

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

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

Direct Testimony

Of

Todd W. Tarter

April 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-2015-

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 September 2014
13 through February 2015. This six-month period is an Accumulation Period specified
14 in Empire’s FAC tariff that was approved by the Missouri Public Service
15 Commission (“Commission”) in its Report and Order issued in Case No. ER-2012-
16 0345.

17 **EXECUTIVE SUMMARY**

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

20 A. The Commission’s rule governing fuel and purchased power cost recovery
21 mechanisms for electric utilities – specifically 4 CSR 240-20.090(4) – requires
22 Empire to make periodic FAC filings that are designed to enable Commission
23 review of the actual fuel costs, purchased power costs, cost of consumables

1 associated with the power plants' air quality control system ("AQCS"), net cost of
2 emission allowances, revenue from the sale of renewable energy credits ("REC")
3 and off-system sales margins (collectively referred to as total energy costs) that the
4 Company has incurred during an Accumulation Period. In addition, these periodic
5 filings are designed to adjust the FAC rates up or down, to reflect the actual energy
6 costs incurred during the Accumulation Period. Empire's FAC tariff calls for two
7 annual filings: a filing covering the six-month Accumulation Period running from
8 September through February and a second filing covering the Accumulation Period
9 running from March through August. Any increases or decreases in rates that are
10 approved by the Commission, or that take effect by operation of law, are then
11 collected from or refunded to customers over two six-month Recovery Periods:
12 June through November and December through May.

13 Since the implementation of Empire's FAC, the variable cost of fuel and purchased
14 power used by the Company's Missouri customers has varied from the base fuel
15 and energy cost established in rates. For the Accumulation Period September 2014
16 through February 2015, Empire's actual total energy costs eligible for the FAC have
17 been lower than the base energy costs included in the Company's Missouri rates by
18 approximately \$954,180. In accordance with the FAC tariff, Empire has retained
19 5% of the overall decrease in Missouri variable energy costs during that six-month
20 period. Therefore, in accordance with the Commission's FAC rule and Empire's
21 approved FAC tariff, the Company has filed FAC rate schedules that are designed
22 to refund 95 percent of the energy cost differences of approximately \$906,471 from
23 its Missouri jurisdictional customers.

1 In addition, Empire also seeks to collect approximately \$459,475, which is further
2 described in the true-up testimony that is provided in a separate filing, of under-
3 recovered energy costs from the prior recovery period ending November 30, 2014.
4 This brings the total net refund to approximately \$443,861 including interest. This
5 total represents the Fuel and Purchased Power Adjustment (“FPA”).

6 As reflected in the rate schedules filed by the Company, Empire has developed two
7 Fuel Adjustment Rates (“FAR”) designed to recover the FPA (in this case they are
8 the same value when calculated to five decimal places), each of which is based on
9 forecasted retail Missouri sales over the next Recovery Period: a FAR of
10 \$(0.00021) per kilowatt-hour (kWh) for primary service, and a FAR of \$(0.00021)
11 per kWh for secondary service have been developed for this filing. These FARs
12 will enable Empire to refund over a Recovery Period ending November 2015 the
13 difference between base energy costs built into its rates and the total energy costs
14 that were actually incurred during the Accumulation Period and the true-up of fuel
15 and energy costs during the Recovery Period ended November 30, 2014.

16 **Q. DOES THE EMPIRE FAC TARIFF INCLUDE PROVISIONS THAT ARE**
17 **DESIGNED TO LIMIT EMPIRE’S FAC RECOVERYS TO THE ACTUAL**
18 **COST OF ENERGY?**

19 A. Yes. The Empire FAC and the Commission’s rule governing FACs include two
20 safeguards that limit FAC recovery to actual, prudently-incurred energy costs. The
21 first safeguard is a true-up process that ensures that the FAC collections during the
22 Recovery Period do not exceed actual energy costs incurred during the
23 Accumulation Period. The second safeguard involves a requirement that Empire’s

1 energy costs be subjected to periodic Prudence Reviews, which will ensure that
2 only prudently-incurred energy costs are passed through to customers using the
3 FAC. Empire's operation of the FAC has been audited by the Commission's staff
4 through February 28, 2013 and no disallowances have been recommended.

5 **THE PROPOSED FAC RATE ADJUSTMENT**

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

8 A. The Commission's rules – specifically 4 CSR 240-20.090(4) – and Empire's FAC
9 tariff require the Company to make periodic FAC filings that enable the
10 Commission to review Empire's actual fuel, purchased power, AQCS costs, off-
11 system sales, REC revenue, and net costs of emissions allowances so that Empire's
12 FAC rates can be adjusted to reflect the actual energy costs the Company incurs to
13 provide electric service to its Missouri customers. Empire's Missouri FAC tariff
14 calls for two FAC adjustment filings per year: a filing covering the six-month
15 Accumulation Period running from September through February and a second filing
16 covering the Accumulation Period running from March through August. Empire
17 is seeking a decrease in its FAC rates to reflect 95% of the difference between the
18 base energy costs built into its base Missouri rates and Empire's actual Missouri
19 energy costs for the Accumulation Period, plus a true-up of the costs recovered
20 during the Recovery Period ending November 30, 2014. This recovery via FAC
21 rates will be reflected on the Missouri customers' bills over the six-month Recovery
22 Period running from June 2015 through November 2015.

