

THE EMPIRE DISTRICT ELECTRIC COMPANY

P.S.C. Mo. No. 5 Sec. 4 Original Sheet No. 171

Canceling P.S.C. Mo. No. \_\_\_\_\_ Sec. \_\_\_\_\_ Original Sheet No. \_\_\_\_\_

For ALL TERRITORY

FUEL & PURCHASE POWER ADJUSTMENT CLAUSE  
RIDER FAC  
For service on and after July xx, 2015

The two six-month accumulation periods, the two six-month recovery periods and filing dates are set forth in the following table:

<u>Accumulation Periods</u>	<u>Filing Dates</u>	<u>Recovery Periods</u>
September–February	By April 1	June–November
March–August	By October 1	December–May

The Company will make a Fuel Adjustment Rate ("FAR") filing by each Filing Date. The new FAR rates for which a filing is made will be applicable starting with the Recovery Period that begins following the Filing Date. All FAR filings shall be accompanied by detailed workpapers supporting the filing in an electronic format with all formulas intact.

DEFINITIONS

**ACCUMULATION PERIOD:**

The six calendar months during which the actual costs and revenues subject to this rider will be accumulated for the purpose of determining the FAR.

**RECOVERY PERIOD:**

The billing months during which a FAR is applied to retail customer usage on a per kilowatt-hour (kWh) basis.

**BASE ENERGY COST:**

Base energy cost is ordered by the Commission in the last rate case consistent with the costs and revenues included in the calculation of the Fuel and Purchase Power Adjustment ("FPA").

**BASE FACTOR ("BF"):**

The base factor is the base energy cost divided by net generation kWh determined by the Commission in the last general rate case. BF = \$0.02680 per kWh for each accumulation period.

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APPLICATION

FUEL & PURCHASE POWER ADJUSTMENT

$$FPA = \{[(FC + PP + E - OSSR - REC - B) * J] * 0.95\} + T + I + P$$

Where:

FC = Fuel Costs Incurred to Support Sales:

The following costs reflected in Federal Energy Regulatory Commission (FERC) Accounts 501 and 506: coal commodity and railroad transportation, switching and demurrage charges, applicable taxes, natural gas costs, alternative fuels (i.e. tires, and bio-fuel), fuel additives, Btu adjustments assessed by coal suppliers, quality adjustments assessed by coal suppliers, fuel hedging costs, fuel adjustments included in commodity and transportation costs, broker commissions and fees associated with price hedges, oil costs, combustion product disposal revenues and expenses, consumable costs related to Air Quality Control Systems (AQCS) operation, such as ammonia, lime, limestone, and powdered activated carbon, and settlement proceeds, insurance recoveries, subrogation recoveries for increased fuel expenses in Account 501.

The following costs reflected in FERC Accounts 547 and 548: natural gas generation costs related to commodity, oil, transportation, fuel losses, hedging costs for natural gas, oil, and natural gas used to cross-hedge purchased power, fuel additives, and settlement proceeds, insurance recoveries, subrogation recoveries for increased fuel expenses, broker commissions and fees.

PP = Purchased Power Costs:

1. Costs and revenues for purchased power reflected in FERC Accounts 555, excluding all charges under Southwest Power Pool ("SPP") Schedules 1a and 12. Such costs and revenues include: purchased power costs, purchased power demand costs associated with purchased power contracts with a duration of one year or less, settlements, insurance recoveries, and subrogation recoveries for purchased power expenses, virtual energy charges, generating unit price adjustments, load/export charges, energy position charges, ancillary services including penalty and distribution charges, broker commissions, fees and margins and SPP energy market charges including:

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A. SPP costs or revenues for SPP's energy and operating market settlement charge types and market settlement clearing costs or revenues including:

- i. Energy;
- ii. Ancillary Services;
  - a. Regulating Reserve Service
  - b. Energy Imbalance Service
  - c. Spinning Reserve Service
  - d. Supplemental Reserve Service
- iii. Revenue Sufficiency;
- iv. Losses;
- v. Revenue Neutrality;
- vi. Congestion Management including;
  - a. Congestion
  - b. Transmission Congestion Rights
  - c. Financial Transmission Rights
- vii. Demand Reduction;
- viii. Grandfathered Agreements;
- ix. Virtual Transaction Fee;
- x. Pseudo-tie;
- xi. Miscellaneous;

