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Public Counsel
ER-2019-0374**

REBUTTAL TESTIMONY

OF

LENA M. MANTLE

Submitted on Behalf of the Office of the Public Counsel

EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2019-0374

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**Denotes Confidential Information
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March 3, 2020

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REBUTTAL TESTIMONY

OF

LENA M. MANTLE, P.E.

**THE EMPIRE DISTRICT ELECTRIC COMPANY
CASE NO. ER-2019-0374**

1 **Q. What is your name?**

2 A. Lena M. Mantle.

3 **Q. Are you the same Lena M. Mantle who filed direct testimony in this case?**

4 A. Yes, I am.

5 **Q. Why are you filing rebuttal testimony?**

6 A. I explain why the Commission should reject the weather normalization rider The
7 Empire District Electric Company's ("Empire") witness Timothy S. Lyons is
8 proposing. I also explain why the Commission should not adopt Staff's
9 recommended Sales Reconciliation to Levelized Expectations ("SRLE").

10 In addition, I explain why the Commission should not allow Empire to
11 modify its fuel adjustment clause ("FAC") to include all of its transmission costs
12 and some of its administrative costs, and I recommend that the Commission should
13 require additional FAC monthly reporting requirements of Empire.

14 **Q. Would you summarize your recommendations in this rebuttal testimony?**

15 A. I recommend that the Commission:

- 16 1) Reject Empire's proposed weather normalization rider (WNR);
17 2) Reject Staff's Sales Reconciliation to Levelized Expectations ("SRLE")
18 proposal;
19 3) Begin the rulemaking process for rules prescribing the implementation of
20 Section 386.266.3 RSMo;
21 4) Require Empire to retain the analysis underlying its unit commitment decisions
22 and supply its documentation of that analysis as part of its monthly FAC
23 reporting submissions to the Commission; and

1 5) Order the following deadlines for Empire’s quarterly FAC surveillance report
2 submissions:

<u>Quarter Ending:</u>	<u>Submission deadline</u>
March 31	End of May
June 30	End of August
September 30	End of November
December 31	End of February

3

4 **Neither Empire’s Proposed Weather-Normalization Rider nor its Proposed Changes**
5 **to its FAC are Justified**

6 **Q. Why are Empire’s proposed WNR and its proposed changes to its FAC not**
7 **justified?**

8 A. As I testified in my direct testimony,¹ although I am not an attorney, on the advice
9 of counsel my understanding is that the primary justification for allowing a utility
10 to have a WNR is whether it is needed to provide the utility with an opportunity to
11 earn a fair return on its equity. The statute that allows the Commission to continue
12 Empire’s FAC, with or without modifications, is the same statute that allows the
13 Commission to authorize an electric utility to use a WNR. That statute allows the
14 Commission to authorize WNRs and to continue FACs if they “[are] reasonably
15 designed to provide the utility with a sufficient opportunity to earn a fair return on
16 equity.”

17 Recent history shows that Empire has earned a fair return on equity without
18 a WNR and without the categories of costs and revenues that Empire is requesting
19 that its FAC be modified to include. The graph below, derived from Commission-
20 required FAC quarterly surveillance reports Empire submitted to the Commission,
21 shows that Empire has been successful in earning above a fair return on equity, well
22 above the 9.25% OPC is recommending in its witness David Murray’s direct

¹ Page 5.

1 testimony, for the 12 months ending totals for each of the quarters ended March
2 2018 through December 2019, without a WNR and without the new categories of
3 costs and revenues Empire is proposing to add to its FAC.

4 **

5
6 **

7 **Q. Is the fact that Empire has earned more than a fair return on its equity during**
8 **each of the annual periods ending the first quarter of 2018 through the third**
9 **quarter of 2019 the only reason why this Commission should not authorize**
10 **Empire to use a WNR or continue its FAC with added new categories of costs**
11 **and revenues?**

12 A. No. While it is the primary reason, further reasons follow.

13 **Further Reasons Why the Commission Should Reject Empire's Weather**
14 **Normalization Rider**

15 **Q. Would you provide a brief description of the weather normalization rider**
16 **Empire is proposing?**

1 A. In the simplest terms, Empire’s proposed WNR calculates, for each customer for
2 each billing month, what Empire believes the customer’s usage would have been if
3 the weather had been consistent with the weather used to determine normalized
4 revenues. The WNR charge would be the customer’s base rates applied to a
5 calculated adjustment to “non-base usage” based on the difference between normal
6 weather and actual weather. The methodology used assumes weather is the sole
7 reason for all changes to a customer usage above a base amount.

