

Exhibit No.:
Issue: Fuel Adjustment
Witness: Todd W. Tarter
Type of Exhibit: Direct Testimony
Sponsoring Party: Empire District Electric
Case No. ER-2016-
Date Testimony Prepared: October 2015

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

Direct Testimony

Of

Todd W. Tarter

October 2015

DIRECT TESTIMONY
OF
TODD W. TARTER
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI
CASE NO. ER-2016-

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 2015 through
13 August 2015. 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-2014-0351.

16 **EXECUTIVE SUMMARY**

17 **Q. WERE THERE ANY CHANGES DURING THE ACCUMULATION**
18 **PERIOD (MARCH 2015 – AUGUST 2015) THAT SHOULD BE NOTED?**

19 A. Yes. New electric rates became effective on July 26, 2015 from Case No. ER-
20 2014-0351. Effective that date, the base factor changed from \$28.31 per megawatt-
21 hour to \$26.84 per megawatt-hour. The weighted average base factor during the
22 March – August 2015 Accumulation Period was \$27.98 per megawatt-hour. Also,
23 effective July 26, 2015 in accordance with Case No. ER-2014-0351, a portion of

1 the transmission costs has become eligible to flow through Empire’s approved
2 FAC.

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

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

22 Since the implementation of Empire’s FAC, the variable cost of fuel and purchased
23 power used by the Company’s Missouri customers has varied from the base fuel

1 and energy cost established in rates. For the Accumulation Period March 2015
2 through August 2015, Empire's actual total energy costs eligible for the FAC have
3 been lower than the base energy costs included in the Company's Missouri rates by
4 approximately \$3,542,264. In accordance with the FAC tariff, Empire has retained
5 5% of the overall decrease in Missouri variable energy costs during that six-month
6 period. Therefore, in accordance with the Commission's FAC rule and Empire's
7 approved FAC tariff, the Company has filed FAC rate schedules that are designed
8 to refund 95 percent of the energy cost differences of approximately \$3,365,151
9 from its Missouri jurisdictional customers.

10 In addition, Empire also seeks to refund approximately \$183,134 which is further
11 described in the true-up testimony that is provided in a separate filing, of over-
12 recovered energy costs from the prior recovery period ending May 31, 2015. This
13 brings the total net refund to approximately \$3,557,753 including interest. This
14 total represents the Fuel and Purchased Power Adjustment ("FPA").

15 As reflected in the rate schedules filed by the Company, Empire has developed two
16 Fuel Adjustment Rates ("FAR") designed to recover the FPA, each of which is
17 based on forecasted retail Missouri sales over the next Recovery Period: a FAR of
18 \$(0.00170) per kilowatt-hour (kWh) for primary service, and a FAR of \$(0.00172)
19 per kWh for secondary service have been developed for this filing. These FARs
20 will enable Empire to refund over a Recovery Period ending May 2016 the
21 difference between base energy costs built into its rates and the total energy costs
22 that were actually incurred during the Accumulation Period and the true-up of fuel
23 and energy costs during the Recovery Period ended May 31, 2015.

1 **Q. DOES THE EMPIRE FAC TARIFF INCLUDE PROVISIONS THAT ARE**
2 **DESIGNED TO LIMIT EMPIRE’S FAC RECOVERIES TO THE ACTUAL**
3 **COST OF ENERGY?**

4 A. Yes. The Empire FAC and the Commission’s rule governing FACs include two
5 safeguards that limit FAC recovery to actual, prudently-incurred energy costs. The
6 first safeguard is a true-up process that ensures that the FAC collections during the
7 Recovery Period do not exceed actual energy costs incurred during the
8 Accumulation Period. The second safeguard involves a requirement that Empire’s
9 energy costs be subjected to periodic Prudence Reviews, which will ensure that
10 only prudently-incurred energy costs are passed through to customers using the
11 FAC. Empire’s operation of the FAC has been audited by the Commission’s staff
12 through February 28, 2015 and no disallowances have been recommended.

13 **THE PROPOSED FAC RATE ADJUSTMENT**

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

16 A. The Commission’s rules – specifically 4 CSR 240-20.090(4) – and Empire’s FAC
17 tariff require the Company to make periodic FAC filings that enable the
18 Commission to review Empire’s actual fuel, purchased power, AQCS costs,
19 transmission costs, off-system sales, REC revenue, and net costs of emissions
20 allowances so that Empire’s FAC rates can be adjusted to reflect the actual energy
21 costs the Company incurs to provide electric service to its Missouri customers.
22 Empire’s Missouri FAC tariff calls for two FAC adjustment filings per year: a
23 filing covering the six-month Accumulation Period running from September

1 through February and a second filing covering the Accumulation Period running
2 from March through August. Empire is seeking a decrease in its FAC rates to
3 reflect 95% of the difference between the base energy costs built into its base
4 Missouri rates and Empire's actual Missouri energy costs for the Accumulation
5 Period, plus a true-up of the costs recovered during the Recovery Period ending
6 May 31, 2015. This recovery via FAC rates will be reflected on the Missouri
7 customers' bills over the six-month Recovery Period running from December 2015
8 through May 2016.