23 **Q. HOW HAVE EMPIRE'S AVERAGE ENERGY COSTS CHANGED OVER**

1 **THE COST INCLUDED IN BASE RATES DURING THE**
2 **ACCUMULATION PERIOD?**

3 A. Empire's average energy costs per kWh have decreased below the level built into
4 its base electric rates, which is why the FAC rate schedules filed by the Company
5 seek a decrease in the rates charged to the Missouri customers. More specifically,
6 Empire's Missouri base rates included an average cost of energy per kWh of net
7 system production of \$0.02831 during the Accumulation Period of September 2014
8 through February 2015. Empire actually incurred average energy costs of \$0.02789
9 per kWh during the Accumulation Period. This represents an overall decrease in
10 average energy costs of \$0.00042 per kWh during the Accumulation Period, or
11 about 1.49 percent lower than the average cost built into base rates. Pursuant to
12 Empire's FAC tariff, Empire is requesting to refund its Missouri customers the net
13 of 95 percent of this cost decrease plus approximately \$459,475 of under recovered
14 energy cost and about \$3,135 of interest income from the Recovery Period ending
15 November 30, 2014, or an average of \$(0.00020) per kWh sold during the
16 upcoming Recovery Period.

17 **Q. PLEASE BRIEFLY DESCRIBE THE REASONS FOR THE DECREASE IN**
18 **THE AVERAGE ENERGY COST DURING THE ACCUMULATION**
19 **PERIOD?**

20 A. The average energy cost was very close to the base this period. As previously
21 noted, the average total energy cost for the period was only 1.49 percent lower than
22 the base. In spite of some cold weather in February 2015, overall the winter months
23 of December 2014 through February 2015 were fairly close to normal in terms of

1 heating-degree-days. Also contributing to this result were lower fuel and purchased
2 power prices during the Accumulation Period than what was utilized to establish
3 the current FAC base and Empire's participation in the Southwest Power Pool's
4 Integrated Marketplace ("SPP IM"). These positive factors helped offset an outage
5 at the Plum Point coal-fired facility.

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

8 A. For Missouri residential customers using 1,000 kWh per month, the electric bill
9 will decrease by approximately \$1.29 per month over the six-month period June
10 2015 through November 2015, when the current FAC credit factor of \$(0.00021) is
11 applied to their bill and the previous FAC recovery factor of \$0.00108 is eliminated
12 from their bill.

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

14 A. The average energy cost was close to expectations. The actual total energy cost per
15 megawatt-hour was below Empire's forecast for this time-period by approximately
16 2.9 percent.

17 **Q. DO YOU EXPECT THE AVERAGE ENERGY COSTS ELIGIBLE FOR**
18 **THE FAC TO BE HIGHER OR LOWER THAN THE BASE DURING THE**
19 **NEXT ACCUMULATION PERIOD FROM MARCH 2015 THROUGH**
20 **AUGUST 2015?**

21 A. Based on the current normal weather budget, the existing FAC components and the
22 existing FAC base, we expect the total energy costs eligible for the FAC to be about
23 6.95% higher than the base cost built into Missouri electric rates.

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

3 A. Yes. The design of the Commission's rule governing the FAC was the subject of
4 much discussion and debate prior to being approved by the Commission. In
5 addition, there was much discussion and debate concerning Empire's FAC tariff in
6 Case No. ER-2008-0093. This was the case in which the Commission ultimately
7 approved Empire's initial FAC tariff. Additional discussions have occurred in
8 subsequent cases. Empire's FAC filing is being made in accordance with the
9 Commission's rules governing the FAC and in accordance with the FAC tariff
10 approved for Empire.

11 **Q. PLEASE DESCRIBE HOW EMPIRE IS PROPOSING TO REFUND THE**
12 **ENERGY COST DECREASES EXPERIENCED DURING THE**
13 **SEPTEMBER 2014-FEBRUARY 2015 ACCUMULATION PERIOD?**

14 A. The FAC rate schedule filed by Empire will collect the energy cost decrease
15 actually incurred during the Accumulation Period by applying the negative Fuel
16 Adjustment Rate or FAR of \$(0.00021) for primary and \$(0.00021) for secondary
17 service to the actual Missouri retail kWh sales that take place during the June 1,
18 2015 to November 30, 2015 Recovery Period. The proposed FARs were calculated
19 in accordance with Empire's authorized FAC tariff. I have attached to my
20 testimony, as Schedule TWT-2, a copy of one of Empire's approved FAC tariff
21 sheets. In addition to the tariff sheet, I have included as page 2 of Schedule TWT-2
22 a monthly analysis of the energy costs and energy cost recovery that has taken place
23 during the Accumulation Period. Schedule TWT-2 contains the basic information

1 and FAC formula that Empire used to calculate the FARs that have been included
2 in the proposed revised FAC rate schedule sheet 17e. The Empire FAC tariff and
3 the formula included therein were approved by the Commission in Case No. ER-
4 2012-0345.

