

Exhibit No.:  
Issue: Fuel Adjustment  
Witness: Todd W. Tarter  
Type of Exhibit: Direct Testimony  
Sponsoring Party: Empire District Electric  
Case No.  
Date Testimony Prepared: September 2011

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

**Direct Testimony**

**of**

**Todd W. Tarter**

**September 2011**

**\*\*Denotes Highly Confidential\*\***

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

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 **AND WHAT ARE YOUR JOB RESPONSIBILITIES?**

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

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

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

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

5 A. Yes. I testified on behalf of Empire on the topic of on-system fuel and purchased  
6 power expense in Missouri Public Service Commission ("Commission") Cases No.  
7 ER-2006-0315, ER-2008-0093, ER-2010-0130 and ER-2011-0004. I also testified  
8 on behalf of Empire in Fuel Adjustment Case No. ER-2011-0320. In other  
9 jurisdictions I testified on behalf of Empire in Kansas Corporation Commission  
10 Case No. 05-EPDE-980-RTS and Corporation Commission of Oklahoma Cause  
11 No. PUD 201100082.

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

13 A. My testimony will support the Fuel Adjustment Clause ("FAC") rate schedules that  
14 have been filed by Empire to reflect the actual energy costs that Empire has  
15 incurred during the six-month period March 2011 through August 2011. This six-  
16 month period is an Accumulation Period specified in Empire's FAC tariff that was  
17 approved by the Missouri Public Service Commission ("Commission") in its  
18 Report and Order issued in Cases No. ER-2008-0093, ER-2010-0130 and No. ER-  
19 2011-0004.

20 **EXECUTIVE SUMMARY**

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

23 A. Yes. New electric rates became effective on June 15, 2011 from Case No. ER-

1 2011-0004. By number of days in the accumulation period, this was about 58%  
2 into the period. At this point the energy cost was rebased with an annual base  
3 energy cost of \$28.23 per megawatt-hour. Previously the base energy cost was  
4 based on summer and winter seasonal factors of \$31.82 per megawatt-hour and  
5 \$28.57 per megawatt-hour respectively. Additionally, with the June 15, 2011  
6 effective date, the natural gas fixed firm transportation costs were removed from  
7 the energy costs eligible for the Missouri FAC. Special construction accounting for  
8 the Iatan 2 unit ended on June 14, 2011.

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

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

1 or that take effect by operation of law, are then collected from or refunded to  
2 customers over two six-month Recovery Periods: June through November and  
3 December through May.

4 Since the implementation of Empire's FAC, the variable cost of fuel and purchased  
5 power used by the Company's Missouri customers has varied from the base fuel  
6 and energy cost established in rates. For the Accumulation Period March 2011  
7 through August 2011, Empire's actual variable fuel, purchased power and Air  
8 Quality Control System ("AQCS") costs less off-system sales and Renewable  
9 Energy Credit sales ("REC"), have exceeded the base energy costs included in the  
10 Company's Missouri rates by approximately \$8.7 million. In accordance with the  
11 FAC tariff, Empire has absorbed 5% of the overall increase in Missouri variable  
12 fuel, purchased power and AQCS costs during the six-month period March 2011  
13 through August 2011. Therefore, in accordance with the Commission's FAC rule  
14 and Empire's approved FAC tariff, the Company has filed FAC rate schedules that  
15 are designed to recover energy cost increases of approximately \$8.3 million from  
16 its Missouri jurisdictional customers, and approximately an additional \$236,000 of  
17 un-recovered energy costs from the prior recovery period ending May 31, 2011 for  
18 a total of \$8.523 million, including interest. As reflected in the rate schedules filed  
19 by the Company, Empire has developed two Cost Adjustment Factors ("CAF") of  
20 \$0.00409 per kilowatt-hour (kWh) for primary service and a CAF of \$0.00417 per  
21 kWh for secondary service. These CAFs will enable Empire to recover the  
22 difference between base costs of fuel and purchased power built into its rates and  
23 the fuel and purchased power costs that were actually incurred during the

1 Accumulation Period and the true-up of fuel and energy costs during the Recovery  
2 Period ended May 31, 2011 over a Recovery Period running from December 2011  
3 through May 2012.