8 **Q. Why is Empire requesting a weather normalization rider in this case?**

9 A. This is the first rate case in which Empire could request a WNR. In his direct
10 testimony, Empire witness Lyon testifies, “The Weather Normalization Rider
11 [Empire is proposing] will help to mitigate a basic misalignment between the
12 structure of utility rates and the structure of utility costs.”² He goes on to testify
13 that this misalignment occurs because much of electric utility cost are fixed yet the
14 revenue to cover those costs is collected from customers based on customer usage,
15 which fluctuates across time.³

16 **Q. Do you agree that this misalignment occurs?**

17 A. Yes. However, the existence of a misalignment of when costs are incurred and
18 revenues are received is not sufficient justification for the Commission to approve
19 a WNR. As I showed in the graph above, this misalignment has not prevented
20 Empire from earning more than a fair return and therefore it is not necessary for
21 Empire to have a WNR for it to have an opportunity to earn a far return. In addition,
22 the design of Empire’s WNR is ill-conceived.

23 **Q. How is it ill-conceived?**

² Direct testimony, page 51.

³ Id., page 52.

1 A. Primarily, it will confuse customers. It is very complicated, and it will be next to
2 impossible for customers to be able to understand their electric bills. Section
3 386.266.5 RSMo. requires a WNR amount to be separately disclosed on each
4 customer’s bill, yet according to Empire’s response to OPC data request 8029
5 Empire has not yet decided on how to approach presenting its WNR to its customers
6 on their bills.

7 Empire’s proposed WNR would result in WNR charges that change every
8 month on each customer’s bill based on the actual weather and that customer’s
9 usage during the previous month.

10 To decipher their bills, customers would have to understand the concept of
11 heating and cooling degree days. They would have to understand that “normal”
12 weather used in the calculation of their WNR charge is different than the normal
13 weather that they find on well-known weather web-sites. They would likely be
14 confused if their WNR charge for one month is different from that of another month
15 when the “difference from normal weather” is the same.⁴

16 It would be confusing to customers because all usage above a base usage is
17 considered to be weather sensitive usage. A customer would know when their
18 household electricity usage changes, such as another person joining the household,
19 but all of this additional usage would be “normalized” for weather.

20 Another problem is that Empire’s proposed WNR does not take into
21 consideration that Empire’s “permanent” or “base” rates the Commission will set
22 in this case. These are the same “base” rates Empire is proposing to use to calculate
23 its WNR charge. These rates include the recovery of fuel costs that are included in
24 the revenue requirement set in this case. Empire will recover incremental changes
25 to its fuel costs through its FAC charges. This will create as mismatch since
26 Empire’s FAC charges will be based on actual incremental changes in fuel-related

⁴ Two 30-day periods could have the same measure of difference from “normal” despite a very different weather pattern since this measurement is an aggregate of weather across about 30 days.

1 costs that Empire incurs, which are not weather normalized, *i.e.*, they will be based
2 on actual weather, not normal weather; however, by operation of Empire’s
3 proposed WNR those same costs are included in Empire’s “permanent” or “base”
4 rates and would be weather normalized.

5 Empire has also not carefully considered other technical aspects of its
6 proposed WNR, aspects such as the following:

7 (1) Does the WNR work appropriately in billing months where both heating
8 and cooling occur?

9 (2) How does the WNR work with budget billing?

10 (3) At what mean daily temperature for each of the customer classes does
11 heating and cooling begin, *i.e.*, does the residential class really begin heating
12 on a day with a mean daily temperature is 65 degrees as Empire proposes
13 in its WNR or is the appropriate mean daily temperature really 60 degrees
14 that Empire uses when weather-normalizing residential usage for
15 determining its revenues in this case?

16 (4) Would the WNR apply to estimated bills? Would the WNR not apply until
17 the first bill based on an accurate meter read after Empire estimates a bill?

