

Exhibit No.:
Issue: Fuel Adjustment
Witness: Todd W. Tarter
Type of Exhibit: Direct Testimony
Sponsoring Party: Empire District Electric
Case No.
Date Testimony Prepared: March 2012

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

Direct Testimony

of

Todd W. Tarter

March 2012

****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
19 promoted to my current position where I primarily work with fuel and purchased

1 power projections and integrated resource planning.

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

4 A. Yes. I testified on behalf of Empire on the topic of on-system fuel and purchased
5 power expense in Missouri Public Service Commission (“Commission”) Cases No.
6 ER-2006-0315, ER-2008-0093, ER-2010-0130 and ER-2011-0004. I also testified
7 on behalf of Empire in Fuel Adjustment Cases No. ER-2011-0320 and ER-2012-
8 0098. In other jurisdictions I testified on behalf of Empire in Kansas Corporation
9 Commission Case No. 05-EPDE-980-RTS and Corporation Commission of
10 Oklahoma Cause No. PUD 201100082.

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

12 A. My testimony will support the Fuel Adjustment Clause (“FAC”) rate schedules that
13 have been filed by Empire to reflect the actual energy costs that Empire has
14 incurred during the six-month period September 2011 through February 2012. This
15 six-month period is an Accumulation Period specified in Empire’s FAC tariff that
16 was approved by the Missouri Public Service Commission (“Commission”) in its
17 Report and Order issued in Case No. ER-2011-0004.

18 **EXECUTIVE SUMMARY**

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

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

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

14 Since the implementation of Empire's FAC, the variable cost of fuel and purchased
15 power used by the Company's Missouri customers has varied from the base fuel
16 and energy cost established in rates. For the Accumulation Period September 2011
17 through February 2012, Empire's actual variable fuel, purchased power. Air
18 Quality Control System ("AQCS") costs, net cost of emission allowances less off-
19 system sales and Renewable Energy Credit sales ("REC"), have been lower than
20 the base energy costs included in the Company's Missouri rates by approximately
21 \$3.8 million. In accordance with the FAC tariff, Empire has retained 5% of the
22 overall decrease in Missouri variable energy costs during the six-month period
23 September 2011 through February 2012. Therefore, in accordance with the

1 Commission's FAC rule and Empire's approved FAC tariff, the Company has filed
2 FAC rate schedules that are designed to refund energy cost differences of
3 approximately \$3.6 million from its Missouri jurisdictional customers, and an
4 additional refund of approximately \$231,000 of over-recovered energy costs from
5 the recovery period ending November 30, 2011 for a total refund of \$3.827 million,
6 including interest. As reflected in the rate schedules filed by the Company, Empire
7 has developed two Cost Adjustment Factors ("CAF") of \$(0.00173) per kilowatt-
8 hour (kWh) for primary service and a CAF of \$(0.00176) per kWh for secondary
9 service. These CAFs will enable Empire to refund the difference between base
10 energy costs built into its rates and the energy costs that were actually incurred
11 during the Accumulation Period and the true-up of fuel and energy costs during the
12 Recovery Period ended November 30, 2011 over a Recovery Period running from
13 June 2012 through November 2012.

14 **Q. DOES THE EMPIRE FAC TARIFF INCLUDE PROVISIONS THAT ARE**
15 **DESIGNED TO LIMIT EMPIRE'S FAC RECOVERYS TO THE ACTUAL**
16 **COST OF ENERGY?**

17 A. Yes. The Empire FAC and the Commission's rule governing FACs include two
18 safeguards that limit FAC recovery to the actual, prudently-incurred energy costs.
19 The first safeguard is a true-up process that ensures that the FAC collections during
20 the Recovery Period do not exceed actual energy costs incurred during the
21 Accumulation Period. The second safeguard involves a requirement that Empire's
22 energy costs be subjected to periodic Prudence Reviews, which will ensure that
23 only prudently-incurred energy are passed through to customers using the FAC.

1 The first 30 months' operation of Empire's FAC has been audited by the
2 Commission's staff and no disallowances were recommended.

