

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

In the Matter of the Third Prudence Review of)
Costs Subject to the Commission-Approved)
Fuel Adjustment Clause of The Empire District)
Electric Company.)

Case No. EO-2013-

STAFF'S NOTICE OF START OF THIRD PRUDENCE AUDIT

COMES NOW the Staff of the Missouri Public Service Commission ("Staff"), and
for its Notice of Start of Third Prudence Audit, states:

1. Complying with both Commission Rule 4 CSR 240-20.090(7) and § 386.266.4(4) RSMo Supp. 2012, The Empire District Electric Company's ("Empire") Fuel and Purchased Power Adjustment Clause ("FAC") tariff sheets provide that there "shall be a periodic review of fuel and energy costs subject to the FAC" and that "[p]rudence reviews shall occur no less frequently than at eighteen (18) month intervals."¹

2. Staff has conducted two such prudence reviews. Staff filed its report on the first in Case No. EO-2010-0084 on February 26, 2010, for the review period of September 1, 2008, through August 31, 2009, and the second in Case No. EO-2011-0285 on August 26, 2011, for the review period of September 1, 2009 through February 28, 2011. Staff found no imprudence by Empire regarding the costs associated with Empire's FAC (offset by off-system sales revenues and any emission allowance revenues) during either review.

¹ The Empire District Electric Company, Tariff Sheet, P.S.C. MO. No. 5, Sec. 4, Original Sheet No. 17b.

3. Staff plans to conduct a prudence review of the costs associated with Empire's FAC (offset by off-system sales revenues and any emission allowance revenues) for a third audit period of March 1, 2011, through August 31, 2012.

4. Rule 4 CSR 240-20.090(7)(B), in part, provides: "The Staff shall file notice within ten (10) days of starting its prudence audit." It also establishes the following schedule of dates by which certain events are to take place keyed off of the date Staff initiates its prudence audit:

Time from Staff prudence audit initiation within which event is to occur	Event
180 days after	Submission of Staff recommendation to Commission regarding Staff's examination and analysis
190 days after	Request for hearing
210 days after	Commission Order, if no hearing requested

5. Staff initiated its third prudence audit of the costs subject to Empire's commission-approved FAC on September 17, 2012, and the Staff plans to submit its recommendation to the Commission regarding the Staff's examination and analysis by Tuesday, February 26, 2013, by filing that recommendation in this case.

6. Staff may change its audit approach during this audit, and in future prudence audits as well, based on the particular utility and the particular conditions prevailing at the time of the audit. The Staff has assembled its Energy Resource Analysis Group, which, among other things, has the responsibility for the Staff's implementation of 4 CSR 240-3.161 and 4 CSR 240-20.090. The Staff plans to file a Staff recommendation at the conclusion of its prudence audit that covers the topics in the following outline:

Section 1 - Standard of Prudence

A. Standard requires documentation and includes other Commission principles as appropriate, such as the Commission's Affiliate Transactions Rules, which also requires documentation.

Section - 2 Audit Scope

- A. Presently Known Areas To Review
 - 1. Empire's Total Book Costs as Allocated to Missouri for Fuel Consumed in Empire's Generating Units
 - 2. Costs Associated with Empire's Fuel Hedging Program
 - 3. Purchased Power Energy Charges, Including Applicable Transmission Fees
 - 4. Southwest Power Pool Variable Costs
 - 5. Emission Allowance Costs and Revenues
 - 6. Off System Sales
- B. Tests/Investigations to Address/Discover Other Significant Items Impacting Fuel and Purchased Power Cost Recovery Amount
 - 1. Comparison of Base Fuel Components and Amounts to Claimed Cost Components and Amounts
 - 2. Plant Outages
 - 3. Fuel, Freight and Transportation / Purchase Power Contracts

WHEREFORE, the Staff of the Missouri Public Service Commission hereby provides notice that it started its prudence audit of the costs subject to Empire's Commission-approved fuel adjustment clause on September 17, 2012 for the period March 1, 2011, through August 31, 2012, and that it plans to submit its recommendation to the Commission regarding the Staff's examination and analysis by Tuesday, February 26, 2013, by filing that recommendation in this case.

Respectfully submitted,

/s/ Nathan Williams

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 21st day of September, 2012.

/s/ Nathan Williams