18 Given all of these problems with Empire’s proposed WNR, and that Empire does
19 not need a WNR to be able to earn a fair return, I recommend the Commission reject
20 Empire’s proposed WNR.

21 **Staff’s Proposed Substitute for Empire’s Weather Normalization Rider is Not**
22 **Justified**

23 **Q. Has Staff proposed a rate mechanism that it says is designed to account for the**
24 **effects of weather and conservation on Empire’s revenues?**

25 A. Yes. Staff is proposing a rate mechanism entitled, “Sales Reconciliation to
26 Levelized Expectations” or “SRLE.”⁵ My understanding is Staff’s intent for this

⁵ Staff Class Cost of Service Report, page 3.

1 mechanism is to ensure that Empire receives revenues consistent with normalized
2 usage as determined in this case.

3 **Q. Is Staff's proposed Sales Reconciliation to Levelized Expectations mechanism**
4 **justified?**

5 A. No. While Staff's proposed mechanism remedies some of the problems with
6 Empire's proposed WNR, Empire still does not need such a mechanism to have an
7 opportunity to earn a fair return. Further, no one has advised me that the
8 Commission has the authority for an electric company to implement one.
9 Therefore, I recommend the Commission also reject Staff's SRLE.

10 **Q. You are recommending that the Commission reject both Empire's and Staff's**
11 **mechanisms intended to weather-normalize Empire's revenues. Do you**
12 **recommend that the Commission do anything regarding weather normalizing**
13 **electric utility rates at this time?**

14 A. Yes, I recommend that the Commission begin its rulemaking process for a rule
15 prescribing the implementation of such a mechanism for electric and gas utilities
16 that request such a mechanism as provided for in section 386.266.3 RSMo. Such a
17 rule would provide consistency in mechanisms and reporting requirements that
18 would help Staff and other parties review the implementation and true-up of such a
19 mechanism.

20 **Further Reasons Why the Commission Should Reject Certain Requested**
21 **Modifications to Empire's FAC**

22 **Q. What modifications to its FAC is Empire requesting?**

23 A. Empire witness Aaron J. Doll, in his direct testimony, requests the Commission to
24 approve continuing Empire's FAC with the following modifications to Empire's
25 FAC:

- 1 1. Change the off-system sales revenue definition with the intent of excluding
2 revenues from wind projects prior to when the projects are included in Empire’s
3 revenue requirement;⁶
4 2. Remove the percentages associated with the Southwest Power Pool (“SPP”) and
5 Mid-continental Independent System Operator (“MISO”) network transmission
6 service costs so that Empire would recover all of these transmission costs it
7 incurs through its FAC;⁷
8 3. Include SPP Schedule 1A Tariff Administration and Schedule 12 FERC
9 Assessment costs so that Empire would recover changes in them through its
10 FAC;⁸ and
11 4. Include Auction Revenue Rights (“ARR”) and Transmission Congestion Rights
12 (“TCR”) costs and revenues so that Empire would recover the net of them
13 through its FAC.⁹

14 In his supplemental direct testimony, Mr. Doll also requests that Empire’s FAC be
15 modified to include transmission revenues.

16 **Q. What do you mean when you say a cost is included or excluded from a FAC?**

17 A. The Commission rule 20 CSR 4240-20.090(1)(C) states that the Commission
18 determines fuel and purchased power costs net of fuel-related revenues to be
19 included in the FAC as well as within in the revenue requirement used to set base
20 (or permanent) rates. When I refer to an included cost or revenue, I am referring to
21 a cost or revenue that is in the revenue requirement that the Commission has
22 designated to be tracked for FAC purposes. The net difference between the actual
23 costs and revenues tracked during a FAC accumulation period and their projected
24 net difference included in the utility’s revenue requirement is charged or returned

⁶ Page 3.

⁷ Page 7.

⁸ Page 11.

⁹ Page 11.

1 to the customers, minus an incentive the Commission also designates by means of
2 the FAC charge. Excluded costs and revenues are still included in determining the
3 utility's revenue requirement used to set rates in the case, but they are not tracked
4 for the recovery/return of the difference through the FAC charge.

