

Exhibit No.:
Issue: Fuel Adjustment
Witness: Todd W. Tarter
Type of Exhibit: Direct Testimony
Sponsoring Party: Empire District Electric
Case No. ER-2014-
Date Testimony Prepared: October 2013

**Before the Public Service Commission
Of the State of Missouri**

Direct Testimony

Of

Todd W. Tarter

October 2013

DIRECT TESTIMONY
OF
TODD W. TARTER
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI
CASE NO. ER-2014-

1 **INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Todd W. Tarter and my business address is 602 S. Joplin Avenue,
4 Joplin, Missouri.

5 **Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR JOB TITLE?**

6 A. I am presently employed by The Empire District Electric Co. (“Empire” or “the
7 Company”) as the Manager of Strategic Planning.

8 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL
9 BACKGROUND FOR THE COMMISSION.**

10 A. I graduated from Pittsburg State University in 1986 with a Bachelor of Science
11 Degree in Computer Science. After graduation I received a mathematics education
12 certification. I began my employment with Empire in May 1989. During my tenure
13 with Empire I have worked in the Corporate Planning, Strategic Planning,
14 Information Technology, and Planning and Regulatory departments. My primary
15 responsibilities during this time have included work with the Company’s
16 construction budget, load forecasts, sales and revenue budgets, financial forecasts
17 and fuel and purchased power projections, among others. In September 2004, I was

1 promoted to my current position where I primarily work with fuel and purchased
2 power projections, energy efficiency and integrated resource planning.

3 **Q. HAVE YOU EVER TESTIFIED BEFORE THIS OR ANY OTHER STATE**
4 **UTILITY COMMISSION?**

5 A. Yes. I have testified on behalf of Empire before the Missouri Public Service
6 Commission, the Kansas Corporation Commission, the Corporation Commission of
7 Oklahoma and the Arkansas Public Service Commission. The case references are
8 attached to this testimony as Schedule TWT-1.

9 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

10 A. My testimony will support the Fuel & Purchased Power Adjustment Clause
11 (“FAC”) rate schedules that have been filed by Empire to reflect the actual energy
12 costs that Empire has incurred during the six-month period March 2013 through
13 August 2013. This six-month period is an Accumulation Period specified in
14 Empire’s FAC tariff that was approved by the Missouri Public Service Commission
15 (“Commission”) in its Report and Order issued in Case No. ER-2012-0345.

16 **EXECUTIVE SUMMARY**

17 **Q. ARE THERE ANY CHANGES IN THIS FAC FILING THAT SHOULD BE**
18 **NOTED?**

19 A. Yes. New Missouri retail electric rates became effective on April 1, 2013 from
20 Case No. ER-2012-0345. At that point the energy cost was rebased from \$28.23
21 per megawatt-hour to a base factor of \$28.31 per megawatt-hour. By number of
22 days in the Accumulation Period, the effective date of rates approved in that case
23 was about 17% into the period. The weighted average base factor for the period

1 was \$28.30 per megawatt-hour. Also, in accordance with the Commission’s FAC
2 rule and Empire’s approved FAC tariff, some of the language describing the FAC
3 components changed. For example, the Cost Adjustment Factor or “CAF” has
4 changed to Fuel Adjustment Rate or “FAR.” The new descriptions are utilized in
5 this testimony. Finally, for the first time, Empire has concurrently filed an FAC
6 True-up case in a separate docket to identify and explain the True-Up Amount that
7 is used in the calculation of the FAR.

8 **Q. PLEASE PROVIDE AN OVERVIEW OF YOUR TESTIMONY IN**
9 **SUPPORT OF THE FAC RATE SCHEDULES FILED BY EMPIRE.**

10 A. The Commission’s rule governing fuel and purchased power cost recovery
11 mechanisms for electric utilities – specifically 4 CSR 240-20.090(4) – requires
12 Empire to make periodic FAC filings that are designed to enable Commission
13 review of the actual fuel costs, purchased power costs, cost of consumables
14 associated with the power plants’ air quality control system (“AQCS”), net cost of
15 emission allowances, revenue from the sale of renewable energy credits (“REC”) and
16 off-system sales margins (collectively referred to as total energy costs) that the
17 Company has incurred during an Accumulation Period. In addition, these periodic
18 filings are designed to adjust the FAC rates up or down, to reflect the actual energy
19 costs incurred during the Accumulation Period. Empire’s FAC tariff calls for two
20 annual filings: a filing covering the six-month Accumulation Period running from
21 September through February and a second filing covering the Accumulation Period
22 running from March through August. Any increases or decreases in rates that are
23 approved by the Commission, or that take effect by operation of law, are then

1 collected from or refunded to customers over two six-month Recovery Periods:
2 June through November and December through May.