5 **Q. HOW WERE THE VARIOUS VALUES USED TO DETERMINE THE**
6 **PROPOSED FARs THAT ARE SHOWN ON SCHEDULE TWT-2**
7 **DEVELOPED?**

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

18 **Q. IS EMPIRE IN COMPLIANCE WITH THE PROVISIONS OF THE**
19 **COMMISSION'S FAC RULE CONCERNING PERIODIC REPORTING**
20 **AND SURVEILLANCE?**

21 A. Yes. Empire has complied with all of the Commission's rules, 4 CSR 240-3.161(5)
22 and (6), governing periodic reports and surveillance using the Commission's
23 electronic filing system and provided all of the parties to ER-2008-0093, ER-2010-

1 0130, ER-2011-0004, and ER-2012-0345 with copies of the periodic compliance
2 reports and copies of surveillance reports at the same time they were filed with the
3 Commission.

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

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

20 **Q. WHAT ACTION IS EMPIRE REQUESTING FROM THE COMMISSION**
21 **WITH RESPECT TO THE FAC RATE SCHEDULE THAT THE**
22 **COMPANY HAS FILED?**

23 A. As provided by 4 CSR 240-20.090(4), Staff has thirty (30) days from the date the

1 FAC rate schedule is filed to conduct a review and to make a recommendation to
2 the Commission as to whether the rate schedule complies with the Commission's
3 FAC rules, the requirements of Section 386.266, RSMo, and Empire's approved
4 FAC. The Commission has sixty (60) days from the date of Empire's filing to
5 either approve the rate schedule or to allow it to take effect by operation of law.
6 Empire believes its FAC filing satisfies all of the requirements of applicable
7 statutes, the Commission's rules, and Empire's approved FAC. Empire requests
8 that, following Staff's review, the Commission approve revised FAC sheet 17e to
9 be effective as of June 1, 2015, which is the first day of the Recovery Period
10 prescribed in Empire's FAC tariff.

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

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

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

15 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

- Fuel Adjustment True-Up

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

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 Oklahoma Corporation Commission

- Rate Cause

PUD 201100082

- Fuel Prudence Review Causes

PUD 201100131, PUD 201200170, PUD 201300131, PUD201400226

- 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 6th Revised Sheet No. 17e

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

For ALL TERRITORY

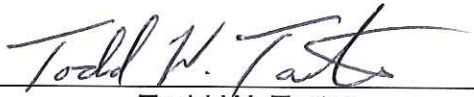
<p>FUEL & PURCHASE POWER ADJUSTMENT CLAUSE RIDER FAC For service on and after April 1, 2013</p>

	Accumulation Period Ending		Feb 28, 2015
1	Total Energy Cost (TEC) = (FC+PP+E-OSSR-REC)		75,012,690
2	Net Base Energy Cost (B)	-	76,149,399
	2.1 Base Factor (BF)		0.02831
	2.2 Accumulation Period NSI (S _{AP})		2,689,841,000
3	(TEC-B)		(1,136,709)
4	Missouri Energy Ratio (J)	*	83.94%
5	(TEC-B)*J		(954,180)
6	Fuel Cost Recovery	*	95.00%
7	(TEC-B)*J*0.95		(906,471)
8	True-Up Amount (T)	+	459,475
9	Prudence Adjustment Amount (P)	+	
10	Interest (I)	+	3,135
11	Fuel and Purchased Power Adjustment (FPA)	=	(443,861)
12	Forecasted Missouri NSI (S _{RP})	÷	2,218,459,384
13	Current Period Fuel Adjustment Rate (FAR) to be applied Beginning 06-01-2015	=	(0.00020)
14	Current Period FAR _{PRIM} = FAR x VAF _{PRIM}		(0.00021)
15	Current Period FAR _{SEC} = FAR x VAF _{SEC}		(0.00021)
16	VAF _{PRIM} = 1.0466		1.0466
17	VAF _{SEC} = 1.0622		1.0622

AFFIDAVIT OF TODD W. TARTER

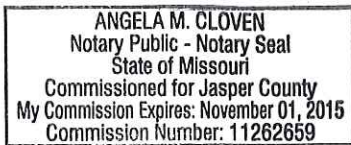
STATE OF MISSOURI)
) ss
COUNTY OF JASPER)


On the 30th day of March 2015, 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 30th day of March, 2015.





Notary Public

My commission expires: 11/01/2015.