5 **Q. Do you agree with any of Mr. Doll's recommendations?**

6 A. I agree with two of these recommendations if they are modified as I testify in my
7 direct testimony. Transmission revenues should be included in Empire's FAC, but
8 only those transmission revenues that are consistent with the transmission costs that
9 already are included in Empire's FAC.¹⁰ In addition, I agree with Mr. Doll's
10 recommendation that Empire's FAC tariff be modified to make certain that
11 revenues from Empire's wind projects are excluded from its FAC, but only as long
12 as Empire agrees to make certain that all of the wind projects costs are also excluded
13 from its FAC.¹¹

14 **Q. What are Mr. Doll's reasons for modifying Empire's FAC to include all of**
15 **Empire's SPP transmission costs?**

16 A. Mr. Doll provides three reasons for why all SPP transmission costs should be
17 included in its FAC. First, Mr. Doll states that the transmission costs should be
18 included in it because "[t]he relationship between investment in the transmission
19 system and improved reliability and economic operations is clear."¹² Second, he
20 cites to the costs of resolving seam issues, and his third reason is that Empire gets
21 to recover some or all of its transmission costs in the other states in which it
22 provides electric service.

¹⁰ Pages 14 – 16.

¹¹ Pages 19 - 21.

¹² Direct testimony of Aaron J. Doll, page 7.

1 **Q. Do you agree Mr. Doll’s first justification, regarding the relationship between**
2 **transmission investment and reliability, is sufficient to include all of Empire’s**
3 **SPP transmission costs in its FAC?**

4 A. No. While I have no reason to disagree with Mr. Doll that there is a relationship
5 between Empire’s investment in its transmission system and improved reliability
6 and economic operation, this is not a justification as to why all of Empire’s
7 transmission costs should be included in its FAC. It is justification for why
8 Empire’s transmission costs and revenues should be included in its revenue
9 requirement used to set rates in this case. Section 386.266.1 RSMo states that the
10 purpose of a FAC is to “reflect increases and decreases in [Empire’s] prudently
11 incurred fuel and purchased power costs, including transmission.” In its *Report*
12 *and Order* in Case No. ER-2014-0258, the Commission included the following in
13 its Conclusions of Law:

14 [This] clause limits the costs that can be flowed through the FAC for
15 recovery between rate cases. It allows for recovery of transportation
16 costs, which has been determined to include transmission costs, but
17 such transmission costs are limited to those connected to purchased
18 power costs.”¹³

19 In the Commission’s Decision in that same *Report and Order*, the Commission
20 found:

21 In fact, the policy underlying the FAC statute is clear on its face.
22 The statute is meant to insulate the utility from unexpected and
23 uncontrollable fluctuations in transportation costs of *purchased*
24 *power*.¹⁴

25 Empire is proposing to modify its FAC to include its SPP transmission costs that
26 are not directly related to its purchased power. Because not all SPP transmission

¹³ ER-2014-0258, *In the Matter of Union Electric Company, d/b/a Ameren Missouri’s Tariff to Increase Its Revenues for Electric Service*, pages 114 – 115.

¹⁴ *Id.*, page 115 (emphasis added).

1 costs are directly related to purchased power, the Commission should not allow all
2 of these costs to be included in Empire’s FAC.

3 **Q. Can you explain the next reason Mr. Doll provides for modifying Empire’s**
4 **FAC to include its transmission costs?**

5 A. Yes. The second reason Mr. Doll provides is that Associated Electric Cooperative
6 Incorporated (“AECI”), Midcontinent Independent System Operator (“MISO”),
7 and SPP are currently working to resolve seams issues associated with transmission
8 costs of purchasing energy from and selling energy to utilities in these organizations
9 with a goal of increasing benefits to customers of all these entities.¹⁵

10 **Q. Is this an appropriate reason to include all of Empire’s transmission costs in**
11 **its FAC?**

12 A. While it is an admirable goal, it does not justify including all of Empire’s
13 transmission costs in its FAC. Resolving seams issues would likely reduce
14 Empire’s transmission costs and it may increase the amount of energy Empire
15 purchases from and sales it makes into other markets. Empire would be able to
16 pass through its FAC some of the transmission costs associated with purchasing
17 energy from these other markets, but that is not a sufficient reason to include all of
18 Empire’s SPP transmission costs in its FAC.