3 Since the implementation of Empire's FAC, the variable cost of fuel and purchased
4 power used by the Company's Missouri customers has varied from the base fuel
5 and energy cost established in rates. For the Accumulation Period March 2013
6 through August 2013, Empire's actual total energy costs eligible for the FAC have
7 been higher than the base energy costs included in the Company's Missouri rates by
8 approximately \$276,693. In accordance with the FAC tariff, Empire has absorbed
9 5% of the overall increase in Missouri variable energy costs during that six-month
10 period. Therefore, in accordance with the Commission's FAC rule and Empire's
11 approved FAC tariff, the Company has filed FAC rate schedules that are designed
12 to recover 95 percent of the energy cost differences of approximately \$262,858
13 from its Missouri jurisdictional customers.

14 In addition, Empire also seeks to recover approximately an additional \$231,592,
15 which is further described in the true-up testimony that is provided in a separate
16 filing, of under-recovered energy costs from the prior recovery period ending May
17 31, 2013. This brings the total net recovery sought by the Company to
18 approximately \$489,670, including interest. This total represents the Fuel and
19 Purchased Power Adjustment ("FPA").

20 As reflected in the rate schedules filed by the Company, Empire has developed two
21 Fuel Adjustment Rates ("FAR") designed to recover the FPA, each of which is
22 based on forecasted retail Missouri sales over the next Recovery Period: a FAR of
23 \$0.00024 per kilowatt-hour (kWh) for primary service, and a FAR of \$0.00024 per

1 kWh for secondary service have been developed for this filing. These FARs will
2 enable Empire to recover over a Recovery Period ending May 2014 the difference
3 between base energy costs built into its rates and the total energy costs that were
4 actually incurred during the Accumulation Period and the true-up of fuel and energy
5 costs during the Recovery Period ended May 31, 2013.

6 **Q. DOES THE EMPIRE FAC TARIFF INCLUDE PROVISIONS THAT ARE**
7 **DESIGNED TO LIMIT EMPIRE'S FAC RECOVERYS TO THE ACTUAL**
8 **COST OF ENERGY?**

9 A. Yes. The Empire FAC and the Commission's rule governing FACs include two
10 safeguards that limit FAC recovery to actual, prudently-incurred energy costs. The
11 first safeguard is a true-up process that ensures that the FAC collections during the
12 Recovery Period do not exceed actual energy costs incurred during the
13 Accumulation Period. The second safeguard involves a requirement that Empire's
14 energy costs be subjected to periodic Prudence Reviews, which will ensure that
15 only prudently-incurred energy costs are passed through to customers using the
16 FAC. Empire's operation of the FAC has been audited by the Commission's staff
17 through August 31, 2012 and no disallowances have been recommended.

18 **THE PROPOSED FAC RATE ADJUSTMENT**

19 **Q. WHY HAS EMPIRE FILED FAC-RELATED RATE SCHEDULES AT THIS**
20 **TIME?**

21 A. The Commission's rules – specifically 4 CSR 240-20.090(4) – and Empire's FAC
22 tariff require the Company to make periodic FAC filings that enable the
23 Commission to review Empire's actual fuel, purchased power, AQCS costs, off-

1 system sales, REC revenue, and net costs of emissions allowances so that Empire's
2 FAC rates can be adjusted to reflect the actual energy costs the Company incurs to
3 provide electric service to its Missouri customers. Empire's Missouri FAC tariff
4 calls for two FAC adjustment filings per year: a filing covering the six-month
5 Accumulation Period running from September through February and a second filing
6 covering the Accumulation Period running from March through August. Empire
7 is seeking an increase in its FAC rates to reflect 95% of the difference between the
8 base energy costs built into its base Missouri rates and Empire's actual Missouri
9 energy costs for the Accumulation Period, plus a true-up of the costs recovered
10 during the Recovery Period ending May 31, 2013. This recovery via FAC rates will
11 be reflected on the Missouri customers' bills over the six-month Recovery Period
12 running from December 2013 through May 2014.