B. Non-SPP costs or revenue as follows:

- i. If received from a centrally administered market (e.g. PJM / MISO), costs or revenues of an equivalent nature to those identified for the SPP costs or revenues specified in sub part A of part 1 above;
  - ii. If not received from a centrally administered market:
    - a. Costs for purchases of energy; and
    - b. Costs for purchases of generation capacity, provided such capacity is acquired for a term of one (1) year or less; and
    - c. Realized losses and costs (including broker commissions and fees) minus realized gains for financial swap transactions for electrical energy that are entered into for the purpose of mitigating price volatility associated with anticipated purchases of electrical energy for those specific time periods when the Company does not have sufficient economic energy resources to meet its native load obligations, so long as such swaps are for up to a quantity of electrical energy equal to the expected energy short fall and for a duration up to the expected length of the period during which the shortfall is expected to exist;
2. Costs of purchased power will be reduced by expected replacement power insurance recoveries qualifying as assets under Generally Accepted Accounting Principles; and
3. All transmission service costs and revenues reflected in FERC Account 565, excluding SPP Schedule 1a and Schedule 12, and all transmission service revenues reflected in FERC Account 457. Such transmission service costs and revenues include:

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A. SPP costs and revenues associated with:

- i. SPP Network Integration Transmission Service charges (SPP Schedule 11, or its successors);
- ii. SPP Point-to-point transmission service revenue (SPP Schedules 1, 7 and 8 or their successors);
- iii. SPP Network Integration Transmission Service (SPP Schedule 9 or its successor);
- iv. SPP Wholesale Distribution Service (SPP Schedule 10 or its successor);
- v. SPP Reactive Supply and Voltage Control (SPP Schedule 2 or its successor).

B. Non-SPP costs and revenues associated with:

- i. Network transmission service;
- ii. Point-to-point transmission service;
- iii. System control and dispatch; and
- iv. Reactive supply and voltage control.

4. Costs and revenues not specifically detailed in Factors FC, PP, E, or OSSR shall not be included in the Company's FAR filings; provided however, in the case of Factors PP or OSSR the market settlement charge types under which SPP or another market participant bills / credits a cost or revenue need not be detailed in Factors PP or OSSR for the costs or revenues to be considered specifically detailed in Factors PP or OSSR; and provided further, should the SPP or another market participant implement a charge type not listed in Exhibit 3, "List of Sub-Accounts Included and Excluded for FAC" of the Non-Unanimous Stipulation and Agreement on Certain Issues in Case No. ER-2014-0351:

- A. The Company may include the new charge type cost or revenue in its FAR filings if the Company believes the new charge type cost or revenue possesses the characteristics of, and is of the nature of, the costs or revenues listed in factors PP or OSSR, as the case may be, subject to the requirement that the Company make a filing with the Commission as outlined in B below and also subject to another party's right to challenge the inclusion as outlined in E. below;
- B. The Company will make a filing with the Commission giving the Commission notice of the new charge type no later than 60 days prior to the Company including the new charge type cost or revenue in a FAR filing. Such filing shall identify the proposed accounts affected by such new charge type cost or revenue, provide a description of the new charge type demonstrating that it possesses the characteristics of, and is of the nature of, the costs or revenues listed in factors PP or OSSR as the case may be, and identify the preexisting market settlement charge type(s) which the new charge type replaces or supplements;
- C. The Company will also provide notice in its monthly reports required by the Commission's fuel adjustment clause rules that identifies the new charge type costs or revenues by amount, description and location within the monthly reports;
- D. The Company shall account for the new charge type costs or revenues in a manner which allows for the transparent determination of current period and cumulative costs or revenues;