19 **Q. Does Empire’s current FAC include transmission costs for power purchased**
20 **from MISO?**

21 A. Empire’s current FAC allows 50% of MISO transmission costs associated with:
22 i. Network transmission service;
23 ii. Point-to-point transmission service;
24 iii. System control and dispatch; and
25 iv. Reactive supply and voltage control.¹⁶

¹⁵ Direct testimony of Aaron J. Doll, page 8.

¹⁶ The Empire District Electric Company, P.S.C. Mo. No. 5, Section 4, Original Sheet No. 17x.

1 **Q. Why is only 50% of MISO transmission costs included in Empire’s FAC?**

2 A. Empire incurs MISO transmission costs for 100 megawatts (“MW”) of the Plum
3 Point Power Plant in Arkansas. Empire owns a 50 MW share of that plant and has
4 a purchased power contract for the capacity and generation of another 50 MW.
5 Since the purchased power contract is for 50% of its total capacity of the Plum Point
6 Power Plant, Empire is currently able to include 50% of its MISO costs in its FAC.

7 **Q. Does Empire’s current FAC include transmission costs for power purchased
8 from MISO?**

9 A. Yes. While Empire’s current FAC tariff sheets do not specifically mention AEI,
10 its FAC tariff sheets do include costs of another market should Empire purchase
11 power from another market, if those costs are of an equivalent nature to those
12 identified for SPP market costs.¹⁷

13 **Q. Mr. Doll discusses, as an example of the benefit of the work between Empire
14 and MISO, a settlement with MISO that could have been returned to
15 customers had the Commission included all transmission costs in its FAC.¹⁸
16 Is this a valid reason for transmission costs to be included in Empire’s FAC
17 prospectively?**

18 A. No, it is not. As provided above, the FAC statute limits the costs that are included
19 in a FAC, and the Commission has determined that limit is the transmission costs
20 connected to purchased power. The provision of a refund of transmission costs that
21 were not included in a FAC is irrelevant to whether or not the cost should, on a
22 going forward basis be included in the FAC. The determination of which costs
23 should be included is whether or not the cost was connected to purchased power,
24 not whether or not the costs are likely to be refunded.

¹⁷ *Id.*, Original Sheet No. 17w.

¹⁸ Direct testimony of Aaron Doll, pages 9 and 10.

1 **Q. What is Mr. Doll’s final reason for including all SPP and MISO transmission**
2 **costs in Empire’s FAC?**

3 A. Mr. Doll testifies that Empire’s transmission costs are included in a fuel mechanism
4 or tracker in the other jurisdictions where it provides electric service.¹⁹ However,
5 in response to OPC data request 8007 attached to this testimony as Schedule
6 LMM-R-1, Mr. Doll states that, contrary to his direct testimony, Empire’s fuel
7 mechanisms in other states do not include transmission costs. In his response he
8 states that “most or all” of Empire’s transmission costs are recovered in these other
9 states through “separate, independent recovery mechanisms.”

10 Therefore, not including all transmission costs in a FAC mechanism is
11 consistent with the practice in the other states where Empire provides electric
12 service.

13 **Q. What is Mr. Doll’s justification for why SPP Schedule 1A Tariff**
14 **Administration and Schedule 12 FERC²⁰ Assessment costs should be included**
15 **in Empire’s FAC?**

16 A. Mr. Doll provides no justification.

17 **Q. Are SPP Schedule 1A Tariff Administration and Schedule 12 FERC**
18 **Assessment costs fuel, purchased power or transportation costs?**

19 A. No. These are SPP and FERC administrative charges that should not be included
20 in the FAC of a Missouri electric utility.

21 **Q. Mr. Doll’s final recommended modification to Empire’s FAC is to include**
22 **Auction Revenue Rights (“ARR”) and Transmission Congestion Rights**
23 **(“TCR”) costs and revenues in Empire’s FAC. Should they be included in**
24 **Empire’s FAC?**

¹⁹ *Id.*, pages 10 and 11.

²⁰ Federal Energy Regulatory Commission.

