BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

In the Matter of the Request of The Empire	)	
District Electric Company d/b/a Liberty for	)	
Authority to File Tariffs Increasing	)	Case No. ER-2021-0312
Rates for Electric Service Provided to	)	
Customers in its Missouri Service Area	)	

MECG STATEMENT OF POSITIONS

COMES NOW the Midwest Energy Consumers Group ("MECG") and for its Statement of Positions respectfully provides as follows[1]:

Class Cost of Service and Rate Design: How should Empire's revenue requirement be allocated amongst Empire's customer rate classes (class revenues responsibilities)?

General Position: Both class cost of service studies, performed by Empire and MECG, conclude that the residential class is paying rates that are significantly below cost of service. Meanwhile, all of the non-lighting classes are paying rates that are above cost of service. Consistent with the Commission decisions in both the 2014 and 2016 Empire rate cases, the Commission should seek to move all classes 25% of the way towards cost of service. Given the significant reduction in the overall increase in this case, primarily caused by Empire's decision to remove the Winter Storm Uri and the Asbury retirement costs from this case, the Commission can take such a gradual step without fear of rate shock on any particular class.

Relevant Testimony:

MECG Exhibit 352, Maini Direct
MECG Exhibit 353, Maini Rebuttal
MECG Exhibit 354, Maini Surrebuttal
Empire Exhibit 36, Lyons Direct
Empire Exhibit 37, Lyons Rebuttal
Empire Exhibit 38, Lyons Surrebuttal

Detailed Discussion: During the 2021 legislative session, the General Assembly enacted Section 393.1620. That statute mandates that the Commission only consider studies that "allocate the

[1] On January 28, 2022, the parties submitted a Unanimous Stipulation and Agreement. That Stipulation provided a resolution of several issues. Given the recent nature of that stipulation, the Commission has not yet had the opportunity to approve that Stipulation. Recognizing the pendency of that Stipulation, MECG has refrained from preparing a Statement of Position on those settled issues. That said, in the event that the Commission rejects that Stipulation and decides to independently decide those issues, MECG reserves the right to take positions as reflected in the various pieces of prefiled testimony in this case as well as any evidence elicited during the evidentiary hearing.

electrical corporation's production plant costs from nuclear and fossil generating units using the average and excess method ["A&E"] or one of the methods of assignment or allocation contained within the National Association of Regulatory Commissioners 1992 manual or subsequent manual."[2]

There were two class cost of service studies conducted in this case – by MECG and Empire. Both of those studies comply with Section 393.1620. Specifically, MECG and Empire both present studies that rely on the A&E methodology not only for the allocation of the "fossil generating units", required by the statute, but also for the allocation of renewable resources. Moreover, through the course of filing testimony in this case, a compromise was reached whereby both MECG and Empire agreed that 8 NCP version of the A&E methodology was reasonable for purposes of allocating fixed production costs.[3]

Thus, the results of the MECG and Empire studies are now perfectly aligned.[4] Specifically, both studies agree that a significant residential subsidy exists. That is, as reflected below, while the residential class would need a revenue neutral increase of 18.99% in order to reach cost of service, all other non-lighting class would receive a revenue neutral decrease.[5]

Rate Class	A&E 8 NCP
Residential	18.99%
Commercial	-4.19%
Small Heating	-2.20%
General Power	-19.80%
Transmission Service	-31.84%
Total Electric Building	-23.36%
Feed Mill	-9.58%
Large Power	-19.58%
Miscellaneous	37.42%
Municipal Street Lighting	39.94%
Private Lighting	-30.43%
Special Lighting	428.09%

Source: Exhibit 354, Schedule KM-4s (page 2 of 2)

