BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of a Proposed Amendment to the	)	
Commission's Fuel Adjustment Clause Rules	)	File No. EX-2016-0294

EMPIRE'S INITIAL COMMENTS

COMES NOW The Empire District Electric Company, a Liberty Utilities company ("Empire"), and submits these Initial Comments regarding the proposed changes to Rule 4 CSR 240-20.090 and in response to the *Notice of Public Hearing and Notice to Submit Comments* contained in the Missouri Register publication on July 2, 2018. In this regard, Empire respectfully states as follows to the Missouri Public Service Commission ("Commission"):

1. Empire appreciates the opportunity to participate in this rulemaking and provide comments regarding possible changes to the Commission's Fuel Adjustment Clause ("FAC") rules.

2. Empire concurs in the Comments jointly filed herein by Ameren Missouri, KCP&L, and KCP&L-GMO (the "Joint Utility Filing").

3. In addition, Empire is filing its own Initial Comments which serve to emphasize the need for the Commission's FAC rules to allow for the inclusion of both fuel-related revenues, including transportation, and fuel and purchased power costs, including transportation.

►The Commission's Current Treatment of MISO and SPP Transmission Costs

4. In Case No. ER-2014-0258, the Commission concluded that only the following Midcontinent Independent System Operator ("MISO") transmission costs, and no off-setting transmission revenues, should be included in Ameren Missouri's FAC: "1) costs to transmit electric power it did not generate to its own load (true purchased power) and 2) costs to transmit excess electric power it is selling to third parties to locations outside of MISO (off-system

sales)."[1] A similar decision was reached in Case No. ER-2014-0351 regarding the inclusion of Southwest Power Pool ("SPP") transmission costs in the FAC for Empire.

5. Stemming from the decisions made in Case Nos. ER-2014-0258 and ER-2014-0351 cited above, the Commission approved Empire's FAC to include the following transmission (transportation) percentages: 50% of MISO non-administrative costs and 34% of SPP non-administrative costs. For Empire's most recent rate case, ER-2016-0023, the same percentages were maintained. As such, Empire's current FAC includes 50% of MISO non-administrative costs and 34% of SPP non-administrative costs as components. Currently, no transmission (transportation) revenues are included in Empire's FAC.

6. The FAC statute, section 386.266, authorizes the Commission to approve FACs that allow rate adjustments based on changes in "prudently incurred fuel and purchased power costs, including transportation." The Commission must then determine: (1) what are fuel costs, (2) what are purchased power costs, and (3) what are the associated transportation costs. The Commission's FAC rules guide the Commission in answering these three questions. As stated in the Joint Utility Filing, the rules should not contain provisions that can be used as a sword to advance a point of view on policy issues regarding the FAC.

►The Commission's current treatment of MISO and SPP transmission costs creates the potential for customer harm and does not accurately reflect the interrelationship between investment in the transmission system under the functional control of the RTOs and the efficiencies created by the market.

7. Empire's base fuel rate since 2014 has declined from $28.12/MWh to the current base fuel rate of $24.15/MWh. This reduction is due in part to lower production costs resultingfrom the efficiencies created by Empire's participation in the SPP IM.[2] There is an inextricable link

[1] Ameren Report and Order, pp. 111-115.

[2] Empire is a member of the SPP regional transmission organization ("RTO"). Participation in the SPP Integrated Marketplace ("IM") is facilitated by a robust transmission system that economically commits and

between the investment in the transmission system under the functional control of SPP and the efficiencies created by the SPP IM. In "The Value of Transmission," the 2016 SPP study published from the Battle Group, the benefits quantified by an Adjusted Production Cost ("APC") study determined that more than $660,000/day ($240 MM/year) were realized in the first year of the IM and that this calculation excluded benefits from a more efficient interchange with neighbors and is expected to increase, as transmission investment in Extra High Voltage ("EHV"), Balanced Portfolio, and Priority Projects move into completion.

8. According to Attachment O of the SPP Open Access Transmission Tariff ("OATT"), the transmission planning process requires analysis of solutions and alternatives to the Transmission Planning Assessment, which includes the cost effectiveness of the proposed solution including: "benefits resulting from dispatch savings, loss reductions, avoided projects, applicable environmental impacts, reduction in required operating reserves, interconnection improvements, congestion reduction," etc. This language speaks to the tie between improved economics that are evaluated and created when investing in the transmission system as it relates to improved production costs. The economic value facilitated by the robust transmission system is undeniable. Exclusion of the majority of transmission costs from recovery as a component of fuel, however, continues to be the practice of the Commission.