9 **Q. HOW HAVE EMPIRE'S AVERAGE ENERGY COSTS CHANGED OVER**
10 **THE COST INCLUDED IN BASE RATES DURING THE**
11 **ACCUMULATION PERIOD?**

12 A. Empire's average energy costs per kWh have decreased below the level built into
13 its base electric rates, which is why the FAC rate schedules filed by the Company
14 seek a decrease in the rates charged to the Missouri customers. More specifically,
15 Empire's Missouri base rates included an average cost of energy per kWh of net
16 system production of \$0.02798 during the Accumulation Period of March 2015
17 through August 2015. As previously noted, the base factor was \$0.02831 when the
18 Accumulation Period began and switched to \$0.02684 on July 26, 2015 with the
19 implementation of new electric rates from Case No. ER-2014-0351. Empire
20 actually incurred average energy costs of \$0.02636 per kWh during the
21 Accumulation Period. This represents an overall decrease in average energy costs
22 of \$0.00162 per kWh during the Accumulation Period, or about 5.81 percent lower
23 than the average cost built into base rates. Pursuant to Empire's FAC tariff, Empire

1 is requesting to refund its Missouri customers the net of 95 percent of this cost
2 decrease plus approximately \$183,134 of over recovered energy cost and \$9,469 of
3 interest expense from the Recovery Period ending May 31, 2015, or an average of
4 \$(0.00162) per kWh sold during the upcoming Recovery Period.

5 **Q. PLEASE BRIEFLY DESCRIBE THE REASONS FOR THE DECREASE IN**
6 **THE AVERAGE ENERGY COST DURING THE ACCUMULATION**
7 **PERIOD?**

8 A. As previously noted, the average total energy cost for the period was about 5.81
9 percent lower than the base. Contributing to this result was lower fuel and market
10 prices during the Accumulation Period of March 2015 through August 2015 than
11 what was utilized to develop the FAC base factor that was in effect for about 80%
12 of the period. As previously mentioned, the FAC base factor was lowered near the
13 latter part of the Accumulation Period. The lower base factor was determined with
14 lower natural gas prices than the prior base factor and recognizes Empire's
15 participation in the Southwest Power Pool's Integrated Marketplace ("SPP IM").
16 The SPP IM was not in existence when the previous FAC base factor—which was
17 in effect for most of the period—was developed.

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

20 A. For Missouri residential customers using 1,000 kWh per month, the electric bill
21 will decrease by approximately \$1.51 per month over the six-month period
22 December 2015 through May 2016, when the current FAC credit factor of
23 \$(0.00172) is applied to their bill and the previous FAC credit factor of \$(0.00021)

1 is eliminated from their bill.

2 **Q. DID THE AVERAGE ENERGY COST VARY FROM EXPECTATIONS?**

3 A. The actual total energy cost per megawatt-hour was below Empire's forecast for
4 this time-period by approximately 15.5 percent.

5 **Q. DO YOU EXPECT THE AVERAGE ENERGY COSTS ELIGIBLE FOR**
6 **THE FAC TO BE HIGHER OR LOWER THAN THE BASE DURING THE**
7 **NEXT ACCUMULATION PERIOD FROM SEPTEMBER 2015 THROUGH**
8 **FEBRUARY 2016?**

9 A. Based on the current budget, with the existing FAC components, we expect the
10 total energy costs eligible for the FAC to be about 3.89% higher than the base cost
11 built into Missouri electric rates.

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

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

22 **Q. PLEASE DESCRIBE HOW EMPIRE IS PROPOSING TO REFUND THE**
23 **ENERGY COST DECREASES EXPERIENCED DURING THE MARCH**

1 **2015-AUGUST 2015 ACCUMULATION PERIOD?**

2 A. The FAC rate schedule filed by Empire will refund the energy cost decrease
3 actually incurred during the Accumulation Period by applying the negative Fuel
4 Adjustment Rate or FAR of \$(0.00170) for primary and \$(0.00172) for secondary
5 service to the actual Missouri retail kWh sales that take place during the December
6 1, 2015 to May 31, 2016 Recovery Period. The proposed FARs were calculated in
7 accordance with Empire's authorized FAC tariff. I have attached to my testimony,
8 as Schedule TWT-2, a copy of one of Empire's approved FAC tariff sheets. In
9 addition to the tariff sheet, I have included as page 2 of Schedule TWT-2 a monthly
10 analysis of the energy costs and energy cost recovery that has taken place during the
11 Accumulation Period. Schedule TWT-2 contains the basic information and FAC
12 formula that Empire used to calculate the FARs that have been included in the
13 proposed revised FAC rate schedule sheet 17t. The Empire FAC tariff and the
14 formula included therein were approved by the Commission in Case No. ER-2014-
15 0351.