4 **Q. DOES THE EMPIRE FAC TARIFF INCLUDE PROVISIONS THAT ARE**  
5 **DESIGNED TO LIMIT EMPIRE'S FAC RECOVERY TO THE ACTUAL**  
6 **COST OF ENERGY?**

7 A. Yes. The Empire FAC and the Commission's rule governing FACs include two  
8 safeguards that limit FAC recovery to the actual, prudently-incurred fuel and  
9 purchased power costs. The first safeguard is a true-up process that ensures that  
10 the FAC collections during the Recovery Period do not exceed actual fuel and  
11 purchased power costs incurred during the Accumulation Period. The second  
12 safeguard involves a requirement that Empire's energy costs be subjected to  
13 periodic Prudence Reviews, which will ensure that only prudently-incurred energy  
14 are passed through to customers using the FAC. The first 30 months' operation of  
15 Empire's FAC has been audited by the Commission's staff and no disallowances  
16 were recommended.

17 **THE PROPOSED FAC RATE ADJUSTMENT**

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

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

1 reflect the actual energy costs the Company incurs to provide electric service to its  
2 Missouri customers. Empire's Missouri FAC tariff calls for two FAC adjustment  
3 filings per year: a filing covering the six-month Accumulation Period running from  
4 September through February and a second filing covering the Accumulation Period  
5 running from March through August. The Missouri FAC rate schedules related to  
6 my testimony are Empire's sixth filing since Empire's FAC was approved by the  
7 Commission in ER-2008-0093, ER-2010-0130 and ER-2011-0004. Empire is  
8 seeking an increase in its FAC rates to reflect 95% of the difference between the  
9 base energy costs built into its base Missouri rates and Empire's actual Missouri  
10 energy costs for the Accumulation Period, plus a true-up of the costs recovered  
11 during the Recovery Period ending May 31, 2011. This increase in FAC rates will  
12 be reflected on the Missouri customers' bills over the six-month Recovery Period  
13 running from December 2011 through May 2012.

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

17 A. Empire's average energy costs per kWh have increased over the level built into its  
18 base electric rates, which is why the FAC rate schedules filed by the Company seek  
19 an increase in the rates charged to the Missouri customers. More specifically,  
20 Empire's Missouri base rates included an average cost of energy per kWh of net  
21 system production of \$0.02867 during the Accumulation Period of March 2011  
22 through August 2011. Empire actually incurred average energy costs of \$0.03244  
23 per kWh during the Accumulation Period. This represents an overall increase in

1 average energy costs of \$0.00377 per kWh during the Accumulation Period, or  
2 about 13.15 percent above than the average cost built into base rates. Pursuant to  
3 Empire's FAC tariff, Empire is requesting to pass on to its Missouri customers 95  
4 percent of this cost increase plus approximately \$236,000 of under recovered  
5 energy cost from the Recovery Period ending May 31, 2011 or an average of  
6 \$0.00389 per kWh of net system input during the upcoming Recovery Period.

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

10 A. The primary drivers which caused the average fuel and energy cost to increase  
11 during the Accumulation Period were weather, Iatan 2 construction accounting and  
12 limited availability from the Iatan coal-fired generating station due to flooding on  
13 the Missouri River. The weather during the summer months of June through  
14 August 2011 was abnormally warm. Since record keeping began for Joplin in  
15 1902, July 2011 was the third warmest July on record. Joplin's daily high  
16 temperatures met or exceeded record levels eight times during the month and the  
17 daily average high temperature was 100° F. This extreme heat continued into early  
18 August as daily high temperature records were set during 5 of the first 7 days of the  
19 month with Empire's summer peak demand occurring at a temperature of 107° F.  
20 Even with the loss of electric load due to the devastation that occurred during the  
21 May 22, 2011 Joplin tornado, Empire's customers' demand for electricity was  
22 higher than budgeted during the accumulation period due to the extreme summer  
23 weather. This customer demand increased the level of peaking generation.

1 Empire's peaking generation is fired using natural gas, which is a higher priced fuel  
2 than coal. In addition, Empire received some energy from the Iatan 2 unit during  
3 the accumulation period, but due to the use of a construction accounting procedure  
4 authorized by the Commission, Empire reflected the market value of the Iatan 2  
5 power in its fuel expenses, rather than the actual cost of the fuel consumed at Iatan  
6 2 through June 14, 2011. This construction accounting procedure, which was in  
7 effect for more than half of the accumulation period, raised the cost of fuel during  
8 the accumulation period, and correspondingly decreased the cost of construction at  
9 Iatan 2.

