

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

In the matter of The Empire Dis- )  
trict Electric Company of Joplin, )  
Missouri for authority to file )  
tariffs increasing rates for elec- ) **ER-2012-0345**  
tric service provided to customers )  
in the Missouri service area of the )  
Company )

**MIDWEST ENERGY USERS' ASSOCIATION  
STATEMENT OF POSITION**

---

COMES NOW Midwest Energy Users' Association and provides its Statement of Position. On August 6, 2012, the Commission directed each party to "file a simple and concise statement summarizing its position on each disputed issue." In compliance, MEUA responds as follows:<sup>1/</sup>

**I. RATE OF RETURN.**

- A. What value for the return on equity should the Commission use to determine Empire's rate of return in the revenue requirement used to set rates in this case?**

Based on the results of extensive analyses, MEUA witness Michael Mr. Gorman recommends that the rate of return on

---

<sup>1/</sup> MEUA will attempt to follow the statement of issues as the same was filed herein on February 8, 2013 as subsequently modified.

equity should be set at 9.5% with an overall return of 7.68%,<sup>2/</sup> summarized as follows:

| <u>Description</u> | <u>Results</u> |
|--------------------|----------------|
| DCF                | 9.45%          |
| Risk Premium       | 9.55%          |
| CAPM               | 8.30%          |

Accordingly, Mr. Gorman recommends a return on equity at the midpoint of his DCF and Risk Premium range of 9.45% to 9.55%, or 9.50%

**B. What capital structure should the Commission use to determine the rate of return included in the revenue requirement used to set rates in this case?**

Based on Mr. Gorman's analyses, MEUA recommends an adjustment to the capital structure to reduce the common equity component by an amount equal to Empire's goodwill asset resulting from the purchase of Aquila's gas assets at a price above net book value. When these items are removed, Empire's capital structure should be as follows:

|                                    |              |
|------------------------------------|--------------|
| Long-Term Debt                     | 51.2%        |
| Common Equity                      | <u>48.8%</u> |
| Total Regulatory Capital Structure | 100.0%       |

This adjustment is shown on Schedule MPG-1. This proposed capital structure will support Empire's financial integrity and access to capital.<sup>3/</sup>

---

<sup>2/</sup> Gorman Direct, pp. 14-39.

<sup>3/</sup> Gorman Direct, pp. 10-13.

**C. What is the appropriate cost of debt?**

MEUA takes no position on this issue at this time.

**II. RATE BASE**

**A. Iatan Plant**

1. **Should the disallowances ordered by the Commission in Case Nos. ER-2010-0355 and ER-2010-0356 with regard to Kansas City Power & Light and KCPL - Greater Missouri Operations also be ordered against Empire's Iatan plant balances?**

MEUA supports the position taken by Commission Staff on this issue.

2. **Should carrying costs be adjusted?**

MEUA supports the position taken by Commission Staff on this issue.

**B. Depreciation Reserve - Iatan Adjustments**

**Should the disallowances ordered by the Commission in Case Nos. ER-2010-0355 and ER-2010-0356 be made against Empire's Iatan plant balances?**

MEUA supports the position taken by Commission Staff on this issue.

**C. Joplin Tornado O&M Asset**

**Should the Joplin tornado O&M asset be included in rate base?**

MEUA supports the position taken by Commission Staff on this issue.

**D. Maintenance Normalization Adjustments at Empire generation units**

**What is the appropriate normalization period or method of normalization for Empire's generation units?**

MEUA supports the position taken by Commission Staff on this issue.

**E. Asbury Unit Train**

- 1. Was Empire's sale of the Asbury unit train properly booked by Empire?**
- 2. Were the lease proceeds associated with the Asbury unit train properly booked?**
- 3. Did Empire properly book depreciation expense in the eight months immediately prior to the retirement of the Asbury unit train?**

MEUA supports the position taken by Commission Staff on these issues.

