising activities?

A. No. According to Data Request No. 28, MPS does not perform a cost/benefit analysis of advertising expenditures.

Q. What adjustments did Staff make?

A. A portion of advertisements were supplied for Account No. 910, "Miscellaneous Customer Service and Informational Expense." Staff classified this sample of advertisements as promotional. Staff considered the sample to be representative of the type of advertisements recorded in Account No. 910 and disallowed the entire balance recorded in Account No. 910 (Adjustment S-9.4).

Q. Please explain the adjustment made to Account No. 930.1, "General Advertising Expense" (Adjustment S-11.9).

A. Staff was supplied with a sample of advertisements recorded to this Account. Staff was able to classify this sample into General, Promotional, and non-advertising costs. A percentage of the sample was identified for costs not recoverable. This percent was applied to the remaining costs that were not supported by an advertisement.

Q. Why did Staff use only a portion of the advertisements in Account No. 910, "Miscellaneous Customer Service and Informational Expense" and Account No. 930.1, "General Advertising Expense" to make a determination about the advertisements in those Accounts?

A. As mentioned before, due to the lack of complete and accurate Company information, a sample was performed rather than a complete review.

Q. Was a sampling method necessary in the last MPS electric case, Case No. ER-93-37?

A. No. My examination of the Staff testimony and workpapers from Case No. ER-93-37 indicates that MPS was able to provide copies of all the advertisements for the test year. Therefore, it was not necessary to use a sample to calculate the level of advertising costs which should be included in cost of service for that case.

Q. How has the Staff treated institutional advertisements?

A. Institutional advertising is designed to enhance the Company's public image. The Staff asserts that this form of advertising is not necessary for the Company to provide safe and adequate service and, therefore, should not be included in the cost of service. If any benefits are derived from this type of advertising, it is the owners of the utility who benefit from the enhanced public image of the Company.

Institutional advertisements which appeared in a sales account is being addressed by Staff Consultant Dittmer.

Q. Did the Company provide the Staff with any advertisements of a political nature?

A. No. MPS did not submit, nor did the Staff classify, any advertisements as political.

BUILDING LEASES

Q. Does Staff propose an adjustment for building leases?

A. Yes. Staff has made adjustment No. S-11.7. This adjustment annualizes the known and measurable lease expense as of June 30, 1996.

DUES

Q. Please explain adjustment S-11.10.

A. Adjustment S-11.10 excludes annual dues and registration fees paid to the Edison Electric Institute (EEI) and various other organizational dues included in the Company's test year electric Operations and Maintenance (O&M) expense.

Q. What is EEI?

A. EEI is an association of investor-owned electric utility companies whose members serve customers within the investor-owned segment of the industry.

Q. Has the Commission ever ruled in favor of excluding from cost of service all dues paid to EEI?

A. Yes, over the last several years the Commission has consistently disallowed all dues paid to EEI. In Union Electric Company, Case No. EC-87-114, et al., the Commission stated:

> Not only must the Company show a direct benefit, but the benefits must be quantified and allocated between shareholders and ratepayers. The Commission continues to adopt this

> standard as reasonable for the inclusion of EEI dues in the cost of service. 29 MoPSC (NS) 313,332 (1987).

Q. In addition to paying the annual EEI dues, does MPS also pay registration fees to other organizations?

A. Yes.

Q. Has the Staff removed these registration fees from the cost of service?

A. Yes. Staff has removed fees from organizations which are not necessary to provide safe and adequate service. These are also reflected in adjustment S-11.10.

Q. What organizations are these?

A. These organizations and the amounts paid to them in 1995 are listed in Schedule 1 attached to the back of my testimony.

Q. How were the fees recommended for removal differentiated from those not recommended for removal?

A. Staff Data Request No. 74 requested a narrative explanation of each organization and why MPS incurred these costs. Based on the Company's narrative explanations, Staff selected organizations whose narrative did not suggest ratepayer benefit or necessity for providing electric service.

RATE CASE EXPENSE

Q. Are you sponsoring any adjustments for rate case expense?

A. No. The annualized rate case expense recorded in the 1995 ledger and the annualized amount of rate case expense recommended in the last rate case, Case No. ER-93-37, were similar. Staff, therefore, felt that no adjustment was necessary.

PSC ASSESSMENT

Q. Please explain adjustment S-11.11.

A. Adjustment S-11.11 increases the annual cost for the PSC assessment recorded on the Company's books to match the new assessment as shown in PSC correspondence of June 28, 1996.

Q. Does this conclude your direct testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of the Earnings Review of UtiliCorp United Inc., d/b/a Missouri Public Service.	)))	Case No. EO-97-144

and

The Staff of the Missouri Public Service Commission, Complainant,	))))	
v.	))	Case No. EC-97-362
UtiliCorp United, Inc., d/b/a Missouri Public Service Respondent.	)))	

AFFIDAVIT OF DAVID P. MANSFIELD

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

David P. Mansfield, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 10 pages to be presented in the above case; that the answers in the foregoing Direct 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.

David P. Mansfield
DAVID P. MANSFIELD

Subscribed and sworn to before me this 27th day of March, 1997.

Roberta A. McKiddy
Notary Public

My Commission Expires: ROBERTA A. McKIDDY
Notary Public, State of Missouri
County of Cole
My Commission Expires 09/11/99

Dues & Memberships

Adjustment 1: Recorded in account 930.23

K.C. Minority Development Council	600
Greater KC Chamber of Commerce	6,000
Missouri Chamber of Commerc	3,400
Associated Industries of Missouri	5,350
Society of Industrial & Office Realtors	690
Clay County Economic Development Council	1,500
National Association of Manufacturers	3,700
National Economic Research	3,500
REFGORM	5,000
Country Club Dues	62,474
Greater KC Sports Commissions	2,500
EEI	92,011
American Gas Association	13,433
National Association of Town Watch	1,500
Total	201,658
Electric Allocation	93.66%
Jurisdictional Allocation	98.38%
Allocated Unrecoverable	(185,813) adjust

Adjustment 2: Recorded in Account 930.25

Grandview Area Economic Development Council	3,000
Electric Allocation	95.63%
Jurisdictional Allocation	98.38%
Allocated Unrecoverable	(2,822) adjust

Total Adjustment (188,635)