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- E. If the Company makes the filing provided for by B above and a party challenges the inclusion, such challenge will not delay approval of the FAR filing. To challenge the inclusion of a new charge type, a party shall make a filing with the Commission based upon that

party's contention that the new charge type costs or revenues at issue should not have been included, because they do not possess the characteristics of the costs or revenues listed in Factors PP or OSSR, as the case may be. A party wishing to challenge the inclusion of a charge type shall include in its filing the reasons why it believes the Company did not show that the new charge type possesses the characteristic of the costs or revenues listed in Factors PP or OSSR, as the case may be, and its filing shall be made within 30 days of the Company's filing under B above. In the event of a timely challenge, the Company shall bear the burden of proof to support its decision to include a new charge type in a FAR filing. Should such challenge be upheld by the Commission, any such costs will be refunded (or revenues retained) through a future FAR filing in a manner consistent with that utilized for Factor P; and

- F. A party other than the Company may seek the inclusion of a new charge type in a FAR filing by making a filing with the Commission no less than 60 days before the Company's next FAR filing. Such a filing shall give the Commission notice that such party believes the new charge type should be included because it possesses the characteristics of, and is of the nature of, the costs or revenues listed in factors PP or OSSR, as the case may be. The party's filing shall identify the proposed accounts affected by such new charge type cost or revenue, provide a description of the new charge type demonstrating that it possesses the characteristics of, and is of the nature of, the costs or revenues listed in factors PP or OSSR as the case may be, and identify the preexisting market settlement charge type(s) which the new charge type replaces or supplements. If a party makes the filing provided for by this paragraph F and a party (including the Company) challenges the inclusion, such challenge will not delay inclusion of the new charge type in the FAR filing or delay approval of the FAR filing. To challenge the inclusion of a new charge type, the challenging party shall make a filing with the Commission based upon that party's contention that the new charge type costs or revenues at issue should not have been included, because they do not possess the characteristics of the costs or revenues listed in Factors PP or OSSR, as the case may be. The challenging party shall make its filing challenging the inclusion and stating the reasons why it believes the new charge type does not possess the characteristic of the costs or revenues listed in Factors PP or OSSR, as the case may be, within 30 days of the filing that seeks inclusion of the new charge type. In the event of a timely challenge, the party seeking the inclusion of the new charge type shall bear the burden of proof to support its contention that the new charge type should be included in the Company's FAR filings. Should such challenge be upheld by the Commission, any such costs will be refunded (or revenues retained) through a future FAR filing in a manner consistent with that utilized for Factor P.

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E = Net Emission Costs:

The following costs and revenues reflected in FERC Accounts 509, 411.8 and 411.9 (or any other account FERC may designate for emissions expense in the future): emission allowance costs offset by revenues from the sale of emission allowances including any associated hedging.

OSSR = Revenue from Off-System Sales:

The following revenues or costs reflected in FERC Account 447: all revenues from off-system sales but excluding revenues from full and partial requirements sales to municipalities that are associated with Empire, and SPP energy and operating market revenues, including but not limited to the following: (see Note A. below)

- i. Energy;
- ii. Ancillary Services including;
  - a. Regulating Reserve Service
  - b. Energy Imbalance Service
  - c. Spinning Reserve Service
  - d. Supplemental Reserve Service
- iii. Revenue Sufficiency;
- iv. Losses;
- v. Revenue Neutrality;
- vi. Demand Reduction;
- vii. Grandfathered Agreements;
- viii. Pseudo-tie;
- ix. Miscellaneous;
- x. Hedging.

REC = Renewable Energy Credit Revenue:

Revenues reflected in FERC Account 456 from the sale of Renewable Energy Credits that are not needed to meet the Renewable Energy Standard.

**HEDGING COSTS:**

Hedging costs are defined as realized losses and costs (including broker commission fees and margins) minus realized gains associated with mitigating volatility in the Company's cost of fuel, fuel additives, fuel transportation, emission allowances and purchased power costs, including but not limited to, the Company's use of derivatives whether over-the-counter or exchanged traded including, without limitation, futures or forward contracts, puts, calls, caps, floors, collars and swaps.

Note A Should FERC require any item covered by factors FC, PP, E, REC or OSSR to be recorded in an account different than the FERC accounts listed in such factors, such items shall nevertheless be included in factor FC, PP, E, REC or OSSR. In the month that the Company begins to record items in a different account, the Company will file with the Commission the previous account

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number, the new account number and what costs or revenues that flow through this Rider FAC are to be recorded in the account.