3 **THE PROPOSED FAC RATE ADJUSTMENT**

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

6 A. The Commission's rules – specifically 4 CSR 240-20.090(4) – and Empire's FAC
7 tariff require the Company to make periodic FAC filings that enable the
8 Commission to review Empire's actual fuel, purchased power, and AQCS costs and
9 off-system sales, REC revenue and net costs of emissions allowances so that
10 Empire's FAC rates can be adjusted to reflect the actual energy costs the Company
11 incurs to provide electric service to its Missouri customers. Empire's Missouri
12 FAC tariff calls for two FAC adjustment filings per year: a filing covering the six-
13 month Accumulation Period running from September through February and a
14 second filing covering the Accumulation Period running from March through
15 August. The Missouri FAC rate schedules related to my testimony are Empire's
16 seventh filing since Empire's FAC was approved by the Commission in ER-2008-
17 0093, ER-2010-0130 and ER-2011-0004. Empire is seeking a decrease in its FAC
18 rates to reflect 95% of the difference between the base energy costs built into its
19 base Missouri rates and Empire's actual Missouri energy costs for the
20 Accumulation Period, plus a true-up of the costs recovered during the Recovery
21 Period ending November 30, 2011. This refund via FAC rates will be reflected on
22 the Missouri customers' bills over the six-month Recovery Period running from
23 June 2012 through November 2012.

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

4 A. Empire's average energy costs per kWh have decreased below the level built into
5 its base electric rates, which is why the FAC rate schedules filed by the Company
6 seek a decrease in the rates charged to the Missouri customers. More specifically,
7 Empire's Missouri base rates included an average cost of energy per kWh of net
8 system production of \$0.02823 during the Accumulation Period of September 2011
9 through February 2012. Empire actually incurred average energy costs of
10 \$0.02638 per kWh during the Accumulation Period. This represents an overall
11 decrease in average energy costs of \$0.00185 per kWh during the Accumulation
12 Period, or about 6.56 percent lower than the average cost built into base rates.
13 Pursuant to Empire's FAC tariff, Empire is requesting to refund to its Missouri
14 customers 95 percent of this cost decrease plus approximately \$231,000 of over
15 recovered energy cost from the Recovery Period ending November 30, 2011 or an
16 average of \$(0.00176) per kWh sold during the upcoming Recovery Period.

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

20 A. The primary drivers which caused the average fuel and energy cost to decrease
21 during the Accumulation Period were mild weather and low natural gas and market
22 power prices (sometimes referred to as wholesale power prices). Empire's service
23 territory, like much of the country, experienced mild weather during the winter of

1 2011-2012. As a result, the highest costs per unit of output peaking units were not
2 required to operate as much during the Accumulation Period as during a normal
3 winter season. In addition, the unusually warm weather throughout much of the
4 United States during the winter of 2011-2012, depressed natural gas demand for
5 space heating and contributed to abundant storage levels for natural gas. The warm
6 weather, along with access to large volumes of shale gas, has contributed to the
7 recent downward movements in natural gas prices. Related to the low natural gas
8 price is the lower than expected wholesale power prices that Empire experienced
9 during the Accumulation Period.

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 decrease by approximately \$5.93 per month over the six-month period June
14 2012 through November 2012, when the current FAC credit factor of \$(0.00176) is
15 applied to their bill and the previous positive FAC factor of \$0.00417 is eliminated
16 from their bill.

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

18 A. It was lower than expected, primarily driven by the milder than normal weather and
19 the corresponding decrease in customer usage and the favorable natural gas and
20 wholesale power prices. Our budget anticipated an average fuel and purchased
21 power energy costs during the current Accumulation Period of \$28.68 per
22 megawatt-hour of net system production. The actual results were below budget by
23 around 6.4 percent at \$26.83 per megawatt-hour.

1 **Q. DO YOU EXPECT THE AVERAGE ENERGY COSTS ELIGIBLE FOR**
2 **THE FAC TO BE HIGHER THAN THE BASE THE NEXT**
3 **ACCUMULATION PERIOD FROM MARCH 2012 THROUGH AUGUST**
4 **2012?**

5 A. Yes, based on our current budget. Our current budget, which assumes normal
6 weather, anticipates average energy costs of **_____** per megawatt-hour during
7 the next Accumulation Period compared to the FAC base of \$28.23 per megawatt-
8 hour. However, as previously discussed, if the natural gas and market power prices
9 continue to be significantly lower than those assumed for the budget during the
10 next Accumulation Period, then the actual costs could come in lower than the
11 budget.

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. Empire's FAC filing is being made in
19 accordance with the Commission's rules governing the FAC and in accordance
20 with the FAC tariff approved for Empire.