13 **Q. HOW HAVE EMPIRE'S AVERAGE ENERGY COSTS CHANGED OVER**
14 **THE COST INCLUDED IN BASE RATES DURING THE**
15 **ACCUMULATION PERIOD?**

16 A. Empire's average energy costs per kWh have increased above the level built into its
17 base electric rates, which is why the FAC rate schedules filed by the Company seek
18 an increase in the rates charged to the Missouri customers. More specifically,
19 Empire's Missouri base rates included an average cost of energy per kWh of net
20 system production of \$0.02830 during the Accumulation Period of March 2013
21 through August 2013. Empire actually incurred average energy costs of \$0.02842
22 per kWh during the Accumulation Period. This represents an overall increase in
23 average energy costs of \$0.00013 per kWh during the Accumulation Period, or

1 about 0.44 percent higher than the average cost built into base rates. Pursuant to
2 Empire's FAC tariff, Empire is requesting to recover from its Missouri customers
3 the net of 95 percent of this cost increase plus approximately \$231,592 of under
4 recovered energy cost and \$(4,780) of interest expense from the Recovery Period
5 ending May 31, 2013, or an average of \$0.00023 per kWh sold during the
6 upcoming Recovery Period.

7 **Q. PLEASE BRIEFLY DESCRIBE THE REASONS FOR THE INCREASE IN**
8 **THE AVERAGE ENERGY COST DURING THE ACCUMULATION**
9 **PERIOD?**

10 A. As previously noted, the average total energy cost for the period was very close to
11 the base. It was only slightly higher by 0.44%. The period in question, March 2013
12 through August 2013, in general, contains the warmest summer months, so this
13 period typically has a higher average energy cost per megawatt-hour than what
14 would be expected for an annual average energy cost per megawatt-hour. This was
15 the case this period even though July and August 2013 were milder than normal.
16 There were also some planned and forced outages of Empire's coal plants
17 throughout the accumulation period (March 2013 – August 2013), that contributed
18 to the increase as well.

19 **Q. HOW DOES THE MONTHLY FAC CHANGE FOR A TYPICAL**
20 **RESIDENTIAL CUSTOMER?**

21 A. For Missouri residential customers using 1,000 kWh per month, the electric bill
22 will increase by approximately \$1.23 per month over the six-month period
23 December 2013 through May 2014, when the current FAC charge of \$0.00024 is

1 applied to their bill and the previous FAC credit factor of \$(0.00099) is eliminated
2 from their bill.

3 **Q. WAS THE AVERAGE ENERGY COST IN LINE WITH EXPECTATIONS?**

4 A. Yes, the average energy cost was fairly close to budget. The actual total energy cost
5 per megawatt-hour was actually below the Company budget by approximately 2.2
6 percent, primarily due to the low natural gas prices and mild weather in July and
7 August during the Accumulation Period.

8 **Q. DO YOU EXPECT THE AVERAGE ENERGY COSTS ELIGIBLE FOR**
9 **THE FAC TO BE HIGHER OR LOWER THAN THE BASE DURING THE**
10 **NEXT ACCUMULATION PERIOD FROM SEPTEMBER 2013 THROUGH**
11 **FEBRUARY 2014?**

12 A. Based on the current budget, we expect the total energy costs eligible for the FAC
13 to be about 2.73% lower than the base. The period in question, September 2013
14 through February 2014, contains the fall and winter months, so this period has the
15 potential for a lower average cost per megawatt-hour than what would be expected
16 for an annual average cost per megawatt-hour. The current budget, which assumes
17 normal weather, anticipates average energy costs eligible for the FAC to be lower
18 than the current FAC base of \$28.31 per megawatt-hour during the next
19 Accumulation Period.

20 **Q. DO YOU BELIEVE EMPIRE'S FUEL ADJUSTMENT CLAUSE IS**
21 **REASONABLE AND APPROPRIATE?**

22 A. Yes. The design of the Commission's rule governing the FAC was the subject of
23 much discussion and debate prior to being approved by the Commission. In

1 addition, there was much discussion and debate concerning Empire's FAC tariff in
2 Case No. ER-2008-0093. This was the case in which the Commission ultimately
3 approved Empire's initial FAC tariff. Additional discussions have occurred in
4 subsequent cases. Empire's FAC filing is being made in accordance with the
5 Commission's rules governing the FAC and in accordance with the FAC tariff
6 approved for Empire.