B = Net base energy cost is calculated as follows:

$$B = (S_{AP} * \$0.02680)$$

$S_{AP}$  = Actual net system input at the generation level for the accumulation period.

J =  $\frac{\text{Missouri retail kWh sales}}{\text{Total system kWh sales}}$

Where Total system kWh sales includes sales to municipalities that are associated with Empire and excludes off-system sales.

T = True-up of over/under recovery of FAC balance from prior recovery period as included in the deferred energy cost balancing account. Adjustments by Commission order pursuant to any prudence review shall also be placed in the FPA for collection unless a separate refund is ordered by the Commission.

I = Interest applicable to (i) the difference between Total energy cost (FC + PP + E – OSSR – REC) and Net base energy costs ("B") multiplied by the Missouri energy ratio ("J") for all kWh of energy supplied during an AP until those costs have been billed; (ii) refunds due to prudence reviews ("P"), if any; and (iii) all under- or over-recovery balances created through operation of this FAC, as determined in the true-up filings ("T") provided for herein. Interest shall be calculated monthly at a rate equal to the weighted average interest paid on the Company's short-term debt, applied to the month-end balance of items (i) through (iii) in the preceding sentence.

P = Prudence disallowance amount, if any, as defined below.

FUEL ADJUSTMENT RATE

The FAR is the result of dividing the FPA by estimated recovery period  $S_{RP}$  kWh, rounded to the nearest \$0.00000. The FAR shall be adjusted to reflect the differences in line losses that occur at primary and secondary voltage by multiplying the average cost at the generator by 1.0466 and 1.0662, respectively. Any FAR authorized by the Commission shall be billed based upon customers' energy usage on and after the authorized effective date of the FAR. The formula for the FPA is displayed below

$$FAR = \frac{FPA}{S_{RP}}$$

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Where:

$S_{RP}$  = Forecasted Missouri NSI kWh for the recovery period.

= Forecasted total system NSI \*  $\frac{\text{Forecasted Missouri retail kWh sales}}{\text{Forecasted total system kWh sales}}$

Where Forecasted total system NSI kWh sales includes sales to municipalities that are associated with Empire and excludes off-system sales.

PRUDENCE REVIEW

Prudence reviews of the costs subject to this FAC shall occur no less frequently than every eighteen months, and any such costs which are determined by the Commission to have been imprudently incurred or incurred in violation of the terms of this rider shall be returned to customers. Adjustments by Commission order, if any, pursuant to any prudence review shall be included in the FAR calculation in P above unless a separate refund is ordered by the Commission. Interest on the prudence adjustment will be included in I above.

TRUE-UP OF FPA

In conjunction with an adjustment to its FAR, the Company will make a true-up filing with an adjustment to its FAC on the first Filing Date that occurs after completion of each Recovery Period. The true-up adjustment shall be the difference between the FPA revenues billed and the FPA revenues authorized for collection during the true-up recovery period, i.e. the true-up adjustment. Any true-up adjustments or refunds shall be reflected in item T above and shall include interest calculated as provided for in item I above.



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	Accumulation Period Ending		
1	Total Energy Cost (TEC) = (FC + PP + E - OSSR - REC)		
2	Net Base Energy Cost (B)	-	
	2.1 Base Factor (BF)		\$0.02680
	2.2 Accumulation Period NSI (S <sub>AP</sub> )		
3	(TEC-B)		
4	Missouri Energy Ratio (J)	*	
5	(TEC - B) * J		
6	Fuel Cost Recovery	*	
7	(TEC - B) * J * 0.95		
8	True-Up Amount (T)	+	
9	Prudence Adjustment Amount (P)	+	
10	Interest (I)	+	
11	Fuel and Purchased Power Adjustment (FPA)	=	
12	Forecasted Missouri NSI (S <sub>RP</sub> )	÷	
13	Current Period Fuel Adjustment Rate (FAR) to be applied Beginning July xx, 2015	=	
14	Current Period FAR <sub>PRIM</sub> = FAR x VAF <sub>PRIM</sub>		
15	Current Period FAR <sub>SEC</sub> = FAR x VAF <sub>SEC</sub>		
16	VAF <sub>PRIM</sub> = 1.0466		1.0466
17	VAF <sub>SEC</sub> = 1.0622		1.0622