

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

In the Matter of the Propriety of the	)	
Rate Schedules for Gas Service of	)	<b><u>Case No. GR-2018-0229</u></b>
The Empire District Gas Company	)	Tariff No. YG-2019-0050

**STAFF RECOMMENDATION AND REQUEST FOR ORDER**

**COMES NOW** the Staff of the Missouri Public Service Commission and respectfully states as follows:

1. On September 24, 2018, The Empire District Gas Company (“EDG” or “Company”) filed nine tariff sheets which were assigned Tariff File No. YG-2019-0050, with a proposed effective date of October 24, 2018, to reflect a reduction of \$773,566 in base rate revenue as a result of the Tax Cuts and Jobs Act of 2017 (“TCJA”).

2. On October 3, 2018, the Commission issued an *Order Directing Recommendations* (“Order”) which directed Staff to file its recommendation regarding these tariff sheets no later than October 12, 2018.

3. Accompanying this pleading and incorporated by reference is Staff’s Recommendation Memorandum which recommends that the Commission approve the tariff sheets filed by EDG assigned Tariff File No. YG-2019-0050.

4. However, the tariff sheets only address one issue arising from the TCJA; that is, a reduction in EDG’s base rate revenue requirement on a going-forward basis. The tariff sheets do not address, nor will approval of the tariff sheets resolve, the issue of the flow-back of excess Accumulated Deferred Income Tax (“ADIT”) which the Commission has addressed in other cases involving the TCJA.

5. In order to resolve the issue of the flow-back of excess ADIT, Staff recommends that in its order approving the tariffs filed by EDG the Commission also order EDG to:

(i) Establish a regulatory liability to account for the difference between the excess ADIT balance included in current rates, which was calculated using the 35% federal corporate income tax rate, versus the amount calculated using the now lower federal corporate income tax rate of 21%, effective from January 1, 2018 going forward;

(ii) Notify the parties to this case if EDG determines that it is unable to use the Average Rate Assumption Method (“ARAM”) as a method for computing and normalizing excess ADIT within thirty days of such determination.<sup>1</sup> EDG shall provide testimony and support in its next general rate case of its proposed methodology in dealing with the balances; and

(iii) Promptly notify the Commission in the event the IRS asserts that the terms of the Commission’s order create a violation of IRS normalization requirements, in order to cure and prevent any normalization violation.<sup>2</sup>

**WHEREFORE** Staff submits the accompanying Staff Recommendation Memorandum as directed by the Commission’s Order issued October 3, 2018, and prays the Commission issue an order as set forth hereinabove.

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<sup>1</sup> EDG is evaluating the cost and ability to use the Average Rate Assumption Method as a method for computing and normalizing excess ADIT.

<sup>2</sup> Staff’s intent is to appropriately reflect excess ADIT in future customer rates using a methodology consistent with the tax normalization requirements specified by IRS normalization principles.

Respectfully submitted,

**/s/ Jeffrey A. Keevil**

Jeffrey A. Keevil

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Attorney for the Staff of the  
Missouri Public Service Commission

**CERTIFICATE OF SERVICE**

I hereby certify that copies of the foregoing have been mailed, hand-delivered, or transmitted by facsimile or electronic mail to counsel of record this 12th day of October, 2018.

**/s/ Jeffrey A. Keevil**

## MEMORANDUM

**TO:** Missouri Public Service Commission Official Case File  
Case No. GR-2018-0229 and Tariff Tracking No. YG-2019-0050  
The Empire District Gas Company

**FROM:** Kim Cox, Tariff/Rate Design Department, Commission Staff Division  
Kimberly Bolin, Auditing Department, Commission Staff Division

/s/ Robin Kliethermes 10/12/18      /s/ Jeff Keevil 10/12/18  
Tariff/Rate Design Manager/ Date      Staff Counsel's Office/ Date

**SUBJECT:** Staff Recommendation Regarding Empire District Gas Company Rate Reduction  
Tariff Sheets

**DATE:** October 12, 2018

On February 16, 2018 the Staff of the Missouri Public Service Commission filed a motion to open a rate case and to require company to show cause. The motion asked the Commission to open a rate case to consider the rates charged by The Empire District Gas Company (EDG or Company) for natural gas service and explained that the rate schedules may no longer be just and reasonable since enactment of the Tax Cuts and Jobs Act of 2017.