7 **Q. PLEASE DESCRIBE HOW EMPIRE IS PROPOSING TO COLLECT THE**
8 **ENERGY COST INCREASES EXPERIENCED DURING THE MARCH**
9 **2013-AUGUST 2013 ACCUMULATION PERIOD?**

10 A. The FAC rate schedule filed by Empire will collect the energy cost increase actually
11 incurred during the Accumulation Period by applying the positive Fuel Adjustment
12 Rate or FAR of \$0.00024 for primary and \$0.00024 for secondary service to the
13 actual Missouri retail kWh sales that take place during the December 1, 2013 to
14 May 31, 2014 Recovery Period. The proposed FARs were calculated in accordance
15 with Empire's authorized FAC tariff. I have attached to my testimony, as Schedule
16 TWT-2, a copy of one of Empire's approved FAC tariff sheets. In addition to the
17 tariff sheet, I have included as page 2 of Schedule TWT-2 a monthly analysis of the
18 energy costs and energy cost recovery that has taken place during the Accumulation
19 Period. Schedule TWT-2 contains the basic information and FAC formula that
20 Empire used to calculate the FARs that have been included in the proposed revised
21 FAC rate schedule sheet 17e. The Empire FAC tariff and the formula included
22 therein were approved by the Commission in Case No. ER-2012-0345.

23 **Q. HOW WERE THE VARIOUS VALUES USED TO DETERMINE THE**

1 **PROPOSED FARS THAT ARE SHOWN ON SCHEDULE TWT-2**
2 **DEVELOPED?**

3 A. The data upon which Empire based the values for each of the variables in the
4 approved FAR formula are included on the schedule, and came from Empire's
5 books and records. Schedule TWT-2 contains all of the basic information that is
6 required to calculate the proposed change in the FAR. In addition, I have filed the
7 detailed information required by 4 CSR 240-3.161(7) (A) with this testimony as a
8 separate set of supporting workpapers. Additional information about the true-up
9 amount was filed concurrently in a separate docket. In addition, as required by 4
10 CSR 240-3.161(7) (B), I have separately provided to all parties of record in Case
11 Nos. ER-2008-0093, ER-2010-0130, ER-2011-0004 and ER-2012-0345 with a set
12 of these workpapers.

13 **Q. IS EMPIRE IN COMPLIANCE WITH THE PROVISIONS OF THE**
14 **COMMISSION'S FAC RULE CONCERNING PERIODIC REPORTING**
15 **AND SURVEILANCE?**

16 A. Yes. Empire has complied with all of the Commission's rules, 4 CSR 240-3.161(5)
17 and (6), governing periodic reports and surveillance using the Commission's
18 electronic filing system and provided all of the parties to ER-2008-0093, ER-2010-
19 0130, ER-2011-0004, and ER-2012-0345 with copies of the periodic compliance
20 reports and copies of surveillance reports at the same time they were filed with the
21 Commission.

22 **Q. IF FAC SHEET 17e IS APPROVED BY THE COMMISSION, WHAT**
23 **SAFEGUARDS EXIST TO ENSURE THAT THE FAC REVENUE**

1 **COLLECTED BY EMPIRE DOES NOT EXCEED THE ACTUAL TOTAL**
2 **ENERGY COST INCURRED BY EMPIRE DURING THE**
3 **ACCUMULATION PERIOD?**

4 A. As I mentioned earlier, Empire’s FAC and the Commission’s rules provide two
5 mechanisms designed to limit the FAC amounts collected from customers to
6 Empire’s actual, prudently-incurred energy costs. First, at the end of each Recovery
7 Period the Company is required to true-up the amounts collected from customers
8 through the FAR with the total energy costs that were actually incurred during the
9 Accumulation Period to which the FAR applies. In addition, Empire’s energy costs
10 will be subjected to periodic Prudence Reviews to ensure that only prudently-
11 incurred energy costs are collected from customers through the FAC. These two
12 mechanisms serve as checks that ensure that Empire’s Missouri customers pay only
13 the prudently-incurred, actual cost of energy used to provide electric service in
14 Missouri (less the 5% Empire absorbs or retains) – no more and no less.

15 **Q. WHAT ACTION IS EMPIRE REQUESTING FROM THE COMMISSION**
16 **WITH RESPECT TO THE FAC RATE SCHEDULE THAT THE**
17 **COMPANY HAS FILED?**

18 A. As provided by 4 CSR 240-20.090(4), Staff has thirty (30) days from the date the
19 FAC rate schedule is filed to conduct a review and to make a recommendation to
20 the Commission as to whether the rate schedule complies with the Commission’s
21 FAC rules, the requirements of Section 386.266, RSMo, and Empire’s approved
22 FAC. The Commission has sixty (60) days from the date of Empire’s filing to
23 either approve the rate schedule or to allow it to take effect by operation of law.