1 A. No. According to Mr. Doll, TCRs and ARR, are financial hedges that entitle the
2 owner to a stream of hourly revenues or charges based on energy market prices.²¹
3 He does not tie these costs to either fuel or purchased power. His only justification
4 is that they are SPP costs Empire incurs and, therefore, they should be included in
5 Empire's FAC. This justification is insufficient, and is inconsistent with Section
6 386.266 RSMo which defines the costs to be included in the FAC to be fuel and
7 purchased power costs, including transportation. The Commission should not
8 allow Empire to include TCR and ARR costs in its FAC.

9 **Staff's Additional FAC Reporting Requirements**

10 **Q. Did you review Staff's recommended additional FAC reporting requirements**
11 **that it provided in its Cost of Service Report²² in this case?**

12 A. Yes.

13 **Q. Do you have any suggestions regarding these reporting requirements?**

14 A. Yes. First of all, the OPC and other parties to this case should also receive the
15 notices and be provided with a copy of this additional reported information.

16 Second, the Commission has expressed concern about the impact of
17 Missouri electric utilities self-scheduling of generation units in their respective
18 regional transmission organizations. In the concurrent Union Electric Company
19 d/b/a Ameren Missouri rate case, Case No. ER-2019-0335, Staff included reporting
20 requirements in its rebuttal testimony that would provide information regarding
21 Ameren Missouri's decisions on offering its generation into MISO.²³ While
22 Empire has significantly fewer units than Ameren Missouri over which it has
23 control to offer into the SPP market, Empire does make decisions regarding the
24 offering of some generating units into the SPP. Therefore, I am recommending that

²¹ Direct testimony of Aaron J. Doll, page 12.

²² Staff Cost of Service Report, page 99.

²³ Case No. ER-2019-0335, Rebuttal testimony of Shawn E. Lange, page 2.

1 the Commission require Empire to retain the analysis underlying its unit
2 commitment decisions and to supply its documentation of the analysis with its
3 monthly FAC reporting submissions to the Commission, and copy the OPC and
4 other parties in this case. This information will be invaluable for the prudence
5 reviews Staff and other parties conduct, and would treat Empire equally with
6 Ameren Missouri.

7 The last recommendation is necessary due to revisions to the Commission's
8 FAC rule 20 CSR 4240-20.090 that became effective on January 30, 2019. One of
9 the changes in the section related to quarterly surveillance report submissions is
10 that, for electric utilities with foreign ownership that do not make 10-K filings with
11 the Security and Exchange Commission ("SEC"), the deadlines for the submission
12 of surveillance reports are to be set in general rate proceedings. Empire is a wholly-
13 owned, indirect subsidiary of Algonquin Power & Utilities Corp., a foreign
14 company that does not make 10-K filings with the SEC. Therefore, the
15 Commission needs to set the deadline for the submission of the quarterly FAC
16 surveillance reports. I could find no recommendation in the Staff report for when
17 these submissions should be made.

18 **Q. Did Empire propose deadlines for these submissions?**

19 A. I could not find a proposal in Empire's direct filing.

20 **Q. What do you recommend?**

21 A. I recommend the Commission order the following deadlines for Empire's quarterly
22 FAC surveillance reports:

<u>Quarter Ending:</u>	<u>Submission deadline</u>
March 31	End of May
June 30	End of August
September 30	End of November
December 31	End of February

1 With the exception of one submission, Empire has provided its quarterly FAC
2 surveillance reports by these deadlines since Algonquin acquired it.

3 **Q. Does this conclude your rebuttal testimony?**

4 **A. Yes, it does.**



The Empire District Electric Company

A Liberty Utilities Company

Case No. ER-2019-0374

OPC Data Request – 8007

Data Request Received: 09/17/19

Request No. 8007

Date of Response: 10/07/19

Respondent: Aaron Doll

Submitted by: Lena Mantle

REQUEST:

Empire witness Doll's Direct testimony has three transmission recovery mechanisms on page 11. Are the Kansas Transmission Delivery Charge rider, the Oklahoma Southwest Power Pool Transmission Tariff, or the Arkansas Transmission Cost Recovery rider part of a fuel adjustment mechanism for the applicable state or are they separate, independent recovery mechanisms?

RESPONSE:

They are separate, independent recovery mechanisms that allow for the recovery of most or all of transmission expense incurred as a result of Network Service.