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Witness: Todd W. Tarter  
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Sponsoring Party: Empire District Electric  
Case No. ER-2011-0320  
Date Testimony Prepared: May 2011

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

**Substitute Direct Testimony**

**of**

**Todd W. Tarter**

**May 2011**

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

SUBSTITUTE DIRECT TESTIMONY  
OF  
TODD W. TARTER  
THE EMPIRE DISTRICT ELECTRIC COMPANY  
BEFORE THE  
PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI  
CASE NO. ER-2011-0320

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 and ER-2010-0130. I also testified on behalf of  
8 Empire in Kansas Corporation Commission Case No. 05-EPDE-980-RTS.

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

10 A. My testimony will support the Fuel Adjustment Clause (“FAC”) rate schedules that  
11 have been filed by Empire to reflect the actual energy costs that Empire has  
12 incurred during the six-month period September 2010 through February 2011. This  
13 six-month period is an Accumulation Period specified in Empire’s FAC tariff that  
14 was approved by the Missouri Public Service Commission (“Commission”) in its  
15 Report and Order issued in Cases No. ER-2008-0093 and No. ER-2010-0130.

16 **EXECUTIVE SUMMARY**

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

19 A. The Commission’s rule governing fuel and purchased power cost recovery  
20 mechanisms for electric utilities – specifically 4 CSR 240-20.090(4) – requires  
21 Empire to make periodic FAC filings that are designed to enable Commission  
22 review of the actual fuel costs, purchased power costs and off-system sales margins  
23 the Company has incurred during an Accumulation Period. In addition, these

1 periodic filings are designed to adjust the FAC rates up or down, to reflect the  
2 actual energy costs incurred during the Accumulation Period. Empire's FAC tariff  
3 calls for two annual filings: a filing covering the six-month Accumulation Period  
4 running from September through February and a second filing covering the  
5 Accumulation Period running from March through August. Any increases or  
6 decreases in rates that are approved by the Commission, or that take effect by  
7 operation of law, are then collected from or refunded to customers over two six-  
8 month Recovery Periods: June through November and December through May.

9 Since the implementation of Empire's FAC, the variable cost of fuel and purchased  
10 power used by the Company's Missouri customers has varied from the base fuel  
11 and energy cost established in rates. For the Accumulation Period September 2010  
12 through February 2011, Empire's actual variable fuel, purchased power and Air  
13 Quality Control System ("AQCS") costs less off-system sales and Renewable  
14 Energy Credit sales ("REC"), have exceeded the base energy costs included in the  
15 Company's Missouri rates by approximately \$1.6 million. In accordance with the  
16 FAC tariff, Empire has absorbed 5% of the overall increase in Missouri variable  
17 fuel, purchased power and AQCS costs during the six-month period September  
18 2010 through February 2011. Therefore, in accordance with the Commission's  
19 FAC rule and Empire's approved FAC tariff, the Company has filed FAC rate  
20 schedules that are designed to recover energy cost increases of approximately \$1.5  
21 million from its Missouri jurisdictional customers, and approximately an additional  
22 \$320,000 of un-recovered energy costs from the prior recovery period ending  
23 November 30, 2010 for a total of \$1.873 million, including interest. As reflected in

1 the rate schedules filed by the Company, Empire has developed two Cost  
2 Adjustment Factors (“CAF”) of \$0.00086 per kilowatt-hour (kWh) for primary  
3 service and a CAF of \$0.00088 per kWh for secondary service. These CAFs will  
4 enable Empire to recover the difference between base costs of fuel and purchased  
5 power built into its rates and the fuel and purchased power costs that were actually  
6 incurred during the Accumulation Period and the true-up of fuel and energy costs  
7 during the Recovery Period ended November 30, 2010 over a Recovery Period  
8 running from June 2011 through November 2011.

9 **Q. DOES THE EMPIRE FAC TARIFF INCLUDE PROVISIONS THAT ARE**  
10 **DESIGNED TO LIMIT EMPIRE’S FAC RECOVERYS TO THE ACTUAL**  
11 **COST OF ENERGY?**

12 A. Yes. The Empire FAC and the Commission’s rule governing FACs include two  
13 safeguards that limit FAC recovery to the actual, prudently-incurred fuel and  
14 purchased power costs. The first safeguard is a true-up process that ensures that  
15 the FAC collections during the Recovery Period do not exceed actual fuel and  
16 purchased power costs incurred during the Accumulation Period. The second  
17 safeguard involves a requirement that Empire’s energy costs be subjected to  
18 periodic Prudence Reviews, which will ensure that only prudently-incurred energy  
19 are passed through to customers using the FAC. The first year’s operation of  
20 Empire’s FAC has been audited by the Commission’s staff and no disallowances  
21 were recommended. The Commission’s staff has started a new prudence review of  
22 Empire’s FAC covering Empire’s fuel and energy procurement activities and FAC  
23 billings for operating periods subsequent to their first review.