[2] Section 393.1620.2.
[3] Exhibit 354, Maini Surrebuttal, page 8; Lyons Rebuttal, page 20. Originally, MECG utilized the A&E 5 NCP method and Empire utilized the A&E 12 NCP method. In his rebuttal testimony, however, Mr. Lyons suggested a compromise position. "The Company would support a change to allocate production costs based on class demands in December through March and June through September (i.e., 8NCP)." Lyons Rebuttal, page 20. As reflected in MECG's testimony, while MECG believes that "the 5 NCP methodology better captures the SPP requirements because [it] uses all months where the demands are within 10% of the system peak, . . . the results using the A&E 8 NCP allocator are . . . similar to MECG's A&E 5 NCP allocator." (Exhibit 354, Maini Surrebuttal, pages 8-9).
[4] In its testimony, MECG demonstrated the reasonableness of the A&E approach by comparing to several other fixed production cost allocators recognized by the NARUC Allocation Manual. (Exhibit 352, Maini Direct, Schedule KM-2).
[5] Revenue neutral refers to the changes necessary to bring each class to cost of service assuming no overall change in the utility's revenues.

In its testimony, MECG recommends that the Commission take steps to eliminate 25% of the subsidies inherent in Empire's rates. This gradual movement towards cost of service is consistent with Commission decisions in the 2014 and 2016 Empire rate cases.[6] Given this, MECG recommends that the Commission implement the following revenue neutral adjustments.

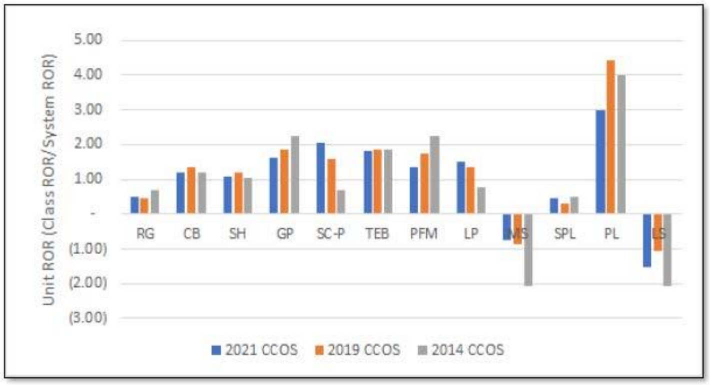
Rate Class	A&E 8 NCP
Residential	4.75%
Commercial	-1.05%
Small Heating	-0.55%
General Power	-4.95%
Transmission Service	-7.96%
Total Electric Building	-5.84%
Feed Mill	-2.39%
Large Power	-4.90%
Miscellaneous	9.36%
Municipal Street Lighting	9.99%
Private Lighting	-7.61%
Special Lighting	107.02%

Source: Exhibit 354, Maini Surrebuttal, page 18.

While there were some concerns with the ability to address the residential subsidy, given the magnitude of Empire's initial rate increase request, that concern has been alleviated. Due to Empire's decision to remove the February 2021 winter storm Uri costs as well as the Asbury retirement costs from this case for future securitization, the rate increase in this case has been reduced dramatically. Specifically, while Empire initially sought an increase of $80.0 million (12.15%), Staff's recommended increase is now $41.9 million (6.36%). Therefore, this case represents a great opportunity to address the ever-increasing residential subsidy.

The need to address the residential subsidy has been exacerbated by the Commission's decision, after addressing the residential subsidy in two straight cases, to take no action in the 2019 rate case. Pointing to "the large number of estimated bills", the 2019 Commission decision found that "none of the CCOS studies are reliable".[7] Therefore, the rate increase in that case was applied to the classes on an equal percentage basis. Not surprising, therefore, the residential subsidy has grown in the two years since. As Empire witness Lyons shows, the rate of return produced by residential (RG) rates has decreased over the past several years.[8] In contrast, the rate of return earned by both the Large Power (LP) and SC-P classes has increased dramatically.[9]

[6] Exhibit 352, Maini Direct, pages 31-32.
[7] *Amended Report and Order*, Case No. ER-2019-0374, issued July 23, 2020, page 41.
[8] Exhibit 38, Lyons Surrebuttal, page 6.
[9] Empire has proposed to change the name of the SC-P class to Transmission Service ("TS").



