BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of The Empire District Electric Company of Joplin, Missouri for Authority to File Tariffs Increasing Rates for Electric Service Provided to Customers in the Missouri Service Area of the Company.	))))))	Case No. ER-2010-0130

STAFF STATEMENT OF POSITIONS AND RECONCILIATION

COMES NOW the Staff ("Staff") of the Missouri Public Service Commission ("Commission"), and respectfully submits as follows for its *Statement of Positions and Reconciliation*:

RECONCILIATION

Attached, as appendix A, is Staff's *Reconciliation* of the issues to be heard in this matter.

STATEMENT OF STAFF'S POSITIONS

I. REVENUE REQUIREMENT

A. Cost of Capital

1. Capital Structure: What capital structure should be used for determining Empire's cost of capital?

   The Empire District Electric Company's actual Capital Structure as of December 31, 2009 as specified in Schedule 22 of Appendix 2 in the Appendices to the Staff's Cost of Service Report should be used for determining Empire's cost of capital. This capital structure reflects a disallowance of a portion of Empire's December 31, 2009 long-term debt balance associated with bond indenture costs incurred to continue Empire's current level of dividends per share.

2. Return on Common Equity: What return on common equity should be used for determining Empire's rate of return?

   Staff's recommended ROE range of 8.90 percent to 9.90 percent, with a point recommendation of 9.40 percent should be used for determining Empire's rate of return; the rate of return should reflect a disallowance for bond indenture costs incurred to continue Empire's current level of dividends per share.

B. Rate Base Issues

1. Employee Compensation (capitalized management incentive): Should Empire recover payroll costs for its management incentives by including same in rate base?

   Staff is proposing to disallow a portion of Empire's capitalized incentive compensation costs for the same reasons as given for I.D.5. (a), (b), and (c).

2. Fuel Inventory: (a) Should the level of fuel inventory in rate base include the basemat inventory and, if so, what is the appropriate value to include? (b) Should generating unit outage days be included in the calculation for determining daily burn in the fuel inventory calculation?

   (a) Staff is not opposed in concept to including a value for the base mat in the rate base coal inventory but is seeking more accurate information from Empire regarding the original cost of base mat coal. Once that information is received, Staff will evaluate its position on an appropriate valuation of Empire's base mat coal.

   (b) Yes. Staff's current calculation of fuel inventories reflects a normalized amount of assumed outage days. Staff believes this matter is no longer an issue in the case.

C. Income Statement – Revenue Issues

1. Weather Normalization and Unbilled Revenue: What model assumptions are appropriate for calculating the normal weather and unbilled revenue adjustment for the test year rate revenue?

   To determine normal weather, the models should use the thirty year history used by National Oceanic and Atmospheric Administration (NOAA), 1971-2000, which includes the appropriate adjustments for changes in the weather station. The Company did not use weather normals with appropriate adjustments that are consistent with published NOAA normals and therefore the Staff maintains its weather normalization and unbilled revenue is appropriate.

D. Income Statement – Expense Issues

1. Fuel/Purchased Power Expense: What is the appropriate level of fuel and purchased power expense to be included in cost of service?

   Staff's direct case reflects a level of fuel and purchased power expenses based upon known and measurable fuel prices and other operating data as of the end of the test year update period, December 31, 2009. Staff maintains its recommended level of fuel and purchased power expense is appropriate. Staff's true-up audit will update Empire's fuel and purchased power expense to reflect changes to the Company's generating system and other factors affecting these costs occurring after year-end 2009.

2. Bad Debt Expense: Should an allowance for additional bad debt expense be made to recognize the additional revenue authorized as a result of this rate case?

   No. The Staff's analysis does not support the position that an increase in revenue will result in a proportionate increase in bad debt expense.

3. EEI Dues: Should the costs associated with EEI dues be included in cost of service?

   The costs associated with EEI dues should not be included in the cost of service, because Empire has not attempted to separate the alleged benefits it receives from EEI membership between shareholder benefits and ratepayer benefits. EEI's primary function is to represent the perceived interests of investoy-owned electric utilities before governmental and regulatory bodies, and ratepayers should not have to pay for costs associated with such lobbying activities.

4. Remediation Costs: What is the appropriate level of maintenance and repair costs associated with infrastructure inspections to include in cost of service?

   The Staff recommends that these costs be reviewed and updated as part of the true-up audit for this case. At that point, there will be more data available to determine whether a further adjustment to Empire's test year maintenance costs is appropriate for remediation costs.