1 Empire believes its FAC filing satisfies all of the requirements of applicable
2 statutes, the Commission's rules, and Empire's approved FAC. Empire requests
3 that, following Staff's review, the Commission approve revised FAC sheet 17e to
4 be effective as of December 1, 2013, which is the first day of the Recovery Period
5 prescribed in Empire's FAC tariff.

6 **Q. IS EMPIRE REQUESTING ANY OTHER CHANGES TO THE FAC**
7 **TARIFF AT THIS TIME?**

8 A. No other changes to the FAC tariff sheets are being requested at this time.

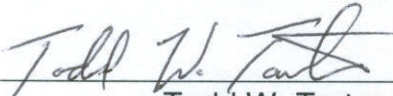
9 **Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?**

10 A. Yes, it does.

AFFIDAVIT OF TODD W. TARTER

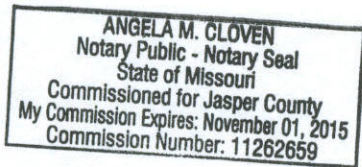
STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

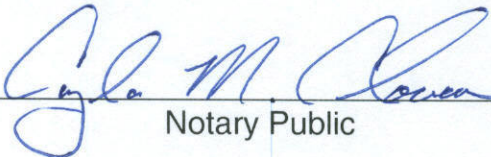
On the 1st day of October 2013, before me appeared Todd W. Tarter, to me personally known, who, being by me first duly sworn, states that he is Manager of Strategic Planning of The Empire District Electric Company and acknowledges that he has read the above and foregoing document and believes that the statements therein are true and correct to the best of his information, knowledge and belief.



Todd W. Tarter

Subscribed and sworn to before me this 1st day of October, 2013.





Notary Public

My commission expires: 11/01/15.

Cases with Filed Written Testimony of Todd W. Tarter

Before the Missouri Public Service Commission

- Rate Cases
 - ER-2006-0315
 - ER-2008-0093
 - ER-2010-0130
 - ER-2011-0004
 - ER-2012-0345

- Fuel Adjustment Cases
 - ER-2011-0320
 - ER-2012-0098
 - ER-2012-0326
 - ER-2013-0122
 - ER-2013-0442

Before the Kansas Corporation Commission

- Rate Docket
 - 05-EPDE-980-RTS

- Energy Cost Adjustment ACA Docket
 - KS-12-EPDE-392-ACA
 - KS-13-EPDE-385-ACA

Before the Corporation Commission of Oklahoma

- Rate Cause
 - PUD 201100082

- Fuel Prudence Review Causes
 - PUD 201100131
 - PUD 201200170

- Energy Efficiency Cause
 - PUD 201300142

Before the Arkansas Public Service Commission

- Energy Efficiency Docket
 - 07-076-TF

THE EMPIRE DISTRICT ELECTRIC COMPANY

P.S.C. Mo. No. 5 Sec. 4 3rd Revised Sheet No. 17e

Canceling P.S.C. Mo. No. 5 Sec. 4 2nd Revised Sheet No. 17e

For ALL TERRITORY

FUEL & PURCHASE POWER ADJUSTMENT CLAUSE
RIDER FAC
For service on and after April 1, 2013

	Accumulation Period Ending		Aug 31, 2013
1	Total Energy Cost (TEC) = (FC+PP+E-OSSR-REC)		75,335,386
2	Net Base Energy Cost (B)	-	75,002,161
	2.1 Base Factor (BF)		0.02830 **
	2.2 Accumulation Period NSI (S _{AP})		2,650,588,000
3	(TEC-B)		333,224
4	Missouri Energy Ratio (J)	*	83.03%
5	(TEC-B)*J		276,693
6	Fuel Cost Recovery	*	95.00%
7	(TEC-B)*J*0.95		262,858
8	True-Up Amount (T)	+	231,592
9	Prudence Adjustment Amount (P)	+	
10	Interest (I)	+	(4,780)
11	Fuel and Purchased Power Adjustment (FPA)	=	489,670
12	Forecasted Missouri NSI (S _{RP})	÷	2,157,273,065
13	Current Period Fuel Adjustment Rate (FAR) to be applied Beginning 12-01-2013	=	0.00023
14	Current Period FAR _{PRIM} = FAR x VAF _{PRIM}		0.00024
15	Current Period FAR _{SEC} = FAR x VAF _{SEC}		0.00024
16	VAF _{PRIM} = 1.0466		1.0466
17	VAF _{SEC} = 1.0622		1.0622

** Reflects base of \$0.02823 for March of 2013 and a base of \$0.02831 for five months.

