

Exhibit No.:

Issue(s): *Bad Debt Expense,
Capitalized Depreciation,
Injuries and Damages,
Insurance Expense, PSC
Assessment, Rating Agency
Fees, Incentive Compensation,
and Miscellaneous Revenues*

Witness: *Melanie Marek*

Sponsoring Party: *MoPSC Staff*

Type of Exhibit: *Direct Testimony*

Case No.: *ER-2024-0261*

Date Testimony Prepared: *July 2, 2025*

MISSOURI PUBLIC SERVICE COMMISSION

**FINANCIAL & BUSINESS ANALYSIS DIVISION
AUDITING DEPARTMENT**

DIRECT TESTIMONY

OF

MELANIE MAREK

**THE EMPIRE DISTRICT ELECTRIC COMPANY,
d/b/a Liberty**

CASE NO. ER-2024-0261

*Jefferson City, Missouri
July 2025*

**** Denotes Confidential Information ****

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1 **DIRECT TESTIMONY**

2 **OF**

3 **MELANIE MAREK**

4 **THE EMPIRE DISTRICT ELECTRIC COMPANY,**
5 **d/b/a Liberty**

6 **CASE NO. ER-2024-0261**

7 Q. Please state your name and business address.

8 A. My name is Melanie Marek, and my business address is 200 Madison Street,
9 P.O. Box 360, Jefferson City, Missouri 65102.

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

11 A. I am employed by the Missouri Public Service Commission (“Commission”) as
12 a Lead Senior Utility Regulatory Auditor in the Auditing Department, Financial and Business
13 Analysis Division.

14 Q. Please describe your educational background and work experience.

15 A. My credentials are attached as Schedule MM-d1.

16 Q. What is the purpose of this direct testimony?

17 A. The purpose of this direct testimony is to provide the Staff of the Commission’s
18 (“Staff”) recommendations concerning Bad Debt Expense, Capitalized Depreciation, Injuries
19 and Damages and Worker’s Compensation, Insurance Expense, Public Service Commission
20 Assessment, Rating Agency Fees, Incentive Compensation, and Miscellaneous Revenues.

21 **BAD DEBT EXPENSE**

22 Q. What is Bad Debt Expense?

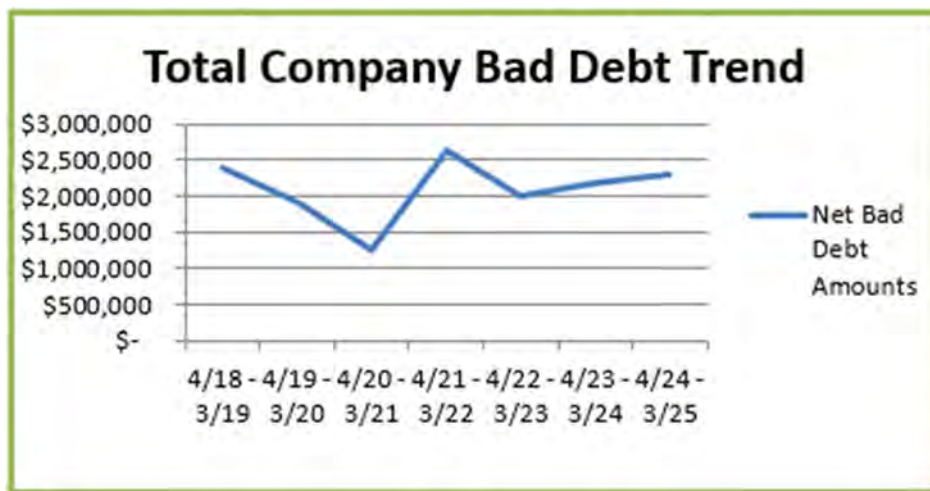
1 A. Bad debt expense, or uncollectible account expense, is the portion of electric
2 revenues that The Empire District Electric Company, d/b/a Liberty ("Liberty" or "Empire")
3 was unable to collect from customers due to non-payment of customer utility bills.

4 Q. How did Staff determine the level of bad debt expense to include in
5 its recommendation?

6 A. Staff reviewed bad debt expense on a cash basis for all service areas starting on
7 April 1, 2018, through March 31, 2025, and noted there were fluctuations in the levels of bad
8 debt expense from year to year. Due to the yearly fluctuations, Staff determined a five-year
9 average ending March 31, 2025, was appropriate for bad debt expense for all service areas.
10 Staff examined bad debts through March 31, 2025, because there is an inherent lag between the
11 recognition of revenue and an uncollectible account write-off. Typically, the lag is about six
12 months. In this case, Staff has reflected ongoing revenue as of September 30, 2024. It is
13 appropriate to examine bad debt activity over the subsequent months for matching purposes.

