

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

In the Matter of the Second Prudence Review    )  
of Costs Subject to the Commission-        )  
Approved Fuel Adjustment Clause of The        )  
Empire District Electric Company.                )  
**File No. EO-2011-**

**STAFF’S NOTICE OF START OF SECOND PRUDENCE AUDIT**

**COMES NOW**, the Staff (“Staff”) by and through counsel, and for its Notice of Start of Second Prudence Audit, respectfully states as follows to the Missouri Public Service Commission (“Commission”):

1.       The Fuel and Purchased Power Adjustment Clause tariff (“FAC”) of The Empire District Electric Company (“Empire”) provides that there “shall be a periodic review of fuel and energy costs subject to the FAC” and that “[p]rudence reviews shall occur no less frequently than at eighteen (18) month intervals.”<sup>1</sup> This tracks the language of both Commission Rule 4 CSR 240-20.090(7) and § 386.266.4(4) RSMo Supp. 2010.

2.       In Case No. ER-2008-0093, the Commission approved Empire’s FAC tariff sheets numbered 17, 17a, 17b and 17c to become effective on September 1, 2008.<sup>2</sup> In File No.ER-2010-0130, the Commission approved revised FAC tariff sheets 17, 17a, 17b and 17c to be effective for service prior to September 10, 2010 and new FAC tariff sheets 17d, 17e, 17f and 17g for service on and after September 10, 2010. Both FAC tariff sheet number 17 and 17d provide for recurring six-month accumulation periods of September-to-February and March-to-August.

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<sup>1</sup> The Empire District Electric Company, Tariff Sheet, P.S.C. MO. No. 5, Sec. 4, Original Sheet No. 17b.

<sup>2</sup> *In the Matter of The Empire District Electric Company’s Tariff’s to Increase Rates for Electric Service Provided to Customers in the Missouri Service Area of the Company*, Case No. ER-2008-0093, *Order Granting Expedited*

3. The Staff plans to conduct a prudence audit of the costs associated with Empire's FAC (offset by off-system sales margin and any emission allowance revenues) for an audit period of September 30, 2009, through February 28, 2011.

4. Rule 4 CSR 240-20.090(7)(B), in part, provides: "The Staff shall file notice within ten (10) days of starting its prudence audit." It also establishes the following schedule of dates by which certain events are to take place keyed off of the date the Staff initiates its prudence audit:

<b>Time from Staff prudence audit initiation within which event is to occur</b>	<b>Event</b>
180 days after	Submission of Staff recommendation to Commission regarding Staff's examination and analysis
190 days after	Request for hearing
210 days after	Commission Order, if no hearing requested

5. The Staff initiated its second prudence audit of the costs subject to Empire's Commission-approved FAC on March 1, 2011, and the Staff plans to submit its recommendation to the Commission regarding the Staff's examination and analysis by August 26, 2011, by filing its recommendation in this case.

6. The Staff plans to file a Staff recommendation at the conclusion of its prudence audit that covers the topics in the following outline:

### **Section 1 - Standard of Prudence**

A. Standard requires documentation and includes other Commission principles as appropriate, such as the Commission's Affiliate Transactions Rules, which also requires documentation.

## **Section - 2 Audit Scope**

- A. Presently Known Areas To Review
  - 1. Empire's Total Book Costs as Allocated to Missouri for Fuel Consumed in Empire's Generating Units
  - 2. Costs Associated with Empire's Fuel Hedging Program
  - 3. Purchased Power Energy Charges, Including Applicable Transmission Fees
  - 4. Southwest Power Pool Variable Costs
  - 5. Emission Allowance Costs and Revenues
  - 6. Off System Sales
- B. Tests/Investigations to Address/Discover Other Significant Items Impacting Fuel and Purchased Power Cost Recovery Amount
  - 1. Comparison of Base Fuel Components and Amounts to Claimed Cost Components and Amounts
  - 2. Plant Outages
  - 3. Fuel, Freight and Transportation / Purchase Power Contracts

**WHEREFORE**, the Staff of the Missouri Public Service Commission hereby provides notice that it started its prudence audit of the costs subject to Empire's Commission-approved fuel adjustment clause on March 1, 2011, for the period September 30, 2009, through February 28, 2011, and that it plans to submit its recommendation to the Commission regarding the Staff's examination and analysis by August 26, 2011, by filing its recommendation in this case.

Respectfully submitted,

/s/ Meghan McClowry

Meghan E. McClowry

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### **CERTIFICATE OF SERVICE**

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 9<sup>th</sup> day of March, 2011.

/s/ Meghan McClowry