**THE PROPOSED FAC RATE ADJUSTMENT**

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

A. The Commission's rules – specifically 4 CSR 240-20.090(4) – and Empire's FAC tariff require the Company to make periodic FAC filings that enable the Commission to review Empire's actual fuel, purchased power and AQCS costs and off-system sales and REC revenue so that Empire's FAC rates can be adjusted to reflect the actual energy costs the Company incurs to provide electric service to its Missouri customers. Empire's Missouri FAC tariff calls for two FAC adjustment filings per year: a filing covering the six-month Accumulation Period running from September through February and a second filing covering the Accumulation Period running from March through August. The Missouri FAC rate schedules related to my testimony are Empire's fifth filing since Empire's FAC was approved by the Commission in ER-2008-0093 and ER-2010-0130. Empire is seeking an increase in its FAC rates to reflect 95% of the difference between the base energy costs built into its base Missouri rates and Empire's actual Missouri energy costs for the Accumulation Period, plus a true-up of the costs recovered during the Recovery Period ending November 30, 2010. This increase in FAC rates will be reflected on the Missouri customers' bills over the six-month Recovery Period running from June 2011 through November 2011.

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

1 A. Empire's average energy costs per kWh have increased over the level built into its  
2 base electric rates, which is why the FAC rate schedules filed by the Company seek  
3 an increase in the rates charged to the Missouri customers. This will be an increase  
4 over the level built into base electric rates, but a decrease when compared to the  
5 prior FAC period. More specifically, Empire's Missouri base rates included an  
6 average cost of energy per kWh of net system production of \$0.029002 during the  
7 Accumulation Period of September 2010 through February 2011. Empire actually  
8 incurred average energy costs of \$0.029709 per kWh during the Accumulation  
9 Period. This represents an overall increase in average energy costs of \$0.00071 per  
10 kWh during the Accumulation Period, or about 2.44 percent above than the average  
11 cost built into base rates. Pursuant to Empire's FAC tariff, Empire is requesting to  
12 pass on to its Missouri customers 95 percent of this cost increase plus  
13 approximately \$320,000 of under recovered energy cost from the Recovery Period  
14 ending November 30, 2010 or an average of \$0.00088 per kWh sold during the  
15 upcoming Recovery Period.

16 **Q. PLEASE BRIEFLY DESCRIBE THE REASONS FOR THE INCREASE IN**  
17 **THE AVERAGE COST OF ENERGY DURING THE ACCUMULATION**  
18 **PERIOD?**

19 A. A couple of factors were primary drivers which caused the average fuel and energy  
20 cost to increase during the Accumulation Period. For example, the weather during  
21 January 2011 was abnormally cold, which increased the level peaking generation  
22 needed to meet the demands of our customers. This peaking generation is fired  
23 using natural gas, which is a higher priced fuel than coal for example. In addition,

1 Empire received energy from the Iatan 2 unit during the accumulation period, but  
2 due to the use of a construction accounting procedure authorized by the  
3 Commission, Empire reflected the market value of the Iatan 2 power in its fuel  
4 expenses, rather than the actual cost of the fuel consumed at Iatan 2. This  
5 construction accounting procedure raised the cost of fuel during the accumulation  
6 period and in a corresponding decrease in the cost of construction at Iatan 2.

7 **Q. HOW DOES THE MONTHLY FAC CHANGE FOR A TYPICAL**  
8 **RESIDENTIAL CUSTOMER?**

9 **A.** For Missouri residential customers using 1,000 kWh per month, the electric bill  
10 will decrease by approximately \$1.65 per month over the six-month period June  
11 2011 through November 2011, when the current FAC charge is applied to their bill  
12 and the previous positive FAC factor of \$0.00253 is eliminated from their bill.

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

14 **A.** It was slightly higher than expected, primarily driven by the colder than normal  
15 weather and the corresponding increase in customer usage and Iatan 2 construction  
16 accounting, the average energy costs came in slightly higher than budget, which is  
17 based upon normal weather and no Iatan 2 construction accounting for Iatan 2 fuel.  
18 Our budget anticipated an average fuel and purchased power energy costs during  
19 the current Accumulation Period of \$28.81 per megawatt-hour of net system  
20 production. The actual results were above budget by around 3 percent at \$29.71  
21 per megawatt-hour.

22 **Q. DO YOU EXPECT THE AVERAGE COST OF FUEL AND PURCHASED**  
23 **POWER TO INCREASE DURING THE NEXT ACCUMULATION PERIOD**



1 **FROM MARCH 2011 THROUGH AUGUST 2011?**

2 A. Yes. Our current budget anticipates average energy costs of \*\*\_\_\_\_\_\*\* per  
3 megawatt-hour during the next Accumulation Period with the aforementioned Iatan  
4 2 construction accounting procedure considered. Empire's Missouri fuel  
5 adjustment clause includes a seasonal base cost factor that takes the higher summer  
6 energy costs into account.