**F. Cash Working Capital (CWC)**

- 1. What Billing lag should be used to adjust the overall Revenue lag for purposes of CWC?**

MEUA recommends a zero billing lag for the determination of the cash working capital requirement included in rate base. (Rackers Direct p. 8-10 and Surrebuttal p. 5-7).

2. **Should fuel purchased power and cash vouchers be treated as prepayments, or reflected in the CWC calculation, or both?**

MEUA recommends eliminating the cash working capital requirement associated with the portion of fuel, purchased power and other expenses (cash voucher items), which are already reflected in the prepayments balance included in rate base. This adjustment prevents a double counting of the working capital associated with these expenses. (Rackers Direct p. 22-23 and Surrebuttal p. 10-11).

### **III. STATEMENT OF OPERATING INCOME**

#### **A. Fuel and Purchased Power**

1. **Net Base Fuel and Purchased Power Costs**

- a. **What amount of off-system sales revenue should be included in Empire's net base fuel and purchase power costs included in the revenue requirement used to set rates in this case?**

Consistent with the Commission Order adopting a fuel adjustment clause MEUA recommends inclusion of \$2 million in net base fuel and purchased power cost. (Rackers Direct p. 11-15 and Surrebuttal p. 7-8).

- b. **What amount of REC revenue and certain post process fuel run adjustments should be included in net base fuel and purchased power costs included in the revenue requirement used to set rates in this case?**

MEUA supports the position taken by Commission Staff on this issue.

- c. **What amount of Plum Point demand charges should be included in net base fuel and purchased power costs included in the revenue requirement used to set rates in this case?**

MEUA supports the position taken by Commission Staff on this issue.

- d. **What is the appropriate level of SPP Transmission Expense to include in Empire's revenue requirement?**

MEUA supports the level of transmission cost, net of transmission revenue, that is supported by actual rates and volumes at the time of the December 31, 2012 true-up cut-off. (Rackers Direct p. 29-30)

**2. FAC Tariff**

- a. Should Empire be permitted to flow any SPP transmission costs and revenues through its FAC?
- b. If so, which SPP transmission costs and revenues should flow through Empire's FAC?
- c. Should Empire be required to make changes to its FAC tariff sheets to make the provisions of Empire's FAC more consistent with the FACs currently in place for other Missouri investor-owned electric utilities? If so, what changes should be made to Empire's FAC tariff sheets?

As regards these issues, MEUA recommends that no transmission cost be allowed to flow through the FAC. (Rackers Surrebuttal p. 13-15).

**3. SPP Transmission Tracker**

- a. If the Commission determines that Empire should not be permitted to flow SPP transmission costs and revenues through its FAC, should those transmission costs and revenues be deferred in a transmission cost and revenue tracker using the trued-up test year amounts of those charges and revenues as the base against which changes

will be tracked, with amounts above the base booked to a regulatory asset and amounts below the base booked to a regulatory liability?

- b. If the Commission determines that Empire should be permitted to defer changes in transmission costs and revenues through a tracker, should any conditions apply to that tracker? If so, what conditions should apply?

As regards these issues, MEUA recommends that the Commission not approve a new tracker for SPP transmission cost. Instead Empire should rely on the deferral authority of the Uniform System of Accounts or an Accounting Authority Order. (Rackers Direct p. 26-30 and Surrebuttal p. 13-15).

**B. SPP Integrated Market Costs**

Should test year costs incurred by Empire to prepare for and participate in the SPP Integrated Marketplace be included in the revenue requirement used to set rates in this case, or should some or all of those costs be deferred for consideration in a future rate case?

MEUA recommends deferral of the costs incurred by Empire to prepare for and participate in the SPP Integrated Marketplace to better match the future period when rates with the benefits of IMP will be experienced. (Rackers Direct p. 23-24 and Surrebuttal p. 12-13).



**C. Rate case expense**

**Were prior rate case expenses amortized or normalized; if they were amortized, should Empire be allowed to recover the unamortized portion of prior rate case expenses?**

MEUA supports the position taken by Commission Staff on this issue.