14 The fluctuations in write-offs can be seen below in Figure 1 for the Total Company.

15 **Figure 1:**



16

1 **DEPRECIATION CLEARING**

2 Q. What are depreciation clearings?

3 A. During the test year and update period, Empire depreciated transportation
4 equipment and charged the cost to a clearing account. At the end of the accounting period, the
5 cost held in the clearing account is distributed among multiple Federal Energy Regulatory
6 Commission (“FERC”) accounts.

7 Q. Did Staff determine an adjustment to the expense account was warranted?

8 A. Yes. In its revenue requirement calculation, Staff included 100% of its
9 annualized depreciation expense by adjusting Account 403 (Depreciation Expense), so
10 depreciation costs booked to other FERC accounts in the test year need to be removed in order
11 to avoid double recovery. Staff, accordingly, has removed the test year amount depreciation
12 clearings from depreciation expense.

13 **INJURIES AND DAMAGES**

14 Q. Please briefly describe injuries and damages expense.

15 A. Injuries and damages expense is related to insurance claims and represents the
16 portion of legal claims against a utility that is not subject to reimbursement under the utility’s
17 insurance policies. Injuries and damages claims usually consist of claims associated with
18 general liability, worker’s compensation, and auto liability.

19 Q. What is Staff’s recommended treatment for injuries and damages?

20 A. Staff’s recommended treatment of injuries and damages is to annualize Empire’s
21 costs by using the update period’s balance of actual cash payments made by Empire to entities
22 that had an injury and/or claim against Empire, as there was a downward trend in these costs.
23 The downward trend in the payouts can be seen in Figure 2. Empire has elected to capitalize

1 50% of the expense associated to these payouts. The adjustment will be to update the test year
2 to the update period's amount.

3 **Figure 2:**

4 **



6 **

7 **INSURANCE EXPENSE**

8 Q. Please explain insurance expense as it relates to regulated utilities.

9 A. Insurance expense is the cost of protection obtained from third parties by
10 utilities against the risk of financial loss associated with unanticipated events. Utility companies
11 routinely incur insurance expense in order to minimize their liability associated with
12 unanticipated losses for property assets and personal injury from accidents. Certain forms of
13 insurance reduce ratepayer's exposure to risk.

14 Q. What is Staff's recommended treatment for insurance expense?

15 A. Staff's recommended treatment of insurance expense is to include an annualized
16 level of insurance expense based on current insurance premiums being paid and allocating an
17 appropriate portion of the expense to Empire's cost of service. This is done in lieu of

1 normalizing, to reflect a full year of insurance expense at the most current rates because
2 insurance rates changed during the test year.

3 **PSC ASSESSMENT**

4 Q. What is the Missouri Public Service Commission Assessment
5 (“PSC Assessment”)?

6 A. The PSC Assessment is incurred by all utilities subject to regulation by the
7 Commission. The Commission’s total budget is allocated and billed to regulated utility
8 companies based on factors such as each company’s intrastate revenue and Staff time sheet
9 data demonstrating the amount of time dedicated to working on specific utility types by
10 utility company. The funding amount is re-evaluated each year, and a new assessment is billed
11 on July 1.

12 Q. How did Staff annualize the PSC assessment expense?

13 A. Staff has included the actual expense assessed utilizing the fiscal year 2025
14 assessment. If the 2026 assessment is available, Staff will update this in its true-up audit.

15 **RATING AGENCY FEES**

16 Q. Please explain rating agency fees as they relate to regulated utilities.

17 A. Rating agencies, like Moody’s, are organizations that give a credit rating to
18 organizations, or in this case, a utility. The fees associated with receiving these ratings are
19 deemed rating agency fees.

20 Q. Does Staff recommend an adjustment to the rating agency fees in this case?

21 A. Yes. Staff recommends normalizing these fees based on a three-year period
22 ending in September 2023, as the fees vary between years.