5. Incentive Compensation: (a) What level of Empire's payroll costs for its management incentives should be included in cost of service? (b) Should Empire's payroll costs for its long-term equity incentives be included in cost of service? (c) Should Empire's payroll costs for its "Lightning Bolts" payouts be included in cost of service?

   (a) Staff proposed an adjustment to disallow $328,769 for short-term executive incentive compensation to eliminate the amount associated with meeting (but not exceeding) budgetary goals and any awards related to the attainment of earnings goals. In Staff's view, since financial goals directly benefit shareholders, ratepayers should not bear the cost of these incentives.

(b) No, Staff eliminated all stock-based compensation since it did not result in any cash outlay by Empire, and was not tied to achievement of any particular operating or financial goals.

(c) No, consistent with the Commission's position in its Report and Order in Case No. ER-2006-0315, Staff eliminated payroll costs for "Lightning Bolts" awards since these awards due not have any pre-set goals or objectives attached to them and they are paid out at senior management's discretion.

6. Dues and Donations: What level of dues and donations should included in cost of service?

   Staff's recommended level of rate recovery of Empire's dues and donations expenses reflect only those costs which reflect a direct benefit to Empire's customers and are non-duplicative of the allowed costs of other organizations. The total amount of dues and donations expenses that should be included in Empire's cost of service is $78,280, and the amount Staff has disallowed is $26,676.

7. State Tax Flow Through: Should Empire be authorized to include in cost of service an amortization of its State Tax Flow Through regulatory asset?

   No. To date, Empire had provided no evidence to substantiate its claim that Empire's ratepayers have received the benefit in rates of the state accelerated depreciation tax deduction in Missouri rate cases prior to 1994.

8. Rate Case Expense/Rate Case Expense Rider: (a) Should Empire be allowed to recover in this proceeding costs associated with prior rate cases? (b) Should the Commission authorize Empire to recover rate case costs and rate case appeal costs through a rate case expense rider mechanism?

   (a) Rate case expense should only be included in rates on a prospective basis. Therefore, alleged under-recoveries or over-recoveries of rate case expense built into Empire's prior rates should not be included in rates set going forward.

   (b) The Commission should not authorize Empire to recover rate case costs and rate case appeal costs through a rate case expense rider mechanism because this treatment is indicative of single issue ratemaking.

II. ENERGY EFFICIENCY AND LOW-INCOME PROGRAMS

A. Should Empire's Demand Side Management portfolio, consisting of both energy efficiency programs and a demand response program, remain the same in this rate case in accordance with Empire's Regulatory Plan?

Yes.

B. Should any changes be made to Empire's Experimental Low Income Program?

No.

C. Should Empire's Residential Conservation Service Rider be eliminated?

Yes.

D. Should Empire be required to model two demand-side management program portfolios, with a goal of achieving annual electric energy (sales) and demand savings (peak) equivalent to 1% and 2% in its next integrated resource plan?

Yes.

III. RATE DESIGN

A. Low-Income Residential Customers: Should a "very low income" residential class be established?

No.

B. What rate levels should be established for the residential and small commercial customer charges?

All rate components for all rate classes should be increased by the same percentage; namely the percentage of the system rate increase.

IV. FUEL ADJUSTMENT CLAUSE

A. Should the off-system sales margin, emission allowances, renewable energy credits, and AQCS consumables be flowed through the fuel adjustment clause?

Yes.

B. What are the appropriate reporting requirements for Empire's fuel adjustment clause?

The reporting requirements specified in Staff Direct Cost of Service Report and sponsored by Staff witness Barnes are appropriate.

C. What formula should be used to calculate the fuel adjustment mechanism?

The formula contained in the exemplar tariff sheets attached to Staff witness Barnes testimony as Schedule MJB-1 is the appropriate formula to use to calculate the fuel adjustment mechanism.

V. TARIFF CHANGES

Should the Meter Treater Tariff be eliminated?

Yes.

VI. FAS 87 AND FAS 106 TRACKER LANGUAGE

What changes, if any, should be made to the existing FAS 87 and FAS 106 language?

Staff supports language governing rate treatment of pension expense (FAS 87) and OPEBs expense (FAS 106) that would be similar to that stipulation language previously agreed to in the Empire District Gas Company proceeding, Case No. GR-2009-0354.