10 **Q. HOW DOES THE MONTHLY FAC CHANGE FOR A TYPICAL**  
11 **RESIDENTIAL CUSTOMER?**

12 **A.** For Missouri residential customers using 1,000 kWh per month, the electric bill  
13 will increase by approximately \$3.29 per month over the six-month period  
14 December 2011 through May 2012, when the current FAC charge of \$0.00417 is  
15 applied to their bill and the previous FAC factor of \$0.00088 is eliminated from  
16 their bill.

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

18 **A.** It was slightly higher than expected, primarily driven by the warmer than normal  
19 weather and the corresponding increase in customer usage, and the limitations on  
20 the Iatan generation station due to flooding. The average energy cost in the budget  
21 was based upon normal weather and normal operations at the Iatan plant. Empire's  
22 fuel budget did take into consideration Iatan 2 construction accounting. In order to  
23 make a valid comparison, I have adjusted Empire's budget for mid-June 2011

1 through August 2011 to remove the natural gas firm transportation costs since they  
2 are no longer eligible for the FAC in Missouri. Empire's adjusted budget resulted  
3 in an average energy cost during the current Accumulation Period of \$32.06 per  
4 megawatt-hour of net system production. The actual results were slightly above  
5 budget by around 1.19 percent at \$32.44 per megawatt-hour.

6 **Q. DO YOU EXPECT THE AVERAGE ENERGY COSTS ELIGIBLE FOR**  
7 **THE FAC TO BE HIGHER THAN THE BASE DURING THE NEXT**  
8 **ACCUMULATION PERIOD FROM SEPTEMBER 2011 THROUGH**  
9 **FEBRUARY 2012?**

10 A. Yes. Our current budget anticipates average energy costs of \*\*\_\_\_\_\_\*\* per  
11 megawatt-hour during the next Accumulation Period compared to the FAC base of  
12 28.23 per megawatt-hour. However, the current budget is based on normal  
13 operations. If the Iatan limitations continue into the next accumulation period, the  
14 average energy costs will be higher than the budgeted level.

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

17 A. Yes. The design of the Commission's rule governing the FAC was the subject of  
18 much discussion and debate prior to being approved by the Commission. In  
19 addition, there was much discussion and debate concerning Empire's FAC tariff in  
20 Case No. ER-2008-0093. This was the case in which the Commission ultimately  
21 approved Empire's initial FAC tariff. Empire's FAC filing is being made in  
22 accordance with the Commission's rules governing the FAC and in accordance  
23 with the FAC tariff approved for Empire.

1   **Q.   PLEASE DESCRIBE HOW EMPIRE IS PROPOSING TO RECOVER THE**  
2       **ENERGY COST INCREASES EXPERIENCED DURING THE MARCH**  
3       **2011 THROUGH AUGUST 2011 ACCUMULATION PERIOD?**

4   A.   The FAC rate schedule filed by Empire will recover the energy cost increase  
5       actually incurred during the Accumulation Period by applying two Cost  
6       Adjustment Factors or CAFs of \$0.00409 for primary service and \$0.00417 for  
7       secondary service to the actual Missouri kWh sales that take place during the  
8       December 1, 2011 to May 31, 2012 Recovery Period. The proposed CAFs were  
9       calculated in accordance with Empire's authorized FAC tariff. I have attached to  
10      my testimony as Schedule TWT-1 a copy of Empire's approved FAC tariff sheets.  
11      In addition to the tariff sheet, I have included as page 2 of Schedule TWT-1 a  
12      monthly analysis of the energy costs and energy cost recovery that has taken place  
13      during the Accumulation Period. Schedule TWT-1 contains the basic information  
14      and FAC formula that Empire used to calculate the CAFs that have been included  
15      in the proposed revised FAC rate schedule sheet 17k. The Empire FAC tariff and  
16      the formula included therein were approved by the Commission in Case Nos. ER-  
17      2010-0130 and ER-2011-0004.

