

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In The Matter of a Working Case to)
Consider Mechanisms to Encourage)
Infrastructure Efficiency)

File No. EW-2016-0041

**THE EMPIRE DISTRICT ELECTRIC COMPANY'S RESPONSE
TO COMMISSION'S ORDER DIRECTING FILING
ISSUED SEPTEMBER 29, 2015**

Questions and Responses:

1. Please describe what costs and what revenues are included or excluded from that calculation. For utilities relying on a net revenue calculation, please describe the following:
 - a. How is annual net revenue or other applicable measure of revenue estimated or calculated?

Response: Revenue estimates are based on the load and usage information that is provided by the customer. The applicable current tariff rates are then applied to this usage to calculate the revenue that will be generated.

- b. What customer or customer-related capital cost and expense values are used? Is the valuation used based on incremental or average cost?

Response: Customer services are calculated into the expense. This would include but is not limited to labor, service wire, applicable connection material and overheads. The valuation is average cost.

- c. What distribution capital cost and expense values are used? Is the valuation used based on incremental or average cost?

Response: All distribution electrical facilities are included. This would include but is not limited to labor, poles, fixtures,

transformers, primary & secondary conductor, associated connection materials and overheads. The valuation is average cost.

- d. What energy capital cost and expense values are used? Is the valuation used based on incremental or average cost?

Response: *None*

- e. Is the cost of energy used for calculation the cost of energy net of revenues from off-system sales? Is the valuation used based on incremental or average cost?

Response: *N/A*

- f. What utility-owned and operated (if applicable) transmission system capital cost and expense values are used? Is the valuation used based on incremental or average cost?

Response: *It's rare to include transmission or substation materials as they are typically to the benefit of more than one individual customer. If upgrades to transmission or substation facilities are required solely for one customer the company could reasonably consider said facilities in the expense to serve the customer. This valuation would be average cost.*

- g. What RTO transmission system capital cost or expense values are used? Is the valuation used based on incremental or average cost?

Response: *None*

- h. What demand capital cost and expense values are used? Is the valuation used based on incremental or average cost?

Response: *None*

- i. If any other capital costs or expenses are considered, please describe fully.

Response: *None*

2. For all utilities, what revenues are included in this calculation? Are revenues from Fuel Adjustment Charges, MEEIA charges, RESRAM charges, as applicable, considered?

Response: Revenues calculated based on the current tariff rate. Additional charges are typically not utilized.

3. For all utilities, please describe how these calculations vary by class, or by Residential and Non-Residential rate groups.

Response: The Residential extension tariff currently is not based on a revenue test. The customer is allotted so many feet of electrical construction and then a cost in aid to construction (CIAC) is required for any footage above and beyond that. The customer may be eligible for a refund of the CIAC if an additional new customer permanent meter is added to the extension.

The Non-Residential (commercial) extension tariff is based on a three (3) year revenue test. If the cost to extend service is greater than three (3) year revenue estimate then the customer pays the cost difference prior to construction.

The extension tariff for a Residential Subdivision is currently not based on a revenue test. Under this tariff the developer is charged upfront the full extension costs for the subdivision. For the five years following completion of primary and secondary electrical facilities construction the developer receives a refund per lot for each permanent residential meter set.

The extension tariff for Multi Family is based on a one (1) year revenue test. If the cost to extend service is greater than one (1) year revenue estimate then the customer pays the cost difference prior to construction.

4. For all utilities, please compare the costs and revenues described above to the costs and revenues considered under any economic development or economic redevelopment riders. Are the same costs and revenues considered whether a customer seeks service under a discounted rate rider as considered when determining the upfront costs applicable for a service extension or upgrade?

Response: *The basic tariff is used to evaluate the revenue stream. The investment cost analyzed are the same as those used in the prior responses for non-residential customers.*

5. For all utilities, please explain when and under what circumstances dollars are placed into Customer Advances for Construction or similar accounts.

Response: *At the request of a customer, Empire will engage in construction services beyond normal requirements for providing a customer with access to retail electric service. In these circumstances, the Customer is required to pay for the additional cost of providing service. The Company prepares a written estimate for these additional construction services and a contract is entered into before construction begins.*

Contracts of this type may include provisions that provide for refund of all or a portion of the amount collected from the Customer if certain future conditions are met within a specified timeline. This refund provision affects the recording of amounts billed to the Customer in that refundable amounts received are initially recorded as a liability, not as Contribution in Aid of Construction.

6. For all utilities, please explain when and under what circumstances dollars are removed from Customer Advances for Construction or similar accounts. When a customer or developer is refunded prepayments or deposits made as CIAC, how and when are those refunds accounted for?

Response: *When the terms for a refund of all or a portion of the refundable amount contributed are met, the Construction Design department forwards a request for a refund to the Accounts Payable department in the form of a Voucher Check Order. The liability account is then debited (reduced) with the issuance of the refund check. If the conditions for refunding contributions are not met within the timeline specified in the contract, the balance of the liability is converted to Contribution in Aid of Construction by debiting the Customer Advances for Construction account and crediting the capital construction project that resulted from the*

original contract. As CIAC, this reduces the installed cost of the assets built as a result of the contract.

7. For all utilities, please explain the interaction of offsets to rate base contained in Customer Advances for Construction or similar accounts and depreciation reserve accounts.

Response: The balance in Customer Advances is used to reduce rate base in a rate case. This lowers the overall rates. If the advances are ultimately retained by Empire, plant in service is reduced which lowers depreciation which over time reduces the amount of depreciation recorded in the depreciation reserve.

Respectfully Submitted,

/s/ Kelly S. Walters

Kelly S. Walters

The Empire District Electric Co.

Vice President & COO Electric

November 5, 2015