**D. Advertising**

**Should the costs of certain radio and TV advertisements be categorized as "general?"**

MEUA supports the position taken by Commission Staff on this issue.

**E. Outside services**

**What is the appropriate level of outside services expense?**

Empire has not provided adequate support for its position and MEUA opposes any adjustment to the outside services account. (Rackers Direct p. 4-5 and Surrebuttal p. 2-3).

**F. Property Insurance expense**

**What insurance policy should be used in the calculation of property insurance expense?**

MEUA supports the position taken by Commission Staff on this issue.

**G. Banking Fees**

**Should fees to secure short-term debt be expenses or capitalized**

MEUA recommends capitalization of the costs to secure short-term debt. This position reflects consistent regulatory

treatment with the short-term debt that supports Empire's construction program. (Rackers Direct p. 18-21) and Surrebuttal p. 8-9).

#### **H. Payroll and Benefits - Incentive Compensation**

**1. What level of cash incentives based on performance goals should be included in the cost of service?**

MEUA supports incentives resulting from performance based on established goals and recommends an amount associated with the awards achieved during the test year. (Rackers Direct p. 21-22 and Surrebuttal p. 9-10).

**2. Should executive stock awards included?**

MEUA recommends following past Commission precedents regarding discretionary incentive awards and incentives based on financial goals, by disallowing executive stock awards. (Rackers Direct p. 21-22 and Surrebuttal p. 9-10).

**3. Should lightning bolts be included?**

MEUA opposes discretionary awards which are not based on established goals for performance. (Rackers Direct p. 21-22 and Surrebuttal p. 9-10).

#### **I. Dues and Donation - Including EEI Dues**

**What amount of test year dues and donations, including EEI dues, should be included in the revenue requirement used to set rates in this case?**

MEUA supports the position taken by Commission Staff on this issue.

**J. Depreciation and Amortization**

**What are the appropriate depreciation rates?**

MEUA supports the position taken by Commission Staff on this issue.

**K. Riverton Amortization**

**Should the Commission order an amortization associated with the projected retirements of Riverton 7 and 8?**

MEUA supports the position taken by Commission Staff on this issue.

**L. Taxes**

**1. Property tax**

**What amount of property tax expense should be included in the revenue requirement used to set rates in this case?**

MEUA opposes Empire's attempt to reach far beyond the true-up cut-off date to include property taxes which are not known and measurable and will not be paid until December 31, 2013. MEUA recommends using the actual property taxes paid in 2012. (Rackers Direct p. 6-7 and Surrebuttal p. 4-5).

**2. Current & Deferred income taxes**

- a. Should an adjustment be made related to state income tax flow through for prior years?**

MEUA supports the position taken by Commission Staff on this issue.

- b. Should an adjustment be made for cost of removal tax issues related to prior years?**

MEUA supports the position taken by Commission Staff on this issue.

**M. Iatan/Plum Point Trackers**

- 1. What is the appropriate base cost to be built into rates?**

MEUA supports the position taken by Commission Staff on this issue.

- 2. What FERC accounts should be included in the tracker?**

MEUA supports the position taken by Commission Staff on this issue.

**N. Bad Debt Expense**

**1. What level of bad debt expense should be included?**

MEUA recommends a five year average of actual bad debts written off. (Rackers Direct p. 15-17).

**2. Should the revenue requirement be factored up for bad debts?**

Empire's proposal to factor up the revenue requirement for additional bad debts reaches far beyond the December 31, 2012 true-up cut-off date. MEUA opposes this adjustment to bad debt expense. (Rackers Direct p. 17-18).

**O. Pay Station Fees**

**Should pay station fees be paid directly by the user at the time of the transaction or included in Empire's revenue requirement?**

MEUA supports the position taken by Commission Staff on this issue.

**P. Vegetation Management Tracker**

**1. What is the proper level of expense?**

MEUA supports the position taken by Commission Staff on this issue.