On February 21, 2018 The Commission issued an ORDER OPENING RATE CASE, DIRECTING NOTICE, ESTABLISHING TIME TO INTERVENE, AND REQUIRING COMPANY TO SHOW CAUSE WHY ITS RATES SHOULD NOT BE ADJUSTED. The order directed EDG to respond by March 19, 2018 and directed any party wishing to intervene to file an appropriate motion no later than March 5, 2018. Missouri School Boards' Association (MSBA), Midwest Energy Consumers Group (MECG) and Renew Missouri Advocates d/b/a Renew Missouri (Renew Missouri) all filed applications to intervene. On March 12, 2018 the Commission granted the applications to intervene.

On March 19, 2018 EDG filed its response to show cause motion and order requesting the Commission to not order them to promptly file tariff sheets reducing rates. On April 18, 2018 the Commission issued an ORDER SCHEDULING ORAL ARGUMENT REGARDING THE

ISSUANCE OF ACCOUNTING AUTHORITY ORDERS TO ADDRESS THE EFFECT OF FEDERAL TAX CUTS for May 24, 2018.

On September 24, 2018 EDG filed nine tariff sheets (YG-2019-0050) with a requested effective date of October 24, 2018, to reflect a reduction in base rate revenue as a result of the Tax Cuts and Jobs Act of 2017. On October 3, 2018 the Commission issued an ORDER DIRECTING RECOMMENDATIONS in which it directed Staff to file a recommendation regarding EDG's tariff filing no later than October 12, 2018. This recommendation is in response to that Order.

The Commission's Auditing Department reviewed its own internal documentation regarding EDG's rate change resulting from Case No. GR-2009-0434. Utilizing reasonable assumptions as to various ratemaking values reflected in the settled global revenue requirement for that case, Staff recalculated the cost of service from that case using a 21% federal corporate income tax rate instead of the 35% rate that was in effect at that time. Staff's analysis produced an estimate of the value of the Tax Cuts and Jobs Act (TCJA) corporate income tax rate reduction that was slightly less than EDG's estimate. For that reason, Staff deemed EDG's quantification of the reduction in the corporate federal tax rate resulting from the TCJA of \$773,566 on an annual basis to be reasonable and acceptable for ratemaking purposes.

The Commission's Tariffs/Rate Design Department Staff (Staff) has reviewed the nine tariff sheets filed by EDG. The tariff sheets reduce the non-gas (i.e., non-PGA/ACA) rates for the following customer classes (Residential, Small Commercial Firm - Small, Small Commercial Firm - Medium, Small Commercial Firm - Large, Large Volume Firm, Large Volume Interruptible and Transportation (small volume firm transportation service small, medium, large; large volume firm transportation service; and large volume flexible rate transportation)). Based on the annual revenue requirement reduction of \$773,566 and the rates established in File No. GR-2009-0434, Staff has found that the rate schedule tariff sheets filed by EDG are calculated accurately. Therefore, Staff recommends that the Commission approve the tariff sheets listed below, or, in the alternative, allow these tariff sheets to go into effect by operation of law.

Staff has verified that the Company has filed its annual report and is not delinquent on any assessment.

P.S.C. Mo. No. 2

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Original Sheet No. 9.a  
Original Sheet No. 10.a  
Original Sheet No. 11.1  
Original Sheet No. 11.b  
Original Sheet No. 13.a  
Original Sheet No. 15.a  
Original Sheet No. 36.a  
Original Sheet No. 38.a  
Original Sheet No. 40.a



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OF THE STATE OF MISSOURI**

In the Matter of the Propriety of the            )  
Rate Schedules For Gas Service of            )     Case No. GR-2018-0229  
Empire District Electric Company            )

**AFFIDAVIT OF KIM COX**

STATE OF MISSOURI     )  
  ) ss  
COUNTY OF COLE     )

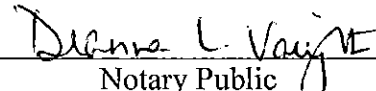
**COMES NOW** Kim Cox, and on her oath states that she is of sound mind and lawful age; that she contributed to the foregoing Staff Memorandum form; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

  
\_\_\_\_\_  
Kim Cox

**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 11<sup>th</sup> day of October, 2018.

  
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Notary Public

DIANNA L. VAUGHT  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for Cole County  
My Commission Expires: June 28, 2019  
Commission Number: 15207377