Missouri Public Service Commission

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May 15, 2001

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

RE: Case No. ER-2001-299

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of a **STAFF'S STATEMENT OF POSITIONS ON THE ISSUES.**

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

Dennis L. Frey

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DLF:ccl
Enclosure
cc: Counsel of Record

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED[3]
MAY 15 2001
Missouri Public
Service Commission

In the Matter of The Empire District Electric Company's Tariff Sheets Designed to Implement a General Rate Increase for Retail Electric Service Provided to Customers in the Missouri Service Area of the Company	))))))	Case No. ER-2001-299

STAFF'S STATEMENT OF POSITIONS ON THE ISSUES

COMES NOW the Staff of the Missouri Public Service Commission ("Staff"), and for its Statement of Positions on the Issues in the above-styled case, respectfully states as follows:

1. Cost of Service - Depreciation

A. Should Empire's test year depreciation expense be adjusted?

Staff's Position: The Staff is proposing new depreciation rates, to be used on a going-forward basis.

(1) What are the appropriate average service lives for plant in service other than at State Line Power Plant?

Staff's Position: The average service lives appearing in the direct testimony of Staff witness Paul Adam, which reflect information obtained in meetings with key Empire personnel, are appropriate.

(2) How shall the net salvage component be treated?

Staff's Position: The Staff believes that only current net salvage costs should be considered and that they should be expensed.

B. How shall the depreciation for plant and facilities at State Line Power Plant be calculated?

(1) Should future additional plant investments be recognized?

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Staff's Position: The Staff believes that proposed future plant investments should not be recognized because they are not known and measurable.

(2) What are the appropriate average service lives for plant investment?

Staff's Position: The Staff believes that the average service life previously established for State Line No. 1 remains appropriate. For the Combined Cycle unit, the design life of 35 years is currently appropriate for the detrmination of the depreciation rate.

(3) How shall the net salvage component be treated?

Staff's Position: The Staff believes that only current net salvage costs should be considered and that they should be expensed.

2. Cost of Service - Bad Debt

Shall the Empire's Bad Debt expense be allowed to follow changes in Missouri jurisdictional revenues?

Staff's Position: Bad debt expense should not be factored up in this case because, based on historical data, there is no correlation between and increase in revenues and an increase in the level of bad debt expense.

3. Payroll - Incentive Pay

Shall discretionary, performance based, incentive pay for employees be allowed?

Staff's Position: No, unless the Company provides support to demonstrate that the payments for the Incentive Awards meet the Commission's traditional tests for rate recovery of incentive compensation. The Incentive Awards must compensate for performance that is exceptional, not merely normal job expectations, and that benefits ratepayers. (Open employee positions may be an issue that will need to be contested at the August 2001 true-up proceeding.)

4. Class Cost of Service/Rate Design

(a) What should be the appropriate method of class cost of service allocation in this case?

Staff's Position: The allocation of production and transmission capacity should be based on the demands in every hour that the capacity is utilized to serve load. (2) A customer's interruptibility affects only that customer's eligibility for interruptible credits. It does not affect cost allocations.

(b) What is the appropriate allocation of any increase in revenues to customer classes?

Staff's Position:

(1) If the overall increase in Missouri revenues is $15,133,316 or less, the rates of the Residential, Large General Service, Lighting and Power Furnace customer classes should receive the system average percentage increase. The Small General Service class rates should be increased by 50% of the system average percentage increase, and the Large Power and Special Contracts class rates should be correspondingly increased by more than the system average percentage to pick up the remainder of the revenue increase, with the same percentage increase applying to both classes.

(2) If the overall increase in Missouri revenues is greater than $15,133,316, the first $15,133,316 should be distributed as described in (1) above, and the remainder of the increase should be distributed to customer classes on an equal percentage basis.

(c) What are the appropriate adjustments to rates for the various customer classes?

Staff's Position: The percentage increase to each class should be applied as an equal percentage increase to each rate component of each rate schedule applicable to each class.

(d) What is the appropriate rate design treatment of the Interim Energy Charge?

Staff's Position: If the Commission approves the Stipulation And Agreement Regarding Fuel And Purchased Power Expense, the Interim Energy Charge should be reflected separately on all Empire Missouri retail rate schedules, i.e., in addition to, and after, making the changes to each rate component as described above. The percentages changes above would then reflect only the portion of the overall increase in revenues that is not associated with the Interim Energy Charge.

5. Capital Structure/Rate of Return

(a) What capital structure is appropriate for Empire?

Staff's Position: Staff believes it is most appropriate to use Empire's actual capital structure since it is not anomalous with the electric utility industry average.

(b) What return on common equity is appropriate for Empire?

Staff's Position: Staff believes a return on equity range of 8.50 percent to 9.50 percent is appropriate for Empire.

6. State Line Power Plant and Energy Center

(a) What are the appropriate capital costs for inclusion in rate base for the State Line Combined Cycle Unit?

Staff's Position: As there is an agreement in principle among Staff, Empire and Public Counsel, the Staff believes this issue has been resolved. As part of the agreement the Company has agreed to identify and explain, at the time of the true-up, any remaining cost overruns relating to the State Line Combined Cycle Unit.

(b) What are the appropriate expenses for Operation and Maintenance at the State Line Power Plant and the Empire Energy Center?

Staff's Position: The contracts for major maintenance at the State Line Power Plant and Empire Energy Center will be reviewed after they are signed and in force. Staff is willing to review the proposed operation and maintenance expenses for the company as a whole when the true-up occurs, as no concrete numbers will be available until that time.

Respectfully submitted,

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 15th day of May 2001.

Dennis L. Frey

Service List for
Case No. ER-2001-299
Verified: May 10, 2001 (ccl)

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