**2. What is the proper base level to be used in the tracker?**

MEUA supports the position taken by Commission Staff on this issue.

**Q. Corporate franchise tax**

**Should the lower rate for 2013 corporate franchise taxes be included in Empire's revenue requirement?**

Current Missouri Statutes impose limitation and eventual phase-out of corporate franchise tax. Therefore MEUA opposes any increase to the test year level of corporate franchise tax. This issue arose during prehearing so no prepared testimony was pre-filed.

**IV. RATE DESIGN**

**A. Rate Design & Class Cost of Service**

- 1. Does Staff's revenue proof contain Staff normalized billing units? If not, what adjustment should be made?**
- 2. What is the appropriate customer charge for the Residential class?**
- 3. What is [the] appropriate per-class rate increase for this case?**

MEUA recommends first assigning the pre-MEEIA revenue requirement to customer classes as described in IV(B)(4). An amount equal to the total rate increase minus the pre-MEEIA revenue requirement would then be recovered as an equal percent increase on present base rate revenues. (Brubaker Rebuttal p. 2-6 and Schedule MEB-RD-BEB-1, p. 1-2).

**B. DSM Cost Recovery**

**1. Should pre-MEEIA DSM programs be set forth on a separate tariff?**

MEUA takes no position at this time regarding whether pre-MEEIA DSM program costs should be included in a separate tariff.

**2. Should pre-MEEIA DSM program costs be shown on a separate line item on customer bills?**

MEUA recommends a separate line item on customer bills to identify the portion related to pre-MEEIA DSM programs. (Brubaker Rebuttal p. 2-6).

**3. How should the pre-MEEIA DSM revenue requirement be grossed up?**

MEUA supports the position taken by Commission Staff on this issue.

**4. How should the pre-MEEIA DSM revenue requirement be allocated among Empire's customer classes?**

MEUA recommends that the revenue requirement associated with pre-MEEIA DSM programs be assigned to customer classes, after appropriately recognizing the opt-out elections made by specific customers. The methodology is described in the testimony schedules of MEUA witness Brubaker. (Brubaker Rebuttal p. 2-6 and Schedule MEB-RD-BEB-1, p. 1-2).

**C. Other Rate Design Issues:**

**1. Low Income Weatherization**

- a. Should the maximum and average per-unit amount be eliminated?**

MEUA supports the position taken by Commission Staff on this issue.

- b. Should Staff's recommended tariff language revision be implemented?**

MEUA supports the position taken by Commission Staff on this issue.

**2. LED Street and Area Lighting**

**Within twelve months of the effective date of rates authorized by the Commission in this case, should Empire be required to complete its own evaluation of LED SAL systems and either (i) file proposed LED lighting tariff sheet(s), or (ii) update the Commission regarding when the Company intends to file such tariff sheet(s)?**

MEUA supports the position taken by Commission Staff on this issue.

**3. Economic Development Rider**

**Should non-participating customers be held harmless of the revenues foregone by Empire for service under an EDR?**

MEUA supports the position taken by Commission Staff on this issue.



Respectfully submitted,

FINNEGAN, CONRAD & PETERSON, L.C.

A handwritten signature in black ink, appearing to read "Stuart W. Conrad", written over a horizontal line.

Stuart W. Conrad      Mo. Bar #23966  
3100 Broadway, Suite 1209  
Kansas City, Missouri 64111  
(816) 753-1122  
Facsimile (816) 756-0373  
Internet: [stucon@fcplaw.com](mailto:stucon@fcplaw.com)

ATTORNEYS FOR THE MIDWEST ENERGY  
USERS' ASSOCIATION

CERTIFICATE OF SERVICE

The undersigned hereby certifies that he has provided a copy of the foregoing pleading to all attorneys of record herein as identified on the Commissions' EFIS.

A handwritten signature in black ink, appearing to read "David M. Cannon", written over a horizontal line.

An attorney for the Midwest Energy  
Users' Association

February 13, 2013