9. It is unjust for a utility to pass on the benefits (lower fuel and purchased power costs) facilitated by transmission upgrades, while withholding the costs associated with those upgrades (transportation charges). Also, as illustrated by the specific examples contained below, the lack of total transmission expense and revenue as an included component of the FAC creates the potential for customer harm. Empire's current FAC lacks a mechanism to return to customers

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dispatches resources to serve load while operating within the security constraints of the Bulk Electric System ("BES"). Empire has been a market participant in the SPP IM since its inception in March of 2014.

certain refunds and adjustments received by Empire, may create a disincentive regarding Empire's role in evaluating and advocating for transmission investment that is calculated to lower production costs, and is inconsistent with the treatment afforded fuel and purchased power in other states. For these reasons, Empire believes it is critical that the changes suggested in the Joint Utility Filing be implemented and that the Commission's FAC rules allow for the inclusion of both fuel-related revenues, including transportation, and fuel and purchased power costs, including transportation.

►Example 1: Balanced Portfolio Transfers

10. The Balanced Portfolio Transfers ("BP Transfers") are a good example of the interconnected nature of transmission revenue and transmission expense. The BP Transfers refer to the transfers of Schedule 11 zonal revenue requirements from the zone to the region.[3]

11. Since the Empire zone was not initially "in balance" with the approved portfolio of projects, a systematic set of zonal-to-regional transfers over the course of 10 years was designed to ensure a "balance." The transfers began in October 2012 (realized November 2012 as Schedule 11 settlements are one month in arrears), and, for Empire, resulted in a systematic increase of approximately \$1.26 million each year for the first five years and then held constant for the next five years at approximately \$6.3 million. Since the BP projects were all completed in mid-2015, however, it was determined that year 6 would true-up the estimated costs of the BP projects to the actual costs and hold those reallocated values steady for years 6-10. Although the projects as a group came in under budget, the allocation of benefits was not quantified to be

[3] The reason for these transfers is a collection of regional economic projects, called Balanced Portfolio projects, approved by the SPP for the purpose of reducing congestion on the SPP transmission system resulting in lower generation production costs. The term "balanced" refers to language in Attachment O of the SPP OATT, which requires the sum of benefits must at least equal to, if not exceed, the costs for each zone. If any zone is deficient, the tariff allows for a portion of the zonal revenue requirement to be transferred to the region for the purpose of achieving a "balance" - or a benefit/cost ratio of at least 1.0.

commensurate between the different zones. When taking into account the estimated-to-actual cost variance on a project by project basis, a reallocation occurred in various zones (including Empire's) which resulted in an increase for the years' 6-10 amount of approximately $900,000/year, or $7.196 million total transfer/year. Beginning in October 2015, Empire did not have enough zonal revenue requirements to transfer another $1.26 million from the zone to the region. As a result, a significant portion of the transfer was received as Schedule 9 revenue.

12. Schedule 9 revenue does not flow through Empire's Missouri FAC. Empire believes the intent of the BP Transfers are to credit back the zone for transmission investments out of balance. Thus, Empire decided the revenue should be credited to transmission expense in the form of negative expense (rather than transmission revenue). The resulting adjustment by Empire ensures expenditures for transmission investment will be credited back to the intended accounts for the month. Without these manual measures to reclassify transmission revenue to negative transmission expense, Empire's customers would not receive any portion of the systematic reduction in costs.

13. The SPP transmission settlement process is esoteric, and although Empire has attempted to understand the provenance of all charges and adjustments to charges, the lack of full transmission charge and revenue inclusion in the FAC inhibits Empire's ability to credit back the Company's customers in all appropriate circumstances.

►Example 2: Revenue Sharing

14. Per Attachment L of the SPP OATT, most of the point-to-point ("PTP") revenue is distributed based on an allocation of 50% to a transmission owner ("TO") revenue requirement ratio share and 50% to a flow-based methodology referred to as MW-mile. Empire is a single TO zone, so the facilities that comprise the Company's TO revenue requirement ratio share are

paid for by the load in the Empire zone. The MW-mile allocation uses linear analysis to determine the distribution of flows for transactions and then uses the energy distribution factor as a basis for flow-based allocation. Again, Empire's customers that have paid for the facilities in the zone ought to receive the revenue associated with transactions that utilized those facilities.

15. In 2016, new transmission charges were created to reflect seams revenue from MISO. MISO seams revenue refers to compensation paid from MISO to SPP and distributed proportionally to members related to the use of the SPP transmission system along the SPP-MISO seam connecting MISO Midwest to MISO South. On March 25, 2016, FERC issued Order ER16-791, approving a settlement in which MISO will compensate SPP members $16,000,000 for retroactive usage for the time period of January 2014 to February 2016 and begin paying SPP for Available System Capacity Usage that MISO accesses subject to refund. SPP will use the following distribution methodology: Total Charge multiplied by the MW-Mile factor determines the Transmission owner's portion which is then divided proportionally between Schedules 7, 8, and 11 based on the ratio of the prior year PTP Revenues. Again, the lack of inclusion of any amount of transmission revenue in Empire's Missouri FAC prevented Empire from passing those refunds back to customers through the FAC.