1 **INCENTIVE COMPENSATION**

2 Q. What is incentive compensation as it relates to this case?

3 A. With the exclusion of the Long Term Incentive Plan (“LTIP”), Empire’s
4 incentive compensation is an annual cash payout to eligible participants based on goals
5 approved by Empire. The eligible participants receive incentive compensation for
6 achievements of goals using a weighted average approved by Empire. With LTIP, there are
7 no requirements for an increase in duties or goals and no measurement as to whether any
8 specific goals were met.¹

9 Q. What is an example of a goal Empire would set and subsequently expend
10 incentive compensation for when met?

11 A. **

[REDACTED]

12 [REDACTED]

13 [REDACTED] ² **

14 Q. What type of incentive plans does Empire offer?

15 A. Empire currently offers a LTIP, Short Term Incentive Plan (“STIP”), and a
16 Shared Bonus Pool (“SBP”).³

17 Q. Please describe the STIP and SBP plans.

18 A. For the STIP and SBP, Empire uses both parent and division scorecards to
19 determine the amounts employees receive under the SBP and STIP. Empire calculates the STIP
20 and SBP awards as follows:

¹ Response to Data Request (“DR”) 0242.0

² Response to DR 0241.0, “Liberty Together – Final 2023 Corporate Scorecard Results CONFIDENTIAL.pdf,” page 6.

³ Response to DR 0242.0.

1 ** [REDACTED]

2 [REDACTED]

3 [REDACTED]

4 [REDACTED]

5 [REDACTED]

6 [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 [REDACTED] **4

13 Q. What is a scorecard?

14 A. A scorecard contains objectives set by the executive team and reflects
15 financial and operational objectives, as well as a weighted payout percentage for obtaining
16 these objectives.

17 Q. Please describe the LTIP plan.

18 A. Through the LTIP, senior officers are annually issued stock as part of their total
19 compensation. In Empire's past rate cases, Staff recommended disallowance of LTIP benefits,
20 because senior officers do not have specific goals to meet in order to be granted these stock
21 options. These awards benefit Empire's shareholders, not Empire's ratepayers. Additionally,
22 unlike other recognition expense in its income statement, Empire has no cash outlay for this
23 equity-based incentive compensation.

⁴ Response to Staff DR 0241.

1 Q. Does Staff recommend an adjustment to the test year amount?

2 A. Yes. Staff recommends disallowing incentives for financial metrics as well as
3 incentives awarded for the implementation of Customer First as it relates to the STIP and SBP
4 plans. Also, Staff recommends eliminating the cost of stock options from the LTIP, recognized
5 as an expense, consistent with the Commission's *Report and Order* in Case No. ER-2006-0315.
6 Staff intends to review Empire's 2024 incentive compensation plans, which were paid in 2025,
7 as part of its true-up audit. Staff's incentive compensation adjustment may change once true-
8 up data is received.

9 Q. Why is Staff recommending these disallowances?

10 A. To be included in cost of service, Staff asserts incentive compensation should
11 be the result of employees performing beyond basic job requirements and provide a benefit to
12 ratepayers. Staff is recommending the disallowance of awards based on financial metrics as
13 they are awarded for increasing shareholder value, not as a benefit to the ratepayers. In regards
14 to the Customer First implementation, Staff recommends disallowance because a benefit to the
15 ratepayers has not yet been fully realized from the Customer First program. Staff's position is
16 incentive payments made for the successful implementation of the Customer First Program are
17 not currently relevant to Empire's operations. See the direct testimony of Staff witness
18 Thomason for more detail on Empire's implementation of Customer First.

19 **MISCELLANEOUS REVENUES**

20 Q. What are miscellaneous revenues?

21 A. These are revenues that are received by a utility company outside of retail rates.
22 Some examples include late fees, reconnect charges, and rents from properties.

23 Q. Does Staff recommend an adjustment for these revenues?

1 A. Yes, Staff recommends different treatment of different revenues based on need,
2 fluctuations, and trends. Staff recommends the following:

- 3 • The removal of franchise fees revenues, as they are offset by franchise tax
4 expense, which is also being removed;
- 5 • Removing unbilled revenues from the test year, to avoid double counting of
6 revenue using billing determinants;
- 7 • Removing the fuel adjustment charge revenues and Missouri Energy Efficiency
8 Investment Act (MEEIA) revenues, as these are not collected in base rates;
- 9 • Renewable Energy Credits (REC) will be adjusted for the update period due to
10 the fluctuations in recorded revenues for these;
- 11 • A five-year normalization of rent revenues and forfeited discounts (late fees)
12 due to the dramatic fluctuations in such;
- 13 • A three-year normalization of reconnect charges and returned check charges
14 ending at the test year, as when Empire began their new system these charges
15 were not recorded separately in the update period; and
- 16 • A three-year normalization of transmission credits for Plum Point to better
17 reflect the increase in the update period.