In its past decisions, the Commission has recognized the need for cost-based rates and for competitive industrial rates. For instance, in the 2011 Ameren case, the Commission stated:

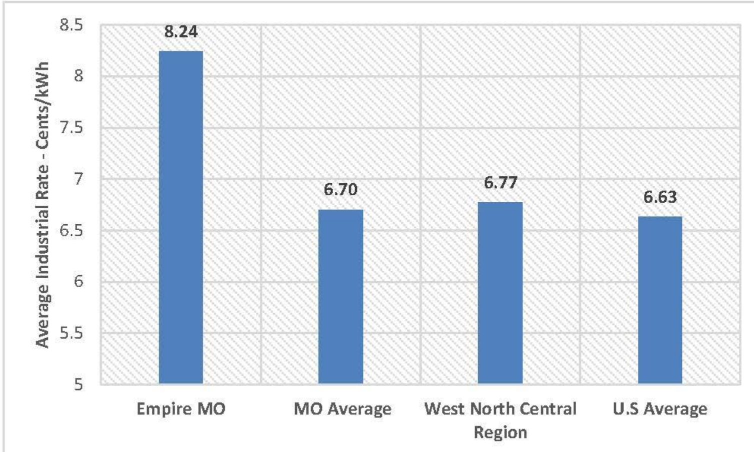
> In general, it is important that each customer class carry its own weight by paying rates sufficient to cover the cost to serve that class. That is a matter of simple fairness in that one customer class should not be required to subsidize another. Requiring each customer class to cover its actual cost of service also encourages cost effective utilization of electricity by customers by sending correct price signals to those customers.[10]

Still again, in a 2014 Empire rate case, the Commission found the following:

> Competitive industrial rates are important for the retention and expansion of industries within Empire's service area. If businesses leave Empire's service area, Empire's remaining customers bear the burden of covering the utility's fixed costs with a smaller amount of billing determinants. This may result in increased rates for all of Empire's remaining customers.[11]

In assessing the competitiveness of industrial rates, the Commission has relied upon testimony that utilized the EEI Typical Bills and Average Rates Report. The most recent EEI Report demonstrates that, as in 2014, Empire's industrial rates are not competitive. Specifically, Empire's industrial rates are now more than 22% above the state, regional and national average industrial rates.

[10] *Report and Order*, Case No. ER-2011-0028, issued July 13, 2011, at pages 115-116. See also, *Report and Order*, Case No. ER-2010-0036, issued May 28, 2010, at page 87.
[11] Report and Order, Case No. ER-2014-0351, issued June 24, 2015, page 18.



Source, Exhibit 352, Maini Direct, page 9.

As mentioned, because the Commission refused to address the residential subsidy in the last rate case, the competitiveness of Empire's industrial rates has worsened. "In 2015, the average industrial rate was approximately 17% above the national average, in 2019 Empire's industrial rate was 21% above the national average and in 2020 it is 24% above the national average."[12]

In its rebuttal testimony, OPC questioned whether all of Empire's rate classes show a similar discrepancy to the national average. The evidence indicates, however, that no other Empire rate class "has a rate differential comparable to that experienced by the industrial classes."[13]

	Cents / kWh	Percent higher than national average
Average rate Empire MO	11.51	7.9%
National Average	10.67	
Average Residential Rate – Empire	13.50	3.6%
National Average	13.03	
Average Commercial Rate – Empire	11.27	5.4%
National Average	10.69	
Average Industrial Rate – Empire	8.24	24.3%
National Average	6.63	

Source: Exhibit 354, Maini Surrebuttal, page 22

[12] Exhibit 352, Maini Direct, page 10.
[13] Exhibit 354, Maini Surrebuttal, page 22.

Recognizing that both class cost of service studies in this case show the existence of a significant residential subsidy, as well as the uncompetitive nature of Empire's industrial rates, the Commission should return to its effort, as demonstrated in both the 2014 and 2016 Empire rate case, to mitigate the residential subsidy. Consistent with the previous Commission decisions, the Commission should move all classes 25% toward cost-based rates. Such a position promotes equity and fairness and prevents larger deviations from cost caused by over-moderation.