VII. VEGETATION MANAGEMENT AND INFRASTRUCTURE TRACKER

What changes, if any, should be made regarding the vegetation management / infrastructure tracker?

Staff recommends that the Rules Tracker ordered in Empire's previous rate proceeding, Case No. ER-2008-0093, be continued as regards to Empire's vegetation management and infrastructure inspection programs.

VIII. REGULATORY PLAN ADDITIONAL AMORTIZATIONS

(a) Should Empire's revenue requirement in this case reflect the addition of regulatory plan additional amortizations? (b) If yes, how should the regulatory plan additional amortizations be calculated, and what amount is appropriate?

(a) Yes, consistent with the terms of the Stipulation and Agreement in Case No. EO-2005-0263.

(b) The regulatory plan additional amortizations should be calculated in a format used in Appendix 3 to the Staff's Cost of Service Report in this case, though Staff is not opposed to the modifications of the regulatory plan amortization calculations suggested by Empire witness Robert W. Sager in his rebuttal testimony filed in this case. The Staff currently believes the amount of regulatory plan amortizations to be included in Empire's rates should be increased by approximately $60.5 million (without reflection of the Empire modifications). This number will be updated as the case continues.

WHEREFORE, the Staff respectfully submits its *Statement of Positions and Reconciliation* in this matter.

Respectfully submitted,

/s/ Sarah Kliethermes
Sarah Kliethermes
Associate Counsel
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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 28th day of April, 2010.

/s/ Sarah Kliethermes

Empire District Electric Company
ER-2010-0130
Revenue Requirement Reconciliation
4/28/2010

Line No.			
1	Company Revenue Requirement Per Reconciliation		**44,301,309**
2	Unreconciled Difference		
3	**Company Revenue Requirement**		**44,301,309**
4			
5	**Rate of Return & Capital Structure**		
6	Value of Capital Structure Issue - Staff / Company (partial true-up difference)	(845,142)	
7	Capital Structure impact on Interest Expense Deduction (partial true-up difference)	2,231,255	
8	Rev. Req. Value of Return on Equity	(10,888,246)	
9	**Sub-Total Rate of Return and Capital Structure Differences**		**($9,502,133)**
10			
11	**Rate Base Issues :**		
12	Plum Point Unit Train (true-up difference)	(277,530)	
13	Plum Point Plant in Service (true-up difference)	(11,493,297)	
14	Employee Compensation (capitalized management incentive)	(23,382)	
15	Materials and Supplies Plum Point (true-up difference)	(60,163)	
16	Fuel Inventory (partial true-up difference)	(238,085)	
17	**Sub Total - Rate Base Issues**		**($12,092,457)**
18			
19	**Income Statement - Revenue Issues**		
	Weather Normalization	(940,612)	
	Adjustment for Test Year to 365 Days	(875,145)	
	Customer Growth	(218,803)	
	Reclassification of Emission Allowances to Operating Income	(157,899)	
	Adjust Renewable energy credits to 12-31-09 balance	(1,516,715)	
20	**Sub Total - Revenue Adjustments**		**(3,709,174)**
21			
22	**Income Statement - Expense Issues**		
23	Fuel/Purchased Power Expense (partial true-up difference)	(85,222)	
24	Bad Debt Expense	(186,812)	
25	Rate Case Expense	(244,836)	
26	Eliminate EEI Dues	(110,640)	
27	Maintenance on Plum Point	(2,302,626)	
28	Normalize Remediation Costs	(557,626)	
29	Payroll Annualization (true-up difference)	(439,743)	
30	Incentive Compensation	(1,098,819)	
31	Dues & Donations	(16,683)	
32	Depreciation Expense (true-up difference)	(1,907,035)	
33	Stock Issuance Costs (true-up difference)	(243,667)	
34	Property Taxes (true-up difference)	(641,517)	
35	Payroll Taxes (true-up difference)	(53,348)	
36	**Total Oper.& Maint. Expense**		**(7,888,574)**
37	Impact on Income Tax Expense of Depreciation Difference (true-up difference)	(19,742)	
38	**Sub Total - Expense Adjustments**		**(19,742)**
39	Deferred Income Tax	0	
40	State Tax Flow Through	(81,269)	
41	**Total of Deferred Tax & Amortization**		**(81,269)**
42	**Total Value of All Issues**		**($33,293,349)**
43	**Difference due to rounding**		$6,083
44	**Staff Revenue Requirement**		**$11,018,210**

Appendix A