21 **Q. PLEASE DESCRIBE HOW EMPIRE IS PROPOSING TO REFUND THE**
22 **ENERGY COST DECREASES EXPERIENCED DURING THE**
23 **SEPTEMBER 2011-FEBRUARY 2012 ACCUMULATION PERIOD?**

1 A. The FAC rate schedule filed by Empire will refund the energy cost decrease
2 actually incurred during the Accumulation Period by applying two negative Cost
3 Adjustment Factors or CAFs of \$(0.00173) for primary service and \$(0.00176) for
4 secondary service to the actual Missouri kWh sales that take place during the June
5 1, 2012 to November 30, 2012 Recovery Period. The proposed CAFs were
6 calculated in accordance with Empire's authorized FAC tariff. I have attached to
7 my testimony as Schedule TWT-1 a copy of one of Empire's approved FAC tariff
8 sheets. In addition to the tariff sheet, I have included as page 2 of Schedule TWT-1
9 a monthly analysis of the energy costs and energy cost recovery that has taken
10 place during the Accumulation Period. Schedule TWT-1 contains the basic
11 information and FAC formula that Empire used to calculate the CAFs that have
12 been included in the proposed revised FAC rate schedule sheet 17k. The Empire
13 FAC tariff and the formula included therein were approved by the Commission in
14 Case No. ER-2011-0004.

15 **Q. HOW WERE THE VARIOUS VALUES USED TO DETERMINE THE**
16 **PROPOSED CAFS THAT ARE SHOWN ON SCHEDULE TWT-1**
17 **DEVELOPED?**

18 A. The data upon which Empire based the values for each of the variables in the
19 approved CAF formula are included on the schedule, and came from Empire's
20 books and records. Schedule TWT-1 contains all of the basic information that is
21 required to calculate the proposed change in the CAF. In addition, I have filed the
22 detailed information required by 4 CSR 240-3.161(7)(A) with this testimony as a
23 separate set of supporting workpapers. In addition, as required by 4 CSR 240-

1 3.161(7)(B), I have separately provided to all parties of record in Case Nos. ER-
2 2008-0093, ER-2010-0130 and ER-2011-0004 with a set of these workpapers.

3 **Q. IS EMPIRE IN COMPLIANCE WITH THE PROVISIONS OF THE**
4 **COMMISSION'S FAC RULE CONCERNING PERIODIC REPORTING**
5 **AND SURVEILLANCE?**

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

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

16 A. As I mentioned earlier, Empire's FAC and the Commission's rules provide two
17 mechanisms designed to limit the FAC amounts collected from customers to
18 Empire's actual, prudently-incurred energy costs. First, at the end of each
19 Recovery Period the Company is required to true-up the amounts collected from
20 customers through the CAF with the energy costs that were actually incurred
21 during the Accumulation Period to which the CAF applies. In addition, Empire's
22 energy costs will be subjected to periodic Prudence Reviews to ensure that only
23 prudently-incurred energy costs are collected from customers through the FAC.

1 These two mechanisms serve as checks that ensure that Empire's Missouri
2 customers pay only the prudently-incurred, actual cost of energy used to provide
3 electric service in Missouri (less the 5% Empire absorbs or retains) – no more and
4 no less.

5 **Q. WHAT ACTION IS EMPIRE REQUESTING FROM THE COMMISSION**
6 **WITH RESPECT TO THE FAC RATE SCHEDULE THAT THE**
7 **COMPANY HAS FILED?**

8 A. As provided by 4 CSR 240-20.090(4), Staff has thirty (30) days from the date the
9 FAC rate schedule is filed to conduct a review and to make a recommendation to
10 the Commission as to whether the rate schedule complies with the Commission's
11 FAC rules, the requirements of Section 386.266, RSMo, and Empire's approved
12 FAC. The Commission has sixty (60) days from the date of Empire's filing to
13 either approve the rate schedule or to allow it to take effect by operation of law.
14 Empire believes its FAC filing satisfies all of the requirements of applicable
15 statutes, the Commission's rules, and Empire's approved FAC. Empire requests
16 that, following Staff's review, the Commission approve revised FAC sheet 17k to
17 be effective as of June 1, 2012, which is the first day of the Recovery Period
18 prescribed in Empire's FAC tariff.

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

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

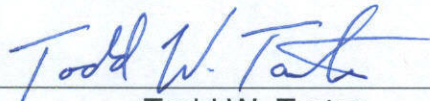
22 **Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?**

23 A. Yes, it does.

AFFIDAVIT OF TODD W. TARTER

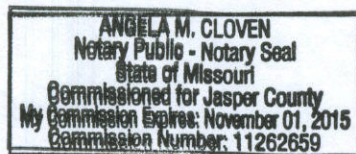
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COUNTY OF JASPER)

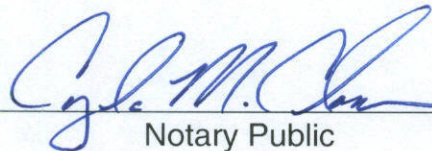
On the 29th day of March, 2012, before me appeared Todd W. Tarter, to me personally known, who, being by me first duly sworn, states that he is Manager of Strategic Planning of The Empire District Electric Company and acknowledges that he has read the above and foregoing document and believes that the 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 29th day of March, 2012.





Notary Public

My commission expires: 11/01/2015.