►Example 3: Network Integration Transmission Service

16. Like most load serving entities in the SPP IM, Empire is a Network Integration Transmission Service ("NITS") customer. Per Section 28.1 of the SPP OATT, this service allows for "…Network Customers to efficiently and economically utilize their Network Resources (as well as other non-designated generation resources) to serve their network load." As a result of its status as a NITS customer, Empire is allowed to serve its load in a highly efficient manner by leveraging a market that supports the most economic commitment and dispatch as its objective

function. Per Section 34 of the SPP OATT, "The Network Customers shall pay the Transmission Provider for any Direct Assignment Facilities, Directly Assigned Upgrade Costs, Ancillary Services, Base Plan Zonal Charges (Schedule 11), Region-wide Charges (Schedule 11) and applicable study costs, consistent with Commission Policy."

17. The primary investment mechanism by which the BES (Bulk Electric System) in SPP is funded is Base Plan Zonal and Regional charges. As a NITS customer, Empire supports BES investment via Schedule 11 charges that are dynamic, as most investment included in the Annual Transmission Revenue Requirement ("ATRR") of Schedule 11 is updated annually via formula rate mechanisms. It is just and reasonable for Empire and other NITS customers in SPP to fund the BES, because the network load is receiving benefits of a more efficient and reliable grid.

18. As the ATRR calculations change, however, the low percentage of transmission charge inclusion in Empire's FAC breaks the link between just and reasonable costs incurred and the resulting benefits received. First, it is unjust for a utility to pass on the benefits (lower fuel and purchased power costs) facilitated by transmission upgrades, while withholding the costs associated with those upgrades (transportation charges). Furthermore, recent events such as the Tax Cut and Jobs Act of 2017 provided cost reductions that could have been passed on to Empire's Missouri customers but for the low percentage of transmission costs included in Empire's FAC.

19. Empire's Plum Point facility incurs Regional Through and Out Rate ("RTOR") expense due to the plant's physical location in the MISO regional transmission organization footprint and its subsequent pseudo-tie into the SPP balancing authority ("BA"). The RTOR that Empire incurs via its Schedule 7 payment to MISO is formulated from the Attachment O filings of the Entergy companies within MISO. In June 2018, the Entergy RTOR rate dropped from

$2.89/KW-month to $2.60/Kw-month. This nearly 10% drop in Schedule 7 charges, coupled with a reduction in the Entergy RTOR in June 2016, translated into a 14% reduction from March 2017 to present in transmission expense that cannot be fully passed on to Empire's Missouri customers due to the design of Empire's Missouri FAC. (*See* the MISO RTOR section below for more information.)

►Example 4: MISO Regional Through and Out Rate

20. The MISO Regional Through and Out Rate ("RTOR") Settlement refers to the partial resolution of litigation brought by a number of MISO Transmission Service Agreement ("TSA") customers related to long-term PTP service agreements originally entered into with Entergy prior to their 2013 admittance into MISO. Upon Entergy granting functional control of its transmission facilities in Arkansas, Mississippi, Louisiana, and Texas, to MISO, transmission customers with long-term PTP TSAs were billed the significantly higher MISO RTOR rate. At issue was the application of a MISO system-wide rate for through and out transmission customers from the new MISO-South region which appeared to violate the no-cost-sharing rule in the Attachment FF of the MISO Tariff, in particular the FERC separation of new (South) and old (Legacy) regions for cost allocation and rate design purposes.

21. After approximately two years of litigation, a settlement agreement was reached (subject to refund) between MISO and the TSA customers. Based on the rate relief settlement schedules and the limited sharing of transmission expense in the Company's FAC, Empire's customers were not able to realize a significant portion of this refund.

► The FACs approved by the Missouri Commission are inconsistent with the treatment afforded fuel and purchased power in other states.

22. Currently, other states in which Empire operates have mechanisms allowing for the sharing of transmission cost and revenues. Arkansas has a Transmission Cost Recovery Rider

that allows for the pass through of both transmission expense and revenues annually, including inclusion of MISO RTOR charges. In Oklahoma, a SPP Transmission Tariff allows for the sharing of Schedule 11 charges, credits, and refunds with Empire's customers. Although Empire currently does not have a Transmission Delivery Charge ("TDC") tariff for Kansas, neighboring market participant Westar does have the TDC tariff, which allows for the sharing of various SPP transmission schedules with its customers.

WHEREFORE, Empire respectfully submits these Initial Comments and looks forward to further discussion regarding possible FAC rule changes.

Respectfully submitted,

BRYDON, SWEARENGEN & ENGLAND, P.C.

By:

/s/ Diana C. Carter
Diana C. Carter MBE#50527
312 E. Capitol Avenue
P. O. Box 456
Jefferson City, Missouri 65102
Phone: (573) 635-7166
Fax: (573) 635-3847
E-mail: dcarter@brydonlaw.com

CERTIFICATE OF SERVICE

I hereby certify that the above document was filed in EFIS on this 6th day of August, 2018, with notification of the same being sent to all parties of record.

/s/ Diana C. Carter