18 Q. Does this conclude your direct testimony?

19 A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Request of The Empire)
District Electric Company d/b/a Liberty for) Case No. ER-2024-0261
Authority to File Tariffs Increasing Rates)
for Electric Service Provided to Customers)
in Its Missouri Service Area)

AFFIDAVIT OF MELANIE MAREK

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

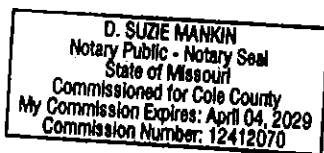
COMES NOW MELANIE MAREK and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Direct Testimony of Melanie Marek*; and that the same is true and correct according to her best knowledge and belief.

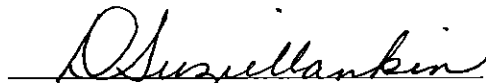
Further the Affiant sayeth not.


MELANIE MAREK

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 26th day of June 2025.




Notary Public

Melanie Marek

Present Position:

I am a Lead Senior Utility Regulatory Auditor, Auditing Department, Financial and Business Analysis Division of the Missouri Public Service Commission. I transferred from the Water, Sewer, Gas, and Steam Department in the Industry Analysis Division on August 1, 2024, which I started in October of 2022.

Educational Credentials and Work Experience:

I completed an Associate in Science in Business Administration from Columbia College in 2016. In April 2018, I earned my Bachelors of Science in Business Administration majoring in Accounting and Finance with a minor in Management from Columbia College. Finally in April 2020, I completed the MBA program with an emphasis in Accounting from Columbia College. I have worked in finance, auditing, and governmental accounting with over 15 years of experience.

Case Participation:

Case Number(s)	Company Name	Scope of Issues	Testified at Hearing
ER-2024-0261	The Empire District Electric Company	Incentive Compensation, Injuries and Damages and Workers' Compensation, Insurance Expense, PSC Assessment, Capitalized Depreciation (Depreciation Clearing), Bad Debt Expense, Miscellaneous Revenues	
GR-2025-0107	Spire Missouri Inc.	Pension Plan Trustee Fees, Pensions and OPEBs - Asset Balances, Amortizations, SERP Non-Qualified Pension Expense	
HO-2023-0357	Evergy Missouri West, Inc.	Case Manager, Lead Auditor	
HR-2023-0198	Vicinity Energy Kansas City, Inc.	Case Manager	
HR-2024-0370	Vicinity Energy Kansas City, Inc.	Case Manager, Lead Auditor	
HT-2023-0360	Evergy Missouri West, Inc.	Case Manager, Lead Auditor	

Case Number(s)	Company Name	Scope of Issues	Testified at Hearing
HT-2024-0222	Vicinity Energy Kansas City, Inc.	Case Manager, Lead Auditor	
HT-2024-0296	Evergy Missouri West, Inc.	Case Manager, Lead Auditor	
SC-2024-0228	Missouri-American Water Company	Case Manager	
SM-2025-0067	Confluence Rivers Utility Operating Company, Inc.	Auditor	
SR-2024-0206	United Services, Inc.	Rate Design	
SR-2024-0306	TBJ Sewer Systems	Plant-in-Service, Rate Design	
WA-2023-0345	Missouri-American Water Company	Case Manager	
WA-2023-0434	Missouri-American Water Company	Case Manager	
WA-2024-0325	Missouri-American Water Company	Case Manager, Lead Auditor	
WO-2023-0008	Missouri-American Water Company	WSIRA Expense	
WO-2023-0427	Missouri-American Water Company	Case Manager, Lead Auditor	
WO-2024-0195	Missouri-American Water Company	Case Manager, Lead Auditor	
WR-2023-0344	Raytown Water Company	Late Fees	Yes
WR-2024-0104	Liberty Utilities	Class Cost of Service study, Rate Design, Special Contracts, Miscellaneous Fees	
WR-2024-0320	Missouri-American Water Company	Class Cost of Service study, Rate Design, Special Contracts, Miscellaneous Fees	Yes