16 **Q. HOW WERE THE VARIOUS VALUES USED TO DETERMINE THE**
17 **PROPOSED FARS THAT ARE SHOWN ON SCHEDULE TWT-2**
18 **DEVELOPED?**

19 A. The data upon which Empire based the values for each of the variables in the
20 approved FAR formula are included on the schedule, and came from Empire's
21 books and records. Schedule TWT-2 contains all of the basic information that is
22 required to calculate the proposed change in the FAR. In addition, I have filed the
23 detailed information required by 4 CSR 240-3.161(7) (A) with this testimony as a

1 separate set of supporting workpapers. Additional information about the true-up
2 amount was filed concurrently in a separate docket. In addition, as required by 4
3 CSR 240-3.161(7) (B), I have separately provided to all parties of record in Case
4 Nos. ER-2008-0093, ER-2010-0130, ER-2011-0004, ER-2012-0345 and ER-2014-
5 0351 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, ER-2011-0004, ER-2012-0345 and ER-2014-0351 with copies of the
13 periodic compliance reports and copies of surveillance reports at the same time they
14 were filed with the Commission.

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

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

1 through the FAR with the total energy costs that were actually incurred during the
2 Accumulation Period to which the FAR applies. In addition, Empire's energy costs
3 will be subjected to periodic Prudence Reviews to ensure that only prudently-
4 incurred energy costs are collected from customers through the FAC. These two
5 mechanisms serve as checks that ensure that Empire's Missouri customers pay only
6 the prudently-incurred, actual cost of energy used to provide electric service in
7 Missouri (less the 5% Empire absorbs or retains) – no more and no 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 revised FAC sheet 17t to
20 be effective as of December 1, 2015, 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.

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, ER-2014-0351

- Fuel Adjustment Cases

ER-2011-0320, ER-2012-0098, ER-2012-0326, ER-2013-0122, ER-2013-0442, ER-2014-0087, ER-2014-0264, ER-2015-0085, ER-2015-0247

- Fuel Adjustment True-Up

EO-2014-0088, EO-2014-0265, EO-2015-0086, EO-2015-0248

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, KS-14-EPDE-270-ACA

Before the Oklahoma Corporation Commission

- Rate Cause

PUD 201100082

- Fuel Prudence Review Causes

PUD 201100131, PUD 201200170, PUD 201300131, PUD201400226, PUD201500265

- Energy Efficiency Cause

PUD 201300142, PUD 201300203

Before the Arkansas Public Service Commission

- Energy Efficiency Docket

07-076-TF

- Net Metering Docket

12-060-R

- Rate Docket

13-11-U

THE EMPIRE DISTRICT ELECTRIC COMPANY

P.S.C. Mo. No. 5 Sec. 4 1st Revised Sheet No. 17t

Canceling P.S.C. Mo. No. 5 Sec. 4 Original Sheet No. 17t

For ALL TERRITORY

FUEL & PURCHASE POWER ADJUSTMENT CLAUSE
 RIDER FAC
 For service on and after July 26, 2015

	Accumulation Period Ending		Aug 31, 2015
1	Total Energy Cost (TEC) = (FC + PP + E – OSSR - REC)		69,754,928
2	Net Base Energy Cost (B)	-	74,062,163
	2.1 Base Factor (BF)		0.02798
	2.2 Accumulation Period NSI (SAP)		2,646,735,001
3	(TEC-B)		(4,307,235)
4	Missouri Energy Ratio (J)	*	82.24%
5	(TEC - B) * J		(3,542,264)
6	Fuel Cost Recovery	*	95.00%
7	(TEC - B) * J * 0.95		(3,365,151)
8	True-Up Amount (T)	+	(183,134)
9	Prudence Adjustment Amount (P)	+	
10	Interest (I)	+	(9,469)
11	Fuel and Purchased Power Adjustment (FPA)	=	(3,557,753)
12	Forecasted Missouri NSI (SRP)	÷	2,196,228,827
13	Current Period Fuel Adjustment Rate (FAR) to be applied Beginning Dec 01, 2015	=	(0.00162)
14	Current Period FAR _{PRIM} = FAR x VAF _{PRIM}		(0.00170)
15	Current Period FAR _{SEC} = FAR x VAF _{SEC}		(0.00172)
16	VAF _{PRIM} = 1.0466		1.0466
17	VAF _{SEC} = 1.0622		1.0622

* The base factor 0.02798 is the weighted average for the Accumulation Period. The base factor changed from 0.02831 to 0.02684 during the Accumulation Period on July 26, 2015 (ER-2014-0351).