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

9 A. Yes. The design of the Commission's rule governing the FAC was the subject of  
10 much discussion and debate prior to being approved by the Commission. In  
11 addition, there was much discussion and debate concerning Empire's FAC tariff in  
12 Case No. ER-2008-0093. This was the case in which the Commission ultimately  
13 approved Empire's initial FAC tariff. Empire's FAC filing is being made in  
14 accordance with the Commission's rules governing the FAC and in accordance  
15 with the FAC tariff approved for Empire.

16 **Q. PLEASE DESCRIBE HOW EMPIRE IS PROPOSING TO RECOVER THE**  
17 **ENERGY COST INCREASES EXPERIENCED DURING THE**  
18 **SEPTEMBER 2010-FEBRUARY 2011 ACCUMULATION PERIOD?**

19 A. The FAC rate schedule filed by Empire will recover the energy cost increase  
20 actually incurred during the Accumulation Period by applying two Cost  
21 Adjustment Factors or CAFs of \$0.00086 for primary service and \$0.00088 for  
22 secondary service to the actual Missouri kWh sales that take place during the June  
23 1, 2011 to November 30, 2011 Recovery Period. The proposed CAFs were

1 calculated in accordance with Empire's authorized FAC tariff. I have attached to  
2 my testimony as Schedule TWT-1 a copy of one of Empire's approved FAC tariff  
3 sheets. In addition to the tariff sheet, I have included as page 2 of Schedule TWT-1  
4 a monthly analysis of the energy costs and energy cost recovery that has taken  
5 place during the Accumulation Period. Schedule TWT-1 contains the basic  
6 information and FAC formula that Empire used to calculate the CAFs that have  
7 been included in the proposed revised FAC rate schedule sheet 17g. The Empire  
8 FAC tariff and the formula included therein were approved by the Commission in  
9 Case Nos. ER-2008-0093 and ER-2010-0130.

10 **Q. HOW WERE THE VARIOUS VALUES USED TO DETERMINE THE**  
11 **PROPOSED CAFS THAT ARE SHOWN ON SCHEDULE TWT-1**  
12 **DEVELOPED?**

13 A. The data upon which Empire based the values for each of the variables in the  
14 approved CAF formula are included on the schedule, and came from Empire's  
15 books and records. Schedule TWT-1 contains all of the basic information that is  
16 required to calculate the proposed change in the CAF. In addition, I have filed the  
17 detailed information required by 4 CSR 240-3.161(7)(A) with this testimony as a  
18 separate set of supporting workpapers. In addition, as required by 4 CSR 240-  
19 3.161(7)(B), I have separately provided to all parties of record in Case Nos. ER-  
20 2008-0093 and ER-2010-0130 with a set of these workpapers.

21 **Q. IS EMPIRE IN COMPLIANCE WITH THE PROVISIONS OF THE**  
22 **COMMISSION'S FAC RULE CONCERNING PERIODIC REPORTING**  
23 **AND SURVEILANCE?**

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

6 **Q. IF REVISED FAC SHEET 17g IS APPROVED BY THE COMMISSION,**  
7 **WHAT SAFEGUARDS EXIST TO ENSURE THAT THE FAC REVENUE**  
8 **COLLECTED BY EMPIRE DOES NOT EXCEED THE ACTUAL ENERGY**  
9 **COST INCURRED BY EMPIRE DURING THE ACCUMULATION**  
10 **PERIOD?**

11 A. As I mentioned earlier, Empire's FAC and the Commission's rules provide two  
12 mechanisms designed to limit the FAC amounts collected from customers to  
13 Empire's actual, prudently-incurred energy costs. First, at the end of each  
14 Recovery Period the Company is required to true-up the amounts collected from  
15 customers through the CAF with the energy costs that were actually incurred  
16 during the Accumulation Period to which the CAF applies. In addition, Empire's  
17 energy costs will be subjected to periodic Prudence Reviews to ensure that only  
18 prudently-incurred energy costs are collected from customers through the FAC.  
19 These two mechanisms serve as checks that ensure that Empire's Missouri  
20 customers pay only the prudently-incurred, actual cost of energy used to provide  
21 electric service in Missouri (less the 5% Empire is absorbing) – no more and no  
22 less.

23 **Q. WHAT ACTION IS EMPIRE REQUESTING FROM THE COMMISSION**

1       **WITH RESPECT TO THE FAC RATE SCHEDULE THAT THE**  
2       **COMPANY HAS FILED?**

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

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

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

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

18   A.     Yes, it does.