18   **Q.   HOW WERE THE VARIOUS VALUES USED TO DETERMINE THE**  
19       **PROPOSED CAFS THAT ARE SHOWN ON SCHEDULE TWT-1**  
20       **DEVELOPED?**

21   A.   The data upon which Empire based the values for each of the variables in the  
22       approved CAF formula are included on the schedule, and came from Empire's  
23       books and records. Schedule TWT-1 contains all of the basic information that is

1 required to calculate the proposed change in the CAF. In addition, I have filed the  
2 detailed information required by 4 CSR 240-3.161(7)(A) with this testimony as a  
3 separate set of supporting workpapers. In addition, as required by 4 CSR 240-  
4 3.161(7)(B), I have separately provided to all parties of record in Case Nos. ER-  
5 2008-0093, ER-2010-0130 and ER-2011-0004 with a set of these workpapers.

6 **Q. IS EMPIRE IN COMPLIANCE WITH THE PROVISIONS OF THE**  
7 **COMMISSION'S FAC RULE CONCERNING PERIODIC REPORTING**  
8 **AND SURVEILLANCE?**

9 A. Yes. Empire has complied with all of the Commission's rules, 4 CSR 240-3.161(5)  
10 and (6), governing periodic reports and surveillance using the Commission's  
11 electronic filing system and provided all of the parties to ER-2008-0093, ER-2010-  
12 0130 and ER-2011-0004 with copies of the periodic compliance reports and copies  
13 of surveillance reports at the same time they were filed with the Commission.

14 **Q. IF REVISED FAC SHEET 17k IS APPROVED BY THE COMMISSION,**  
15 **WHAT SAFEGUARDS EXIST TO ENSURE THAT THE FAC REVENUE**  
16 **COLLECTED BY EMPIRE DOES NOT EXCEED THE ACTUAL ENERGY**  
17 **COST INCURRED BY EMPIRE DURING THE ACCUMULATION**  
18 **PERIOD?**

19 A. As I mentioned earlier, Empire's FAC and the Commission's rules provide two  
20 mechanisms designed to limit the FAC amounts collected from customers to  
21 Empire's actual, prudently-incurred energy costs. First, at the end of each  
22 Recovery Period the Company is required to true-up the amounts collected from  
23 customers through the CAF with the energy costs that were actually incurred

1 during the Accumulation Period to which the CAF applies. In addition, Empire's  
2 energy costs will be subjected to periodic Prudence Reviews to ensure that only  
3 prudently-incurred energy costs are collected from customers through the FAC.  
4 These two mechanisms serve as checks that ensure that Empire's Missouri  
5 customers pay only the prudently-incurred, actual cost of energy used to provide  
6 electric service in Missouri (less the 5% Empire is absorbing) – no more and no  
7 less.

8 **Q. WHAT ACTION IS EMPIRE REQUESTING FROM THE COMMISSION**  
9 **WITH RESPECT TO THE FAC RATE SCHEDULE THAT THE**  
10 **COMPANY HAS FILED?**

11 A. As provided by 4 CSR 240-20.090(4), Staff has thirty (30) days from the date the  
12 FAC rate schedule is filed to conduct a review and to make a recommendation to  
13 the Commission as to whether the rate schedule complies with the Commission's  
14 FAC rules, the requirements of Section 386.266, RSMo, and Empire's approved  
15 FAC. The Commission has sixty (60) days from the date of Empire's filing to  
16 either approve the rate schedule or to allow it to take effect by operation of law.  
17 Empire believes its FAC filing satisfies all of the requirements of applicable  
18 statutes, the Commission's rules, and Empire's approved FAC. Empire requests  
19 that, following Staff's review, the Commission approve FAC sheet 17k to be  
20 effective as of December 1, 2011, which is the first day of the Recovery Period  
21 prescribed in Empire's FAC tariff.

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

- 1 A. No other changes to the FAC tariff sheets are being requested at this time.
- 2 **Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?**
- 3 A. Yes, it does.

**AFFIDAVIT OF TODD W. TARTER**

STATE OF MISSOURI )  
 ) ss  
COUNTY OF JASPER )

On the 30th day of September, 2011, 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*

Todd W. Tarter

Subscribed and sworn to before me this 30th day of September, 2011.

*Patricia A. Settle*

Notary Public

My commission expires:

